



Central Bank of Nigeria

Communiqué No. 87 of the Monetary Policy Committee Meeting of Monday, January 21, 2013

The Monetary Policy Committee (MPC) met on, January 21, 2013 with ten (10) out of the twelve (12) members in attendance. The Committee reviewed the domestic economic conditions in 2012 and the challenges therefrom against the backdrop of the international financial and economic environment in order to chart the course of monetary policy in 2013.

The International Economic Situation

The Committee noted that global economic growth remained largely uneven and subdued in most economies in 2012. Latest data from the IMF indicate that global output was weaker than previously forecast due to continued contraction in the Euro zone and Japan as well as the less than anticipated growth in Brazil and India. The fragility in the global economy was further compounded by the uncertainties surrounding resolution of the “fiscal cliff” and debt ceiling challenges in the US and the difficulties associated with China’s attempts to “rebalance” its growth. These developments adversely affected private sector confidence, worsened the unemployment situation and further tightened financing conditions in both the periphery and core economies. In the euro area, economic and financial conditions remained severely weak. Although the

European Central Bank (ECB) attempted, through its intervention scheme, to halt the downward trend in economic activities in the zone, the effort did not record much success. Overall, global output was estimated to have expanded by 3.2 per cent in 2012 against the earlier projection of 3.3 per cent made in the October 2012 IMF World Economic Outlook.

Growth in the advanced economies was estimated at 1.3 per cent in 2012 and projected at 1.5 per cent in 2013, reflecting an upward revision of 0.2 percentage point, respectively, from the initial estimates. The Committee noted that the decline in global investment was mainly traced to the fiscal standoff in the US and its implications for the paltry expansion in output of 2.0 per cent in Q3, 2012. Emerging European economies, which had previously shown signs of strong rebound from the credit crisis, have now been hit hard by slow exports growth and a halt to real GDP growth. On the whole, the Committee is of the view that while the decisions of the ECB considerably reduced the probability of a Eurozone-wide financial crisis, the condition of country-level financial systems remained difficult and could constitute significant challenge to output expansion in 2013.

Latest data from the Asian economies suggest that a gradual recovery may be underway. China's economy, which had previously recorded a slowdown over seven consecutive quarters to Q3, 2012, witnessed improved economic activity in Q4, 2012. Recent fiscal and monetary easing operations have increased investment in infrastructure with signals of further spending into 2013. The Indonesian economy, after recovery from the severe flooding in 2011, continued to show resilience against the

global slowdown as investment and strong domestic demand contributed more to growth. It is expected that these twin drivers of growth would further sustain output expansion in 2013, although recent reports indicate that severe flooding has once again hit the economy during January 2013. The sub-optimal performance of the Japanese and Indian economies, however, was a major drag on recovery in the region. The Indian economy was hampered by slow approvals for new projects, deterioration in business sentiment largely due to the rising current account deficit, uncertainty over the selling of government stakes in state owned enterprises, fiscal deficits, depreciation of the Rupee and a high debt burden, as well as slow implementation of structural reforms. Japan's drawback was largely due to a combination of declining exports and sluggish domestic demand. There are, however, expectations that the growth decline would bottom-out in 2013 as anticipated rebound in major trading partner economies like China and the US would translate to a recovery in the demand for Japanese goods and services.

The Middle East and North Africa (MENA) region continued to record mixed performance, evidenced by the divergence between the economies of oil-exporting and oil-importing countries. Oil-importing countries experienced subdued economic performance with an estimated growth of 2.0 per cent in 2012 while the oil-exporting countries grew at an average rate of 6.6 per cent. Growth in oil-exporting countries was driven largely by high oil output and prices coupled with the early post-conflict recovery of Libya. Growth for the entire region in 2013 has been projected at 3.75 per cent, which is 1.35 percentage points below the estimate for 2012. The Committee noted that the challenges

confronting these countries is how to strengthen the resilience of their fragile economies against major oil price shocks through diversification and expansion of the private sector.

Economic conditions in sub-Saharan Africa remained generally robust despite the sluggish growth in the global economy. Prudent policies and improved fundamentals in most countries provided additional impetus for increased economic activity in the region. The Committee noted that the main risks to the outlook for the region come from their trading partners including the possible intensification of the financial stress in the euro zone and a sharp fiscal adjustment in the US.

In light of the uncertainty about the direction of fiscal policy in the US, particularly with regard to the yet to be resolved issue of debt ceiling, and the persisting euro zone financial and economic crises, the Committee was of the view that the global economic environment was still fragile and highly vulnerable to a further contraction, although the downside risks appeared to be less severe relative to conditions in the last two years.

Domestic Economic and Financial Developments

Output

The National Bureau of Statistics (NBS) estimated real Gross Domestic Product (GDP) growth rate at 6.61 per cent for 2012, which is lower than the level recorded in 2011 by 0.84 per cent. The estimated real GDP growth rate at 7.09 per cent in the fourth quarter of 2012 was higher than the 6.48 per cent in the third quarter but lower than the 7.68 per cent recorded in the corresponding period of 2011. The non-oil sector remained the major driver of growth recording 8.23

per cent increase in contrast to the oil sector, which contracted by 0.17 per cent during the period. The Committee expressed concern about the continued decline in the contribution of the oil sector to growth due to lower production relative to the corresponding period of 2011 and enjoined the Federal Government to fast track the passage of the Petroleum Industry Bill to halt the trend.

