

## **Central Bank of Nigeria Communiqué No. 91 of the Monetary Policy Committee Meeting of Monday 23 and Tuesday 24 September, 2013**

The Monetary Policy Committee met on September 23 and 24, 2013, with all of the 12 members in attendance. The Committee reviewed the economic conditions and challenges that confronted the domestic economy up to September, particularly since the last MPC meeting in July 2013. It re-assessed the short-to-medium term risks to inflation, domestic output, external balance and financial system stability.

### **International Economic Developments**

The global economy continued on the slow path to recovery with financial systems responding swiftly to new and expected risks. The risks include the possibility of the US FED tapering off its accommodative monetary policy stance (QE) and higher long-term interest rates as the economy enters the recovery mode. This move which has been temporarily postponed portends uncertainties in external conditions for emerging markets and developing economies, including Nigeria. Meanwhile, the underlying risk of a recession in the Eurozone, weak domestic demand and slowing growth in China have created tight financial conditions; which could easily worsen and reduce global growth prospects by the time monetary contraction begins in the U.S, Japan and the other advanced economies. The conclusion of German elections (and the re-election of Angela Merkel for a third term as Chancellor), should however open the door to much speedier progress in key reforms, especially around the common resolution mechanism for European banks.

In the interim, the IMF has declared that global growth is strengthening on the back of accommodative monetary policy. The Fund has further emphasized that though an end to unconventional

monetary policy was certain, its impact would largely depend on country specific circumstances and the pace of recovery recorded by various economies.

The Organisation for Economic Cooperation and Development (OECD) has noted that the momentum in the global economy was shifting away from the emerging markets back to the advanced economies. The pace of business activity increased in the Eurozone, while an official index of leading economic indicators for the US also strengthened in August. Consequently, the OECD growth forecasts for most advanced economies in 2013 have been revised upward to between 1.5 and 1.8 per cent. The positive outlook in the advanced economies has compensated for the slowdown of growth in the major emerging markets. However, the OECD warned that a prolonged slowdown in major developing countries could have profound effects on the world economy and translate into weaker growth for the advanced economies. The IMF had projected global growth at 3.1 per cent in 2013.

## **Domestic Economic and Financial Developments**

### **Output**

The National Bureau of Statistics (NBS) has reported a slowdown in the growth rate of real Gross Domestic Product (GDP) in Q1 and Q2 2013 relative to Q4 2012. Growth was estimated at 6.18 per cent in Q2, down from 6.56 per cent recorded in Q1, 2013. Overall, GDP growth for fiscal 2013 was projected at 6.91 per cent up from 6.58 per cent in 2012. The non-oil sector remained the major driver of growth at 7.36 per cent in Q2 (lower than the 7.89 per cent reported for Q1) in contrast to the oil sector output decline of 1.15 per cent (worse than the decline of 0.54 per cent in Q1). The drivers of the non-oil sector growth remained Agriculture; Wholesale and Retail trade; and Services which contributed 2.14, 1.48, and 3.0 per cent,

respectively. The Committee expressed concern about the worsening performance of the oil sector, which is principally due to the reported incidence of growing crude oil theft and significant revenue leakages in the oil sector. The Committee, therefore, urged the government to step up efforts aimed at curtailing the malfeasance in the oil sector, and adopting best practice in establishing strong controls, independent oversight and transparency in the official oil sector.

## **Prices**

Inflationary pressures continued to moderate in response to the tight stance of monetary policy. Headline inflation declined from 8.7 per cent in July to 8.2 per cent in August. Food inflation declined to 9.7 per cent in August from 10.0 per cent in July while core inflation, rose slightly to 7.2 per cent in August from 6.6 per cent in July. The Committee noted with satisfaction that, overall, headline inflation has remained below 10.0 per cent for eight (8) straight months and represented the lowest level achieved over the past 5 years, the longest such stretch since 2008; and that the six-month inflation outlook indicates that inflation would remain within single digit range. The Committee was nonetheless, conscious of the potential risks on the horizon, including the possibility of pressures coming from the fiscal activities of the government in the later part of the year, and in the run up to the 2014 elections.

## **Monetary, Credit and Financial Market Developments**

Broad money supply (M2) contracted by 5.58 per cent in August 2013 over the level at end-December 2012. When annualised, M2 contracted by 8.37 per cent, compared with the growth of 3.51 per cent in the corresponding period of 2012. M2 growth rate was also below the benchmark of 15.20 per cent for 2013. This is to be expected, given the tight monetary policy stance.

Aggregate domestic credit (net) grew by 3.85 per cent in August 2013 which annualises to a growth rate of 5.78 per cent over the end-December 2012 level, compared with the contraction of 3.56 per cent in the corresponding period of 2012. The annualised growth rate in aggregate domestic credit (net) at end-August 2013 of 5.78 per cent was below the provisional benchmark of 22.98 per cent for 2013.

Reserve money (RM) rose by 30.64 per cent to N4,227.61 billion at end-August 2013 from N3,236.15 billion by end-June. At that level RM was N343.06 billion or 8.83 per cent above the 3rd quarter, 2013, indicative benchmark of N3,884.55 billion.

Interest rates in all segments of the money market moved in tandem with the tight level of liquidity in the banking system. The inter-bank call and OBB rates, which opened at 10.69 and 10.22 per cent on July 29, 2013, closed at 15.67 and 14.92 per cent, respectively, on September 20, 2013. The average inter-bank call and OBB rates for the period were 14.86 and 13.93 percent, respectively.

The recovery in the Nigerian capital market continued, as equities market indicators all trended upward during the period under review. The All-Share Index (ASI) increased by 28.9 per cent from 28,078.81 on December 31, 2012 to 36,188.72 on September 20, 2013. Market Capitalization (MC) increased by 28.4 per cent from N8.97 trillion to N11.53 trillion over the same period. Improved earnings and investor confidence in the economy contributed to the rise in stock prices.

## **External Sector Developments**

The naira exchange rate remained stable at the wDAS segment of the foreign exchange market. The exchange rate at the wDAS-SPT during the review period opened and closed at N157.32/US\$

(including 1% commission). The average wDAS exchange rate during the period was N157.31/US\$. At the interbank segment, the naira exchange rate opened at N160.75/US\$ and closed at N161.47/US\$, representing a depreciation of N0.72/US\$ or 0.45 per cent. The average interbank exchange rate during the period was N160.78/US\$. At the BDC segment, the selling rate opened at N162.50/US\$ and closed at N163.00/US\$, representing a depreciation of N0.50k/US\$ or 0.31 per cent. The average BDC exchange rate for the period was N162.14/US\$. The stability of the exchange rate reflected the commitment of the Bank to supporting the currency at a time of massive depreciation in the currencies of emerging and frontier countries. This commitment was underscored by the policy of intervention to improve supply conditions, and the very tight monetary conditions maintained since the last MPC meeting.

