Central Bank of Nigeria Communiqué No. 86 of the Monetary Policy Committee Meeting of Monday and Tuesday November 19 and 20, 2012

The Monetary Policy Committee (MPC) met with nine out of the twelve members in attendance. The Committee reviewed the domestic and global economic conditions and financial environment as well as the challenges that faced the Nigerian economy during the first ten months of fiscal 2012, with a view to reassessing monetary policy options in the near-to-medium term.

The International Economic Situation

The Committee noted the continued deceleration in global output, which resulted from a combination of austerity-driven euro-zone developments, weak recovery in some Asian economies, and slowdown in major emerging market economies. In addition, high and rising unemployment, fragile financial conditions, weak housing markets, and deterioration in both public and private sector balance sheets in some major industrial countries posed major risks to global economic recovery. Thus, global output growth in 2012, which was earlier projected at 3.5 per cent in July 2012 by the IMF, was revised downward to 3.3 per cent in the October 2012 World Economic Outlook; that of 2013 was also revised downward from 3.9 to 3.6 per cent. According to the October 2012 projection, there is a high probability of global growth falling below 2.0 per cent in 2012 and this would mirror the recession in the advanced economies and the slowing output growth in key emerging markets and developing economies.

Growth in the advanced economies is estimated at 1.3 per cent in 2012 and 1.6 per cent in 2013, reflecting a downward revision of 0.1 and 0.3 percentage point, respectively. The US economy continued on the path of modest recovery as real output expanded by 2.0 per cent in the third quarter of 2012 compared with 1.3 per cent in the second quarter, reflecting the positive contributions from personal consumption expenditure, government spending, private inventory and residential housing investment in the face of current low mortgage rates. However, the recent hurricane Sandy across the east coast of the United States, constitutes an immediate risk to the sustainability of the recent growth rally and its impact is expected to truncate US recovery in the last quarter of 2012. Another major risk to the medium term growth trajectory is the US "fiscal cliff". The IMF has suggested a gradual resolution of the fiscal impasse in order to avoid the possibility of a sharp contraction.

The Euro zone is officially in recession in addition to the persisting uncertainty over agreements on a fiscal union, the start of European Central Bank's (ECB) oversight of European banks and the fragility of the Greek, Spanish and other peripheral economies. Real GDP in the zone is projected to contract by 0.4 per cent in 2012 with unemployment rising to 11.50 per cent. The core economies in the zone are expected to experience low but positive growth during

2012-13 while most economies in the periphery are expected to suffer sharp output contraction in 2012 because of tight fiscal policies and weak financial conditions.

The German economy recorded slight recovery with unemployment falling to 6.5 per cent while the United Kingdom snapped out of a recession, recording a growth rate of 1.0 per cent after three successive quarters of contraction. Rising uncertainty about the viability of the Euro zone and the possibility that the euro area crisis will escalate remains a major downside risk to growth and financial sector stability. Overall, continued austerity measures in the euro area are having negative spill-over effect on the German economy which is now wobbling on the verge of a recession due to widespread drop in aggregate demand.

In emerging Asia, growth was estimated to have significantly weakened to less than 7 per cent in the first half of 2012. Latest data indicate that growth in China slowed for the seventh consecutive quarter to 7.40 per cent in Q3, 2012, lower than the Q2, 2012 figure of 7.60 per cent. The Peoples Bank of China (PBC) had already embarked on sequential monetary easing operations in order to loosen liquidity conditions and stimulate growth. This will, however, increase the risk of inflating real estate prices and a possible bubble with potential adverse impact on the Chinese financial system. In India, output is expected to expand by 5.80 per cent in 2012 as against 6.50 per cent in 2011 with the slowdown resulting from waning business confidence, sluggish structural reforms, policy rate hikes designed to rein in inflation, and flagging external demand. In other parts of Asia, growth has dipped, hampered by the weak performance of the Chinese economy. Most countries continue to be affected by weak export growth while the Monetary Authorities have responded with expansionary monetary policy.

Output growth for 2012, at 5.1 per cent, up from 3.3 per cent in 2011for the Middle East and North Africa (MENA) region, could be considered robust in the face of global realities, but there is a sharp difference in growth performance between the oil and non-oil exporting countries in the region. For the non-oil exporting economies, growth is projected to register just above 2.0 per cent and 6.6 per cent for the oil exporting economies. Economic activities in the non-oil exporting countries have remained suppressed by the growth deceleration in the major trading partner-economies, internal conflicts and pervading political/economic uncertainties. The robust growth projection for the oil exporting countries, on the other hand, is anchored on increased government expenditure supported by historically high oil prices. Despite these developments, the Committee is of the view that growth for the MENA Region in the medium term is faced with the risk of weak external demand, instability in the region and an increasingly constrained environment for private sector activity. However, Africa's robust growth is not likely to affect the downward trend in global output because of its small share (2.7 %) of global output.

Overall, the Committee believes that the fiscal gridlock in the US, the lingering euro zone financial and economic crisis, as well as the softening output growth in the key emerging Asian economies, could have serious implications for the domestic economy in the near-to-medium term. Specifically, any negative shock to the current high prices of crude oil would have adverse implications for fiscal revenue flows and the external current account position, even though current forecasts and developments in the Middle East do not suggest the possibility of a shock in the near term.

Domestic Economic and Financial Developments

Output

The National Bureau of Statistics has revised the real Gross Domestic Product (GDP) growth for fiscal 2012 downwards to 6.61 per cent from the earlier projection of 6.85 per cent, indicating that the economy is encountering growth challenges not previously anticipated. The estimates revealed a real GDP growth rate of 6.48 per cent in the third quarter of 2012, up from 6.39 per cent in the second quarter but lower than the 7.37 per cent recorded in the corresponding period of 2011.

