

Central Bank of Nigeria Communiqué No. 83 of the Monetary Policy Committee Meeting of Monday and Tuesday May 21 and 22, 2012

The Monetary Policy Committee met on May 21 and 22, 2012 with all members in attendance. The Committee reviewed the conditions and challenges that confronted the domestic economy during the first five months of 2012, against the backdrop of international economic and financial developments; to reassess the monetary policy options in the near-to-medium term.

The International Economic Situation

The Committee noted that the global economy continued to experience sluggish recovery as the downside risks remained elevated owing to the lingering euro zone debt crisis, weak balance sheet positions of euro zone financial institutions, rising unemployment in most advanced economies, geopolitical uncertainties affecting global oil prices and the legacy effects of the global financial crisis. Growth in the advanced economies is estimated to decelerate from 1.6 per cent in 2011 to 1.4 per cent in 2012. US output slowed from an annual rate of 3.0 per cent in Q4 2011 to 2.2 per cent in Q1 of 2012. The slow US recovery was attributed to the fall in business spending from 5.2 per cent in Q4 of 2011 to 2.1 per cent in Q1 of 2012.

In the Euro area, real GDP growth is projected to contract from 1.4 per cent in 2011 to -0.3 per cent in 2012, owing to the lingering effects of the sovereign debt crisis and the attendant fragility of the financial system. Although the effects of the high commodity prices and supply disruptions from the Japanese earthquake had diminished, the effect of the Greek bailout and the failure of fiscal retrenchment have been magnified by the political impasse associated with the discussions on Greek debt exit strategy. A domino effect on other debt-ridden euro zone members and possible bank runs should not be ruled out entirely in the euro area, if political support is not provided for the already agreed fiscal compact. European Governments are confronted with uncertainties that are coloured by both political and economic realities. The UK, Denmark and Czech Republic, with own national currencies outside the 17-nation Euro zone have been declared to be officially in recession. There are no immediate plans in the UK for abandoning austerity, and it is not yet clear if the tight fiscal stance is compatible with growth aspirations.

In the leading emerging economies, there are indications of a significant slowdown in economic activity. China has revised its growth targets for 2012 downwards, from 8.0 per cent to 7.5 per cent, compared with 9.2 per cent in 2011. Growth in Indonesia was projected to decelerate to 6.10 per cent from 6.50 per cent in 2011; while growth in Malaysia would remain unchanged at 4.40 per cent. India's GDP growth in 2012 may not be significantly higher than the

6.50 per cent in 2011. On balance, growth in the BRICS countries is projected to decelerate as asset and currency markets reflect price fluctuations while banks and other financial institutions are under increased stress. Reflecting the slowdown in economic activities, crude oil prices in the international market have shown signs of declining as supply in 2012 is forecast to exceed demand.

In sub-Saharan Africa, inflation is trending upward while growth prospects are optimistically measured on the back of the resilience of the domestic economy in recent times. However, the new risks posed by the recession in the euro area and Chinese slowdown, in addition to the lag impact of the legacy factors associated with the financial crisis, could somewhat dampen the growth prospects. In addition, military coup d'états in some West African Countries and continuing pockets of political instability remain a source of concern.

The Committee noted the general slowdown in the global economy and the attendant softening in commodity prices which present uncertainties to the fiscal outlook, trade, and financing flows to the domestic economy, noting the very dark clouds over global economic recovery in 2012. The growing trade imbalances and threats to financial flows could weaken the external and fiscal positions.

Domestic Economic and Financial Developments

Output

Indications are that the robust output growth recorded in 2010 and 2011 may not be replicated in 2012. Provisional data from the National Bureau of Statistics (NBS) indicate that real gross domestic product (GDP) in Q1 grew by 6.17 per cent, down from 7.68 per cent in the fourth quarter of 2011 and 7.13 per cent in the corresponding period of 2011. This continues a disturbing and unbroken trend of decline in growth going back to Q1 2010. Overall, real GDP growth for fiscal 2012 is projected at 6.50 per cent, down from 7.45 per cent in 2011. Crude oil production was estimated to have declined by 2.32 per cent in Quarter 1, 2012 compared with a marginal increase of 0.05 per cent in the corresponding period of 2011. Non-oil real GDP growth estimated at 7.93 per cent in Q1 of 2012 was much lower than the 8.73 per cent recorded in Q1 of 2011. Growth in agriculture decelerated in Q1 to 4.15 per cent compared with the 5.54 per cent in Q1 of 2011 and 5.74 per cent in Q4 of 2011. Agricultural growth rate has not been this slow in the last seven years at least.

In general, the paradox of rising poverty incidence in the face of impressive economic growth further reinforces the Committee's call for the implementation of the appropriate structural reforms in the key sectors notably agriculture, power and petroleum sectors, to stimulate productivity.

Prices

As anticipated by the Committee in earlier meetings, inflationary threats re-emerged in Q1 2012, having moderated in Q4 2011. The year-on-year headline inflation which was 12.6 per cent in January 2012 moderated to 11.9 per cent in February but rose to 12.1 and 12.9 per cent in March and April 2012, respectively. Similarly, food inflation which was 13.1 per cent in January 2012 fell to 9.7 per cent in February but increased to 11.8 per cent in March before declining slightly to 11.2 per cent in April 2012. Core inflation, which declined to 11.9 per cent in February from 12.7 per cent in January, rose sharply to 15.0 per cent in March before moderating to 14.7 per cent in April 2012. On a month-on-month basis, inflationary pressure was rather benign between March and April, and the rise in year-on-year figures largely reflects the base effects in January from fuel subsidy removal. Overall inflation numbers remain within our forecast range.

The proposed upward review of electricity and import tariffs on wheat and rice as well as the rising global food and energy prices could further put upward pressure on prices in the near-term. Notwithstanding this, the lingering impact of the aggressive monetary tightening measures undertaken since 2011 and the general slow growth in monetary aggregates and the impact of rising fuel prices in consumer spending, may moderate the pressure on domestic prices in the

near term. Staff projections indicate that headline inflation is projected to peak around 14.5 per cent in July 2012 before moderating steadily till the end of the year.

Monetary, Credit and Financial Markets' Developments

Broad money supply (M2) grew by 0.01 per cent in April 2012 when compared with the level at end-December 2011. Relative to the level at end-December 2011, aggregate domestic credit (net) declined by 2.04 per cent in April 2012, translating to a decline of 6.12 per cent on annualized basis. The decline in aggregate credit during the period was mainly due to the decline in credit to the core private sector. Credit to the core private sector declined by 0.22 per cent or 0.66 on annualized basis while credit to Government (net) declined by 58.03 per cent in Q1 of 2012. Despite the decline in credit to core private sector, overall credit to the private sector rose marginally by 0.06 per cent or 0.18 per cent on annualized basis. This is indicative of a disturbing trend of growth in lending to States and Local governments at the expense of the core private sector.

Following these developments, the Committee reiterated its earlier advice that the Bank should put in place appropriate measures that would enhance the

flow of credit to the private sector, in particular to those activities that have the potential of inducing growth in a relatively short period of time.

The Committee noted that since its meeting in March 2012, money market interest rates remained anchored around the upper band of the interest rate corridor.

The interbank opened in March at 15.42 and 14.00 per cent, closed at 14.66 and 14.34 per cent, respectively, on May 17. The medium to long term yields have also eased moderately during the period. The Committee further noted a slight reduction in the spread between the deposit and lending rates. The average maximum lending rate rose to 23.31 per cent in April 2012 from 23.21 per cent in March while the consolidated deposit rate rose to 3.93 per cent from 3.79 per cent during the same period. Thus, the spread between the average maximum lending rate and the consolidated deposit rate narrowed further to 19.38 per cent in April 2012 from 19.42 per cent in March 2012.