The Committee noted the decline in external reserves to US\$45.27 billion as at September 19, 2013. External reserves, however, still increased by US\$4.08 billion or 9.91 per cent, year-on-year, compared with US\$41.19 billion at end-September 2012. However, the Committee noted that this level of accretion is too low given the relatively high price of crude oil and further underscores the need for much-needed reform of the oil sector.

### **The Committee's Considerations**

The Committee noted with satisfaction the positive developments in the economy, especially, the moderation in inflation, stability in the financial system and currency markets. It also noted the strong growth forecast by the National Bureau of Statistics for Q3 and Q4 on the back of relatively slow growth in Q2. It observed that the actions taken by the Bank since the last MPC yielded their intended effect on stabilizing the exchange rate while maintaining inflation within its target range. The Committee also noted that the fundamentals in

the economy which necessitated the July MPC measures had not changed substantially; except that the US Federal Reserve had provided clearer insight into the tapering off of its asset purchase programme - Quantitative Easing<sup>3</sup>. The Committee noted that in more than 30 countries surveyed, the Naira exchange rate remained one of the most stable having depreciated by only 2.3 per cent from year to date compared with the massive depreciation in the value of other currencies such as the Indian Rupee, the Indonesian Rupiah, the Brazilian Real, the South African Rand and the Ghanaian cedi.

The clarifications provided by the Fed over its QE3 policy brought substantial relief to the financial markets globally and initiated a reversal of the trend in capital outflows from the country. However, the Committee noted the existence of strong foreign exchange demand pressures coming domestically and which are not necessarily linked to an increase in the import of goods. This non-import related demand was attributed to the buildup in political activities in the country and increasing resort to dollarization of the economy by the political class. The Committee charged the Bank to ensure the stability of the currency in the face of these challenges, and to fast-track plans for adopting new regulations aimed at combating money laundering in the BDC segment.

The Committee considered the developments in money market rates which rose astronomically to peak at 40.0 per cent on 18<sup>th</sup> September 2013. However, these developments were temporary, arising from the postponement/stalemate in sharing the monthly Federation Account Allocation Committee Revenues. Banks which participated in the wDAS window expressed a preference for paying high interbank rate for one day rather than their borrowing from the CBN at 14.0 per cent and being barred from the wDAS window.

In any case, the Committee noted the continued dependence of the banking sector on monetised oil revenues for its liquidity and stressed the need to keep pushing banks into altering their business model to reduce vulnerability.

## **Decision**

The Committee noted that the actions taken at the last MPC have served the purpose of helping the naira avoid the fate of other developing-country currencies by keeping it relatively stable. It also noted the continued moderation in inflation and the benign outlook for the next six months. Finally, with the FOMC decision not to begin tapering asset purchases immediately, and the improved outlook for financial stability in Europe after the German elections, the risks of currency instability are significantly reduced. The monetary stance maintained by the US Federal Reserve is positive for international oil prices and portfolio flows.

In consideration of all the issues, the Committee decided by a vote of 11 members to hold the MPR at 12.0 per cent. One member voted to reduce the MPR by 50 basis points. 11 members voted to retain the symmetric corridor of 200 basis points around the MPR while one member voted for an asymmetric corridor of 200 basis points above the MPR and 400 basis points below the MPR. All members voted to retain the 50.0 per cent Cash Reserve Requirement (CRR) on public sector funds, and 12.0 per cent CRR on private sector deposits.

Thank you.

**Sanusi Lamido Sanusi, CON**

Governor

Central Bank of Nigeria

**24<sup>th</sup> September, 2013**

## PERSONAL STATEMENT BY THE MONETARY POLICY COMMITTEE MEMBERS:

### 1.0 ALADE, SARAH

*Headline inflation decreased by 50 basis points to 8.2 percent in August from 8.7 percent recorded in July, 2013. However core inflation increased from 6.6 percent 7.2 percent, while food inflation decreased form 10.0 percent to 9.7 percent during the same period, following the commencement of harvest season. In addition, fiscal expansion remains elevated while revenue has trended below budget due to lower oil production. On the international scene, there are some improvements although some risks remain. Although the United States Federal Open Market Committee's recent announcement that monetary policy stimulus in the United States will continue for now, there is need for the country to be prepared for orderly exit whenever the anticipated unwinding of monetary policy stimulus crystalizes. In view of these developments, I am inclined to support a hold in Monetary Policy Rate (MPR) and no change in Cash Reserve Requirement (CRR).*

**Headline inflation continues to trend down with core inflation increasing to 7.2 percent in August.** Headline inflation decreased to 8.2 percent in August from 8.7 recorded in July. The decrease is driven mainly by a decrease in food inflation which fell from 10.00 percent to 9.7 percent as the harvest season commenced with downward pressure on local food prices coupled with the effects of past monetary policy tightening. Core inflation however increased to 7.2 percent form 6.6 percent recorded in July, suggesting that inflationary pressure might be coming from areas other than food. In a normal situation, this downward trend in inflation would have been a strong case for monetary policy easing at this time; however, there are other compelling reasons to tread cautiously for the moment.

One of the main reasons is the fear of sudden portfolio flows reversal which could crystalize on monetary easing and may have a destabilizing effect on the economy if not managed in an orderly manner. At this point, a tight monetary policy stance is needed to attract or retain inflows. Therefore there is need to maintain a delicate balance between stability and growth objectives.

**Gross Domestic Product (GDP) is trending below forecast.** The 2013 second quarter GDP grew by 6.18 percent as against 6.6 percent recorded in the first quarter and below 6.39 percent recorded in the corresponding period in 2012. The growth is driven by non-oil sector which grew by 7.36 percent in the second quarter of 2013 compared to its contribution of 7.9 percent in the first quarter of 2013. The oil sector's contribution to GDP declined by -1.15 percent in the second quarter as against -0.5 percent in the first quarter of 2013. The decline in oil sector is as a result of the combination of oil theft and pipeline vandalism in the Niger Delta that have resulted in the shutdown of some oil wells and reduced oil production. While the decline in GDP growth presents a strong argument for monetary policy easing to encourage private sector lending in order to accelerate growth, there is need for caution because monetary policy is not solely responsible for growth. Structural reforms in areas such as power supply and transportation need to be intensified to encourage growth. Although National Bureau of Statistics (NBS) projections suggest a GDP growth of 6.91 percent for the year, the achievement of this goal will require sustained structural reform.

**Reduced oil production is bound to put pressure on fiscal operations of the government and budget implementation.** The low oil production due to pipeline vandalism and oil theft is affecting government revenue and resulting in increased

drawdown on savings. Draw down on Excess Crude Account to augment revenue shortfalls has continued for the past three months. If this trend persists, it will have an adverse effect on the Nigeria economy in terms of decreased oil revenue and external reserve build up. Government will resort to increased borrowing at higher interest rate which will crowd out private sector, further constraining growth. To alleviate these risks monetary policy should do all it can to dampen the adverse effects on the economy.