The Committee noted with concern the continuing decline in the contribution of the oil sector to growth, in an area of strong oil price performance, which became apparent in the last half of 2011 and also the decline in the contribution of agriculture to growth since Q3, 2011, in spite of the investment in the Agricultural transformation initiatives of the Federal Government.

The relatively robust growth projections for 2012 despite the slowdown in the global economy reflected the continuing favorable conditions for increased agricultural production, the impact of the banking sector reforms and the initiatives by government to stimulate the real economy. In this regard, the Committee welcomed the recent improvements in electricity generation which has impacted positively on manufacturing activities and overall capacity utilization. The Committee enjoined the Federal Government to sustain the efforts.

The Committee, however, observed that the recent flooding in several parts of the country, current security challenges and corruption scandals posed serious downside risks to growth in the near-to-medium term. Indeed, it noted that the full impact of the widespread flooding was yet to manifest while the cost to the economy was yet to be estimated. The committee noted the combined effects of the high tariffs, floods and drought on global wheat supplies which have led to higher prices of wheat in Nigeria.

Prices

The Committee noted that inflationary pressure, which moderated in the third quarter of 2012, re-emerged in October 2012. The year-on-year headline inflation inched up to 11.70 per cent in October 2012 from 11.3 per cent in September while food inflation increased to 11.1 per cent from 10.2 per cent in September. Core inflation continued its sequential four-month moderation to 12.40 per cent from 13.10 per cent in September while the risk of food inflation remained hawkish, thus creating mixed price signals. The major drivers of inflation during the period include food and housing, water, electricity, gas and other fuels. The pick-up in food inflation contradicted recent trends and may not be unconnected with effects of the floods on farmlands, the impact of which poses an upside risk to inflation in the near-term, coupled with continued imported food inflation. Although core inflation continued its moderation, the Committee considered the current level to still be elevated, driven largely by: processed foods (3.7 per cent); housing, water, electricity, gas and other fuels (4.2 per cent); clothing and footwear (1.4 per cent); transport (1.10 per cent); furnishing, household equipment and housing maintenance (0.7 per cent); and education (0.6 per cent). However, the major drivers of core inflation remained outside the scope of monetary policy alone which was helpless in addressing the structural components of inflation. In the meantime, fuel prices have risen generally above the official pump price even without the total removal of oil subsidy.

Monetary, Credit and Financial Markets Developments

Broad money supply (M2) grew by 8.23 per cent in October 2012 over the level at end-December, 2011, which annualizes to 9.87 per cent. Aggregate domestic credit (net) declined by 3.48 per cent in October 2012. The decline in credit to government between June and October implies that the Federal Government is increasingly becoming a net creditor to the banking system which perhaps reflects the impact of better fiscal management including the introduction of Treasury Single Account.

Interest rates in all segments of the money market moderated between September 19 and October 30, 2012, reflecting increased liquidity in the banking system induced by the release of statutory revenue to sub-national governments, the repayments of matured CBN bills and absence of repo operations during the review period.. The interbank call and OBB rates, which opened at 16.77 and 16.40 per cent on September 19, 2012, closed at 12.03 and 11.70 per cent, respectively, on October 30, 2012. The average interbank call and OBB rates for the period were 11.68 and 11.38 per cent, respectively.

The foregoing notwithstanding, the Committee was concerned that the moderation in money market rates was only beneficial to prime customers, who enjoyed a fair degree of reduction in rates on their loan facilities. The average prime lending rate declined from 16.96 per cent in July to 16.48 per cent in October. The average maximum lending rate, however, increased from 23.45 to 24.65 per cent during the period while the weighted average savings and term deposit rate stabilized at 5.30 per cent during the period. The Committee, therefore enjoined the Bank to fast track the financial inclusion strategy to ensure the effectiveness of the transmission mechanism of monetary policy with a view to improving the financial intermediation process, and reducing the high spread between deposit and lending rates in the banking industry.

The Committee observed that the rally in the Nigerian capital market continued as equities market indicators trended upward in the review period. The All-Share Index (ASI) increased by 22.37 per cent from 21,599.57 to 26,430.92 between June, 29 and October 31, 2012. Market Capitalization (MC) also increased, by 22.15 per cent, from N6.90 trillion to N8.42 trillion during the same period. The positive performance of the ASI and MC were due to strong investor confidence following improved second quarter financial performance of blue-chip companies, as well as excellent results from a reinvigorated banking industry.

External Sector Developments

At the Wholesale Dutch Auction System (wDAS), the exchange rate during the review period opened at N157.36/US$ on August 30, 2012 and closed at N157.30/US$ on October 31, 2012, representing an appreciation of N0.06k or 0.04 per cent. The average wDAS exchange rate during the period was N157.33/US$. At the BDC segment of the foreign exchange market, the selling rate opened at N161.00/US$ on August 30, 2012 and closed at N159.00/US$ on October 31, 2012, representing an appreciation of N2.00k or 1.24 per cent for the period. At the interbank segment, the selling rate opened at N158.10/US$ on August 30, 2012 and closed at N157.06/US$ on October 31, 2012, representing an appreciation of

N1.04k or 0.66 per cent. The appreciation recorded in all segments of the market could be traced to the combined effects of tight monetary conditions, improved supply of foreign exchange to the market by oil companies; increased inflows from portfolio investors and the policy that barred the DMBs from accessing the CBN Lending window (SLF and Repo) and wDAS simultaneously.

The Committee noted with satisfaction the premia between the rates at the wDAS and the interbank and between the wDAS and the BDCs narrowed towards the end of the review period, from N0.74/US$ and N3.64/US$ to N0.03/US$ and N1.68/US$, respectively, suggesting the need to sustain and further complement existing measures to discourage speculative activities in the foreign exchange market. In general, the Committee noted that the decisions taken at the previous MPC meetings were yielding the desired results.