The relatively robust growth projections despite the slowing global economy reflected the relatively favourable performance of wholesale and retail trade; the services sectors; outcome of banking sector reforms; and initiatives by government to stimulate the real economy. Despite the developments in the international oil market where the US is now the second largest oil producer, the Committee observed that the growth projection remained promising, anchored on the recent improvements in power supply. The Committee noted with satisfaction the Federal Government's efforts to sustain the current initiatives to boost power generation, particularly the progress made in reforming the power sector.

The Committee, however, observed that the severe flooding in several parts of the country in 2012, which damaged housing, agricultural and oil assets, could pose downside risks to growth and feed into food supply deficits and inflation in the near term. Also, the continuing security challenges as well as delays in reform of the oil sector could undermine investor-confidence and output growth in the near-term.

Prices

The Committee observed that, on the average, inflationary pressure was elevated in 2012. The year-on-year average headline inflation rate in 2012 stood at 12.24 per cent, while

the average core and food inflation year-on-year stood at 13.87 and 11.32 per cent, respectively. The major drivers of headline inflation in December 2012 included food and non-alcoholic beverages, housing, water, electricity and transport. The pickup in food inflation in the later part of 2012 was accounted for by imported food items and food shortages due to the impact of flood on farmlands along the major agricultural belt of the country. However, the Committee was of the view that the pass-through effects of imported food inflation to domestic prices may have been subdued owing to the relatively stable exchange rate during the period under review.

Monetary, Credit and Financial Markets Developments

Broad money supply (M2) grew by 13.72 per cent in December 2012 over the level at end-December 2011. Aggregate domestic credit (net) grew by 1.98 per cent in December 2012, which was substantially below the benchmark of 52.17 per cent for the year. Credit to Government contracted between September and December 2012; occasioned by the sustenance of government as a net creditor to the banking system, reflecting more prudent fiscal measures, including the introduction of the Treasury Single Account.

Interest rates in all segments of the money market moderated between 19th November 2012 and 3rd January, 2013. This reflected in increased liquidity in the banking system including the release of statutory revenue to sub-national governments, absence of repo transaction during the review period, repayments of matured CBN Bills and banks' desire to maintain optimum liquidity position on their balance sheets at the end of their common financial year. The interbank call and OBB rates, which opened at 13.99

and 13.95 per cent on November 19, 2012, closed at 10.32 and 10.45 per cent, respectively, on January 3, 2013. The average interbank call and OBB rates for the period were 11.09 and 11.03 per cent, respectively. The average prime lending rate increased slightly to 16.54 per cent in December 2012 from 16.48 and 16.51 per cent in October and November 2012, respectively. In contrast, the average maximum lending rate fell marginally to 24.61 per cent in December 2012 from 24.65 and 24.70 per cent, respectively, in October and November, respectively while the weighted average savings and term deposits rate decreased to 5.50 per cent in December from 5.57 per cent in the preceding month. The Committee, therefore, encouraged the Bank to fast track the financial inclusion strategy to improve financial intermediation and the effectiveness of the transmission mechanism of monetary policy and to adopt ways of moderating the high spread between deposit and lending rates.

The Committee observed that the rally in the Nigerian capital market continued as equities market indicators trended upwards in the review period. The All-Share Index (ASI) increased by 35.45 per cent from 20,730.63 to 28,078.80 between December 30, 2011 and December 31, 2012. Market Capitalization (MC) also increased, by 37.38 per cent, from N6.53 trillion to N8.97 trillion during the same period. The positive performance of the ASI and MC was due to the sustained increase in the demand for blue-chip stocks particularly in the banking and consumer goods sectors following improvements in earnings and growing investor-confidence. The Committee, however, noted that the significant factor responsible for the recovery was strong portfolio flows and cautioned that the capital market

remained structurally vulnerable to external shocks until its funding basis was changed.

External Sector Developments

At the Wholesale Dutch Auction System (wDAS), the exchange rate opened at N157.31/US\$ on November 20, 2012 and closed at N157.33/US\$ on December 31, 2012 representing a depreciation of N0.02 or 0.01 per cent. The average wDAS exchange rate during the period was N157.32/US\$. At the BDC segment of the foreign exchange market, the selling rate opened at N160.00/US\$ on November 20, 2012 and closed at N159.50/US\$ on December 31, 2012, representing an appreciation of N0.50 or 0.31 per cent for the period. At the interbank segment, the selling rate opened at N157.95/US\$ on November 20, 2012 and closed at N156.25/US\$ on December 31, 2012, representing an appreciation of N1.70 or 1.08 per cent. Overall, the relative stability recorded in the foreign exchange market could be attributed to the combined effects of improved supply of foreign exchange by the oil companies and enhanced capital inflows from portfolio investors during the period under review. Also, oil revenue increased at an average of 2.73 per cent monthly throughout 2012. In the first eleven months of 2012, oil receipts totaled US\$40.087 billion.

The Committee noted with satisfaction that the premium between wDAS and the interbank rate narrowed towards the end of the review period. However, the premium between the wDAS and BDCs widened towards the end of the review period from N1.682/US\$ to N2.172/US\$ 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

decisions at previous MPC meetings were yielding the desired results.