***The effect of the last Monetary Policy Committee (MPC) decision on public sector deposit should be allowed to take full effect.*** Money market rates and exchange rate has been stabilizing as speculative demand is reduced following the last MPC decision. Deposit rates have edged up and weighted average savings rate increased to 2.42 per cent in July 2013 from 2.04 cent in June 2013. Similarly, the weighted average deposit rate also increased in August, leading to a decline in the spread between the average maximum lending rate and the weighted average deposit rate in August. The effect of the policy decision should be allowed to take full effects as it will encourage banks to pay higher rate on deposits and also increase private sector lending.

***Global economic environment is improving, but growth is still teetering.*** The Euro zone economies were officially out of recession in August, although growth was driven mostly by France and Germany as unemployment in the 17-nation bloc is still high. Second quarter GDP growth in the zone rose to 0.3 percent compared to the first quarter, beating analysts' estimate of 0.2 percent. In the United States, unemployment rate edged down to 7.3 percent in August after adding 169 thousand jobs to the economy, although the Federal Reserve Open Market Committee indicated that the pace of the growth is still not at a comfortable level to start unwinding

monetary stimulus. *Second quarter GDP growth in China decreased to 7.5 percent against the projected 7.7 percent, and most emerging market economies are experiencing increasing capital outflows and currency depreciation, which could further jeopardize growth if not properly managed. Under these uncertain conditions, monetary policy at this time should be focused at minimizing the downside risks and safeguarding the economy.*

***Against this background,*** I support a hold on Monetary Policy Rate and Cash Reserve Requirement (CRR) of 12 percent on private sector deposit and 50 percent on public sector deposit to ensure macroeconomic stability.

## **2.0 BARAU, SULEIMAN**

### **Introduction**

I am very satisfied with the impact of the various policy measures that we took at recent MPC meetings, indeed, including those taken at the last MPC.

**Specifically, inflation measures have stabilized at single digit for the last 8 months.** Headline Inflation (HI) declined from 12% in December, 2012 to 8.20% in August 2013. Headline Inflation declined from 8.7% in July to 8.20% in August, 2013 due to moderation in Food, Housing, Clothing and Transport segments of the measure. The Month on Month HI also moderated from 0.54% to 0.25% over the same period. Core Inflation (CI) measure, though showing a marginal increase from 6.6% (July) to 7.2% (August), remained subdued at single digit.

**Exchange rate also remained largely stable.** The exchange rate at the Wholesale Dutch Auction System (WDAS) window was stable at 157.32/USD between July, 23 and up to September 19, 2013. However, the Interbank and Bureau De Change (BDC) segments came under substantial demand pressure with rates trending between N159.75/163.88 and N162/164 per USD over the same period respectively. The pressure on the Naira exchange rate in these two segments appears to be driven by sentiments. Market operators appear to have formed a view on the direction of exchange rates in view of recent internal and external developments. Externally, there was expectation of possible reversal of foreign portfolio flows stemming from the decision of the US to “taper” its asset purchase programme under QE3. In addition, the recent significant depreciation of currencies in other emerging and frontier economies made the market to form a view that the Naira would depreciate. Locally, the substantial reduction in the country’s oil production and exports, leading to the lack of recent build-up of foreign reserves inspite of high oil price in recent time helped to exacerbate the demand pressure. This pressure was witnessed inspite of the substantial reduction of systemic liquidity associated with the increase in Cash Reserve Ratio (CRR) on public sector deposits from 12% to 50%.

**The level of foreign reserves remains remarkably stable.** External reserves increased by 3.18% from US\$43.83 billion to US\$45.27billion as at end December, 2012 and September 19, 2013 respectively. But the September 29th foreign reserves level is lower than US\$47.99 billion as at July 21, 2013. The various liquidity tightening measures adopted by the MPC is largely responsible for this stability.

**Global developments also contributed significantly to the relative stability that we witnessed since the last MPC.** The recent decision by the Federal Open Market Committee (FOMC) in the USA not to

“taper” its assets purchase program as against market expectation was the most significant development for us. The consequent reduction in yields on bonds, rally in oil price and continued liquidity injection via assets purchases by the Federal Reserve, all combined to make us to remain an attractive destination for portfolio inflows or at least stemmed the expected outflows. The re-election of Angela Merkel for a third term signals stability in EU financial markets. Overall one can conclude that though global recovery remains slow, the remarkable progress and stability witnessed in the USA, Japan and China are all important signals that impacted positively on monetary policy implementation in Nigeria.

### **Risks/Challenges/Pressure Points**

**The robust but declining GDP growth remains an important challenge for Nigeria particularly in the context of huge growth potentials.** Q2 GDP growth estimate at 6.18% shows a decline when compared to Q1 GDP growth of 6.56%. The decline was due to the substantial decline in the oil sector contribution to the GDP growth, following the recent unfavourable and unfortunate production and export leakages. Recent historical trends have however shown that Q3 GDP growth is higher than Q2 due largely to the effect of harvest of agricultural products. This trend is consistent with the debatable GDP growth forecast of the National Bureau of Statistics (NBS) of 6.93% Q3 and 7.67% Q4. Apart from the fact that the Q2 GDP growth decline was due to the decline in the contribution of the non-oil GDP, there is a limit to the role of MPC in stemming the decline. In other words high interest rate is not responsible for the recent decline in GDP growth. Therefore, I reiterate my position that the impact of MPC's measures in stimulating growth via interest rate reduction can only be felt if we witness the structural reforms needed to stimulate real sector development.

**Oil sector production leakages continue to be a major threat to Government revenues and foreign reserves level.** The marginal increase in production in August (1.88mbpd) relative to July (1.85mbpd) is notable but the sustained decline in production has no doubt impacted negatively on Government revenues. If the decline is sustained, then the Government is left with no alternative than to recourse to augmentation from Excess Crude Account (ECA) disbursements or it will have to burst its forecast deficit levels.

The negative impact of a declining foreign reserves level to exchange rate management, Government revenues and inflation going forward is obvious.

**The recent increase in Cash Reserve Ratio (CRR) has produced the desired result in the context of efforts to achieve price stability.** The substantial reduction in systemic liquidity has led to the reduction in Bank's Liquidity Ratio (LR) from 68% (June 2013) to 49.3% (August 2013). The increase led to volatility in money market rates as Banks began to adjust their assets position in order to meet the Minimum LR. In spite of volatility in money market rates, the spread between Consolidated Deposit and Maximum Lending Rates declined from 19.22% in July, 2013 to 18.87% in August, 2013. The issue of high lending rates is still a matter for concern. It is in this regard that the Shared Services initiative of the Bankers' Committee that aims to drive the industry cost of doing business is expected to hopefully deliver the expected benefit.