The Committee expressed satisfaction with the significant accretion to external reserves which stood at US$ 45.68 billion as at November 15, 2012, representing an increase of US$ 10.27 billion or about 29.00 per cent from the level of US$35.41 billion at end-June 2012. External reserves had increased by US$ 13.04 billion or 39.95 per cent over the December 2011 level of US$ 32.64 billion. The increase in the foreign reserves level was driven mainly by proceeds from crude oil and gas sales and crude oil-related taxes, as well as reduced funding of the wDAS due to increase inflow of foreign direct investment. The foreign reserves level could finance over 10 months of imports. The

Committee urged the Central Bank to continue to monitor the inflow and destination of FDIs and remittances conscious of the risks to financial stability of a rapid outflow of hot money.

The Committee's Considerations

The Committee noted that developments in the global economy characterized by general uncertainty on the back of the deceleration in global growth sustained by the fragile financial conditions, weakening labor and housing markets and deteriorating public and private balance sheets across advanced and emerging economies, have implications for the domestic economy and, therefore, demand careful consideration in arriving at an appropriate decision of monetary policy. The uncertainty surrounding the resolution of the fiscal cliff in the US and the downside risk created by Hurricane Sandy on US output in Q4 are also important factors to consider. The Committee noted that if the fiscal cliff was not resolved quickly, it would negatively impact the already ballooning deficits and subsequently tip the economy into a recession with downside risks to oil price developments. The Committee noted that the lack of clear direction for the resolution of the Euro area crises will continue to signal a likely recession in the area in the near term. Developments in the domestic economy in the past three months highlight some new pressure points to macroeconomic stability. The Committee was of the view that despite the high interest rates, additional shocks to the economy emanating from the devastating floods, imported inflation and the upward adjustment in electricity tariffs continue to stoke inflationary pressure. The Committee noted the conflicting price signals coming from the latest inflation numbers from the National Bureau of Statistics, with headline and food inflation trending upwards, while core inflation rate continued to moderate for the fourth consecutive month. This according to the Committee has created uncertainty as to the appropriate policy stance at this time. However, since the factors underpinning the inflationary pressures were mainly structural, a monetary response may not be appropriate at this time. Furthermore, the Committee observed that while there were compelling arguments for monetary easing at this time based on the continuous moderation of core inflation, slowdown in GDP growth and evidence of fiscal prudence, the short-term gains may not be sufficiently adequate to overturn the long term implications of sending a wrong signal that the tightening cycle was permanently over.

With regard to the balance sheet of the Federal Government, the Committee was of the view that it has become imperative to shift away from looking at the size of the deficit and borrowing alone, to emphasizing the quality of expenditure and decisions on the allocation of resources. The Committee commended the fiscal authorities for keeping the fiscal deficit firmly in line with the 2012 budget and improving the revenue profile of the Federal Government by plugging several of the fiscal leakages. It called on the Government to significantly increase capital spending and increase its focus on improving on governance and transparency in the public service. On the oil price benchmark used in the 2013 budget, the MPC reaffirmed its support for the maintaining the US$75/barrel proposed by the fiscal authorities and noted that this has become even more critical in light of evidence that output projections may have been overly optimistic. In this regard, the Committee called on the Government and the National Assembly going forward, to borrow from the Chilean experience with regard to the setting of the parameters for the preparation of the National Budget to avoid the perennial rancor between the Executive and the Legislature on benchmark oil price. Specifically, the Committee called for the setting up of an independent legal structure that will set the benchmark output and price underpinned by the long term trajectory of output and price, by independent experts who are shielded from political interference and interests.

In view of these developments, the Committee was faced with three choices:

(i) An increase in rates in response to the up-tick in headline and food inflation;

(ii) A reduction in rates in view of declining core inflation and GDP growth;

(iii) Retaining current monetary policy stance in view of conflicting price signals and global uncertainties;

The Committee's Decisions

The Committee considered and rejected option 1 as being potentially pro-cyclical considering the structural nature of recent inflationary pressures. While acknowledging the merit of the arguments in favour of option 2, it was also rejected as likely to send wrong signals of a premature termination of an appropriately tight monetary stance.

The Committee therefore, decided by a unanimous vote to maintain the current policy stance i.e. to retain the MPR at 12 per cent with a corridor of +/- 200 basis points around the midpoint; and retain the CRR at 12.0 per cent and the Liquidity Ratio at 30 per cent.

Thank you.

Sanusi Lamido Sanusi, *CON*
Governor
Central Bank of Nigeria
20th November, 2012

PERSONAL STATEMENTS BY MPC MEMBERS:

1.0 ALADE, SARAH

Headline inflation increased marginally to 11.7 percent in October from 11.3 percent recorded in September. This increase is driven mainly by food inflation which edged up to 11.3 percent in October from 10.2 percent recorded in the previous month. In the international scene there are great uncertainties: while unemployment rate is trending downwards at 7.9 percent compared to 9 percent a year ago in the United States, concrete strategy to deal with the fiscal cliff have not been agreed on. In the Euro zone, the continued progress by the Euro zone ministers to tackle the Euro area debt problems has not yielded major breakthrough. On the domestic front, third quarter GDP growth remain robust at 6.48 percent, higher than 6.39 percent recorded in the second quarter. The major risks to monetary policy in the near to medium term would include inflationary implication of the recent unprecedented flood which could exacerbate the current precarious food inflation through food deficit. Additionally the risk of external shock is fairly high as a result of continuous moderation in global growth with severe implication for the buildup of external reserves. Although inflation increased marginally, this trend is a seasonal phenomenon and hiking policy rate at this time may be counterproductive.

Headline inflation increased marginally to 11.7 percent in October from 11.3 percent recorded in the previous month. Headline inflation increase marginally driven mainly by increase in food inflation. High imported food prices couple with flood in some parts of the country is driving up food prices. While core inflation decreased from 13.1 percent in September to 12.4 percent, food inflation however increased from 10.2 percent to 11.1 percent. Staff projections suggest a temporary inflationary pressure in the coming months due to end of year spending.

