Central Bank of Nigeria Communiqué' No. 102 of the Monetary Policy Committee Meeting of Thursday and Friday, July 23 and 24, 2015.

The Monetary Policy Committee met on 23rd and 24th July, 2015 against the backdrop of lingering uneven recovery in the global economy and slowing growth in the domestic economy. In attendance were all 12 members. The Committee reviewed the global and domestic economic and financial environment in the first half of 2015 as well as the outlook for the rest of the year.

International Economic Developments

The Committee observed that global output recovery remained largely sluggish although with strong promise in the United States and the Euro area. The IMF maintained its growth forecast of 3.5 per cent for 2015 with improved outlook for the advanced economies but weak performance in the emerging and developing economies. Softening oil prices continued to present improved growth opportunities for the advanced economies and oil importing countries while dampening growth prospects in oil exporting economies. The United States led growth in the advanced economies largely on account of lower energy prices, increased consumer spending and housing market recovery. The expectations of US monetary policy normalization in the medium term continued to fuel investor expectations. Growth outlook for the US remains steady as inflation stays below the Federal Reserve's 2 per cent target.

The Bank of Japan continued its accommodative monetary policy stance by injecting ¥6.7 trillion ($55.83 billion) monthly under its assets purchase programme. In the Euro area, the Greek debt crisis crystalized into uncertain and difficult negotiations with the tripartite group of creditors and altered the underlying confidence in the survival of Greece in the Eurozone.

Meanwhile, the ECB's €61 billion monthly asset purchase programme continues, in an effort to combat the effects of deflation and high unemployment in the peripheral economies. The Bank of England has maintained its £375 billion asset purchase programme in the face of the downward trend in inflation, in most of the surrounding euro area economies. These expansionary policies by the ECB, Bank of England and the Bank of Japan, could moderate the threat of capital reversal posed by the imminent normalization of US monetary policy.

Amongst the emerging markets and developing economies, growth is expected to slow considerably but resume moderately in 2016. Growth in China is projected to slow at 6.3 per cent in 2016 from 6.8 per cent in 2015 due to continued financial market vulnerabilities, declining productivity, excess capacity and weakening domestic demand.

Growth in the developing economies is expected to remain uneven in the short-to-medium-term, largely reflecting their weak demand, lower commodity prices and tight financial conditions.

Global inflation is expected to remain moderate at 3.5 per cent in 2015 but projected to accelerate to 3.7 per cent in 2016, due to rising downside risks, particularly in the Euro area, as well as the tailwinds arising from the sharp drop in oil prices, excess capacity in the advanced economies and the appreciation of the US dollar.

Domestic Economic and Financial Developments

Output growth in the first half of 2015 continued to decelerate compared with the end-December 2014 level, mainly as a result of softening oil prices. According to the National Bureau of Statistics (NBS), growth in real GDP declined to 3.94 per cent in the first quarter of 2015, from 5.94 and 6.21 per cent in the preceding quarter and corresponding period of 2014, respectively. Real GDP growth is projected at 5.54 per cent for fiscal 2015, reflecting a 68 basis point decrease compared with the 6.22 per cent in 2014. At 5.59 per cent, the non-oil sector continued to be the main driver of output growth in the first quarter of 2015, at 5.59 per cent with the leading growth sectors being construction, services, agriculture and trade which grew by 11.17, 6.85, 4.70 and 4.47 per cent, respectively. On the other hand, the oil and gas sector declined by 8.15 per cent, in contrast to the modest growth of 1.2 per cent achieved in the last quarter of 2014.

While the successful conduct of the 2015 general elections was a stabilizing factor for the economy, persistent scarcity of fuel products as well as slow improvements in electricity supply could be a drag on output growth in the near term. The Committee underscored the need for the intensification of various ongoing initiatives to diversify the economy away from oil, and expand the base for foreign exchange receipts.