External Sector Developments

Foreign exchange reserves stood at US\$36.66 billion at end-April 2012, representing an increase of US\$4.02 billion or 12.32 per cent above the level of US\$32.64 billion at end-December 2011. Reserves increased to US\$38.72 billion as at 17th May 2012, representing 18.63 per cent increase over the level in December 2011. This increase reflected generally favourable commodity prices

and inflows of capital in response to the removal of restrictions on repatriation and high domestic interest rates, as well as stable exchange rates. The Committees noted the assurances that total “hot money” in the system is under strict surveillance and the Bank is satisfied that the figure of US\$5 billion does not pose a threat to financial stability in view of the current level of reserves. The exchange rate at the wDAS-SPT opened at N157.62/US\$ on March 20, 2012 and closed at N157.26/US\$, on May 17, 2012 indicating an appreciation of N0.36k or 0.23 per cent. At the interbank segment, the selling rate opened at N157.70/US\$ and closed at N158.80/US\$, representing a depreciation of N1.10k or 0.7 per cent. At the BDC segment of the foreign exchange market, the selling rate opened at N160.00/US\$ and closed at N159.00/US\$, representing an appreciation of N1.00k or 0.06 per cent during the same period. The Committee noted the decline in the premia between the rates at the wDAS and the interbank and between the wDAS and the BDCs towards the end of the review period. While noting the need to put in place policies that would attract capital inflows necessary to build up adequate external reserves, the Committee urged the Bank to sustain and complement existing measures to discourage speculative demand for foreign exchange. The Committee commended the Bank for taking proactive steps to intervene in the interbank market to maintain the exchange rate within the target band.

The Committee also commended the efforts of the Bank in monitoring the foreign exchange demand and capital inflows into the economy with a view to ring fencing the economy from external shocks and other vulnerabilities; and in building the stock of reserves to meet genuine demand for foreign exchange. The Committee expressed satisfaction over the orderliness in the foreign exchange market and the stability of the exchange rate. It also encouraged the Bank to continue its close surveillance of activities in the foreign exchange market, given the current developments in the international currency and financial markets.

The Committee's Considerations

The key concerns noted by the Committee were:

1. Slowdown in global economic activities, particularly, in the US, Europe and China
2. Slowdown in domestic output, especially, sharp decline in agricultural output and oil and gas sectors
3. Possible softening of crude oil prices in international markets with potential fiscal revenue losses and the likely pressure on the foreign exchange market and exchange rate
4. The inflationary threat that has re-surfaced in the first quarter of 2012, after having moderated in the fourth quarter of 2011
5. Imminent increase in electricity tariff which may lead to inflationary pressures

6. High interest rates in the face of declining GDP output; and
7. Security concerns in the country
8. Slow pace of structural reforms induced by failure to improve power supply, establish and implement reliable PPP framework that can attract funding for infrastructure, and delay in passing the PIB

The Committee noted that since its meeting in March 2012, the uncertainty surrounding the global economy remained elevated owing to continued economic slowdown in advanced and major emerging economies as well as the financial stress in key advanced economies. These developments will impact the domestic economy through the trade and financial flow channels, weakening the external and fiscal positions. Monetary policy on its own has limitations with respect to inducing long-term growth which is dependent on fiscal and structural measures relating to petroleum, power and infrastructure sectors. This Committee reiterates the need to recognize the short-term nature and limits of monetary policy. The growth and development of the Nigerian economy will continue to be at risk so long as progress is not made in structural reforms.

Furthermore, the Committee reassessed the recently released provisional output data which indicated a slowdown in GDP growth. It noted that the huge drop in agricultural output was traced to the following factors: displacement of farmers

in the northern part of the country owing to security situation, inadequate rainfall and increased production cost due to the partial removal of fuel subsidy in January 2011. It also noted the decline in oil and gas production and the recent revelation by the oil Minister of the loss of over US\$7 billion of revenues due to oil theft. It concluded that the interest rate movements will not be effective in stimulating growth under such circumstance and urged government to fast-track the agricultural transformation initiative and to strengthen fiscal controls over the oil industry.

The Committee also noted that while the lingering impact of the aggressive monetary tightening measures undertaken since 2011 served to moderate the pressure on domestic prices in the near term, the effect of the global economic and financial developments on exchange rate and domestic prices could be significant in the coming months. The international oil price output and the lag in oil supplies in relation to demand seemed to indicate the onset of additional pressures on foreign exchange reserves, exchange rates and prices. These developments require that the power and petroleum sector reforms as well as infrastructure investments need to be scaled up as quickly as possible. These should complement measures to enhance credit flows to the private sector, in particular to growth inducing activities, so that the likely pressures on interest rates are addressed.

The Committee welcomed the efforts being made to improve fiscal consolidation. Government revenues have improved in Q1 in relation to government expenditures, resulting in notional fiscal surplus. The Committee encourages that these efforts are furthered, especially in view of the growing domestic public debt stock. The Committee also noted the very healthy collaboration that has been established between the fiscal and monetary authorities and urged the Bank to continue supporting the fiscal authorities in their pursuit of very difficult reforms.

The Committee evaluated the policy options available to it and the analysis of alternative scenarios and agreed that monetary policy should contribute to the consolidation of a positive and stable longer-term macroeconomic environment conducive for growth and development. It was in the Committee's view that at this point in time, the trajectory of prices and output is dependent on fiscal and structural policies than on the monetary stance. The sluggish growth in credit, stable exchange rate, healthy reserve position and benign month-on-month inflation do not suggest a need for further tightening at this point. Also, the underlying reasons for slowdown for agric and oil GDP growth will not be addressed by monetary easing.

Decision

The Committee, therefore, decided by a unanimous vote to maintain the current stance of monetary policy without discounting the possibility of changing it, should economic and financial conditions warrant so in the near term. As such, the Monetary Policy Rate (MPR) is retained at 12.0 per cent with the symmetric band at +/- 200 basis points. The Cash Reserve Requirement (CRR) and Liquidity Ratio (LR) also remain unchanged.

Sanusi Lamido Sanusi, CON

Governor

Central Bank of Nigeria

May 22, 2012

PERSONAL STATEMENTS BY MPC MEMBERS:

1.0 ALADE, SARAH

*Although headline inflation edged up to 12.9 per cent in April from 12.1 per cent recorded in the previous month, this was an expected feature of Nigerian inflation during the planting season. Real GDP growth in the country slowed down following the sudden decline in agricultural and industrial output, as well as security challenges. On the international scene, growth prospects remained fragile and weak, especially in the euro area, USA and China, while projections indicate a slowdown in growth in the emerging markets. Oil prices in the international market have started a steady decline from its peak earlier in the year. These developments, call for a cautious approach to monetary policy to sustain the growth momentum in the country. Based on this, I am inclined to support a **No Change** in the stance of monetary policy.*

With Headline inflation increasing to 12.9 percent in April, there is an upside risk to inflation. The rise in inflation is anticipated as the full effect of the partial fuel subsidy removal work its way through the economy, coupled with seasonal scarcity associated with the start of the planting season, when food supplies are usually low. The outlook in the near term is sustained upward pressure on inflation due to anticipated increases in electricity tariff, duties on imports of rice and wheat and the eventual removal of subsidy.

International oil prices are falling, though demand remains steady. Crude oil production is expected to reach the budget target of 2.48 bpd. However, the international price of Nigeria's Bonny Light has been downward trending in the last couple of weeks on the back of weak demand from China and the opening up of US strategic oil reserves. The stability in international oil prices will depend

much on the resolution of the lingering Syrian and Lebanese crises as well as the faceoff between Iran and the West over the development of nuclear capabilities including a general restoration of normalcy to the Middle East. In the meantime, it is necessary to ensure that the growth momentum at home is sustained.

The risk of expansionary spending by the fiscal authorities in the next two months is not anticipated. The 2012 budget has enshrined in it, elements of transparency and prudent spending. So far, actual expenditure has lagged below budgeted expenditure. Given the speed of implementation of the budget so far, it is unlikely that the tempo will change over the next two months as a result of the commencement of raining season which may affect some construction projects. Consequently, government spending is not likely to pose a major threat to inflation in the short run.

Prospects of global growth remain fragile and weak. Developments in the global economy are still of concern, as most advanced economies are projected to show lower rate of growth in 2012. There is concern about the developments in the Euro-area with the breakout of Greece from the Union still a possibility; economic prospects in the zone remain very fragile; and Europe is projected to go into mild recession in the immediate short run. The Federal Reserve Bank has maintained its stance of keeping key interest rates very low till late 2014, in an effort to give the growth prospects in the US an extra push and also in an attempt to shield the US economy from a potentially more severe recession in Europe. Even at that, bank losses continue to be a problem with J.P Morgan's loss of \$2 billion in trading.