The Committee expressed satisfaction with the sustained accretion to external reserves which stood at US\$43.849 billion as at December 31, 2012, representing an increase of US\$1.682 billion or about 3.98 per cent from the level of US\$42.167 billion at end-October 2012. Relative to the end-December 2011 level of US\$32.915 billion, the external reserves at the end of December 2012, had risen by US\$10.934 billion or 33.21 per cent. The increase in the level of foreign reserves was driven mainly by proceeds from crude oil and gas exports and crude-oil related taxes as well as reduced funding of the wDAS on account of the huge inflow of foreign portfolio investments, which was about 77.0 per cent of total inflows through the CBN. The foreign reserves level could finance about 9 months of imports.

The Committee's Considerations

The Committee observed that the performance of the global economy remained largely subdued and was characterized by uncertainty and contraction in the Euro zone and Japan, as well as lower than expected growth in the large emerging and developing economies. The Committee notes with caution that the partial resolution of the Fiscal Cliff in the US offers some hope for gradual global economic recovery as indicated by the rebound of many global financial markets in the wake of the staving off of automatic tax increases and expenditures cuts on 1st January, 2013. The Committee further observed that the robust prospects for energy independence of the US could pose downside risk for global oil prices in the medium-to-long term which could threaten fiscal sustainability in many oil- dependent economies around the world.

The Committee noted that in spite of the slow progress made in the resolution of the Euro zone crises, the prospect of a deepening recession in the near term has not been completely averted. Developments in the domestic economy in the past three months highlighted some new pressure points to macroeconomic stability. The Committee was of the view that shocks to the economy could come from significant fall in the demand for oil, leading to a fall in oil prices and government revenues, weaker exchange rate, rising inflationary pressures and depletion in external reserves. The Committee also noted the drop in headline inflation in December 2012, although it also recognized that core inflation had risen; driven mainly by cost-push factors even in the face of sluggish growth in the monetary aggregates.

With regard to the budget of the Federal Government, the Committee cautioned against complacency over government revenues; despite the high level of oil prices. The Committee noted uncertainty in global demand and supply of crude oil, and weak performance of non-oil and VAT revenues. The Committee, however, noted with satisfaction the efforts the Federal Government aimed at keeping deficits within the threshold prescribed by the Fiscal Responsibility Act and advocated sustenance of the effort. On expenditure, the Committee noted that there was still the need to continue to drive down recurrent expenditure in favor of capital expenditure in view of the infrastructure deficit that continued to constrain growth performance. The Committee noted that the oil price benchmark for the 2013 budget which was increased from US\$75 to US\$79 may pose downside risk to the inflation objective and, therefore, constituted a pressure point for the low inflation objective and effective monetary policy in 2013. The Committee

reaffirmed its commitment to respond appropriately if public spending in 2013 ultimately adds to inflationary pressures.

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

- (i) An increase in the MPR in response to the higher oil price benchmark for fiscal 2013;
- (ii) A reduction in MPR in view of the declining GDP growth trajectory and headline inflation; and
- (iii) Retaining the current monetary policy stance in view of the conflicting price signals, global uncertainties and the need to preserve the stability of the system.

The Committee's Decisions

Given the stability achieved in the last twelve months with average year-on-year headline inflation rate at 12.24 per cent, in 2012, the MPR of 12 per cent was considered to be just about right. The Committee considered the calls for a reduction in the MPR because of the benign inflation outlook other things being equal. However, this may be undermined by the increased sub-national government spending and Federal Government high expenditure in 2013, the higher benchmark oil price in the 2013 budget and the US debt ceiling with possible impact on commodity prices.

In view of the foregoing, the Committee decided that it was prudent to hold and monitor developments between now and the next meeting of the MPC. The Committee, therefore, decided by a majority vote of 8:2 to maintain the current policy stance i.e., to retain the MPR at 12.0 per cent with a corridor of +/- 200 basis points around the midpoint; retain the CRR at 12.0 per cent; and to retain the Liquidity Ratio at 30.0 per cent. Two members voted for a reduction of the MPR by 25 basis points.

Thank you.

Sanusi Lamido Sanusi, CON

Governor

Central Bank of Nigeria

21st January, 2013

PERSONAL STATEMENTS BY MONETARY POLICY COMMITTEE MEMBERS:

1.0 ALADE, SARAH

Headline inflation moderated to 12.0 percent in December compared to 12.3 percent recorded in November. This decrease is driven mainly by food inflation which decreased to 10.2 percent compared to 11.6 percent recorded in November 2012. In the international scene, there is slight recovery in the United States driven mainly by the housing market and renewed GDP growth in China. On the domestic front, the increase in the oil benchmark poses downside risk to inflation and remains a possible pressure point. Based on this, I will support a hold in monetary policy rate and Cash Reserve Requirement (CRR).

Headline inflation decreased marginally to 12 percent in December from 12.3 percent recorded in the previous month. The decrease is attributable largely to moderating food prices in December after a sustained increase resulting from the national wide flood that affected food supply in some parts of the country. Food inflation declined from 11.6 percent in November to 10.2 percent in December. However, core inflation increased marginally to 13.7 percent compared to 13.1 percent recorded in the previous month, although the increase is marginal, it is of concern. Staff projections suggest an easing of inflationary pressure in the coming months due to seasonal pattern and other macroeconomic developments. However, this deceleration in inflation will need to be monitored for a while to avoid premature monetary policy easing.