**Future global development remains a major area of risk to MPC going forward. The continuation of Q3 and refusal to begin to "taper" appears to be a favourable development for us at least in the short run but it also remains a risk since it will happen sooner or later.** The uncertainty regarding when to "taper" is the issue. The Federal Reserve Chairman stated that it may be as early as

October. It is worth noting however that the forward guidance, which provided that “tapering” will largely be tied to the success in achieving the desired level of unemployment (6.5%) in the US and overall growth parameter (2.5% GDP growth) gives room for anticipation. In this context, we are able to orchestrate the orderly exit of foreign portfolio flows and avoid shocks to our foreign reserves, exchange rate and the foreign exchange market.

## **Conclusion**

It is in view of the foregoing developments, risks, outlook and the need for stability that I voted as follows:

- Retain Monetary Policy Rate at 12%;
- Maintain the symmetric corridor of plus and minus 2% for SLF and SDF respectively;
- Maintain Cash Reserve Ratio at 12% and 50% for private and public Deposits respectively; and
- Maintain Net Open Position for foreign exchange at 1% of Shareholder's Funds.

### **3.0 DANIEL-NWAOBIA, ANASTASIA**

From the analysis done so far which indicates a slow but positive economic outlook (good economic rating, stable price levels and favourable external reserves), there is need to thread on the path of caution and not be in a hurry to change the monetary policy.

I assume that Government current efforts at addressing leakages in the oil sector, improve power and transport infrastructure as well as diversifying the economy should begin to yield positive results in no

distant future. I am, however, worried about the high unemployment rate.

Despite the fear of anticipated Government spending in view of the impending elections, there is need to tarry a while till the next MPC meeting during which some of these fears may begin to play out. The inflation rate is still within single digit and this is likely to remain so within this period if the monetary policy is maintained. The Bank should look deeply into addressing the high lending rate with the view to bringing it down.

In view of the above, I wish to go with the position that the current monetary policy of the Bank be sustained. The current policy on foreign exchange should also be sustained to consolidate the relative stability achieved thus far. Furthermore, the 50% CRR on public sector deposits should be sustained in order to forestall speculative demand in the foreign exchange market as well as reduce banks' reliance on such deposits.

#### **4.0 GARBA, ABDUL-GANIYU**

##### **Foundation for Decision**

##### **Expectations Impact of July MPC Decisions**

At the last MPC, I voted (i) to **raise** the CRR on public deposit to 50%; (ii) to **maintain** CRR on private deposit at 12% and MPR and (iii) for an **asymmetric** corridor of -4 (Standard Deposit Facility) and +2 (Standard Lending Facility) around the MPR.

I voted for a 50% CRR on government deposit as a necessary first step in the “process of correcting market and state failures in a concrete and effective way.” I expected that a 50% CRR will (i) eliminate the highly profitable repeated game of lending to

government its deposit; (ii) compel banks to adapt to new realities, change their business models and become more efficient; (iii) incentivize banks to seek for deposits from the private sector and, to lend to the private sector, (iv) encourage the Federal government to proceed quickly to the Treasury Single Account (TSA), all governments to better manage public resources, cut down wastes and unnecessary costs and (v) reduce the levels and costs of government borrowing, the crowding-out effects of public sector borrowing and, the cost of implementing monetary policy. In addition, I expected (i) some portfolio adjustments in the structure of DMBs' assets and liabilities, (ii) short lived rise in the operating targets of the monetary policy transmission mechanism (OBB and Call rate) and (iii) decline in liquidity ratios from the very high levels that prevailed in the last one year.

In voting for an asymmetric corridor of -4 and +2, I expected that reducing the SDF rate by 200 basis points to 8% will discourage DMBs from using SDF window in favour of lending in the interbank market. This in my view will diminish the potential crowding-out effects of the SDF on the interbank market and to make the interbank market more efficient. In addition, I expected that a more efficient interbank market will moderate the effects of a 50% CRR on government deposit.

At the September MPC, my primary concern was to (i) assess the impacts of the 50% CRR on public deposits using a set of complementary analytical tools/frameworks (multi-market, macroeconomic and trend) and (ii) analyze the implication of global and domestic economic outlooks for the stability and growth of the Nigerian economy in the next two quarters and beyond.

## Preliminary Assessment

Available data indicates that the 50% CRR on government deposit is having desired effects. First, the data shows significant changes in the ownership and instrument structure of the deposits of DMBs in favour of growth in government deposit and a more efficient use of financial instruments by the government. For instance, between June and August, Federal Government Naira deposit with DMBs rose by almost N1.5 Trillion. By corollary, private deposits declined by N1.077 trillion. As a result, total public sector Naira deposit rose to N3.73 Trillion in August 2013 from N2.384 Trillion in June 2013 while private sector Naira deposits fell to N8.7 Trillion from N9.78 Trillion in the same period. In addition, a significant part of the increase in Federal government Naira deposit (81%) was held in Time Deposit in August 2013. These changes are positive signs that the 50% CRR on government deposit is a game changer for the government deposit. Also, that the efficiency of both money markets and public finance are likely to improve. Second, though, there was an increase in the average Open Buy Back (OBB) and interbank rates, the rates trended downwards between August 20 and September 3, 2013. The positive trend after September 5, 2013 is linked to a combination of factors including the usual **FAAC effect**. The short term interest rates (intermediate targets) were on average flat: the Maximum Lending Rate (MLR) declined on average by 16 basis points and the Prime Lending Rate (PLR) rose by just 8 basis points. Third, the exchange rate was relatively stable even as the currencies of most emerging markets lost value against the US\$. In addition, the inflation maintained the downward trend, and government borrowing, OMO, Treasury Bills Rate and OMO costs, Liquidity ratio all trended downwards.

Though it is too early to draw firm conclusions about the effects of the policy on the efficiency of the market and government, the

early signs are positive. The main area of concern for me is the adjustment from Time Deposit to Foreign Currency Deposit which rose by about N375.4 billion or about \$2.4 billion. The seeming rising preference for foreign currency suggests that greater attention should be paid to the demand for foreign currency in the management of the foreign exchange to eliminate the influence of rent seekers on the efficiency of the foreign exchange market.

### **Domestic and Global Outlook**

Staff estimates project a stable outlook for inflation while the National Bureau of Statistics (NBS) third and fourth quarter GDP growth estimates are strong. The key concerns are (i) fiscal risks linked to the size and trend of the fiscal deficit and oil revenue leakages; (ii) the seeming growth in speculative demand in the forex market, (iii) the potentially destabilizing effects of portfolio flows, (iv) the rising unemployment rates, (v) the lower than expected growth in the second quarter and (vi) the inefficiencies in the structure of loans and advances of DMBs that discriminates against the real sectors that contributes the most to GDP growth and job creation.

The main global tail risks are the risks associated with the uncertainties linked to the tapering of QE3 by the US FED. The postponement of tapering by the US FED against all expectations and, the tying of tapering to US economic data indicates that while tapering is inevitable, tapering will raise global economic uncertainties for the next few months at least. It is important therefore, to act cautiously and to prepare for the inevitable. I expect that the looming US fiscal crisis would as usual be resolved at the eleventh or twelfth hour. The worry is that such avoidable and politically motivated crisis diminishes the credibility of the US macroeconomic management and raises the risk of downgrade of

its sovereign debt. Such a downgrade will have significant effects on global financial flows. It is important therefore, that we maintain and promote the efficiency of our financial markets and public finance management to ensure that Nigeria is ready to deal with the global tail risks whenever they crystallize.