As growth momentum weakens globally there are concerns that commodity prices will soften and this will further affect growth projections in the foreseeable future. The weak global growth and softening of demand will impact Nigeria through trade. If the demand for Nigeria's main export decelerates,

government revenue will be threatened and may lead to renewed pressure on the foreign exchange market. Greater uncertainty in global growth may also lead to volatile capital flows and constrain the ability of Nigerian banks to access foreign credit facilities. This situation calls for policy responses that will help sustain macro-economic stability.

Available information from National Bureau of Statistics (NBS) showed that in 2012, growth is projected to be lower than the level in 2011. Real GDP is projected to decline due largely to the dampening effects of crude oil production and prices induced by weak global demand. With growth softening and credit to core private sector, showing a decline, the situation provides scope for monetary easing. On the other hand, with the recent rise in inflation rate and forecast showing that there are still concerns around inflation, monetary tightening would have been more appropriate.

It is however, important for monetary policy to support the stability in the foreign exchange and money markets and create conducive environment for growth. I will therefore support a no-change in policy while inflationary pressures persist. Although the current monetary policy stance is tight, a hold at this time will continue to support macro-economic stability and bolster confidence. **Based on these, I vote for no change in the stance of monetary policy.**

2.0 BARAU, SULEIMAN

Background

The Monetary Policy Committee is today, in my view, faced with two key issues;

1. Should we continue to tighten or should we commence loosening of stance in policy in the light of the gains of the past and threats of the future?
2. If we should loosen, to what extent and how?

I rule out the option of increased tightening for now because of sustained decline in our GDP since 2009 and the modest gains in keeping inflation within the forecast target.

I therefore, voted for the MPC to;

- Maintain the current stance of Monetary Policy
- Maintain MPR at 12%
- Maintain CRR at 8%
- Maintain the corridor at plus and minus 2% around the MPR for Standing Lending Facility and Standing Deposit Facility, respectively.

Considerations

- 1) Concerns over the slowdown of the global economy in spite of the recent modest recovery.
 - There is the risk that if this is sustained, it will translate into sluggish demand for oil and negatively impact its price. This will have far reaching impact on exchange rates management, foreign reserves and financial stability through the reduction in off shore lines of credit.
 - Euro area debt crises (particularly Greece);
 - Sluggish growth in China and India will have the same effect.

- Sluggish domestic output and unemployment in the USA where GDP declined from 3% to 2.2%.
- 2) High Inflation risk as Year-on-Year (YoY) Headline Inflation at (12.9%) reflected an upward trend though YoY Food Inflation (11.2%) and YoY Core Inflation (14.7%) moderated. However, inflation expectations appear to be on the upside as a result of possible removal of fuel subsidy, increase in electricity tariff and the lagged effect of earlier partial withdrawal of fuel subsidy.
 - 3) Challenge of declining productivity – GDP for quarter 1 in 2012 was projected by NBS at 6.17% lower than 7.68 per cent in the fourth quarter of 2011 and 7.13 per cent in the corresponding period of 2011. The recent decline in agricultural sector growth is also a source for concern. These factors should ordinarily commend a moderation in policy stance. However, it is my strong view that access to finance at lower rates should spur increased output but more critical structural reform of the real sector and the provision of power and infrastructural facilities are more critical for output growth.
 - 4) Interest/discount rates and yields remain high but mildly volatile. Real Interest rates are positive. This has given Nigeria the needed competitive edge in the global flow of international capital. Therefore;
 - Capital flows have been impressive due to high yields on treasury bills and bonds.
 - However, investments by domestic financial institutions may have led to the crowding – out of the private sector domestically;

- The foreign portfolio flows have led to exchange rate stability; and the buildup of foreign reserves and the remarkable profit numbers being posted by some Nigerian banks.
- 5) There is no evidence that slower credit growth is responsible for the slowing down of national output. Structural reforms are more important for generating growth. We need to see the power sector reforms through. Infrastructural development through Public and Private Partnership arrangement is imperative. The ICRC needs support to do large ticket infrastructural project deals. Getting the Sovereign Wealth Fund to kick start and to provide long term finance for infrastructural development is also critical.
- 6) There are very strong concerns over the future of the domestic economy due to a combination of the following;
- The contentious issue of Fuel Subsidy may not be sustainable given the current budgetary provision to fund it.
 - Increase in electricity tariff and the likelihood that these two issues would lead to increase in prices of goods and services and ultimately heighten inflation risks.
- 7) The move towards fiscal consolidation has commendably commenced. So far we have budget surplus and expenditures are now targeted at areas that are of priority to Government. The regime of fiscal discipline and consolidation is gradually being entrenched. Even though this is important for the delivery of effective monetary policy, it is too soon to tinker with the current monetary policy stance.

It is on the basis of the foregoing that I decided to recommend the maintenance of status quo for now.

3.0 GARBA, ABDUL GANIYU

STATE OF THE ECONOMY

The Report prepared for the May 2012 MPC by the Monetary Policy Technical Committee provided useful information on key macroeconomic variables and sectoral performances in 2012Q1 and April 2012. The highlights include:

1. Growth, Inflation and Exchange Rate:
 - a. The GDP growth declined persistently every successive quarter from the first quarter of 2010. GDP oil and gas and GDP Agriculture were the worst performance in terms of magnitude of declines.
 - b. A rise in Year on Year Headline inflation in March (12.1%) and April (12.9%) driven mainly by imported food inflation which rose from 8.8% in March to 10.2% in April. Decline in Food Inflation from 15% in March to 14.7% in April 2012.
2. The Financial Sector
 - a. The banking system liquidity ratios averaged 66.4% in April 2012. However, growth in the loan book is limited by two factors (1) government securities (treasury bills and FGN Bonds) account for over 70% and (2) 43.1% and 78% of Treasury Bills and FGN Bonds respectively are classified as Hold to Maturity (HTM).
 - b. Growth in new Credit was slow and the structure of credit to economic sectors (1) did not match their contribution to GDP growth or to job creation and (2) indicated crowding-out of credit to the private sector by credit to government.
 - c. High interest rate spread of over 19% indicating inefficiencies in the banking system.

d. The Capital Market rallied in April but reversed some of the gains by May 18th.

3. The Public Sector

a. Federal fiscal operations in 2012Q1 recorded a surplus due mainly to unusually low expenditures in January and high revenue growth in March.

b. Debt service rose to over 20% of expenditure in 2012Q1 from 16% in 2011Q4

c. Persistent growth in public debt stock from N6.51 Trillion in 2011Q4 to about N6.9 Trillion in 2012Q1.

4. The External Sector

a. The structure of capital inflows shifted in favor of hot money from about 57.5% in 2011Q4 to over 82.8% in 2012Q1.

b. Growth in external reserves from \$32.64 in December 2011 to \$38.72 billion as at May 17, 2012.

KEY CONCERNS

1. Rising unemployment, poverty and inequalities.
2. Declining Growth and Inflation Pressures.
3. Growth in public debt and the crowding out effects of debt service and government borrowing.
4. High exposures of banks to government securities and its implications for Financial System Stability; liquidity structure and for growth in the loan book as well as efficiency issues in the structure of bank credit.

5. Expected Supply shocks in the second quarter of 2012 in the form of expected increase in electricity tariff in June and possible increase in the prices of petroleum products.
6. Possibilities of external shocks – (1) commodity price shocks linked to the low demand season and possible decline in global demand if global economic vulnerabilities persist and (2) the potential risks of financial shocks given current exposures to hot money and heightened global risks and uncertainties linked to the Euro-zone Crisis and political changes in key Euro-zone countries and the US elections.