Prices

The Committee was concerned about the gradual but steady increase in headline inflation up to June 2015, and noted that this reflected a rise in both the core and food components of inflation. Core inflation rose to 8.4 per cent in June from 8.3 per cent in May, and food inflation increased to 10.0 per cent from 9.8 per cent, over the same period.

The Committee observed that the uptick in year-to-date inflation rates was traceable to transient factors such as energy, arising from scarcity of petroleum products around the country, poor electricity supply and increased demand for transportation and food, from the build-up to the general elections and the ensuing Easter and Sallah celebrations.

The Committee reiterated its commitment to price stability, and observed that monetary policy would remain tight because of the high liquidity in the system. It however, noted that the drivers of the current upward inflationary spiral were of a transient nature and mostly outside the direct control of monetary policy. Consequently, the opportunity for further policy maneuver remains largely constrained in the absence of supporting fiscal measures. It therefore, urged for coordination of monetary, fiscal and structural policies to stimulate output growth, and stabilize the exchange rate.

Monetary, Credit and Financial Markets Developments

Broad money supply (M2) declined by 0.61 per cent in June 2015, below the level at end-December 2014. The modest decline in money supply reflected the decreases in the net foreign assets of 16.15 per cent and other assets (net) of 21.40 per cent. Net domestic credit (NDC), however, grew by 13.45 per cent. Annualized, NDC grew by 27.90 per cent over the end-December 2014 level but essentially within the provisional benchmark of 29.30 per cent for fiscal 2015. The growth in aggregate credit was attributable to growth in Federal Government borrowing which reached 40.81 per cent in June 2015.

During the period under review, money market interest rates were relatively volatile, owing to fluctuations in banking system liquidity. Average inter-bank call and OBB rates opened at 6.55 and 6.45 per cent on 1st July, 2015 and closed at 26.51 and 21.00 per cent, respectively, on July 23, 2015. Average inter-bank call and OBB rates for the period were 9.83 and 10.23 per cent, respectively.

The Committee noted a bearish trend in the equities segment of the capital market during the review period. The All-Share Index (ASI) declined slightly by

1.66 per cent from 31,744.82 on March 31, 2015 to 31,216.72 on July 23, 2015. Similarly, Market Capitalization (MC) decreased by 0.37 per cent from N10.72 trillion to N10.68 trillion during the same period. Relative to end-December 2014, the market indices decreased by 9.9 and 6.9 per cent, respectively. The slight decline in share prices year-to-date was largely due to subdued sentiments preceding the general elections as well as the lingering effects of falling oil prices.

External Sector Developments

The average naira exchange rate was relatively stable at the inter-bank segment, but significantly volatile in the BDC segment during the review period. The exchange rate at the interbank market opened at N197.00/US$ and closed at N197.00/US$, with a daily average of N197.00/US$ between July 21 and July 23, 2015. The relatively stable exchange rate in the inter-bank segment can be attributed to the effects of some recent demand management measures. Gross official reserves increased from US$28.57 billion at end-May 2015 to $31.53 billion as at July 22, 2015, reflecting the blockage of leakages as well as the bank's management policies.

Committee's Considerations

The Committee was concerned about the trends in key macroeconomic indices in the first half of 2015.

The Committee acknowledged the absence of easy choices in the circumstance but monetary policy alone is limited, and would require urgent complementary fiscal policies to define the path of growth and create the basis for stabilization.

On the external front, the adverse effect of the protracted decline in global crude oil prices on the fiscal position of government is becoming increasingly obvious. The expected policy normalization in the US could accentuate capital flow reversals from emerging and developing economies and further tighten global monetary conditions, thus exerting greater pressure on exchange rates in those countries. Given the choice between controlling either quantity or price, the limitations on choosing quantity were evident necessitating the need to employ some flexibility around price while allowing current demand management measures to fully work their way through the economy. The Committee however noted that financial system stability considerations placed key limitations on the extent of considering price flexibility, creating a compelling need to balance measures to address the current vulnerabilities.