## **Decision and Justification**

I vote:

- a) to keep CRR on government (Federal, State and Local) Deposits with Deposit Money Banks at 50%;
- b) to keep CRR on Private Deposits with DMBs at 12%; and
- c) for an asymmetric corridor of -4% (SDF) and 2% (SLF) around the MPR of 12%.

My decision to maintain the 50% CRR on government deposits is to deepen and widen the positive impacts of the effects of the 50% CRR on government deposit adopted at the July 2013 MPC. It is obvious given (i) the positive signs and (ii) policy implementation and policy impact lags, that the positive impacts will be stronger in the next two months and beyond. In addition, as I emphasized in my last personal statement, there is ample room for encouraging DMBs and the government to be more efficient by changing the games in favour of efficient strategies, choices and actions.

I maintain my vote for the asymmetric corridor to limit the distortionary effects of high SDF rates on OBB and interbank rates. As expected, in the immediate aftermath of the July MPC, DMBs usage of the SDF facility was at record levels. Had these funds been available at the interbank market, rates would have been more moderate and the market would be more efficient. It is important that the three key segments of the money market (interbank,

wholesale and retail) are efficient if the allocation of financial resources is to be efficient.

I vote to maintain the MPR at 12% for strategic reasons. First, I expect that by improving the efficiency of the money market and public finance, the conditions for sustainable easing (tapering of tightening) will be created. It will be counter-productive to ease and not sustain it. Second, the data on DMBs loans and advances indicates that access is a key problem for many real sector operators. The DMBs continue to reveal a preference for lending to the top five sectors with highest share of the non-performing loans acquired by AMCON: capital market, oil and gas, general commerce, construction and Transportation. There is lately, a rise in exposure to the power industry. If it bears good fruit in terms of greater efficiency in power supply, the effects on real activities will be significantly positive. The key is to change the credit allocation game in favour of the real sector borrowers as we have done for deposits of DMBs. This will require a mix of creative strategies that (i) incentivizes the market to prefer real sector borrowers and (ii) bypasses the market and provides credit directly to viable real sector borrowers. As we carefully and creatively think through the global and national policy environment and, critically evaluate the development financing programmes of the CBN, it would be possible to package together a creative package of policies and programmes that will change the game of credit allocation in Nigeria in favour of sustainable growth and employment.

## **5.0 LEMO, TUNDE**

Macroeconomic condition has been quite stable. Inflationary pressure has largely been curtailed with the headline measure being in single digit since January 2013 while the outlook for the last

quarter also appears benign. The recent decision by the Federal Reserve to suspend the termination of the third quantitative easing pending further improvement in the US economy has helped to calm market sentiments against developing and emerging economies thereby stemming the tide of capital outflows. It is equally noteworthy that the upward adjustment in the public sector CRR has propelled an increase in the rates offered on term-deposits by the deposit money banks without a corresponding increase on the maximum lending rate. This development has helped in narrowing the spread between the deposit and lending rates thereby improving the efficiency of intermediation.

The major issue, however, is the slowdown in real output as estimates of growth for the first half was 6.18 per cent, the lowest in the last four years. The main reasons for the slowdown are reduction in crude oil export, structural factors as well as security challenges in some parts of the country. Given the benign inflation condition therefore, it could be considered expedient to relax some of the subsisting tightening measures of monetary policy or at least signal an expansionary stance.

In taking decision however, it may be necessary to examine the risks posed to the sustainability of the prevailing relatively stable macroeconomic conditions. A major risk is from the rising fiscal deficit due largely to shortfall in revenue. Indeed, it could be reasonably safe at this period to affirm that the revenue projection in the 2013 budget would be unrealized. Actual oil revenue has consistently underperformed against target since the month of March due mainly to production shortages. The average production per day was 1.96 million in the first eight months against the budget benchmark of 2.53 million, suggesting that production would have to be jerked up to about 3.67 million barrel per day in the remaining four months (September-December) to achieve the revenue target

in the budget. Apart from the fact that our export quota may not permit this level of daily production, it is also unrealistic given the binding capacity constraint.

Despite the significant fall in revenue, expenditure was just 18.1 per cent below the proportionate level by the end of the first half of the year even in the face of low level of implementation on capital budget. Since more capital releases may be expected in the last quarter of the year, the level of fiscal deficit could likely increase above the planned level with implication for exchange rate and inflation.

Furthermore, although the tide of capital reversal has moderated following the recent decision of the Federal Reserve, there still exists considerable pressure in the foreign exchange market. The pressure was not quite glaring at the WDAS segment of the market, given the stable rates in that market in the last two months, but this was achieved at the expense of the external reserve, which declined by about US\$2 billion during the period. The pressure, however, was very visible at the interbank segment of the market as evidenced by considerable degree of volatility in rates during the period, reflecting decline in the autonomous inflow of foreign capital.

In the light of the aforementioned risks, the various monetary measures put in place in the last meeting should be retained. Specifically, the MPR should be retained at 12 per cent, the general CRR at 12 per cent, and the public sector CRR at 50 per cent.

## **6.0 MOGHALU, KINGSLEY CHIEDU**

The Monetary Policy Committee is not under much pressure to take a strong position either to tighten or loosen monetary aggregates at this time. The global environment appears benign in the wake of

the United States Federal Reserve Bank's recent decision to continue its asset purchase (quantitative easing) policy and thus defer the beginning of "tapering" those purchases as a signal of an imminent discontinuation of loose monetary policy.

On the domestic front, the inflation outlook also remains benign, with headline and food inflation trending downward to 8.20 per cent in August 2013 from 8.70 in July 2013 and 9.7 per cent from 10.0 per cent respectively for the same period, although core inflation increased to 7.2 per cent from 6.6 per cent over the same period. Overall, inflation is projected to remain in the single digits in the near to medium term. This is indicative of the impact of tight monetary policy over a period of nearly two years now. Projections for output growth remain healthy at 6.9 per cent for fiscal year 2013, although the growth rate of 6.18 per cent for the second quarter of 2013 was lower than the 6.56 per cent in the first quarter.

Thus, while the option of tightening is not feasible against the foregoing background, the MPC has reasons either to loosen policy or hold steady. My initial position was to vote to lower the MPR at this time on the strength of the argument that (a) inflation is on a downward trend; (b) QE tapering has been postponed; (c) the slowdown in GDP growth means that monetary easing may be an incentive to growth, in particular in the non-oil sector that has generated the filip for the much growth that has been recorded in recent months; (d) the 2014-2016 Medium Term Expenditure Framework (MTEF) of the Federal Government of Nigeria indicates a slight shift to reduced fiscal dominance, with a proposed reduction in the 2014 of N492 billion from the N4.987 trillion appropriated by the National Assembly in the 2013 budget; and (e) declining revenues accruing to the Federal Government combined with the steps already taken by the MPC to tackle the liquidity surfeit in the

banking and monetary system mean that an excess of liquidity may not be a credible threat in the near future.