POLICY OPTIONS

1. An increase in MPR is a theoretical but not a realistic option at this point. This is because an MPR increase is an inappropriate response to the persistent fall in GDP growth, the rising unemployment as well as poverty and inequalities challenges. The need to stem the rise in spread and the exposures to government securities as banks take advantage of arbitrage opportunities offered by high MPR is an argument against a rate hike at this point.
2. A decrease in MPR is theoretically effective in accommodating expected supply shocks and stimulating growth and employment but at the risk of higher prices at least in the short term. In practice however, the pass through of lower MPR to the Maximum lending rate is likely to be inelastic. As a result, Small players who are more likely to grow output and employment are unlikely to benefit from an MPR cut. In addition, the chances of growing the loan book is limited by the existing structure of liquidity which is skewed in favor of Hold to Maturity (HTM) government securities while the chances of changes in the credit structure in favor of value-added and job creating sectors and economic agents such as

farmers and small and medium scale industrialists is limited without improvements in infrastructures among other prerequisites.

3. In my personal statements in January and March 2012, I voted to maintain the then status quo to (1) “allow the menu of tightening policies of 2011 to work through the economic system”; (2) “provide investors policy stability as they plan their investment strategies for 2012 and beyond; and (3) ‘incentivize the fiscal authorities to undertake the fiscal and associated fundamental reforms required to change the incentive system, begin to build the infrastructural system that will make the economy competitive in oil and gas, solid minerals, industry and agriculture so as to create the jobs needed to reverse the trend of unemployment.” I am convinced that I was right then.
4. My concerns about declining growth, rising unemployment, poverty and inequality upgrade growth, employment, poverty and inequality reduction on the priority of policy. The problem for me is not so much the issue of a trade-off between growth/employment and inflation important as it. Rather, it is about lingering doubts on the answer to the question: how effective is a cut in MPR in stimulating growth, employment and poverty reduction in the short to medium term? The impact response coefficients do not give me much confidence that the gains will outweigh the risks of preferring growth and employment over price stability at a time of expected policy induced supply shocks and potential external shocks arising from global economic vulnerabilities and risks.
5. In the medium term, it is critical that the fiscal system is bounded strictly by the Fiscal Responsibility Act 2007 in terms of the key fiscal rules that touch on revenue growth and diversification, sound outcomes oriented expenditure, transparency and controls over public debt which seems to be spiraling out of control notwithstanding the claim that Nigeria's debt to

GDP ratio is below some vague and meaningless threshold. Given the security concerns, the rising unemployment, declining growth, inflation pressures and global economic vulnerabilities, further policy induced supply shocks threaten the effectiveness of monetary policy and, the attainments of macroeconomic objectives. It is critical that the fiscal authorities improve on the good fiscal foundation in the first quarter of 2012Q1 by maintaining fiscal balance and in the direction of sound infrastructural systems prior to price changes.

DECISION

In the light of the prevailing evidence, insights and analysis of expectations and after due analysis of the three possible policy options, I vote to maintain the status quo:

1. Hold MPR at 12%
2. Maintain Symmetric corridor for SLF and SDF at ± 200 basis points.
3. Hold CRR at 8%

4.0 KIFASI, DANLADI

DECISION FOR POLICY ACTION:

1. Output growth projection for 2012 at 6.50% is lower than the 7.36% growth achieved in 2011. The projected decline is attributed to several reasons, including the estimated loss of about ₦207.41 billion in national output during the nationwide strike action in January, 2012; possible dampening effect on crude oil demand and prices from slowdowns in the economies of our major trading partners, notably, USA, Euro area and China. The growth concern is being addressed by the Government through various intervention programmes,

which include: the Graduate Internship Scheme (GIS) under the Community Services, Women and Youth Employment component of the Subsidy Reinvestment and Empowerment Program (SURE-P); the Youth Enterprise with Innovation in Nigeria (You Win!) Programme as well as efforts to increase credit to the Small and Medium Scale Enterprises (SMEs). Furthermore, the focus of the Federal Ministry of Agriculture and Rural Development will be the promotion of the value chains, such as rice and cassava where Nigeria has comparative advantage. These would help to generate employment and enhance growth. Efforts by the Government to improve power and privatization of power generation will also help in achieving inclusive growth in the economy.

2. The prospects for higher growth in the global economy appear slim because of weak growth expected from Europe due to the continued euro zone debt crisis and growing unemployment in many advanced economies. The proactive policies adopted by the European Central Bank helped in reducing vulnerabilities. However, the risks to growth still persist, heightened by geopolitical uncertainties affecting the global oil market. Despite the weak recovery in the U.S. and recession in the Euro zone, the growth projections for 2012 indicate continuing signs of economic recovery across many developed and emerging economies.

3. The Inflation outlook presents an upside risk with recent partial deregulation of petroleum products prices, utilization of the subsidy savings, the proposed new electricity tariffs, and the recently announced tariff measures on importation of cassava flour/ wheat flour/wheat grain/rice. These factors may, however, be moderated by the effects of the aggressive monetary tightening measures in recent past which are yet to be fully realized.

5. The fiscal outlook depends on the global economic developments in relation to the fundamental assumptions of the 2012 budget, particularly, the

developments in the international oil market. However, Government's initiative to control expenditure and minimize budget deficit as well as effective coordination of fiscal and monetary policies, should adequately address the growth and inflation concerns.

4. Relative stability was achieved in the foreign exchange market in the first four months of 2012 with substantial injection of autonomous funds into the market. The exchange rate witnessed modest appreciation following the continuation of monetary tightening regime, increased supply of foreign exchange by the oil companies and increased portfolio inflows into the country.

5. In view of the above, I recommend that the MPR should be retained at the current level of 12% with the symmetric corridor of +/-200 basis points for the next two months when another review will be due for consideration.

5.0 LEMO, TUNDE

The performance of most of the macroeconomic indicators at the end of Q1 of 2012 pose grave concern to monetary policy. Inflationary pressure remained elevated in the first four months of the year with the headline inflation, year-on-year, rising from 11.9 per cent in February to 12.1 per cent by March 2012. The latest data on real GDP growth released by the National Bureau of Statistics suggests that the fairly high level of growth recorded in 2010 and 2011 may not be sustained in 2012. The decline cut across both oil and non-oil sectors. Real GDP growth for the entire 2012 has been projected at 6.50 per cent, the lowest since 2009. Aggregate domestic credit (net) declined by 0.08 per cent in Q1, translating to 0.32 per cent on annualized basis. The development raises further concern when viewed from the fact that the reduction came mainly from credit to the private sector, which declined by 0.45 per cent in Q1 or 1.80 per cent on

annualized basis. Credit to government, on the other hand, grew by 9.87 per cent during the period or 39.48 per cent on annualized basis.

Although rates in all segments of the money market trended downward toward the end of April, it is a matter of serious concern that the development did not translate to reduction in the DMBs' weighted interest rate structure. The average maximum lending rate rose to 23.21 per cent in March 2012 from 23.08 per cent in January while the consolidated deposit rate rose to 3.83 per cent from 3.43 per cent during the same period. The exchange rate, however, showed a reasonable degree of stability with modest appreciation in all segments of the market during the period, reflecting reduced speculative demand as well as increase in capital inflow during the period.

Considerations

In the light of the developments highlighted above, the challenges to the monetary authority in the near term are more complex particularly when viewed against the perspective of striking the delicate balance between growth and inflation objectives. The policy options include a relax of the current tightening stance through a reduction in the policy rate with a view to stimulating flow of credit to the private sector as well as curtailing the crowding out effect from the government sector. The ultimate goal under this scenario is to address the declining output growth.

I have my reservation, however, with this policy option. In as much as the option would address the supply side of the credit market, it would rarely have significant impact on the demand side. The interest rate elasticity of private sector demand for credit in Nigeria is an issue yet unresolved. More fundamentally, the cause of decline in growth, particularly in agricultural sector, has been traceable to security and weather concerns rather than lack of

financing, while structural issues remain a binding constraint to long term real sector growth.

A major consideration in my voting decision today is the need to address the apparent threats to internal and external balances, emanating mainly from global developments. The probability of slowdown in global output is increasing by the day occasioned by weak growth expected from Europe due to the continued euro zone debt crisis and rising unemployment in many advanced economies. The cumulative impact of the harsh global environment on the domestic economy is the promotion of the unpleasant twin deficits of trade and fiscal balances. From the trade channel, recession in major global economies would cause slowdown in demand for oil with the attendant slump in price. Current account balance as a ratio GDP has been declining since 2009, and a deficit may be recorded in the likelihood of any major shock to oil price.