On inflation, the Committee stressed that some of the drivers of the current pressure on consumer prices were transient and outside the direct influence of monetary policy. Pressure on food prices is expected to gradually wane as the planting season gives way to harvests in the months ahead. Early resolution of fuel scarcity would dampen transportation costs and improve food distribution across the country while improvements in electricity supply could steady output at lower costs.

Overall, the Committee expressed optimism that business confidence would continue to improve as Government continues to unfold its economic plans. In addition, some of the reassuring measures of the administration including efforts aimed at resolving fiscal challenges at the sub-national levels, and the fight against corruption and improving the business environment would unlock the inflow of foreign direct investment. The Committee also underscored the imperative of growing and protecting the country's foreign reserves and building fiscal buffers in the process of strengthening confidence in the economy which is essential for promoting growth and stability.

The Committee's Decisions

In consideration of the underlying fundamentals of the economy, the evolving international economic environment, developments in oil prices as well as the need to allow for the unveiling of the economic agenda of the Federal Government, the Committee decided by a vote of 8 to 4 to retain the Monetary Policy Rate at its current level of 13 per cent, by a unanimous vote to retain the CRR at 31 per cent while 4 members voted to remunerate the CRR.

Overall, the MPC voted to hold its position.

In summary, the MPC voted:

(i) To retain the MPR at 13 per cent with a corridor of +/- 200 basis points around the midpoint;

(ii) Retain the CRR at 31 per cent; and

(iii) To retain the symmetric corridor of 200 basis points around the MPR.

Thank you.

Godwin I. Emefiele

Governor, Central Bank of Nigeria

24th July 2015

PERSONAL STATEMENT BY THE MONETARY POLICY COMMITTEE MEMBERS

1.0 ADELABU, ADEBAYO

Risks in both the global and domestic macroeconomic environments intensified in the first half of the year up to the few weeks of the second half. In the global environment, the financial crisis in the Euro zone assumed a dangerous dimension with the banking holiday in Greece, the attendant referendum and uncertainty about the form of assistance from the Euro zone. Although the impact of the crisis on the global financial market remains muted for now, it would ultimately exacerbate the diverging monetary policy stance between the US Federal Reserve and the European Central Bank with dire consequence for emerging and developing economies. In the domestic economy, headline inflation continued its upward trend for the sixth consecutive months, inching up to 9.2 per cent in June thereby posing considerable threat to the single digit inflation target of the Bank. Besides, output growth has remained tepid with the 3.9 per cent in the first quarter of 2015, a significant dip from 5.94 and 6.21 per cent recorded in the preceding quarter and corresponding period of 2014, respectively. The most important concern is the lingering pressure in the foreign exchange market despite the series of recent administrative measures including the exclusion of a number of goods from the interbank markets. This has, invariably, widened the premium between the interbank and the BDCs' market to a phenomenal height of about 24 per cent.

Against this background, a number of obvious considerations would inform my decision in this meeting. The first one is the challenge of creeping inflation primarily due to recurring fuel scarcity, supply shocks, and pass through effect of exchange rate depreciation. A great deal of controversy surrounds the fuel scarcity issue but the dominant reason seems to be the uncertainty around the fuel subsidy. In my own view, the official position of the Government, for now, is that the subsidy remains and thus the scarcity of petroleum products is not really driven by fundamentals but speculation and sentiment. With improvement in communication and coordination, the situation would be better managed and therefore does not require policy response, at least for now. With respect to supply shock related issues, it is apt to mention that the drivers like the activities of the insurgents are outside the purview of the monetary authority. It is however, gratifying that the Federal Government is attacking the insurgency head-on and this is expected to translate to a friendly production environment soonest.