All of this is well and good, and would argue, on the face of it, for easing monetary aggregates. However, these points are counterbalanced by others, mainly: (a) the decision of the U.S. Federal Reserve on tapering is only a postponement of the inevitable end of QE at some future date, which is anticipated to have a negative impact on the Nigerian monetary landscape as it will trigger some capital outflows from emerging markets; (b) the two months between the last meeting of the MPC and this one is too short a time to assess the full impact of the far-reaching decision of the MPC at its last meeting to impose a drastic 50 per cent cash reserve ratio (CRR) on public sector deposits on deposit money banks (DMBs), thus easing at this point may be premature; and (c) easing monetary policy at this time would remove the incentive, (created by the 50 per cent CRR on public sector deposits) for banks to diversify their deposit base by increasing deposit rates offered to savers and so perpetuate the gap between high lending and low deposit rates. Moreover, concerns remain about the potential impact of election-related spending in the run-up to 2015, as well as the pressure induced on dollar currency supplies by non-import demand for the dollar.

For the foregoing reasons, on balance, I am persuaded to vote to maintain the status quo on monetary aggregates at this time. I would like to signal, however, that, should present trends continue in the inflation outlook as a result of the success of monetary policy, in the international landscape and oil prices, the time will have come to seriously consider a slight loosening of monetary policy as a signal nod to real fiscal consolidation and slackening growth rates should these factors become pronounced.

I therefore vote:

- Maintain the Monetary Policy Rate at 12 per cent, with a symmetric corridor of plus or minus 2 per cent.
- Maintain the Cash Reserve Ratio at 12 per cent for private sector deposits in DMBs, and at 50 per cent for public sector deposits.

## **7.0 ORONSAYE, STEPHEN OSAGIEDE**

Although the figures released by the National Bureau of Statistics (NBS) indicate that there was a slowdown in the country's Gross Domestic Product (GDP) in the first and second quarters of 2013 compared to the last quarter of the previous year, the overall national economic outlook since the last Monetary Policy Committee (MPC) meeting of July 2013 has remained largely positive.

Specifically, headline inflation was lowered from 8.7 per cent in July to 8.2 per cent in August and food inflation declined from 10.0 per cent in July to 9.7 per cent in August. However, core inflation, rose from 6.6 per cent in July to 7.2 per cent in August.

That headline inflation has remained below 10.0 per cent for eight consecutive weeks suggests that the MPC's decision are striking the right economic chords that will linger on for a while only if we exercise fiscal caution.

While the decision at the last MPC meeting to introduce a 50% Cash Reserve Requirement (CRR) on deposits from the Public Sector was a positive one, it was observed that the implementation did not commence immediately because of the maintenance period. I am of the view that a period of less than two (2) months is not long

enough to ascertain the full impact of the decisions. That being the case, the better economic choice to make is to wait and further observe the economic climate before we amend any of the parameters put in place.

One of the mandates of the Bank as encapsulated in Section 12 (1)-(5) of the CBN Act, 2007 (Amended) is to maintain Nigeria's external reserves to safeguard the international value of the legal currency. With the current demand pressure on the Naira (N), there is need for better coordination between monetary and fiscal policies. We will therefore need to be more strategic in our approach and be clear in our communication to currency speculators that the CBN will continue to defend the value of the Naira. This is particularly important because we need to support planning for the real sector.

I am concerned about the level of oil theft in the country and do think that Government's efforts need to be redoubled at plugging identified leakages in order to keep our revenues high.

Confronted yet again with the question: Why do we need to reduce the rate at a time when inflationary pressures still loom over the economy? The arguments I canvassed for holding the MPR at 12% in July remain unchanged. I still hold the view that retaining the MPR at 12% will help control inflation and ensure price stability.

## **Votes**

Based on the foregoing, I voted for the following:

- a) Retaining the MPR at 12%;
- b) Retaining the symmetric corridor of 200 basis point around the MPR;
- c) Retaining the Cash Reserve Requirement (CRR) at 12% for deposits from the private sector; and

d) Retaining the 50% Cash Reserve Requirement (CRR) on deposits from the Public Sector.

## **8.0 OSHILAJA, JOHN**

The 234th meeting of the Monetary Policy Committee concluded with the majority of members voting (my vote included) to maintain the present policy stance, with all underlying operating instruments unchanged.

Inflation appears to be well-established in single-digit territory and, despite episodic bouts of weakness; fundamentals underpinning interbank exchange rates suggest that a return to confines of the CBN's tolerance band is feasible. Why? Because notwithstanding institutional casualties and costs, the decision taken (in the MPC's 233<sup>rd</sup> meeting) to establish sector-differentiated reserve requirements for bank deposits should be broadly constructive in reducing exchange rate volatility and restraining formal demands for FX. Banking sector liquidity has been reduced by a little over a quarter (27%), with scope for further substantial reductions – if necessary. Hence, with prevailing monetary conditions promoting our price and financial stability objectives, I believe further adjustments to Policy to be largely unwarranted at this time.

Money Market interest rates have also been more volatile than usual since the introduction of a 50% reserve requirement for Public Sector deposits. This is the other reason I voted to hold Policy rates and instruments at current levels. Increased interbank rate volatility suggests that balance sheets are being stressed as net borrowing banks adjust to tighter funding conditions for unmarketable assets.

Nigerian banks operate in a bifurcated market for liquidity. Surpluses at one end of the banking system, where deposit bases

are large and better diversified, do not readily flow to meet liquidity deficits arising at the opposite end, where deposit bases are smaller and more concentrated by clientele. Banks on this lower end of the liquidity scale are going to need a longer adjustment period than larger counterparts. Rather than lend to weaker funded banks, larger Nigerian banks prefer to lodge their surplus liquidities with the Central Bank, attracted by CBN's Standing Deposit Facility rate of 10%. Hence, my vote to hold also represents a vote in the interests of banking sector stability.

## **9.0 SALAMI, ADEDYOIN**

Despite the continuing trend of low increase in prices, confirmed by the Inflation Report for August published by the National Bureau of Statistics (NBS), preparation for this meeting of the MPC had been clouded by a number of other developments which warrant concern for our economy. I had expected a difficult meeting as the Naira had, for long periods since our meeting in July, traded outside its upper band of NGN160/US\$. I had been anticipating that the pressure on the Naira would be worsened by an announcement of commencement of 'tapering' its Quantitative Easing (QE) programme by the US Federal Reserve Bank. My sense of foreboding was worsened by data from the National Bureau of Statistics (NBS), released in the run-up to this meeting, which showed slowing growth on the production side of the domestic economy. To this mix was added the spike in money market rates and the unfolding drama around Consolidated Discount House. All of a sudden the continuing downward trend in inflation was almost irrelevant.