Fiscal operations at a surplus of about N12 billion in Q1 is commendable, probably signaling the dividend of fiscal consolidation. Annualizing this figure for the rest of the year, however, may give a distorted view in the light of the fact that only about 11 per cent of the proposed capital outlay in the 2012 budget was expended during the period. In the likelihood of increased spending on capital expenditure during the remaining period of the year, the level of the ensuing fiscal deficit could be more than anticipated. In addition, the current revenue profile is built around a benchmark price of US\$72 per barrel. A significant shock to crude oil would undermine the implementation of the budget. With the Excess Crude Account almost exhausted, the domestic financial system may be the natural option to finance the ensuing deficit, thereby exacerbating the crowding out effect.

Again, domestic price developments face significant upside risks in the short to medium term, arising from some of the current initiatives such as the proposed new electricity tariffs. The resulting higher inflation has serious implications on real returns on financial assets, leading to loss of competitiveness on foreign capital inflows. Closely related is the stability of the domestic banking system. The average consolidated deposit rate at 3.83 per cent and headline inflation at 12.1 per cent in Q1 translates to a negative real deposit rate of 8.27 per cent. Deteriorating real rate of returns worsens savings-investment imbalances with the attendant deposit runs in the banking system over a medium to long term.

In the light of these considerations, I propose that the monetary authority should sustain the current demand management measures by retaining the policy rate at 12 per cent.

6.0 MOGHALU, KINGSLEY CHIEDU

This has been an admittedly difficult meeting of the Monetary Policy Committee considering that the policy choices confronting the Committee were not necessarily obvious. The choice is whether to hold the Monetary Policy Rate steady at 12 per cent or lower the MPR. I vote to maintain the MPR at its present rate of 12 per cent.

On the global economic front, dark clouds have regained ascendancy, with implications for Nigeria. Growth in the countries of the Eurozone has slowed down, and Europe appears likely to fall back into a recession. Emerging market countries such as China have experienced a deceleration of previously fast-paced growth, exhibiting signs of a soft landing. The implications of this scenario for Nigeria include a likely reduction in oil prices, which will translate into declines in government revenues in a largely mono-product economy, a widening fiscal

deficit which could lead to greater levels of government borrowing or a currency depreciation, and pressure on exchange rates. There would be a marked reduction in reserves and a reversal of capital flows in the outward direction.

On the domestic front, inflationary pressures remained strong in the first quarter of 2012 after a moderation in the fourth quarter of 2011. Headline inflation accelerated to 12.9 per cent in April from 12.1 per cent in March. Core inflation has risen markedly from 11.9 per cent in February 2012 to 15 per cent in March. The recent partial removal of petroleum subsidy played a key role in resurgence of inflationary pressures. The outlook for inflation in the near term remains high-risk, with the increasing borrowings by the Federal Government – and other levels of government – a source of concern. This borrowing to fund the significant fiscal deficit in the 2012 budget, the likely upward review of electricity and import tariffs on wheat and rice, the possible implementation of a supplementary budget, and the possibility of a further removal of petroleum subsidy, all point to a significant risk of inflation in the near to medium term. Inflation expectations remain significant, with headline inflation expected to be 13.4 per cent before decelerating over the remainder of the year. Staff projections, however, indicate that the inflationary pressures are likely to be ameliorated by the continued impact of aggressive monetary tightening by the MPC since 2011. A projected decline in the domestic output growth is also a major factor to contend with.

Against this background, the options before the MPC appear to be:

- (a) A reduction of the MPR in the hope that it will stimulate growth in the economy by encouraging the flow of credit to the private sector and productive sectors of the economy.

(b) Hold rates steady and watch the unfolding scenarios, even as this stance carries the risk of continued criticism about high interest rates and the encouragement of arbitrage opportunities for banks, which would rather make profits from treasury bills than lend to the productive sectors of the economy in this scenario, and

(c) Raise interest rates further in response to a possible further removal of petroleum subsidiary and its likely inflationary impact.

I believe there is no compelling argument to raise the policy rate at this time. While the possibility of reducing the MPR might be appealing, in order to stimulate growth and in light of the dark clouds in the global horizon and its possible implications for Nigeria's revenue base, that option is not the right one at this time for a number of reasons.

The most important reason is that lowering the MPR will not lead to growth in the Nigerian economy because bank lending in Nigeria is directed mainly to the oil and gas and general commerce sectors, rather than towards manufacturing, small and medium enterprises (SMEs) and agriculture, which are the sectors that will drive growth, and monetary policy cannot address the challenge of inclusive, job-creating economic growth in the absence of fundamental economic reforms in the areas of electricity, infrastructure, and the petroleum industry. Dealing with these structural challenges is not the mandate of monetary policy.

The timing of MPC rate decisions is also critically important. Lowering rates at this time could send the wrong message, either through a premature commitment to a lower MPR that will not necessarily address the more fundamental structural challenges of the macro economy or by appearing to preclude the possibility of raising the MPR should the unfolding circumstances strongly argue for such a policy response.

In a scenario of seemingly contradictory economic trends when global and local developments are considered, and given the evident limitations of monetary policy to address the structural problems of the Nigerian economy, it is wiser for the MPC, which is looked to as an anchor of stability in the macro economy, to maintain a neutral posture at this time and observe the trends over the near to medium term.

The Federal Government's retained revenues are presently rising ahead of expenditures in what appears to be an early sign of increasing fiscal consolidation, and capital expenditure in the 2012 budget is higher than in any previous budget in the past three years. However, given the increased borrowing by the federal, state and local governments, lowering interest rates may lead to increased government borrowing and a crowding out of the private sector from access to credit.

Finally, it remains essential to increase the levels of foreign reserves at this time, to provide a buffer for the economy should developments in the global economy turn for the worse and impact negatively on Nigeria's economy. Maintaining the present MPR will advance this strategic objective by encouraging capital inflows and other foreign investment.

It is for the foregoing reasons that I believe the MPC should hold the MPR and its interest rate corridor, the Cash Reserve Ratio and the Liquidity Ratio at their present levels of 12 per cent with a corridor of +/- 200 basis points, 8 per cent, and 30 per cent respectively.

7.0 OLOFIN, SAM

The potential threats of major external shocks to the domestic economy, arising from recent and continuing rumblings in the Euro zone is perhaps the most

important development that has occurred since we last met in March 2012. This may be viewed by many as sufficiently unnerving to warrant major policy changes. There are renewed uncertainties around the future of the Euro zone, precipitated by what appears to be the inevitability of Greece defaulting on its loan repayments, and its inability to sustain prescribed austerity measures needed for continued flow of bail-out funds. Similarly the tepid and slow recovery in the United States and signs of recession in the U.K. tend to suggest that most Western economies, and consequently the global economy may be heading towards a double-dip recession. The situation is not helped by evidence of major slow-down in the emerging economies of the BRICS countries particularly China that has remained a major importer of raw materials from the developing world.

Our foreign exchange market continues to be stable in line with our policy of maintaining a stable exchange rate for the Naira. This has been made possible primarily by positive net capital inflows albeit of hot money due to increased competitiveness of our real interest rates compared with Ghana and South Africa; reduced foreign exchange demand both at the WADAS window and at the interbank market, coupled with sustained increases in autonomous supply of forex from sales by oil companies. Staff estimates show that these autonomous sales amounted to \$15.46 billion or 63.82 percent of total supply to the market between January and March, 2012. Similarly staff estimates show that this year's first quarter (Q1:12) has been marked by modest but sustained increases in the level of foreign reserves. At the end of April 2012 foreign reserves stood at \$36.66 billion, representing an increase of US\$ 4.02 billion or 12.32 percent above the December 2011 level of \$32.64 billion.