The 2013 budget passed by the National Assembly with a high oil benchmark could be expansionary. The 2013 budget projected a budget deficit of 2.17 percent, which is lower than 2.85 percent recorded in 2012, and even lower than the 3 percent as stipulated in the Fiscal Responsibility

Act. The high oil benchmark which was increased from the initial proposal of \$75 to \$79 per barrel could pose downside risk to inflation. Given that past monetary policy decisions have been effective in strengthening the buffers needed to safeguard the economy against downside risks, monetary easing at this point could be counterproductive.

Past monetary policy actions have been successful in restoring stability in the money and foreign exchange markets. Money market rates and exchange rate have been stable as speculative demand is reduced. In the foreign exchange market, there has been stability with rate converging between the official rate and the unofficial window. Past monetary policy decisions also aided capital inflows into the economy; however, the declining imports of Nigerian oil by the United States as they expand domestic production could affect the level of the inflows. This has implication for both government revenue and exchange rate stability and caution should be exercised to safeguard the Naira, suggesting that monetary easing at this time is premature.

Global economic growth projection is showing some improvements boosted by recovery from emerging market economies. Monetary easing in China embarked upon in the last quarter of the year is starting to stabilize the economy with fourth quarter GDP reaching 8 percent. Although the United States economy is being hit by a headwind from the Eurozone debt crisis, there are some positive developments. Unemployment rate is projected to average 7.7 percent in 2013, and housing market is expected to continue moderate recovery with strong

gains in residential construction and home prices. In the Euro zone, the continued progress by the Eurozone ministers to tackle the Euro area debt problems has not yielded major breakthrough, but signs of improvements are being recorded in Spain and Italy. These mixed development calls for a cautious approach to monetary policy at this time.

Based on the above, with declining food inflation and no immediate inflationary threats in the coming months, I will support a hold in Monetary Policy Rate and Cash Reserve Requirement (CRR).

2.0 BARAU, SULEIMAN

I have voted for the retention of the current stance in monetary policy for the following reasons;

- Figures released by the National Bureau of Statistics (NBS) show that real Gross Domestic Product (GDP) growth for 2012 is projected to be 6.61%, only 0.84% lower than what was recorded in 2011. Estimated real GDP growth rate for the fourth quarter 2012 at 7.09% is higher than the 6.48% in the third quarter. Though these growth numbers are lower than those of comparable periods in 2012, they are higher than the average for other Sub-Saharan African countries. The high real GDP growth for the fourth quarter is an indication that in spite of the relatively high lending rates, we still witnessed strong growth. In fact, the lower growth rate for 2011 relative to 2012, is largely

due to decline in Agricultural Sector growth, a sector that accounts for less than 3% of aggregate credits.

- Year-on-Year (YOY). Headline, (HI) and Food Inflation (FI) marginally declined from 12.3% to 12.0% and 11.6% to 10.2% for November and December respectively.

However, Core inflation (CI) increased from 13.0% to 13.0% over the same period. Besides, the Month-on-Month measure for the three segments increased. We also face the following challenges in the inflation management equation;

- Though at a reduced level, the budget passed by National Assembly is a deficit one.
 - Besides given that the time taken to pass the budget has been at a record level and the fact that 2012 budget spending is currently permitted, we may see injections of substantial additional liquidity when the President signs the 2013 Appropriation Act.
 - A reduction in Cash Reserve Ratio (CRR) may lead to injection of additional liquidity which may threaten inflation numbers and put pressure on the foreign reserves.
- We have seen marginal appreciation in the value of the Naira against the US Dollar in all segments of market at the end of 2012. Besides, we have seen substantial accretion to foreign reserves. I will like to see it sustained for now

- With both inflation and Monetary Policy Rate (MPR) at 12%, we are just about taking real interest rate to a positive level. A downward adjustment of MPR should logically follow a similar downward reduction in the level of inflation in order to attain positive real rate of interest which is desirable for the country. The high level of interest rate and yields in government instruments has led to crowding out of the private sector in an environment of deficit financing by Government. This has also led to recent surge in foreign portfolio inflows. There may be risks associated with these inflows but what is more important is for us to identify, quantify and manage these risks because these flows are directly related to the accretion of reserves, stability in exchange rate, increasing liquidity in the capital market and increase in market capitalization.

I would therefore want to see sustained stability of inflation numbers and exchange rate, before I can support easing of policy stance.

It is in the light of the foregoing that I voted as follows;

- Retain MPR at 12%
- Maintain the existing corridor at plus and minus 2% for standing and deposit rates respectively
- Maintain the Cash Reserve Ratio at 12%.

3.0 GARBA, ABDUL-GANIYU

I vote to:

1. Reduce the MPR by 0.25% to 11.75%.
2. Maintain the asymmetric corridors at $\pm 2.0\%$ around the MPR.
3. Maintain CRR at 12%.

Justification

At the November MPC I voted to leave the MPR, asymmetric corridors and CRR unchanged. I argued: "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)."

I had contemplated cutting the MPR at three MPC meetings in 2012: March, 2012; May 2012 and July 2012. At all three meetings, I expressed concerns about a recurring set of problems: slowing GDP growth from third quarter of 2010; rising unemployment; high levels of poverty; fiscal dominance (unsustainable levels of government expenditures and debt and its crowding-out effects on private borrowing, investment and consumption); growing disconnect between the financial and real sector; the asymmetries in the gains of tightening and the growing inefficiencies of financial markets indicated by rise in interest rate spreads as well as the rise in the level of profits of Deposit Money Banks in absolute and relative terms.