The other factor is the pass through effect of exchange rate depreciation which the monetary authority cannot completely ignore. It is doubtful if the adjustment process has completed in view of continuous increase in the contribution of imported foods to inflation in recent times. The antidote however lies in either exchange rate appreciation or substituting imported items with domestically produced goods. Exchange rate appreciation, obviously, is not the least cost route in view of the grave impact on external reserves. Supporting the process of domestic production, in my view, appears to be the logical step in the present circumstances and that is why I think further tightening particularly through the Monetary Policy Rate (MPR) is not a preferred option. The counter argument however may be the need to raise policy rate to stem the tide of capital outflow and perhaps attracts new one. My position in this regard is that it is high time we begin to assess our policy objective within the context of the long run developmental objective of the economy. Inflow of foreign portfolio capital is good to stabilize the macroeconomic environment in the short run but in most cases, it has not positively impacted on inclusive growth and development in the long run. As a result, our interest should be in foreign direct investment which depends on overall ease of doing business in the economy.

Another important consideration is the pressure in the foreign exchange market, resulting from both the supply and demand sides. The supply side may suffer further setback due to some developments in the global environment notably the UN-Iran nuclear deal and the prospect of normalization of monetary policy in the US with the attendant reversal of investors' sentiment from developing and emerging economies. The demand side is basically accentuated by the persistence of liquidity surfeit in the banking industry as indicated by an all time low money market rates as well as renewed increase in demand for the Bank Standing Deposit Facility (SDF). The supply side may be partly addressed by an increase in the policy rate while the demand side could be managed by curtailing excess liquidity through increase in the cash reserve requirement.

Either of these options has a further tightening implication for which I have considerable reservations in light of certain pertinent issues. Firstly, it needs to be noted that most of the outflows of portfolio investments in recent times have little to do with interest rates but mainly due to political risk and with the recently concluded peaceful election therefore, the prospects of some of these investments returning back into the country is high. A critical issue at this point in time is the need to build confidence in the entire economy as such could lead to conversion of some of the portfolio investments to foreign direct investment. Following this, the entire mechanism of foreign exchange allocation ought to be reviewed with a view to enhancing policy consistency. Efforts should be made to ensure that all obstacles inhibiting the effectiveness and efficiency of the current framework are removed. A major challenge to the current framework is the wide and unacceptable premium between the interbank and the BDC rates. The premium should be narrowed after which some flexibility could be introduced into the interbank market, possibly by widening the band.

Another key issue to contend with at this point in time is the rising threat to banking system stability. High interest rate engendered by the tightening stance of monetary policy would not only constrain aggregate demand but is equally inimical to banking system stability. It is true that most of the banks have posted fairly impressive results for the first half of the year but I would like to treat those results with some elements of caution. At an average lending rate of about 26 per cent, most business entities could hardly break even thereby impairing their capacity to repay their credit obligation. In essence, the possibility of banks reversing some of the figures previously credited into their profit and loss accounts could not be completely ignored. The truth is that whether tightening is achieved through the MPR or CRR, once the cost of fund to the banks is affected, the burden would eventually be passed to the customers. Against this perspective I would not only advise against further increase in the CRR but some form of remuneration on the existing CRR should be considered to partly alleviate the burden of cost of funds on the banks and ultimately the customers.

In the light of the foregoing, I would like to propose that the MPR, LR and CRR be retained at the subsisting 13, 30 and 31 per cent, respectively. The symmetric corridor on the MPR should equally be maintained. I would, however like to propose a remuneration of 30 per cent of the MPR on 50 per cent of the CRR to minimize the burden of cost of fund to the banks and ultimately drive the lending rates southward.