Gross Domestic Product (GDP) is revised downward and is projected to grow by 6.61 percent in 2012 from the 6.78 previously projected.

Third quarter GDP growth edged up to 6.48 percent from 6.39 recorded in the second quarter of the year. The non-oil sector grew by7.55 percent during the third quarter, decreasing marginally from 7.63 percent record in the second quarter. The contribution of agriculture decreased from 4.21 percent in the second quarter to 3.89 percent in the third quarter, further justifying the increased food inflationary pressure. The contribution of wholesale and retail trade increased from 8.65 percent to 9.62 percent. The outlook for growth in 2012 through the first quarter 2013 remains robust.

Money market rates have remained stable. Money market rates maintained a fair degree of stability since September MPC meeting, remaining within the MPR corridor. In addition, the spread between the average maximum lending rate and consolidated Demand, Savings and Time deposit rates narrowed during the period between the last MPC meeting and October 2012.

There has been a build-up in foreign reserves and stability of the foreign exchange. Monetary policy has been effective in stabilizing the foreign exchange market and reducing speculative demand. The past monetary policy decisions have also aided capital inflows to the economy, resulting in buildup of foreign exchange reserves which stood at $45.68 billion as of November 15, 2012. However, it is important to continue to monitor global events, especially the effect of the on-going Euro zone crisis and the handling of the fiscal cliff in the United State on the Naira, as either issue could destabilize the global economy and pose downside risk to the exchange rate.

Although global economic environment is improving, some downside risk remains. Escalating tensions in the Middle East could put undue pressure on the fragile recovery of the global economy. While oil prices have remained high and stable, the supply side factors such as geo-political tension in Middle East could pose downside risk to growth recovery. Although there are some signs in the United States with moderate growth, improved unemployment numbers and recovery in the housing market, there are still some risks to global growth, as the Euro zone is quickly sliding into recession. In emerging markets, growth momentum is slowing. Although this could be a reason for monetary easing, these developments constitute a major risk to the domestic economy. In the event that such risk crystallizes, it would soften demand for crude oil, hence reduction in fiscal revenue and potential balance of payment challenges. It is expedient for policy makers to continue to monitor developments and put appropriate measures in place to cushion the adverse impact in the event of its crystallization.

Based on the above, I am in support of the current stance of monetary policy to sustain improvements recorded in 2012 as well as mitigate some of the identified risks. Even with declining core inflation, there are still real inflationary threats in the coming months. I will therefore support a no increase in Monetary Policy Rate (MPR) and Cash Reverse Requirement (CRR).

2.0 GARBA, ABDUL-GANIYU

Decision

I vote to hold.

Justification

1. The game changing mix of policies and institutional and administrative changes implemented after the July MPC have been having desired policy impacts: interbank rates have stabilized within the policy band (±200 basis points around MPR), the exchange rate has remained stable and core inflation is trending down from 15.2% in June 2012 steadily every month to 11.7% in October 2012. As the year comes to an end, a major policy shift is not desirable. It is wise to stay the course more so, given the pervasive uncertainties in the global economy in fourth quarter of 2012 (failures of the EU to resolve its sovereign debt crisis) and in the first quarter of 2013 (fears of the US falling off the fiscal cliff).
2. There are however, several global and domestic trends as well as the strategic behaviors of economic players deserve closer monitoring and rigorous analysis on a continuous basis.

i. **Global Outlook**: the global trend of growth, employment, demand and food prices in fourth quarter of 2012 and the first quarter of 2013 need to be closely monitored given (a) the deepening sovereign debt crisis in the EU, (b) the ongoing recessions in the EU, UK and Japan, (c) the slowing growth in China, India and Russia, the looming danger of the US falling off a “fiscal cliff”, (d) the supply shocks to agricultural output caused by the adverse weather conditions in the US and Russia in 2012; (e) the quantitative easing related low interest rates and excess liquidity which could lead to perverse and potentially damaging flows of financial capital to and from inefficient and less sophisticated markets and (f) failures of key global players to adopt a cooperative approach to the grand problems of the world.

ii. **National Outlook**: (a) allocative inefficiencies in the money market indicated by the growing interest rate spread and the perverse structure of “market determined” credit allocation; (b) the ever present dangers of asset price bubbles in the capital markets in an era of quantitative easing in the US, EU and Japan; (c) the growing public sector debt stock and its crowding-out effects on private investment and non-debt expenditure; (d) the flow of hot money; (e) the supply and price effects of the widespread flood; (f) the high levels of unemployment and poverty and (g) the state of security.

iii. **Behavior of players**: Global Fund Managers; Deposit Money Banks; Central Banks (EU, US Fed, Bank of Japan, China, etc); Governments (Federal Government; the EU, the US and the New Leaders in China); wholesale and retail players in the money market and capital market operators and regulators.

3. The main challenges for Monetary Policy in 2013 are:

i. to deliver price stability conducive to economic growth in an increasingly uncertain world;
ii. to build stronger cooperative relationships with the fiscal authorities to strengthen the effectiveness of fiscal and monetary policies to minimize the current levels of trade-off between price stability and economic growth/employment and minimize crowding-out effects; and
iii. to creatively correct the malfunctions in the financial markets to (a) ensure greater efficiency in the allocation of credit in the Nigerian economy and (b) following (a), facilitate greater access by high value-adding and high employment creating enterprises.

3.0 LEMO, TUNDE

Macroeconomic outcomes since the last MPC meeting of September 2012 seem to have sent out mixed signals. The risks confronting the global economy have intensified with downward revision of growth projections in the USA, India, and China while the Euro zone and Japan have plagued into recession. As a result the risk of external shock is high with the possibility of softening in the price of crude oil in the medium term although the present crisis in the Middle East is helping to sustain the high crude price.