I decided against a rate cut at the March and May meetings of the MPC. In March I justified my decision on two pillars: (i) fiscal dominance will undermine the effectiveness of a rate cut and (ii) the pass through effects of rate cuts may not be instantaneous or strong enough to stimulate real activity. Similarly, at the May MPC, I decided against a rate cut because as I put it:

“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.”

However, **at the July MPC, I voted for a cut in MPR by 0.25%** after a review of the regime of tightening from macroeconomic, general equilibrium and game theoretic perspectives. The details of my argument are contained in my personal statement after the July Meeting. Suffice to recall that I became convinced that the argument about the magnitude and timing of the pass through of rate cut became less important compared to the dangers of portfolio capital that has poured into Nigeria in the period of tightening. It is axiomatic that portfolio flows are volatile, cause asset

price bubbles and trigger financial crisis even when fundamentals are strong as was the case of the Asian Tigers in 1997.

With the commitment of the MPC to stable exchange rates which I support, interest rates along with creative administrative and institutional game changers are the options to check the inflow of potentially destabilizing capital while encouraging the inflows of capital that will stimulate job creating growth.

The sharp growth in portfolio flows (i) after October 2011 and (ii) after July 2012 is well above trend and its effects on the capital market already signal that financial and macroeconomic instability lies in the future unless the rights forward looking policies are implemented now. The effects of the last episode of outflows in 2008 and the effects on the capital market, the banking system and the costs of bailouts are still fresh.

It is to avoid such costs that I vote for a cut in MPR by 0.25% as a signal of a commitment to the macroeconomic stability now and, in the future and, to avoid history repeating itself at an even greater cost.

4.0 LEMO, TUNDE

Macroeconomic developments by end-December 2012 have significantly justified the tightening stance of monetary policy since 2011Q3. Headline inflation at 12 per cent by end-December 2012

could be regarded as largely subdued in the face of the various upside risks that confronted the economy such as the partial removal of subsidy on the PMS, upward adjustments in electricity and imports tariffs, as well as the unprecedented and highly devastating flood. Furthermore, quite a number of market risk indicators have fallen considerably as evidenced by fair degree of stability in the money market rates, exchange rate, and reduction in the yield of government bond, which suggest improved confidence in the economy by foreign investors. In the light of the improvements in the financial sector therefore, there are strong arguments that priority should be given to the real sector of the economy in terms of commencement of loosening stance of monetary policy. The argument is more compelling against the backdrop of declining real output growth rate as provisional estimates for 2012 at 6.61 per cent indicate the continuation of the downward slide that commenced in 2010.

While the considerations to relax the current tightening stance are valid, it may be in order to examine some other upside risks in the near term to the effective delivery of the primary mandate of price stability. First, we may need to recognize that the effects of the major contributory factors to inflation in FY2012 are yet to bottom out with empirical analysis suggesting that the effect of some of these factors particularly the flood would peak in the first quarter of 2013. Second, core inflation at 13.70 per cent at end-December 2012 was still

elevated and significantly higher than the four-year average of 11.50 per cent, therefore requiring appropriate policy measures.

Finally, the accelerated passage given to the 2013 budget by the National Assembly as well as the Presidential Pact with the Ministers on budget performance suggest that there would be higher injections into the economy in the first quarter of 2013 through capital expenditure than what was experienced in the past. The liquidity surfeit may be aggravated by the concurrent implementation of the extended 2012 capital expenditure as well as the Supplementary Budget on 2012 flood relief and payments of subsidy to oil marketers. Closely related to this development is the current benchmark price of US\$79/barrel of crude oil under the 2013 budget which is adjudged to be overly optimistic. Apart from the fact that it would increase the level of domestic monetary aggregates with implication for price level, it would also constrain the capacity to increase savings into the Excess Crude Account (ECA), making the economy highly vulnerable to shocks arising from volatility in oil earnings.

In the light of the foregoing, I am of the position that the Bank should closely watch emerging macroeconomic developments and clearly recognize the evolving trend before a change in the current tightening stance of monetary policy. Consequently, I vote for a hold of both the MPR and the CRR at the prevailing rates of 12 per cent.

5.0 MOGHALU, KINGSLEY CHIEDU

I vote for a retention of the Monetary Policy Rate at 12 per cent, and to maintain the status quo on the transmission corridor, the Liquidity Ratio, the Cash Reserve Ratio and the Net Open Position for the following reasons.

First and most important, although inflationary pressures are moderating with headline inflation dropping to 12 per cent in December 2012 from 12.30 per cent in November 2012, and with a similar drop in food inflation from 11.60 per cent to 10.20 per cent over the same period, core inflation increased from 13.10 per cent to 13.70 per cent. Inflationary risks remain in the Nigerian economy, and the decelerating trend has not become consistent enough to warrant a reduction in the MPR at this time. State Government budgets have increased by more than 20 per cent year to year as of December 2013, Federal Government expenditure will remain high in 2013, and this situation is likely to be exacerbated by the higher benchmark oil price in 2013 budget.