2.0 ALADE, SARAH O.

The direction of global economic growth has remained unchanged since the last MPC meeting in May. While the advanced economies continued with gradual pickup, emerging markets and developing economies are witnessing a slowdown in growth as a result of lower commodity prices, tighter external financing conditions and economic distress related to geopolitical factors. In the domestic environment, the policy inertia is having a negative impact on the economy as investors adopt a wait-and-see attitude in making business decisions on Nigerian assets. This, coupled with lower oil prices is helping to increase pressure in the foreign exchange market and the bearish situation in the stock market as investors divest their portfolio away from the Nigerian market. In addition, lower food supply is also driving up inflation as headline inflation surpassed CBN upper band limit of 9 percent for the first time since the band was adopted in 2013. Given the uncertainties surrounding oil prices, declining growth and other vulnerabilities faced by the economy I support a hold of Monetary Policy Rate (MPR), and CRR to preserve the local economy in the short run.

The distribution of risks to global economic growth still remains on the downside. Global growth has been further downgraded to 3.3 percent in 2015 according to the July 2015 IMF, World Economic Outlook (WEO). While the outlook for advanced economies remain positive, growth in emerging market and developing economies is projected to be lower as low commodity prices and tighter financial conditions pose increasing risk to growth in the region. After a sluggish start in the United States in the first quarter, growth momentum picked up in the second quarter as unemployment rate declined to 5.3 percent, a seven year low for the economy. In the Euro zone, recovery is expected to continue, as growth projection for some economies like Italy and Spain has been revised upward for 2015 due to the effect of asset purchase program. Nevertheless, Greek crisis remain a source of concern that could derail euro area growth. In emerging market and developing economies, growth slowed down from 4.6 percent in 2014 to 4.2 percent in 2015, largely due to lower commodity prices. Oil exporting countries especially those with high dependency on oil have had to revise their growth projection downwards.

Medium term growth projections remained subdued with further downside risks. Real GDP growth moderated to 3.96 percent in the first quarter of 2015, down from 5.9 percent in the fourth quarter of 2014. The decrease is attributable to lower oil prices which resulted in lower government revenue. In addition, the stand-off between oil marketers and government which led to prolonged periods of fuel scarcity affected economic activities. However, when government policy is articulated, and a conducive environment is created to attract foreign and domestic investors, the downside risk to growth will be reversed.

In general the sluggish global economic growth resulting in weak demand for oil and falling oil prices on the back of increased supply has serious implications for the foreign exchange market, household income and ultimately consumer prices. This requires monetary policy to remain steady in the short run.

Headline inflation increased to 9.2 percent in June compared to 9.0 percent recorded in May 2015. Headline inflation increased to 9.2 percent in June, suggesting that inflation may be expected to stay elevated in the coming months, as local food supply dwindle . Core inflation rose to 8.4 per cent in June from 8.3 per cent in May, and food inflation increased to 10.0 per cent from 9.8 per cent, over the same period. This is the first time that headline inflation surpassed CBN upper band limit of 9 percent time since the band was adopted by the Bank in 2013. The uptick in year-to-date inflation rates can be traced to the scarcity of petroleum products around the country which increases the cost of transporting food and high cost of food imports resulting from reduced importation due to scarcity of foreign exchange. An increase in MPR at this time will therefore, not address inflation unless the bottlenecks are removed. What the economy requires is adequate supply of PMS to ease movement of people and goods and liquidity in the foreign exchange market.

The foreign exchange market is experiencing intense pressure as the gap between interbank and bureau de change rates continue to widen and external sector shows deterioration in all vulnerability indicators. Months of import cover of reserves which stood at 8.33 a year earlier and declined to 7.10 at March end. Current account balance/gdp went from a surplus of 1.93% in Q3 2014 to a deficit of -3.39% at the end of first quarter in 2015.

Generally the macroeconomic environment is weak as growth rate continues to decline and inflation continues to rise steadily. In order to encourage capital inflows and improve macroeconomic fundamentals there is urgent need for a liquid, efficient and competitive foreign exchange market that will ultimately lead to improvement in resource allocation. I therefore vote to hold.