On the domestic economy, the tightening stance of monetary policy since the Q3 2011 has considerably succeeded in achieving a fair degree of stability in the macroeconomy as evidenced by the deceleration of core inflation for the fourth consecutive month. In addition, the money market rates have been stable with both the OBB and the Inter-bank rates oscillating within the corridor of the policy rate. At the same time, a reasonable degree of stability has been achieved in the foreign exchange market with significant reserve build up during the period.

A major concern however, is on output growth. Estimated output growth at 6.48 per cent for Q3 of 2012 could be adjudged impressive in the light of global developments but it represents the continuation of a downward trend, which commenced in 2010 and therefore needs to be halted. Based on the gains of the prevailing tight monetary policy enunciated above as well as output concern, it could be apt to consider commencement of loosening stance of policy.

The foregoing notwithstanding, there still exists upside risks to inflation. First, headline inflation which moderated up to the end of Q3 2012 commenced upward trend in October, driven largely by imported food items. High global food price is still a major concern due to severe weather conditions in US, Europe and Central Asia which is complicated by the upward adjustment of tariff on imported food items in the domestic economy.

Second, there was unprecedented and highly devastating flood in the Q3 of 2012 with severe impact on food output and possibility of supply shock inflation. Empirical evidence has not spelt out clearly how long the lag effect of the flood would persist but, intuitively, it would definitely extend into the latter part of fiscal 2013 with implication on food inflation as well as headline inflation.

Third, the moderation in global energy prices notwithstanding, the international price of crude oil still remains elevated and may likely remain in the current trajectory up to the early part of fiscal 2013, due to conflict in some of the oil producing countries across the globe. This development would invariably increase fiscal revenue with implication of higher than anticipated liquidity injection the remaining part of 2012 and the early part of 2013. In addition capital budget implementation by Q3 was about 35 per cent, which combined with the pressure on the executive by the National Assembly over the implementation of capital budget may suggest accelerated public sector expenditure in the next 3-5 months.

In the light of the need to sustain the gains from the prevailing tightening stance coupled with the threats to inflation as pointed above, I am of the view that it may be necessary to monitor evolving developments up to the early part of fiscal 2013 before any consideration of loosening of monetary policy stance.

Consequently, I propose that the current tightening stance be maintained by retaining both the MPR and the CRR at 12 per cent.

4.0 MOGHALU, KINGSLEY CHIEDU

There are several seemingly contradictory signals in the economy that form the context for the decision of the Monetary Policy Committee as we near the end of 2012. On one hand, core inflation has continued to decelerate, although at 12.40 per cent it remains higher than the prevailing Monetary Policy Rate (MPR) of 12 per cent. Nigeria's Gross Domestic Product (GDP) for fiscal year 2012 is 6.61 per cent, down from the earlier projected figure of 6.85 per cent. This indicates a slowdown in output growth, although growth remains robust. The Euro zone is back in recession, the recovery of Asian economies has been weak, while emerging market economies such as China have slowed down. And we have seen increasing evidence of a trend of fiscal prudence by Nigeria's fiscal authorities.

These developments would ordinarily argue for an end to the monetary tightening stance by the MPC. But there are strong countervailing currents that argue for the Committee to remain cautious. Chief among these is the fact that headline and food inflation have increased, at 11.70 per cent and 11.10 per cent respectively, up from 11.30 per cent and 10.20 per cent. These are significant numbers, even if the causal impact of the recent flood disaster in a large swathe of the country might imply that this is a temporary phenomenon. The fact that imported food prices have risen as a result of an increase in global food prices means that this is not a time to lower rates. That cause of action would send the wrong signal of a premature end to the MPC's tightening stance.

Nigeria's external reserves are on the upswing, the naira exchange rate has been stable, portfolio investment inflows have increased markedly, and we now have real interest rates relative to inflation. All this has been achieved by a tight monetary policy over the past 18 months, and the need remains to beef up the country's buffers in order to reduce uncertainty. Moreover, it appears almost certain that government would like to remove petroleum subsidy completely, even if this decision may be postponed in the near term.

The geopolitical situation in Middle East, in particular as it concerns Iran, may evolve in ways that lead to increased oil prices, with implications for the Nigerian government's liquidity. Should the MPR be raised, then? Again, I do not believe it should, in particular considering the possible implications of a further rate hike for growth and the widening gap between deposit and lending rates offered by Nigerian banks. This is a matter of valid concern, but the correct response may not be a downward review of the MPR at this time. Rather, the challenge can and should be addressed through other methods related to the Cash Reserve Ratio (CRR) for banks.

My position, then, is that, given this backdrop, the MPC should neither increase nor lower the MPR and other monetary aggregates at this time. Rather, the committee should continue to watch the economic situation into the coming year. Despite the arguments in favour of loosening monetary aggregates, and a recognition that if those arguments hold, the MPC would have to seriously consider moving into a more accommodative monetary stance, I would not automatically assume such a course of action at this time.

The MPC should go into a sustained monetary easing mode only in the event of a sustained, across - the - board reduction of inflation indicators, another major global recession, or when Nigeria's power sector reforms have gained traction and begun to address the structural problems created in the economy by the absence of adequate power supply, including its structural contributions to the cost of doing business. It is important to avoid knee-jerk reactions and the urge to tackle structural problems such as the high cost of doing business and excessively high lending rates only through monetary policy. Such an approach is neither sustainable nor transformative.

For these reasons, I vote to retain the MPR at 12 per cent with a corridor of +/-200 basis points, retain the CRR at 12 per cent, and the Liquidity Ratio at 30 per cent.

5.0 OLOFIN, SAM

The newly released NBS figures on major macroeconomic indicators, project overall GDP growth rate at 7.09% for Q4 2012, while the projection for the entire year shows a decline from 7.45 in 2011 to 6.61%. Comparing staff estimates for October 2012 with three year averages over the preceding periods, real GDP growth rate is projected at 6.48% as against 7.46%; real non-oil GDP is projected at 7.89% compared with a three year average of 8.56%; while headline inflation is projected at 11.70% compared with 12.0%. Food inflation is projected at 11.0%, as against 13.07% three year average, while core inflation stands at 12.40%, compared with 10.97% three year average. What can be inferred from these figures is that there is some degree of deceleration in GDP growth rate, even if it still appears quite robust.