Second, we need to weigh the stability – increasing external reserves that serve as an effective and necessary buffer for the economy, the inflow of portfolio investments that has helped maintain the stability of the exchange rate of the naira, and real interest rates – delivered by monetary policy over the past year – against the loud calls for a reduced MPR based on a belief that the present MPR of 12 per cent

is preventing increased credit to the real sector. Clearly, the stability delivered by the prevailing regime of monetary policy outweighs a view that is not supported by evidence that the MPR of 12 per cent is what is actually stifling real sector credit. I certainly wish to see a lower MPR, but this should only happen in response to a sustained downward trend in inflation. In fact, credit to the private sector as a ratio of GDP has increased by 9 per cent, and there remains no evidence that credit to the real sector increased dramatically in the years and months when the MPR was lower.

On the other hand, reducing the MPR will not affect real sector growth owing to structural constraints in the economy that I have argued in my previous MPC statements. Attempts to make monetary policy “responsible” for problems the solutions to which lie elsewhere should not influence the MPC to act precipitately. What is more, given the recent return to life of Nigeria’s capital market in the wake of the global financial crisis, a premature end to the monetary tightening cycle could result in another stock market bubble.

I am aware of – and share – the concerns over the risks inherent in creating seeming incentives for inflows of “hot money” into the Nigerian economy. It is important that monetary policy not be built on maintaining high policy rates merely for the purpose of attracting portfolio inflows because of the benefits they offer. These benefits are of a transient nature when considered against the structural actions needed to grow the economy in a sustainable manner. But

price stability remains a core mandate of the Central Bank of Nigeria. Together with exchange rate stability, they remain necessary for Nigeria in the near to medium term, pending the realization of more structural reforms by the Federal and State Governments and fiscal authorities. And, provided the risks around hot money can be managed – and from all indications they can – combating inflation consistently downward remains necessary.

I therefore believe we should maintain the status quo and watch the evolution of price levels and other monetary aggregates in 2013.

6.0 OLOFIN, SAM

Focusing on developments in the global economy since our last meeting, and their potential impacts on the domestic economy, staff reports indicate some degree of sustained, albeit gradual improvements in projected global growth rate, from 3.0% in 2011 to 3.3% in 2012, and rising slightly further to 3.6 % in 2013. This notwithstanding, there are still some significant downside and upside risks to global recovery that also portend potential dangers to the domestic economy. There is strong evidence of rising food and energy prices, posing upside risk to global inflation, and hence to imported inflation in the domestic economy.

Financial market fragilities and uncertainties in the Euro-zone constitute major downside risk to economic recovery, with potentials

for weakening demand for, and lowering of commodity prices including that of petroleum. Low growth in critical emerging markets and overall weak global investment climate, suggest that demand from these markets may not be strong enough to pick up the slack in the demand from the country's traditional trading partners.

Highlights of developments in the domestic economy show continued slow but robust growth in overall GDP which is estimated at 6.61% for 2012. There is also evidence of moderating inflationary pressures with headline inflation put at 12% in 2012. This is below a four year average of 12.08%. While money market rates have stabilized, lending rates remain high, with significant spread between lending and deposit rates. Foreign exchange market has remained stable with marginal appreciation in the exchange rate. There has also been appreciable accretion to external reserves which stand at \$46.79 billion as at January 17, 2013, notwithstanding the fact that a sizable, but manageable proportion of this is coming from hot money inflows. There are growing concerns about sustainability of current levels of indebtedness especially in respect of state governments.

There are also growing concerns about the effects of internal security threats, and impacts of flooding on level of economic activity. Coupled with these are concerns about fiscal sustainability, given threats to flow of oil revenue that may result from significant reductions in US oil imports, as it shifts demand to its own domestic as

well as other competing sources. The overall economic outlook for Q1, 2013 therefore is that of an economy with a stable financial sector; a healthy non-oil sector led overall GDP growth performance, with headline inflation trending downwards. There are however major downside risks from uncertainties associated with tepid global economic recovery, unresolved financial crisis in the Euro zone, and their potential negative impacts on the level of economic activity in the short to medium term.

The foregoing outlook leaves us with considerable doubts as to whether the time is ripe for monetary policy easing or not. As always, the critical issues surround the need to balance price stability needs with growth considerations. In view of the relative stability gains made over the last several quarters, it may be tempting to shift emphasis from stability considerations to monetary easing to promote growth. However such a major policy shift would be premature at this meeting, in view of the continuing uncertainties in the global economic outlook. Prudence demands keeping existing measures in place for as long as the external uncertainties that pose significant threats to domestic stability persist. One would therefore be strongly inclined towards retaining the status quo, as we watch further developments between now and the next meeting. I am therefore voting for keeping MPR as well as the CRR at their current levels. This would enable us maintain existing stability and further strengthen our buffers by way of sustained accretion to foreign reserves.

7.0 SALAMI, ADEDOYIN

Ahead of this meeting, the call for easing of monetary policy had, perhaps unsurprisingly, gathered momentum. Release, a few days ago, by the National Bureau of Statistics of inflation figures for December 2012 showing a decline in the rate of increase in Headline inflation to 12 percent appeared to provide support for the case to ease monetary policy. Reflection on the inflation data provides, at best, the most tenuous support for the notion of inflation being under control. The decline in Headline inflation was essentially the result of a 'base' effect in the year-on-year measure of food inflation. The 100bp increase in the month-on-month measure of food prices is quite large and perhaps reflective of the continuing impact of the flooding on food supply.