Reaching a decision to vote for retention of the status quo is based on my prioritization of maintaining currency stability ahead of any

considerations of slowing growth and the likely adverse consequences for unemployment. As a colleague on the MPC noted “.....while (currency) stability is not everything, without stability, there is nothing”. Furthermore, the obligations for price and currency stability imposed on monetary policy making by relevant legislation – namely the Central Bank of Nigeria Act 2007 – provides a basis for the priority I have accorded currency stability.

Although oil prices have remained stable as security concerns over the Middle East appear to outweigh the continuing fragility in global economic activity in price determination, US monetary policy decisions remain a source of concern. The initial relief which announcement of deferred commencement of ‘tapering’ its Quantitative Easing (QE) programme by the Federal Reserve has been quickly tempered by the caveat that, depending on circumstances in the USA, tapering could start as early as October. In other words, the downside risks to the Naira remain live! For quite a while now, I have drawn attention to the significant increases in the size of Domiciliary Account holdings by deposit holders in Nigeria. In the past year, the share of domiciliary account holdings in total deposits have risen from 16.2percent in June 2012 to 21.3percent in August 2013. The sharpest increase being recorded between June 2013, when domiciliary accounts amounted to 19.7percent, and August 2013 when they accounted for 21.3percent.

There are a number of competing explanations for the rising taste of deposit holders for holding foreign currency deposits. These include: commencement of campaigns ahead of the 2015 general elections; money laundering; corruption; and expectations based on the Naira’s relatively strong performance in comparison with currencies of nations with better fundamentals. Irrespective of the reason for the sharp adverse (at least from the perspective of

monetary policy management) change, it is clear that a continuation of this trend will create significant difficulties for continuing to keep inflationary pressures within manageable limits. In other words, the Bank Staff inflation forecast of 7.8percent at year end will be adversely threatened.

Notwithstanding my earlier comments on the limited attention I paid to output growth performance data for Q2 2013, published shortly before the meeting, in my decision, my analysis of the data has me pondering possible explanations for the slower growth in the distribution sector. At 7.3percent relative to Q2 2012, growth in the distribution sector was 14percent slower in Q2 2013. Does this slowdown in distribution activity represent the impact of military action in the North- East on GDP? Might it simply represent the impact of upward concentration of income resulting from rising unemployment? Similarly, does the slower growth in the telecoms sector also represent jurisdictional challenges or is it a manifestation of the extent to which the consumer is constrained.

Concerns about slower activity growth are heightened by rising incidence of non- performing loans (NPLs). Between June and August 2013 the banking industry recorded a 40 percent increase in the proportion of loans classified as non- performing. NPLs rose from 3.65percent to 5.18percent of banking industry loan book. Whilst a comparison of rising NPLs and with events at Consolidated Discount House is misplaced, the incidence of NPLs do suggest the need for closer review by operators and regulator of existing credit frameworks.

Important as the issues around growth and the quality of bank credits are, my sense is that the question of how long the Central Bank can hold the line on the external value of the Naira, which circumstances prevailing at this meeting have enabled us avoid, will

doubtless be the focus of much attention for quite a while going- forward. Whilst I am, at this time, comfortable with the Central Bank's posture and its measures in managing the exchange rate, it is clear to me that unless our circumstances improve quickly, we may have some very difficult choices to make.

## **10.0 UCHE, U. CHIBUIKE**

The very essence of monetary policy is to encourage economic growth and development. The price stability mandate of the CBN therefore cannot be seen as an end in itself. Rather it should be seen as a means to promote economic growth and development. In the light of the above background, an important concern for me is to determine whether the current monetary policy stance of the CBN has the capacity to aid economic growth and development in Nigeria.

Available statistics show that our economic growth rate is on a downward trend. Both the real GDP growth rate and non-oil GDP growth rate are on the decline. Not surprisingly, our reserves are also beginning to inch downwards. More worrying however is the huge increase in the official unemployment figures. It is difficult to see how the current tight monetary policy stance can help to ameliorate the important indices stated above.

This of course does not mean that the current tight monetary policy stance of the CBN has not had positive consequences for the economy. One such consequence has been the attainment of a single digit inflation rate for some time now. The fact that headline inflation and food inflation are on the decline provides us with a clear window to use monetary policy to encourage economic development.

Attributing the relative exchange rate stability in our economy to our tight monetary policy stance alone is however contentious. There is evidence to suggest that such stability has substantially been caused by the capital account liberalisation policy of the government and the enormous opportunities foreign capital have to engage in speculative activities in our economy. While this is currently an important ingredient in our current exchange rate stability status, it is in my view, unsustainable. The world is replete with examples of the uncontrollable risks and damage capital account liberalisation has done to economies. In my humble view therefore foreign currency inflows into our economy makes no sense except it is employed in the real sector. I therefore strongly believe that the time has come for us to begin to think of clever ways of discouraging the inflow of speculative capital into our economy. A proactive monetary policy should therefore device tactical and gradual ways of discouraging the inflow of speculative capital into our economy.

A proactive monetary policy must also promote policies that will encourage the diversification of our mono product economy. The need to diversify our economy is now even more urgent especially given the fact that statistics show that the income from our crude oil sales is increasingly under threat from falling oil prices and persistent oil theft. The increasing global sources of oil, investments in non-oil sources of energy and the very concept of a rentier state makes it unlikely that these pressures will abet in the near future. The current tight monetary policy stance cannot in anyway help advance the above cause.

A high MPR, for instance, naturally leads to increased cost of lending. This is unhelpful to the development and growth of the real sector which in turn impacts on the health of our banking system. It is therefore not surprising that available statistics now point to the

fact that the risk profile of our banks is gradually beginning to increase. This, I am convinced, is because of the current tight monetary policy stance. After all, it is fairly well established that the health of the real sector and that of the banking system are correlated. Policies that inhibit the growth of the real sector are bound to inhibit the growth of the banking sector.

At another level, I believe that we as a central bank can do more, at least administratively, to encourage bank lending to the real sector. I have for instance consistently raised concerns about the high interest rate margins that are obtainable in this country. It is also public knowledge that banks sometimes cross the line by engaging in schemes that deliberately overcharge customers. While we have done some valuable work in this area, there is still some room for improvement.

I am aware that there are genuine concerns that government fiscal dominance and its rising deficits complicate monetary policy especially with respect to the attainment of price stability. The view that government fiscal indiscipline will further increase especially as we approach the 2015 elections is however in my view sometimes over exaggerated. In arriving at this position, I am particularly emboldened by the growing dispute between the three tiers of government and between the executive and the legislature on all aspects of revenue sharing and budget performance. This, I am convinced, will increasingly help curtail fiscal recklessness. Interestingly, we at the CBN have a key role to play in this direction as adviser to the federal government.