Secondly, even though headline inflation may have increased slightly by less than a percentage point compared with the figure for Q2 2012, there is some noticeable trending downwards, even if the rate still remains at a two digit level. These figures must also be considered against the back-drop of the worst case scenario model projections made earlier in the year, that put headline inflation in the neighbourhood of 14% in Q1 2013. Core inflation on the other hand is projected at 12.4%. This is lower than the 14% plus average recorded over Q1 – Q3, 2012, but still significantly higher than the three year average of 10.97 percent, suggesting a rising trend. Thus we have mixed trend indicators in respect of prices, while income growth shows a declining trend even if it is not at an alarming rate.

The recent floods, whose impacts are still being investigated by the NBS and some development partners, may result in further decline in food production and over-all GDP growth rate. This would put further pressure on food prices and food inflation component of CPI. The vexing issue of fuel subsidy that is far from resolved remains a major downside risk to current seemingly benign inflationary pressures, the rising component of imported food notwithstanding.

Given the fact that the primary focus of our alternative policy considerations centres around the trade-off between maintaining price stability and considerations for growth, there can be justifiable argument in the present circumstance for switching policy focus. This would call for shifting from the hitherto tightening stance to an accommodative monetary easing stance, to encourage growth. This would obviously suggest first and foremost, the need to commence a gradual lowering of MPR to pre-tightening levels of 6-8 percent. This would be very much desirable especially from the perspective of small scale enterprises, who are the major promoters of job-creating growth.

It is however doubtful if this would bring about an immediate significant bridging of the worrisome yawning gap between deposit and lending rates, on which moral suasion seems not to have made any significant impact either. This yawning gap must continue to be an issue of great concern, for as long as it persists, especially in the face of rising profits for DMBs, little of which is passed on to depositors. It would also continue to generate concerns, from the perspective of small-scale enterprises not being able to access credit at high prohibitive lending rates.

As much as commencing the lowering of the MPR, or beginning to reverse our tight monetary policy stance may appear desirable, it may be premature at this point in time. This is due to a number of reasons which are not unconnected with the fundamentals of the economy. As we have emphasized time and again, the economy essentially still remains highly import-dependent, with government revenue relying heavily on earnings from a single export commodity that is highly vulnerable to any major external shock. Consequently the unresolved crisis in the Euro zone cannot be ignored. There are no strong prospects of the emerging economies of China and India picking up any slack in demand from the country's major trading partners including the U.S.

In the short-run, happenings in the Middle-East may prop up the price of oil, but it is doubtful if upward trend in oil prices can be sustained in the medium term. Consequently any significant decline in all prices may be capable of destabilizing the economy, and wiping out the recent gains, from what has been a highly successful, well focused, and rigorously implemented monetary policy stance. Such gains include a stable exchange rate, declining headline inflation, a stable financial system, and significant accretion to foreign exchange reserves. There has also been significant progress in the efforts of the fiscal authorities towards ensuring fiscal prudence, and shifting budget emphasis away from recurrent expenditure, to capital expenditure. This is critical for dealing with the major structural and infrastructural constraints (particularly energy) that continue to inhibit growth and job creation in the real sector.

Given the present state of the economy, there may be no overriding need to embark on monetary easing prematurely, only to fall back to a tightening stance, if existing potential inflationary threats do materialize. These include threats from rising food prices (domestic and foreign), possible further removal of fuel subsidy, and electricity tariff adjustment among others. The enormity of the potential destabilizing effects of any major external oil shock calls for a prudent policy focus. This would require among others, that we continue to take advantage of current level of oil prices to further boost our external buffers; blocking any loop-holes and sources of leakages that may mitigate against this; striving to ensure stability in exchange rates; and realizing a sustainable positive real interest rate, to enhance growth in both foreign and domestic direct investment. One would therefore vote for our maintaining the status quo at this meeting, as we keep a close watch on both domestic as well as external developments between now and our next meeting in January.

6.0 SALAMI, ADEDOYIN

In the run-up to this meeting, there was a strong tide of opinion in favour easing monetary policy or at least signaling that the Monetary Policy Committee (MPC) would join other Central Banks in reducing policy rates. Inflation and activity data released, by the National Bureau of Statistics (NBS), in the past few days served to muddy the waters. Having slowed for three consecutive months, Headline inflation accelerated to 11.7percent in October from 11.3percent the previous month driven higher by rising food prices.

In contrast, at 12.4percent, Core Inflation recorded its third consecutive month of deceleration. Concern at higher Headline Inflation coupled with Core inflation still above the Monetary Policy Rate would underlie a plausible case for some tightening Staff forecast show Headline Inflation rising to 12.8percent for November thereafter slowing continuously to 7.2percent at the end of March next year. A similar trend is projected for both Core and Food prices.

The outlook for inflation beyond the immediate period, baring a shock, thus looks benign. At almost the same time, data on economic activity in Q3 showed a reduction in the rate of growth to 6.48percent from7.37percent a year ago. Placed in the context of sharply higher reserves, stable exchange rates, sluggish growth in credit and high unemployment, there is good reason to commence the easing of monetary policy. In other words, the data background to this meeting provided, in the same breath, support for easing or tightening policy.

In voting to retain the status quo, I am persuaded by a need to see whether the time until the January 2013 meeting of the MPC provides greater clarity as to the direction of domestic risks. While the downside risks to growth in the global economy remain real and worrisome, the geopolitical events and cycle of easing by major Central Banks suggest that the risks to global crude oil prices are minimal in the near term. Global food prices pose a threat to our inflation ambitions. Estimates by the Food and Agricultural Organization (FAO) of the United Nations point to a 3 percent drop in production of Cereals in 2013 as a result of climatic conditions – drought in Europe, US and Central Asia coupled with flooding in Thailand and India. However, my primary concern is for better understanding of the direction of local risks.