In addition, rising Core Inflation – increasing from 13.1per cent to 13.7 percent between November and December last year, continues to be a source of concern. It is worth bearing in mind that higher non-food prices have been driven, largely, by the cost of reform. The call to ease monetary policy is unsupported by the most basic analysis of the most recent available data on inflation. The outlook for inflation in Nigeria in H1 2013 appears benign – Central Bank Staff estimate the year-on-year rate of increase in Headline inflation easing to 8.5 per cent by the end of H1 2013, similarly, do they expect Core inflation to ease to 6.6 per cent. Whilst the rate of increase in food

prices will also come off double digits, it is expected to be stickier than the other measures of inflation – ranging in H1 2013 between 8.5 and 10.5 percent.

Beyond inflation, the sluggish growth performance of the economy could also provide a basis for easing monetary conditions. Having reviewed the quarterly GDP data, especially in comparison with 2011, it would appear that there is a growth momentum building in the economy. In other words, the economy might already be in recovery mode. Comparing the sector growth performance on a year-on-year basis, summarized below, the sharp reduction in the number of sectors with decelerating growth performance

	2011		2012	
	No of Sectors with Growth Accelerating	No of Sectors with Growth Decelerating	No of Sectors with Growth Accelerating	No of Sectors with Growth Decelerating
Q1	28	5	4	29
Q2	26	7	18	15
Q3	12	21	18	17
Q4	13	20	Data not available	

when compared to the same quarter in the previous year provides indication of improving activity. While it can be argued that easing monetary conditions would further strengthen growth, it is important in that context to ask whether Banks in Nigeria have regained their appetite for lending. My interactions and conversations do not lead me to conclude that banks are looking to expand their lending portfolios in those areas that afford able to further stimulate growth.

Anyway, financial market conditions show a reduction in bond yields since October, 2012. In other words, there appears to be a 'natural' decline in rates which should force the banks to seek more profitable opportunities in the real economy. It would be prudent to see what effect declining fixed-income market rates have on bank appetite for real sector lending. Furthermore, notwithstanding the improvement in forex reserves, a reduction in policy rates could serve to trigger a disorderly exit of Foreign Portfolio Investors – a prospect which would unnecessarily put pressure on the exchange rate.

A couple of threats to the inflation outlook should not be overlooked. The fragility of global economic environment continues to be a source of concern. Our hope is that 'Fiscal Cliff 2013' is resolved without adversely affecting global financial markets. Attention needs to be paid to uncertainty as to the dynamics and mid-term direction of oil prices. The importance of oil price to our economy cannot be overemphasized. Whilst political uncertainty and increased liquidity made available by Quantitative Easing activity of key Central Banks suggest that oil prices will hold firm in the short-term, it appears that we may begin to see oil prices ease on the back of new finds and deployment of new technology. The increase in the budget benchmark price of crude oil sanctioned by the National Assembly, from US\$75 to US\$79, is potentially higher than its nominal value of 5 per cent. Based on actual average production in 2011 and 2012 of

2.1 million barrels/day, the revenue assumptions in the revision proposed by the National Assembly raises the effective budget benchmark price of crude oil to US\$95/barrel. In other words, a 27 percent increase. An effective price of US\$95/barrel leaves little room for adverse fluctuations.

Furthermore, domestic conditions seem set fair to provide a recovery in spending in 2013. On the public sector side, with only the budget for Osun State unannounced, proposed spending by sub-national government for 2013 shows an uplift of approximately 15 per cent – ranging between – 17 Per cent and 42 per cent. This is in addition to the stimulus provided to household budgets by the absence of further action on fuel price deregulation.

I would like to see a sustained trend of easing inflation numbers to be convinced that monetary policy should ease.

8.0 UCHE, U. CHIBUIKE

Throughout 2012, MPC maintained a tight monetary policy stance and retained MPR at 12 percent. This no doubt helped curtail inflation in a very turbulent year that witnessed a substantial petrol pump price increase and widespread flood disaster. Another consequence of the tight monetary policy stance is the increased inflow of foreign direct investments which is in part responsible for the ongoing recovery of the capital market. While these no doubt are

seen as positive developments by beneficiary stakeholders in our economy, the fundamentals of our oil rent economy remain weak.

Foreign direct investments that do not impact on the development of the real sector simply represent hot money chasing after instant returns. High MPR and tight monetary policy has made investments in Nigerian bonds and stocks to be very attractive to foreign investors. At least in the short run, such foreign investments have also assisted in helping ease the pressure on the Naira exchange rate. While this may be welcome at the present time especially given the price stability mandate of the CBN, potential danger lies ahead. Huge inflows of foreign investments that only target high return stocks and bonds without impacting on real sector growth cannot be sustainable. This is especially so given the fact that the current stability we are witnessing has little to do with sound economic fundamentals. The country is simply at the mercy of the vagaries of international oil prices and foreign investments.

Any mishap, like a sudden decline in oil prices will trigger massive capital outflows which would swiftly reverse all the so called gains of monetary stability. Monetary stability is not an end in itself. It makes sense only if it facilitates real sector development. Monetary policy must therefore be proactive in the attempt to promote real sector growth. At this stage therefore, I believe that the time has come for us to begin to think seriously about how to use monetary policy to assist the real sector and how to reduce the inherent risks associated

with the increasing inflow of hot money. The fact that past attempts to reduce MPR have rarely translated to reduced interest rates and increased credit to the real sector should never be seen as an insurmountable obstacle. It is in my opinion the duty of the CBN to ensure that the wide interest rate margins of commercial banks are curtailed. This should not be difficult because available evidence show that such wide interest rate variances have in some cases been fuelled by the abuse of existing CBN interest charge rules by commercial banks. The belief that banks in a rentier state where information inefficiency thrives will through moral suasion behave in a less predatory manner with respect to interest rate policies is erroneous. The current data which shows that banks are gradually returning to their mega profit declaration days sometimes with little respect for existing CBN rules is clear evidence of this.