On the domestic scene worthy of note from our staff reports are the fact that in Q1:12, the economy continued to experience increased inflationary pressures arising largely from the partial removal of fuel subsidy in January, and

enhanced liquidity in the banking sector occasioned by the use of AMCON bonds by Deposit money Banks(DMBs) to secure funds. There have also been some elements of pass-through effects from rising imported energy and food prices. Year -on-year headline inflation which stood at 12.1 percent in March 2012 is projected to rise further before it begins to moderate at the end of Q4:12. This is to be expected, given the upside risks of anticipated impacts of additional fiscal liquidity injections from supplementary budget to utilize savings from subsidy; likely implementation of recently announced tariff measures on imported wheat and rice; and implementation of the new electricity tariffs. Not surprisingly overall GDP growth rate is shown to have declined to 5.34 percent in Q1:12, down from 7.68 percent in Q1:11, while the growth rate for fiscal 2012 is projected at 6.50 percent, down from 7.36 percent in 2011. This is being attributed to the decline in output, arising from the January 2012 strike action following the removal of oil subsidy, and the dampening effects on crude oil demand and prices from the slowdown in the economies of the country's major trading partners, including the Euro area, the U.S. and China. Finally on a positive note, as much as it may be too early to draw strong conclusions, there are strong evidences that the fiscal authorities are beginning to embark on much needed fiscal prudence, as the government implements a budget of consolidation with emphasis shifting from recurrent to capital expenditure, and with government revenue outstripping government expenditure in Q1:12. There are also efforts to promote intervention in production chains particularly in agriculture that would in the medium to longer term reduce our dependence on imported food, promote the diversification of exports and conserve if not increase earnings of foreign exchange.

What do we make of the foregoing? Going by developments in the domestic economy the projected decline in GDP growth may be viewed by some as warranting a pro-growth downward adjustment of the MPR. However there is still

no strong evidence to suggest that the degree of responsiveness of credit flows to interest rate adjustments in the real sector has improved significantly. Critical constraints on growth continue to be structural factors in the areas of energy, security and infrastructure that continue to call for urgent attention of fiscal authorities both in the short to medium term. As long as these critical issues are not addressed the negative impacts of any significant reductions in the MPR by way of capital flight and pressures on the nation's foreign reserves are likely to far outweigh any potential growth gains to justify such an increase. On the other hand a further upward adjustment in the MPR to curb the inflationary pressure may be untenable at a time when an MPR level of 12 percent is already considered too high to promote flow of credit to the real sector, especially to small scale enterprises critical for enhancing the prospects of job creating growth.

While the potential external shock(s) from unraveling events in the Euro zone and a decelerating global economy may portend great dangers to our single commodity export, and highly import dependent economy, it may be too early in the day to embark on any anticipatory major policy measures other than continuing to fortify the economy's major defense against such external shocks. This would essentially boil down to beefing up the nations external reserves. Consequently all we need to do for now in one's view is to continue to explore all available administrative measures to plug the leakages in the country's foreign exchange earnings. By recent estimates of the Minister of Petroleum this may have been as high as US\$7 billion in recent months alone. The economy's present situation therefore calls for steadying of nerves. We need to maintain existing policies aimed at achieving medium term objectives of maintaining a stable exchange rate, stable prices, and encouraging growth inducing fiscal consolidation and structural reforms, until the directions of the developments in the Euro area and the global economy become clearer. I would therefore vote

for a no change in policy position at this meeting, with the proviso that we can always summon an emergency meeting or meetings of the MPC to consider any major developments in the domestic economy that may warrant policy review and or in response to external shocks.

8.0 OSHILAJA, JOHN

The MPC today unanimously voted to keep Policy unchanged, i.e. to keep the Monetary Policy Rate at 12% pa with a symmetric 2% pa band for the CBN's Deposit and Lending rates, for continuation of the current +/- 3% band around its targeted mid-point exchange rate of N 155.00/USD, and for retention of the Cash Reserve Requirement at 8%.

Any change in the direction of Policy at this time would have been, in my opinion, imprudent, highly anticipatory and fraught with unacceptable risks to the long-run viability of our mandated objectives. Indeed, the effective conduct of Monetary Policy regularly and clearly requires us to anticipate relevant developments in an effort to get ahead of emerging trends in the economic data and financial information we review. In my judgment, this was not one of those times. Not when developing uncertainties, on both external and domestic fronts, appear to be precariously perched atop fundamental tipping points. And certainly not when likely outcomes on a number of significant market-based risks remain unclear. In any event nothing reviewed, (in any of the key data points, be it the expected inflation path, or the performance of monetary aggregates) in my opinion necessitated changes to the status quo on this occasion. That said, we did however identify and consider arising, significant external and domestic issues that together strongly suggested

the need for cautious, focused observation. These have also quite possibly set the tone for subsequent meetings to be held this year.

Notwithstanding Nigeria's growing but still limited integration with the rest of the Global Economy (through trade and financial flows), its external and fiscal accounts remain dangerously exposed to downside oil-market price and volume risks. To the extent that double-dip recessions are prospectively re-emerging in the economies of its major partners, Nigeria faces real prospects of such risks materializing as sharp drops in its current and fiscal account balances. A surplus on the former allows the country to pay for imports without recourse to external borrowing. And while the purpose of the latter, in recent times, has become a matter of welcome, and increasingly heated public inquiry, there's no questioning the fact that Nigeria's governments operate under bloated, inefficient bureaucracies that the country, in its present condition, can ill-afford. The Federal Government's own studies affirm this.

In practical, domestic terms the above means that should we face a significant drop in global demand for our principal export and fiscal revenue-source, i.e. oil, and this quickly translates into real-term contractions in an already job-starved, domestic economy, the responsibility for deploying resources needed to re-stimulate the economy will very heavily fall on its fiscal and monetary authorities i.e. the Public Sector. This may sound all well and good, to the proverbial Man-On-The-Street, except for a few sobering details:

On the fiscal side, owing to opportunities missed, until recently, to substantially rebuild fiscal reserves there currently does not appear to be much scope for cushioning the impact of fiscal or financial system liquidity shocks, using sustainable and fiscally prudent means. Excess Crude Account balances appear to be on the rebound, but this is unfortunately occurring rather belatedly after substantial, serial draw-downs in prior years. If the past proves to

be prologue, the current ECA balance of \$8 billion would be quite rapidly dissipated over any “hard-landing” scenario that *could* unfold on Nigerian shores at some point later this year. Fiscal consolidation efforts of the FGN remain in early stages of implementation, to say nothing of their effective levels of entrenchment. Debt levels and their servicing requirements are already high enough (just 5 years after gaining Paris Club relief) to be presenting evident management and capacity challenges to both the government and financial system. Furthermore, Nigeria’s much-vaunted high-growth economy (fast-growing, at least in the view of local spin-meisters) is slowing. GDP growth peaked as far back as 1Q2010, and continuing deceleration will surely have undesirable consequences on the condition of the public purse.

As I see it, these unpleasant realities of the fiscal position in Nigeria will likely bequeath the monetary authorities with much of the onus for any effective, stimulatory policy-work that might be needed over coming months. However the impact of any such independent action will be felt, and render economic benefit in the short-to-intermediate term only. There have to be complementary, goal-oriented, fiscal actions demonstrably taken in concert with Policy in order for overall Economic Management results to be sustainable in the long run. While admittedly tempered by largely political considerations, the performance of current Fiscal initiatives in Nigeria appears to significantly lag those of its monetary initiatives. This performance gap is remains another feature in which the country’s economic potential needs to be anchored. The gap needs narrowing. Ideally, it should’ve been plugged with demonstrable actions, like, yesterday.

As the MPC itself is often at pains to publicly explain, Monetary Policy works through a given set of available financial tools. Not all of which, incidentally, are currently at our disposal (viz. reliably liquid financial markets, to give an example). Moreover, by its nature, Monetary Policy also effectively tends to

operate under greater resource constraints than Fiscal Policy. Hence, its most potent effects tend to be short-lived, particularly if left uncoordinated with other inherently complementary instruments of government.

Monetary Policy cannot directly address chronic structural problems of the Nigerian economy. Neither can it reorient the conduct of Governments. Given credible autonomy, however, it can directly influence the development of financial conditions necessary, but not necessarily sufficient, for attacking economic development problems effectively.