3.0 BALAMI, DAHIRU HASSAN

THE GLOBAL ECONOMY

In my opinion, activities at the global level particularly GDP growth in Nigeria's major trading partners will have implication for the domestic economy. At the global level the Euro Zone witnessed 0.4% GDP growth rate in the first quarter of 2015. However, there is great variation among the Euro Zone countries. France and Italy registered upside growth rate while Spain remained a healthy economy. The German economy on the other hand witnessed 0.3% GDP growth rate which is slightly lower than expected. On the whole, the Euro Zone is expected to grow by 0.5% in the second quarter of 2015. For the US economy the GDP growth rate in the second quarter contracted to 0.2%. This low level growth is temporary accounted for by the poor weather condition in the North East and Ports Strike on the West Coast. Although consumer confidence has declined, business survey and capital good was on the increase in the US in the month of May. This suggests that the economy was on the path of recovery. World Bank staff expected a GDP growth rate of 0.6% in the second quarter which is slightly lower than expected.

In the case of China, the GDP growth rate has fallen from 7.4 % in 2014 to 7.0% in the first quarter of 2015. Both industrial production and retail sales in China has remained weak. The ratio of new lending to GDP has declined making Chinese economy to be less credit intensive. The Chinese Government had adopted successive policies to loosen the monetary policy. For example, the exchange rate has increased by 10%. The global economy GDP growth rate in 2015 first Quarter is 1/2 % on a PPP weighed basis in 2015 first Quarter. The April data on GDP shows a slowing down of GDP growth rate in the United Kingdom, United States and China. This is important in analyzing or judging the domestic product in Nigeria.

Other challenges at global level include the Greek debt crisis as to whether it has the funds to pay the IMF and ECB due in the first week of July. The Ukraine crisis is also another case in point. The lower oil price is also another major problem attacking the global economy which has impact on the Nigerian national economy. The problem in the Middle East including ISIS war, the challenges in Yemen and Syria etc are all major constraints. Of recent is the positive development in Iran's nuclear negotiation and possible implication on crude oil output. To consider the breath and perspective of the global slowdown is important in assessing the domestic economy because of its implications. At the domestic level the Nigerian economy has been infected with the "Dutch disease". How can monetary policy be used in assisting to put the economy on the path of growth and sustainability?

THE DOMESTIC ECONOMY

Since the last MPC meeting, available data shows that the GDP growth rate and foreign reserves were falling. The level of inflation both core and food inflation, unemployment, and non-performing loans (NPLs) are on the increase. The domestic currency has been under pressure. However, the exchange rate has been stable at the interbank but volatile at the BDCs, at the same time interest rates have not been investor friendly. The economy has witnessed capital reversal. It is pertinent to note that though the economy is facing myriads of problems; the most challenging of all is the insurgency in the

Northeast region of Nigeria. In the same vain, corruption and tax administration are great threats to the Nigerian economy. These often overlapping challenges have considerable impact on other sectors of the economy especially agriculture. Militancy in the south- south has also reduced oil production significantly which is a major revenue source as well as a principal foreign exchange earner for the Nigerian economy. Other challenges include the following: dwindling oil revenues resulting from fluctuation in crude price, volatility in exchange rate of the Naira, infrastructural decay as well as the incapacity to maintain and provide more facilities due to shortage of funds.

The National Bureau of Statistics reported that as at May 2015, headline inflation stood at 9% which is 30bps much higher than the 8.7% observed in April 2015. In the month of May under review, headline inflation rose by 1.1 percent. However June's inflation rate stood at 9.2% above CBN 9% rate. The rise in inflation is attributed to scarcity of petroleum products which led to increase in pump price, high transportation cost and late commencement of the rains which delayed the harvesting season. Other forecasting risk in the economy include cloud of uncertainty surrounding the subsidy removal by the new administration which might affect future price stability, the growth in global crude oil supplies and its impact on external reserve accretion and exchange rate volatility and the widening gap between the interbank exchange rate and the Bureau de Change which is alarming. This is partly driven by speculative demand as well as the declining level of oil revenue due to declining oil prices.