After weighing the above arguments, I have come to the careful conclusion that at the present time a real sector development approach to monetary policy would yield better results than an approach which focuses on price stability as an end in itself. I

therefore believe that the time has come for us to cautiously signal an end to our current tight monetary policy stance. This will work only if we simultaneously encourage banks to reduce their interest rate spread and adopt policies that will curtail the damaging effects of speculative foreign capital.

Based on the above factors, I hereby vote as follows: (1) to reduce MPR by 50 basis points to 11.50 percent with interest rate corridor of + 200/- 200 basis points; (2) to retain CRR on government and other deposits at 50 percent and 12 percent respectively; and (3) to retain Liquidity Ratio at 30 percent.

## **11.0 YAHAYA, SHEHU**

I vote to retain the MPR at its current level of 12%, along with the symmetric corridor of 2%, the general CRR at 12% and the 50% CRR on public sector deposits. My position is predicated on levels and trends in GDP, price levels, exchange rate, fiscal stance as well as on the global economic/financial dynamics and its potential impact on domestic macro and meso-economic variables.

The global economy is still recovering, with US growth recovery slower than previously expected; the Euro area very slowly trying to build up from recession and an unemployment rate in excess of 12%; and anaemic growth in emerging markets. Global inflation, estimated at around 3.3% in 2013 is on a downward trend. Global food production is projected to slightly increase and prices are expected to fall. International crude oil prices are fairly stable and are expected to remain so for some time. Growth in Sub-Saharan Africa remains robust and, while it will become increasingly important; it is currently a limited source of demand for Nigerian

exports. Imported inflation and significant declines in oil demand have therefore receded as threats in the short term.

One of the main uncertainties in the global economy is what decision the Open Market Operations Committee in the US will take with respect to quantitative easing in the near future, which might impact on portfolio flows and currency exchange rates in emerging and frontier markets.

With respect to the domestic economy, GDP growth rates have been fairly stable with a slight downturn, with a tentative and conditional projection of 6.19% for 2013. Growth is mainly driven by the non-oil sector. The downturn in GDP growth is partially attributable to the security situation but much more to the decline in oil revenue, which has been at its lowest level for three years. Rejuvenating growth and sustaining it will depend, among other things, on the fructification of efforts to increase oil revenue partially through blocking leakages; progress in strengthening energy infrastructure; agricultural transformation; continuous attention to revamping education/health infrastructure, promoting more equitable access to opportunities at the inter-personal, inter-generational and spatial levels; generating more jobs and continuing political stability

Headline inflation is still trending downwards and is estimated at 8.2% year-on-year in August 2013. This is the lowest level achieved since at least 2010. It is also expected that price levels will remain stable for the next six months at the least.

In the foreign exchange market, the spike in the inter-bank and BDC rates has abated and, while external reserves have experienced a small decline to \$45.27 billion, there is still substantial ammunition to defend the value of the currency. Given the expected stability in the international oil market and the maintenance of quantitative

easing in the US in the short term, there appear to be good prospects for a healthy external reserve situation if the downward trend in oil revenues can be reversed.

One important area of concern is the persisting high level of interest rates as well as the large spread between lending and average deposit rates. This continues to exert a limiting effect on credit demand, financial deepening and growth. It also affects prices of goods and services. There is an abiding need to creatively address these challenges

On the fiscal side, achievement in revenue target is 78% while expenditure is at 80% of the budgeted amount for the January-July 2013 period. Although revenue targets have not been achieved, largely due to declines in oil revenue in April-March, it is clear that the fiscal authorities have been making substantial efforts to correspondingly lower expenditure. Nevertheless, capital expenditure will be disproportionately affected, with implications for future growth. It is also pertinent to note that credit to government has declined substantially in August 2013. The major concern remains the prospect of a slow recovery in oil earnings and increases in expenditure due to political pressures.

We conclude by arguing that there are good prospects for maintaining stable price levels in the near future, with manageable risks from imported inflation as well as reserve levels that can help to protect the value of the currency. Sustained growth will depend more on political-economic rather than monetary factors, even if the latter can make a useful contribution. There are potential threats to price stability from declining oil revenues, possible tapering off in quantitative easing in the US via the exchange rate effect, or expenditure spikes due to political expediencies. The 50% CRR on public sector deposits decided at the MPC meeting of July 2013

appear to be having the intended effect on banking sector liquidity, but the full effects are still unfolding.

In consideration of the above therefore, I vote to retain the MPR and its corridor, the general and the public sector CRR at their current levels.

Thank you.

## **12.0 SANUSI LAMIDO SANUSI, GOVERNOR AND CHAIRMAN, MONETARY POLICY COMMITTEE**

We met today on the back of two external developments that were significant enough to influence our decision, but that in my view have made it simple and straight forward. The decision by the US Federal Open Market Committee (FOMC) to postpone the tapering off in its asset purchases was received well by financial markets, even though the operators were surprised as they had priced the tapering into their decisions. Be that as it may, QE3 remains good for the carry trade, and therefore has the potential for providing support to the price of oil and other commodities, as well as encouraging a return of portfolio flows to Emerging and Frontier markets. Both of these results are positive for our mandates of maintaining currency (and price) stability while minimizing attrition in external reserves.

The second development was the conclusion of the German election and the re-election of Angela Merkel for a third term as chancellor. It has long been believed that difficult decisions around setting up common European banking supervision and resolution structures have been delayed by considerations of German Politics, and this victory increases the likelihood of progress in this area.

Domestically, inflation has remained within our target range throughout 2013, falling to 8.2% in August, and we expect this trend to continue well into 2014. After a difficult period in currency markets the Naira held firm losing only 2-3% of its value at worst, compared to massive depreciation in countries like India, Indonesia, Brazil, South Africa, Ghana, Argentina, Venezuela and other Emerging and Frontier markets. The FOMC decision has given support to the currency and it has returned to trading within our target range.

It is clear to me that our decisions have continued to be pro-active and effective and this is borne out by the results. There are concerns around the slowdown in GDP growth rate but the main drag on GDP is the negative growth in the oil sector due to oil theft and leakages which cannot be cured by monetary policy. Although the Government continues to stress its commitment to combating oil theft and vandalism in the Niger-Delta, in my view greater focus should be on the lack of transparency and accountability of the official oil sector. There are also concerns expressed about the rising cost of borrowing but this is a necessary price to pay for stability in an era of loose fiscal policy.

I am of the view that by maintaining the status quo, we will succeed in maintaining exchange-rate stability in a period of low inflation without resorting to massive drawdowns of our reserves to meet elevated demand for foreign exchange. I do not see any fundamental need to alter our stance. There is no compelling need for further tightening, and in any case, we need to leave room for this if developments in the fiscal space so warrant in the near future. Also, loosening of policy at this point risks reversing some of our hard-won gains.

I therefore have no hesitation in voting for maintenance of the status quo, that is:

1. MPR of  $12\% \pm 2\%$
2. CRR of 12% on private sector deposits
3. CRR of 50% on public sector deposits
4. Minimum Liquidity Ratio of 30%