Ensuring the enforcement of existing interest rate rules and if necessary using regulation to limit the interest rate spread of banks is a necessary condition for the creation of an enabling environment for the transmission of MPR changes to the all-important real sector. I am aware of the argument that the problem of the real sector in Nigeria is structural because it would be difficult to assist the sector without clear improvements in macro security and infrastructure. While this argument has some merit, it should not prevent us from encouraging banks to grant credit to this important sector. This is especially so given the fact that the current scenario which is dependent on high oil prices and predatory foreign capital is not

sustainable. Developments, although in fits and starts, in macro infrastructure should also be acknowledged. The view that we must wait until all the structural issues impeding the real sector are removed before we can promote credit to the sector must be discountenanced.

It is in the light of the above that I have come to the conclusion that it is now time for us to rethink the current tight monetary policy stance. Given the ability of some of the stakeholders who benefit from the status quo to sabotage monetary policy, I am of the view that we should cautiously start this process with signaling a change in direction by reducing MPR by only 25 basis points in the first instance. I therefore vote as follows: (1) to reduce MPR by 25 basis points to 11.75 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.

9.0 YAHAYA, SHEHU

I vote to maintain the Monetary Policy Rate at 12%.

The current global and Nigerian situation is similar in some respects to the last meeting of the MPC in November 2012 in the sense that there are some significant areas of uncertainty, coupled with developments that point in different directions.

Despite an improvement in growth in the US economy in the last quarter of 2012, there are still major uncertainties regarding the resolution of the fiscal, budgetary and debt crisis. Some of the threats to the Euro have abated somewhat, but growth in the Eurozone countries is still flat or declining; austerity measures are still biting. Also growth in the emerging economies in the last quarter is lack-luster, despite some recovery in China.

In the Nigerian domestic economy, the projected GDP growth rate in 2012 is lower at 6.61% than for the previous three years, although it is projected in the last quarter of the year to be slightly higher than 7%, which is the highest quarterly rate in 2012. Overall, GDP growth is still robust.

The first quarter of 2013 is expected to experience lower pressures on price levels due to a number of factors: the base effect; declining global prices and therefore lower imported inflation; low aggregate credit to the economy mainly due to significant fiscal consolidation by the fiscal authorities (federal government borrowing declined further in November 2012, and by 12.4% on an annualized basis); slow growth in money aggregates. The high levels of interest rate also appear to have attracted some hot money into portfolio investments. Additionally, exchange rates in the country have been remarkably stable over the last year, with the Naira performing better than other African currencies, so there does not appear to be a substantial risk of exchange-rate induced pressures on price levels.

On the other hand, inflation in December 2012 is estimated at 12%. The NBS estimates that food prices may experience some pressure in Q1 of 2013 due to the delayed effects of the floods last year.

Along with growth uncertainties in the US and Europe, fairly weak growth in the emerging economies, discoveries of oil in many African countries and rapid increase in oil production in the US, there are huge uncertainties surrounding the oil market which clearly cloud the outlook for Nigeria. Although there has been a significant improvement in managing the federal government expenditure, there are some concerns about the possibility of spending spikes following budget approval and due to some carry over spending from the 2012 budget. If this happens, there might be a liquidity surfeit and thereby pressure on price levels.

Overall, with the inflation rate at the current level of 12%, rising level of core inflation and the need to see a clearer picture with respect to government expenditure and Q1 price levels, it would not be prudent at this time to signal the end of the tightening period, which has helped to reduce pressure on prices. It does not appear right now that an easing of the monetary stance can translate into cheaper lending for the productive sectors, whereas the risk on price levels is more potent.

For these reasons I vote to hold.

10.0 SANUSI LAMIDO SANUSI, CON, GOVERNOR OF THE CENTRAL BANK OF NIGERIA AND CHAIRMAN, MONETARY POLICY COMMITTEE

I will be very brief in this personal statement as the issues are clear and have not changed much since last MPC. Inflation remains in the lower double-digit range, with expectations of a decline in January largely on the back of base effects of fuel subsidy shock in Q1:2012. GDP growth is slower than last year due to slow growth in the Agricultural and Oil sectors, underscoring the need for structural policies to be fast-tracked.

Although inflation outlook is stable, the increased projected spending by state governments and raised oil price benchmark at the Federal level may pose a risk in the medium-term. The global economy remains fragile and the outlook is mixed, at the very best.

In the past year, we have achieved price stability, exchange rate stability, banking system stability and a healthy reserves position. The equities market is also on the mend and although it is still vulnerable to unstable portfolio flows, the fundamentals suggest that we are nowhere near a bubble at this point. Indeed, the only negative in this picture is the high lending rates faced by borrowers. The CBN will continue working with the banks to work out how to best address the question of spreads.

At this point, policy is working so well, there is no need to change it. I vote that we retain current stance and watch domestic and global developments ahead of next MPC and review the position in March.