Hence the efficacy of present MPC tools and resources ultimately depends on how the Public and its government capitalizes on conditions thereby created. Government can chose to re-build earnestly and meaningfully, with due focus on sustainable job-creation and productivity enhancement. Or it can choose to pay lip-service to nation building, while fundamental social and economic problems remain pressing but largely unsolved. I would again encourage the Federal Government not to relent but to invariably redouble current efforts on fiscal reforms and adjustment. If I am interpreting current international developments and emerging domestic trends correctly, I do not believe Nigeria has as much time we may think we have, to reinforce key aspects of economic foundations that were laid bare by the Economic Tsunami of 2008. Even just prospects for a similar reoccurrence should be sufficient for serious planners to lean towards being over-prepared, in contrast with our currently observable state of collective unpreparedness. In my opinion, this is not the position Nigeria wants to be in, four years on, given its professed aspirations.

9.0 SALAMI, ADEDOYIN

Since the last meeting of the Monetary Policy Committee (MPC), the figures for inflation in March and April have been published. They show that after the respite in February, when Headline inflation slowed to 11.9 per cent, the rate of increase in prices has continued to rise and now stands at 12.9 per cent. In itself, this is not a problem given that inflation still lies within the range forecast by Bank Staff at the beginning of the year.

Even though current inflation falls within the expected range, the softening economic activity could provide a reason for reviewing the stance of Monetary Policy. Data provided by the National Bureau of Statistics (NBS) show that output growth, measured by Gross Domestic Product (GDP), slowed – growing at 6.17 per cent in the 1st Quarter of 2012. Noteworthy in the information provided by the NBS is the slowdown of activity in the Agricultural and Oil Mining sectors. Agriculture grew 4.15 per cent – the slowest rate of growth in the sector since the NBS commenced publication of its quarterly GDP series. Crude Oil and gas sector output contracted by 2.32 per cent in the same period.

Bearing in mind that credit to the private sector has grown 0.06 per cent year-to-date it is tempting to draw a link between limited credit growth and slow output growth. However, the explanation for the slowdown in agricultural sector growth, provided by the NBS, is that it is the outcome of structural factors - including insecurity of the operating environment in Northern Nigeria. It is clear that without accelerating the program of structural reform and showing 'real impact', the space into which credit can safely go remains very limited.

Looking at the immediate term ahead, some of the announced increases in import tariffs and the prices of power will soon come into effect. These will

doubtless further stoke inflationary pressure. Indeed current Staff forecasts of inflation in the next six months have 13.4 percent in July 2012 as the peak for Headline inflation. From this peak, Headline inflation is expected to decline to 11.7 per cent in October. For both Food and Core Inflation, Staff forecast shows a similar trend – even though the month in which the peak is attained differs. Food inflation will, at its height in July 2012, rise by 13.1 per cent. The projected peak for Core inflation, at 14.6 per cent, is a month later. From my perspective, since the inflation numbers as they are and as projected, are within the expected range, don't provide any reason for change in Monetary Policy.

It is however pertinent to note that the continuing elevation of downside risks in the international environment portend potentially significant policy challenges ahead – especially for the exchange rate. The effect of rapidly softening global growth prospects will soon be felt in commodity markets. For Nigeria, the impact on crude oil is the key concern. Forecasts, now available, show that the supply of crude oil will exceed demand. The effect of excess supply is likely to dominate the financialisation and uncertainty effects which have thus far kept oil prices high. We can thus expect that oil prices will decline from current levels.

Combined with falling domestic oil output and relatively lower revenue yields from Production Sharing Contracts, creates a major fiscal risk for Nigeria notwithstanding the fiscal surplus achieved in the Q1 2012. It is also worth noting that the fiscal numbers for the first three months of the year show rising expenditure – spending by the Federal Government amounted to 9.6per cent of GDP compared with 8.9per cent in the same period last year. In other words, if spending continues to expand at this pace, the domestic cost of money will inevitably rise. The apparent liquidity challenges facing managers of government indebtedness needs to be carefully watched and astutely managed lest it erodes confidence in the sovereign.

Beyond the 'crowding out' effects of government fiscal operations, there is, despite assurances to the contrary, cause for concern at the rate of growth in government debt, especially given the limited nature of the economy transforming outcomes thus far delivered.

While exchange rates have remained stable, the absence of the type of buffers which allowed the economy in Nigeria successfully ride out the global crisis between 2007 and 2009 is a source of concern with which, regrettably, monetary policy cannot deal. A significant softening of oil prices will place at grave risk all the gains with respect to price stability.

Whilst Monetary Policy is indeed forward looking, the challenges which the economy faces require that we are careful not to spook markets or further worsening the output challenges. I vote to hold the status quo as we wait to see how the international environment shapes up in the weeks ahead.

10.0 UCHE, CHIBUIKE

In my last MPC decision statement, I raised concerns about the possibility that Nigeria's GDP growth rate may continue to contract at least in the medium term. Recent figures made available to MPC have validated this concern. In the past year or so, we have seen a consistent decline in the growth rate of GDP. Even the growth rate in the agricultural sector which normally drives GDP growth in Nigeria has also been contracting.

The above GDP growth rate contractions have at least in part been influenced by the persistence of the global economic crisis. The US and the European Union have thus far failed to resolve their long standing economic problems. Equally

worrisome is the fact that GDP growth rate is also beginning to contract in China. Such contractions have gradually led to a weakening in the demand for and price of crude oil.

Given the mono product nature of our economy and its dependence on oil as the major foreign exchange earner, it is not surprising that the global economic slowdown have been transmitted to the Nigerian economic environment. It is instructive that in the recent past, oil supply has surpassed demand thus leading to a gradual weakening of oil prices. Brazen theft and corruption in the Nigerian oil sector have also further reduced available revenue from this important sector to the Nigerian state. As was recently revealed, \$US 7 billion was stolen from this sector in the past year alone. An additional \$US 5 billion was spent on fixing vandalised pipelines.

Government's increasing inability to meet its ballooning current account expenditure has led to turbulent economic changes especially in the area of removal of 'subsidy' on petroleum products and electricity tariffs. Regrettably, these are being done without putting in place the appropriate economic framework that would help enhance the utility value of the said policies as essential agents in promoting growth and development in the real sector. In the absence of the above economic framework, the 'subsidy' withdrawal programmes can only lead to increased inflationary pressures and its consequential economic and political instability. It is therefore unlikely that the projected growth in both headline inflation and core inflation for the next one year will be mitigated. The unjustifiable ballooning debt profile of the government will no doubt add fodder to this emerging crisis.

The implication of the above is that the MPC have been put in the unenviable position of crafting policy that will deal with two divergent economic scenarios: increasing inflation and reducing GDP growth rate. The major difficulty I face as

an MPC member in the context of the above is the fact that whilst some monetary policy tightening would be required to deal with inflationary pressures, doing so in an economy with contracting GDP growth rate may have undesirable social and economic consequences especially where unemployment, crime and political instability have reached unwelcome levels. Furthermore, such an increase can only help attract speculative foreign investments which will specifically target government risk free securities. Thanks to the current high MPR, such securities also offer positive real returns to investors. Surely such trend can only encourage Government borrowing without growing the underlying economy. It is therefore not sustainable.

On the other end of the economic spectrum, an economy with declining GDP growth rate require policies that will encourage lending to the real sector in order to promote economic growth. Theoretically, reducing the MPR may well fit this bill. Aside from the contradiction of this approach with the issue of controlling inflation, history has shown that in a renter economy like ours, reduced MPR does not automatically translate to increased credit to the real sector. This is in part because government policy inconsistencies coupled with poor infrastructural and operational support have extensively weakened the competitiveness of the real sector. The problems of the real sector in Nigeria therefore go beyond the availability of credit.

Since few can dispute the fact that sustainable economic growth cannot be achieved without real sector development, it is prudent to assert that any economic policy that does not encourage real sector development cannot be sustainable. In the light of the above difficult scenarios, I have carefully come to the conclusion that the best approach at this stage would be to maintain the status quo while hoping that the Government will follow through with the needed reforms that would ensure fiscal prudence and facilitate the

development of the relevant framework and infrastructure necessary for the promotion of real sector development in our economy.

In conclusion, let me emphasise that monetary policy is not a magic wand. Unless prudent fiscal policies are pursued along with the provision of the appropriate developmental framework and infrastructure, monetary policy will simply degenerate into a ritual with doubtful utility value.