Perhaps the biggest concern in my judgment lies in the fiscal space. The extent of spending in the final weeks of this year and the details of the 2013 Appropriation Act will provide an indication as to the direction of fiscal pressures. While the Federal Government seems to accept the need for fiscal consolidation, it is not clear that its ambitions are shared by the National Assembly. 2013 will see enforcement of new import tariffs for wheat and rice. A further rise in electricity prices and the challenge of pricing petroleum products are on the immediate horizon.

As we look to the New Year, a key feature of the background for Monetary Policy will be responding the challenge of stimulating contributing to stimulation of output growth within the price stability mandate. Monetary aggregates are already showing a preference by domestic investors for holding cash – not surprising given the tightness of monetary policy. Furthermore, the rising intermediation spread will need to be addressed. While rising gap between deposit and lending rates is good for bank profitability, in the context of slower activity growth, it confirms that the productive sectors continue to be second-best in bank allocation to risk assets.

7.0 UCHE, CHIBUIKE

During the last MPC meeting held in September 2012, I voted for the retention of a double digit MPR. Specifically, I voted as follows: (1) to retain MPR at 12 percent with interest rate corridor of +/- 200 basis points; (2) to retain CRR at 12 percent; and (3) to retain Liquidity Ratio at 30 percent. At the time, I made it clear that my expectation was that MPC would begin to ease the above monetary policy stance with the main objective of encouraging real sector development and without compromising macroeconomic stability in the very near future.

In the light of the mixed signals from available data with respect to the possible future direction of inflation and economic growth, I have now come to the careful conclusion that it would be premature to vote for the easing of the current monetary policy stance of the CBN on this occasion. At the very least, this would help prevent any hurried policy reversals that we may have to undertake should, as I expect, inflation begin to trend upwards in the near future.

Although in recent times we have seen amelioration in the rate of core inflation, food and headline inflation have continued to rise. The above conflicting signals have further been complicated by the global economic slowdown which has refused to go away. Europe for instance is now officially in a recession while economic growth in other major economies has slowed down remarkably. Although the price of oil, the pillar of our mono-product economy, has continued to rise in recent times, existing evidence suggests that this has more to do with threats to supply channels rather than international demand for the product. There is thus the possibility that the high oil prices that our economy is currently enjoying may well be temporary.

I am also concerned about the continuing security challenges in the country and its impact on economic growth and development. More troubling however are the possible implications of the recent national flood disaster for both food security and inflation in the coming year. Although the jury is still out on this issue, I am of the view that it would be an error to brush it aside. With the current increase in imported food inflation, I believe that it is safe to predict that the recent flood disaster can only lead to additional pressures on inflation in the near future.

Admittedly available evidence suggests that our double digit MPR and other complimentary monetary policy tightening instruments have in part been responsible for the high lending rates especially to small and medium scale businesses. Despite this, it is important to acknowledge that the insatiable appetite of the Nigerian Government for borrowing has helped to create the perverse incentive for banks to invest in risk free Government securities to the detriment of credit to the real sector. It is also not surprising that the above unfortunate scenario has led to the increase in foreign capital flows to Nigeria. History however teaches us that any such increase that does not result in the promotion and development of the real sector cannot be sustainable.

Given the obvious limitations of monetary policy is a structurally defective mono product economy, I am of the view that our policy options for engendering economic growth and promoting macroeconomic stability may, at least to some extent, be limited to exploring ways of reducing the cost of credit to small and medium scale enterprises. As I stated in my decision statement at the last MPC, I believe there is still some room for regulatory manoeuvre in order to ameliorate the credit environment for the real sector.

One obvious problem that should be addressed is the increasing margin between deposit rates and lending rates offered by Nigerian banks. As I have consistently maintained, it is troubling that rising interest rates have only led to increased margins between deposit and lending rates. A margin of almost 20 percent for the majority of bank customers is clearly not supportive to financial system savings and the general health of the financial sector. It also adversely impacts on the health of the real sector. Clearly, this is unacceptable. We therefore need to consider putting in place some kind of controls on the intermediation margins of Nigerian banks.

One strategy worth exploring in the above direction would be to mimic bank's interest rate practices in the design of CBN reserve remuneration policies for such banks. The two possible outcomes from the above policy choice: reduction in lending rates or increase in savings rates would be of great benefit to our economy. In conclusion, it is clear that my decision to vote for the maintenance of the current tight monetary policy stance highlights the limitations of monetary policy in a mono product rentier economy.

8.0 SHEHU, YAHAYA

I vote to maintain the Monetary Policy Rate at 12%. My position is based on the mixed signals in the domestic and world economy as well as uncertainties and factors not readily amenable to monetary policy.

Mixed Signals

World economic recovery is weakening and the Eurozone countries are in recession, characterized by declining output trends and large scale unemployment. Most of the other countries which account for a large proportion of trade with Nigeria are either recovering slowly, or experiencing slower growth rates. International demand for oil may experience downward pressure due to the anaemic growth and therefore weak demand in the major consuming countries, coupled with prospects for increased production of shale oil in the US and crude oil in many African countries. Yet the tensions in the middle East and Iran are exerting an upward pressure, leading to two-month high prices of oil in the forward market. In the short term therefore, it is not clear what the effect on foreign exchange earning earnings and reserve will be.

In the domestic economy, growth prospects remain positive, although with a dip in 2012, with GDP growth rate expected at 7.09% as compared to 7.45% 2011. Gross fixed capital formation shows an upward trend. Manufacturing production, though still relatively low, is stable. The main risk comes from farm output.

Headline and core inflation are trending downwards in the last few months as compared to the first half of the year. Imported inflation presents a mixed picture. While prices in Asia are stable or declining and prices in the Eurozone area are softening, the substantial decline in cereal production, particularly rice and wheat in some of the major producing countries, coupled with import tariffs may contribute to imported food inflation.