In my mind the monetary and fiscal space must be tailored towards promoting employment generation and growth which is inclusive. It should be noted that the level of growth is slowing down because the infrastructural challenges and insecurity in the country particularly north east has led to the collapse of the lucrative cross-border trade. Prior, to insurgency the North east region is noted for the flourishing fish activities, livestock rearing, and other agricultural products like millet, sorghum, gum Arabic etc. The lull in the sector led to increasing the level of unemployment in the country. Others include the problem of IDPs and the security challenge on how to resettle them back in their homes have slowed down the growth prospects. The data provided by the NBS on GDP, unemployment, inflation etc. provided support for keeping hold on the earlier policies. The lag effect of the earlier policy need time to work through.

I therefore, vote to hold

(i) To retain the MPR at 13%.

(ii) To retain the CRR at 31%.

(iii) To maintain symmetric corridor of +2/-2%.

I am of the conviction that there is need for the July 2015 MPC meeting to provide greater clarity as to the direction the national economy will be expected to follow domestically.

4.0 BARAU, SULEIMAN

Summary

Developments in the first half of 2015 revealed intensification of risks in both the global and domestic macroeconomic environments. Global growth for 2015 has been marginally revised downward from the earlier 3.5 per cent to 3.3 per cent owing largely to contraction of output in the US with potential spillover to major economies in North America. Within the domestic economy, creeping headline inflation since January 2015 is now assuming a disturbing dimension; about to burst the upper band of the single digit threshold. At the same time, output growth is slowing down while pressure is mounting in the foreign exchange market. It is pleasing that a new legacy of enduring democratic institution is

being built with the successful conduct of the general election and the peaceful transition into a new civilian government. The inherent goodwill is expected to moderate the rising negative sentiments from the external environment and thereby boost investment. Notwithstanding, it would take a fairly long lag before the benefits of the new transition impact on key macroeconomic variables.

Decisions at this meeting therefore, may involve some delicate trade-offs in view of the complexity of the issues involved. ***There are clearly some grounds for easing to address declining growth concern but I think stabilizing the macroeconomic environment is germane in line with the primary mandate of monetary policy. Besides structural reform at this time is more critical to growth, As a result, I would like to hold on both the CRR and LR with a view to continuing to manage demand pressure in the foreign exchange market arising from liquidity surfeit while I propose an increase in the MPR by 50 basis points to address the uptick in headline inflation.***

Issues and Pressure Points

External Sector: Major developments in the external sector during the first half of the year have been less favorable to emerging and developing economies particularly oil exporting ones. Three of such developments continue to pose significant adverse consequence to developing and emerging economies. The first one is the anemic recovery in the global economy. Global growth is projected to moderately pick up in 2015 but the declining trend which commenced in 2014 in developing and emerging economies is yet to abate. Overall growth in these economies declined from 5.0 per cent in 2013 to 4.6 per cent in 2014 while it is expected to show a further slowdown to 4.2 per cent in 2015 owing to softening commodity price, geo political tension, and structural bottlenecks. This development portends a grave implication to the domestic economy in the quest to diversify its trade flows in the face of dwindling fiscal revenue. The second issue is the lingering downturn on commodity prices on the back of rising supplies and huge inventories. Average Brent crude oil spot price in June 2015 was $62.35/ barrel, representing a decline of 44.26 per cent relative to the corresponding period of 2014. The future appears more worrisome with the recently concluded UN-Iran nuclear deal, which is expected to boost global oil supply by additional 1 million barrels per day. This, invariably, would worsen the already precarious fiscal revenue, constituting potential headwinds to the already subdued output. Apart from the adverse effect on real output growth, the declining crude oil prices has severe consequence on the health of the domestic banking system as well as exchange rate and foreign reserves. A significant portion of credit exposure in the industry is to oil and gas sector with implication that repayment capacity is impaired with the likely rise in the level of non-performing loans.