11.0 YAHAYA, SHEHU

I vote to maintain the MPC rate at the current level of 12%. My vote is based on an analysis of the domestic financial, banking and economic situation and an overview of the global financial and economic dynamics.

Output: With respect to the Nigerian economic situation, one of the critical challenges is the slowing rate of GDP growth rate to 6.17% in the first quarter of 2012 (compared to 7.68% in the fourth quarter of 2012), based on NBS estimates. This obviously has implications for jobs, public and private revenue and expenditure, and thereby on income distribution, since it is very hard to promote equitable income opportunities at a time of slower growth. The projected slowdown, of the economy is attributable to reduced growth in both oil and non-oil sectors. Of particular concern has been the sharp decline in growth rate in the agricultural sector in Q1 of this year, the lowest since 2001. Moreover, the poverty rate increased to 71% in 2011. In the circumstances, it is important that programs and policies are designed to help resuscitate growth.

Prices: There have been elevated inflationary pressures in April, with year on year price levels expected to be about 12.9%, higher than the figure of 12.1% in March. Headline, core and food inflation have all risen slightly. In the next few

months, prices are expected to be fairly volatile. Prices in the coming months may be significantly affected by what happens to fuel prices as well as on adjustments on electricity tariffs. Overall, the risks of significant price increases appear to be muted, if the information on prices is taken together with other factor.

Monetary aggregates: In general there has been a decline in the measures of most of the monetary aggregates. Broad money (M2) fell by 0.26% in March as compared to December 2011; currency in circulation fell by 0.73% in April. Both currency in circulation and Reserve Money were far lower than their benchmarks in Q1 2012. Aggregate credit to the economy also fell by 0.08%. OBB and inter-bank call rates declined in April, although this is transient. Nevertheless, it is highly unlikely that any significant pressure on prices is likely to emanate from the effect of these variables in the short term- they are more likely to have a mitigating effect. Still, it is important to keep sight of the increased liquidity situation in the banking system to ensure that it does not generate inflationary pressures

Fiscal: There is increasing evidence of budget discipline at the government level. The budget deficit is stable and within the prescribed parameters- indeed right now there is a budget surplus- and capital expenditure is higher as a proportion of the total budget than it has been in 3 years. Of course it is early days yet, since the budget was only approved in April, but the signs are positive that fiscal policy would, while promoting growth, avoid stoking inflationary pressures.

External Sector: The dollar exchange rate has been relatively stable and the Naira has slightly appreciated in April. External reserves are at their highest level in a year, reflecting the robust oil prices, but also transient capital flows.

Global Developments: For Nigeria, the effects of economic and financial developments in the Eurozone countries and the US on the price of oil as well as

on demand for non-oil exports are of significant importance. The risk of recession in the Eurozone countries and very slow recovery in the US would tend to reduce demand for oil and non-oil exports. This is exacerbated by a slight decline in growth rates in other emerging economies. Gradual recovery of oil production in Libya, expansion in production in Ghana and Angola, as well as discoveries in other sub-Saharan African countries may substantially increase output and exert a downward pressure on oil prices. Considering the forecast of an excess supply of over 800,000 barrels a day in 2012 and the already softening prices at the moment, there is clearly a risk that prices could reduce for much of the year. This will obviously affect government revenues in the country and put a downward pressure on external reserves and the exchange rate, and thereby an upward pressure on domestic price levels. However, there is little risk of significant imported inflation from the country's main trading partners.

Conclusion

The current upward trend in prices, along with risks of higher fuel and electricity prices, coupled with high levels of liquidity and exchange rate induced inflation are issues of concern. However, these may not crystallise in the short term. Moreover, the compelling need to avoid growth-restraining interest rates, the overall positive fiscal, exchange rate and external reserve positions as well as the declining trends in monetary aggregates suggest that the best course of action at the moment is to maintain the current monetary policy stance and rate.

12.0 SANUSI, LAMIDO SANUSI

Governor of the Central Bank of Nigeria and Chairman of the Monetary Policy Committee

When this Committee met in March, there were signs of the beginning of a recovery in the advanced economies especially with the gradual return of confidence to the financial markets on the back of bold liquidity support measures for Eurozone banks by the ECB. The Greek crisis seemed on its way to a final resolution, and Eurozone countries were making progress towards a fiscal union of some sort.

In the last two months, the outlook has changed for the worse. Greece moved from an economic to a political and back to an economic crisis with a strong public backlash against austerity, and the speculation of an acrimonious exit from the Eurozone. In France, the election of a socialist Government that is avowedly anti-austerity has raised the stakes even further. The Franco-German alliance has always been at the heart of the Eurozone, and the collaboration between President Sarkozy and Chancellor Merkel was crucial during the recent crisis. The disagreement on economic philosophy between French President elect Hollande and Merkel portends danger to the Union.

Global output growth is projected to drop by 0.5% to 3.5% in 2012. US GDP growth dropped from 3.0% in Q4 2011 to 2.2% in Q1 2012, while GDP growth in the Eurozone is expected to slow from 1.4% in 2011 to -0.3% in 2012. The UK is officially in recession. The risk of this being a “double-dip” recession is therefore real, with China also slowing down in 2012.

On the domestic scene, GDP growth for Q1 2012 was 6.62%, continuing a decline in growth rates that has been uninterrupted since Q1 2010. With Agricultural growth measured at 4.15% and over 2% decline in Oil and Gas GDP, we are meeting at a time when the economy faces a risk of continuing slowdown. The decline in Agricultural GDP growth has been due to insecurity in the north, low levels of rainfall and rising input costs following the partial removal of oil subsidy. Oil and Gas GDP is declining because of dearth of new investment due to uncertainty in fiscal terms (caused by delays in passing the PIB) aggravated by oil theft and illegal bunkering in the Niger-Delta. The Oil Minister has just publicly announced that oil worth \$7b was stolen in 2011.

Inflation rose to 12.9% year-on-year and is within our forecast range. The rise in inflation had been anticipated and the trend is expected to continue at least to August/September when it should peak at just under 15% accordingly to staff projections. On a month-on-month basis the CPI movement was relatively benign suggesting that the Year-on-Year figure is a reflection of high base effects of the partial withdrawal of fuel in January. However, the imminent increase in electricity tariffs and possible withdrawal of remaining fuel subsidy poses inflationary risk.

The Issues

We therefore are meeting at a time when GDP growth is slowing down (which should ordinarily invite us to lower rates) and inflation is rising (which should ordinarily invite us to raise rates).

A close look at the underlying reasons for these developments, however, will confirm that monetary policy have a limited impact at this point. Stimulation of agricultural output depends on rapid improvements in productivity through irrigation and reduced dependence on rainfall, improved training and farm

practices, higher yielding varieties of seed, improved rural infrastructure, guaranteed minimum prices and access to markets. As for Oil and Gas, we need a quick passage of the PIB, more transparency in the oil sector, stronger commitment to dealing with oil theft and bunkering, as well as an end to the rampant corruption in the industry. Clearly, these are governance, policy and structural issues that will not be solved by lowering the MPR.

Inflation on the other hand is also driven by structural factors like the cost-push effects of fuel subsidy and electricity tariff reviews. The relative unimportance of monetary stimuli is evident in the flat M2 over four months, sluggish credit growth and relatively stable forex market and reserve accretion. In additions, the fiscal position in Q1 showed a nominal surplus which is some progress toward fiscal consolidation if sustained.

It appears to me that at this point the best contribution we can make is to maintain stability in the midst of the chaos around us domestically and internationally. As long as inflation behaves according to expectations, we should not add to this cost of private sector borrowing and encourage further crowding out by a hasty increase in rates.

A reduction in rates in this mistaken belief that it will lead to stronger GDP growth, will simply lead to capital flight, instability in the foreign exchange markets, reduction in reserve levels and return to the accommodative stance that encourages mounting fiscal deficits.

Decision

Taking all the above into consideration my vote is to hold MPR,CRR and LR at present levels and maintain this stance unless there is clear evidence that a change is desirable and effective. At this point we must recognize the

limitations of monetary policy and invite Government to take responsibility for the fiscal and structural policies that are needed to stimulate growth and control inflation.