On the fiscal side, the level of capital budget execution in the first half of the year has been low, which raises some concerns as to the likelihood of a massive increase in the second half of the year which can stoke inflationary pressures. However, there has been a noticeable improvement in fiscal discipline, including a dramatic reduction in government borrowing, which bodes well for the pace and pattern of expenditure for the rest of the year and during the first quarter of next year. The challenge is to effectively and efficiently direct the expenditure to address the high levels of poverty and unemployment in the economy.

Clearer Signals

Banking sector credit to the economy has been subdued. The Naira/Dollar exchange rate has remained remarkably stable since August 2012 and foreign reserves have been built up substantially to about US446 billion. The prospects for continuing stability in the foreign exchange market are therefore good.

A definite area of risk for both growth and price levels is farm output in the country, which is facing severe threats from the floods and the on-going security concerns. This is compounded by the prospects for higher global prices for rice and wheat, which constitute significant imports in the country. Unfortunately this kind of supply side shock cannot be effectively addressed by monetary policy in the short run and it is hoped that its effect would be somewhat muted by the downward trend in core inflation. It cannot therefore the major basis for our decision on MPR.

Conclusion

The build-up in external reserves, good prospects for stability in the foreign exchange market, a small downward dip in GDP growth rate and core inflation would suggest that there is some room to relax the MPR. However, mixed signals in the oil market, uncertainties in the economies of many major trading partners and the threat of domestic and imported food inflation would suggest a more cautious approach.

In the light of the foregoing, I vote to maintain the MPR at its current level of 12%, along with the 2% symmetric corridor.

9.0 SANUSI, LAMIDO SANUSI
Governor of the Central Bank of Nigeria and Chairman of the Monetary Policy Committee

I align myself with the vote of other members to hold current Monetary Policy Stance and maintain rates at present levels through the end of the year at least.

The inflation figures just released by the NBS send mixed signals. Year-on Year Headline inflation increased slightly from 11.3 per cent in

September to 11.7 per cent in October. Food inflation increased from 10.2 per cent to 11.1 per cent with imported food inflation increasing from 14.1 per cent to 15.7 percent, thus reversing what appeared to be the beginning of a mild deceleration in headline and food inflation in Q3: 2012. Noticeably, almost all components of CPI reflected this increase, suggesting that food inflation is pervasive across a broad range of items. The increase in farm produce prices at this time is probably a result, in large part, of supply shocks caused by floods affecting many states in the federation, which not only destroy production on some farmlands but disrupted the importation and supply chains.

On the other hand core inflation continued its steady decline from 15.2 per cent in June to 12.4 per cent in October, coming down to just above the MPR. The sluggish growth in monetary aggregates, slowdown in credit growth, greater fiscal discipline and stable exchange rate, have all contributed to this. The NBS acknowledges that performance of Core inflation is largely on the back of tight monetary conditions, thus confirming that monetary policy has been effective in keeping inflationary pressures in check.

GDP growth remains robust but below the comparative period in 2011 and the slowdown is consistent with global trends. External reserves have increased to over $45 billion and for the first time in many years the actual deficit from Federal Government Fiscal operations between January and August (N530.34 billion) was in line with the proportionate budgeted deficit (N531.17 billion). It is hoped that the National Assembly will listen to wise counsel and not increase the $75/barrel oil price benchmark for 2013 budget.

Given the adverse impact of very high interest rates on the Balance Sheet of both public and private sectors, one can understand the clamour for lower interest rates given the moderation in core inflation and healthy position of Reserves and slowdown in output growth.

However, the global environment remains fraught with uncertainties. The US is yet to resolve issues around the “fiscal cliff” and the Balance of Power in Washington means that the President is unable to push his agenda without support from the Republicans who control Congress. The Eurozone seems to take one step forward and two steps back, with the ECB offer to buy Sovereign Bonds to reduce borrowing costs for troubled countries now tied to conditionalities that have led to widespread protests. Divisions are emerging in a very public manner between countries like Germany and the Netherlands on the one hand and others like France and Italy on the other over the appropriate extent and pace of austerity. Even the IMF is in open disagreement with the Germans. And, to make matters worse, austerity in the periphery and the collapse of demand is affecting growth in Germany itself.

Emerging market economies like China and India are also slowing down with potential financial risks in China emanating from a potential real estate bubble which is being fuelled by easy money from the People’s Bank.

The net effect of all these considerations is that we do face risks to global commodity prices as well as to the financial condition of investors in Europe and the US. We therefore need to remain focused on building buffers in the event of a reversal of capital flows.

Staff projections indicate that Headline inflation and Food inflation may still rise in December but decelerate in January, while Core inflation continues its deceleration if current stance is maintained. It would seem to me inappropriate to terminate the tightening cycle at the first signs of success and risk policy reversal if circumstances take a turn for the worse in the short term.

It is self-evident that further tightening will not be the solution to the structurally-induced rise in food prices but we should not then, on account of this argument, abandon a policy that has thus far reined in Core inflation successful, thus compounding the problem as it were.

The slowdown in output growth, in my opinion is best addressed through other means. Improving the quality of government spending, given the volume of banking sector investment in government debt, is key to output performance since the private sector is being crowded-out. Government also needs to improve investment environment by addressing cost of doing business, bureaucratic inefficiency and corruption in the public service. Finally, reform of the Power sector and Agriculture must be stepped-up, with Government remaining faithful to its commitments and obligations to investors. In my view, these matters rank far higher than interest rate decisions in their impact on growth.

Having thus considered all of the factors above, it appears to me prudent at this point to resist the pressure to loosen policy, and consolidate on the gains made thus far. Depending on the performance of the domestic economy and global developments, we will review the situation in January, 2013 and act appropriately.

I therefore vote to hold MPR at 12.0 per cent and CRR at 12.0 per cent.