The third issue is the increasingly harsh global financial environment. The termination of the 3rd quantitative easing and the prospects of normalization of monetary policy by the US Federal Reserve continue to take its toll on the financial market condition in developing and emerging economies. Net foreign exchange flows to the domestic economy in the first half of the year was negative, an indication that the monetary easing of the European Central Bank (ECB) and the Bank of Japan (BoJ) did not produce the kind of impact the Fed's QE3 had on capital flows to Nigeria. The ongoing banking crisis in Greece may likely worsen the situation. Regardless of the outcome of the reform proposal by Greece, the Euro zone is likely to be worse off as investors take flight to safety preferably in dollar denominated assets. The likely implication is that dollar may strengthen.

Domestic Economy

Risks to various macroeconomic variables in the domestic economy scaled up in the first half of the year. The upward trend in headline inflation, which commenced in January 2015, continued up to the end-June, inching up to 9.2 per cent from 9.1 per cent in the preceding month. The underlying factors are from both core and food components with the exchange rate pass through playing significant role. It is more appalling that the rising price level is occurring even in the face of partial suppression of aggregate demand given the significant salary arrears to civil servants in a number of states in the last six months. With the recent bailout on wages and salaries owned by the sub national governments, aggregate demand is expected to tilt towards equilibrium which coupled with ongoing exchange rate pass through would pose further upside risk to price level.

Available indicators suggest that the storms in the foreign exchange market, which commenced in the second half of 2014, are far from being settled. Although there was moderate increase in external reserves in the month of July, relative to the position at the last meeting, the result was principally due to the recent administrative measures aimed at eliminating frivolous demand as well as minimization of leakages by the new administration. Thus, the accretion as well as stability observed in the interbank foreign exchange rate was not a reflection should not give us comfort that a definite direction has been defined. I need to quickly add, however, that the strategic intent of the recent administrative measure, which is to drive the long run demand towards a sustainable equilibrium level through domestic production of hitherto imported goods, remains on course. Notwithstanding the anticipated long term gains of the measures, the short run pains have started manifesting. Among others, the premium between the interbank and the BDCs' rates has widened to an intolerable level of about 22 per cent while currency substitution index as a measure of store of value is above the international threshold of 30 per cent. Again, the depreciation has implication for the safety and soundness of the banking sector. Some of the domestic banks have foreign currency denominated liabilities like the Euro bond while the corresponding asset is in the local currency coupled with the fact that some of their borrowers are exposed in foreign currency against revenues denominated in naira. Thus the banking system stability is threatened from both domestic and external influences.

The last issue is continuing excess liquidity condition. Following the harmonization of the CRR at the last meeting, liquidity surfeit in the system appears moderated but some traces of it are still visible. The OBB and interbank rates experienced a record low of about 4 per cent during the period while demand for the Bank SDF ascended to a phenomena height. This development would continue to add pressure to the interbank foreign exchange market

Key Considerations

In the light of the pressure points identified above, the key considerations for decisions in this meeting include:

- **Need to address the creeping headline Inflation:** It is imperative that the Bank strives to maintain its inflation target in order to effectively anchor expectation and maintain credibility. It is true that some of the drivers of current inflationary trend are structural in nature but the effects of monetary factors particularly the exchange rate depreciation could not be completely discounted. Medium term inflation outlook is further threatened by recent recurring fuel scarcity, the controversy around fuel subsidy, and of course, likely uptick in aggregate demand resulting from the bailout to states. To address this concern, I would like to propose an increase in the Monetary Policy Rate by 50 basis points in order to manage expectation.

- **Need to Manage the Pressure in the Foreign Exchange Market:** This appears to be the most important consideration in view of its profound influence on monetary policy process. There are a number of options including alignment of the interbank rate towards the BDCs' rate.

Desirable as this option could be, the attendant devaluation in exchange rate could push inflation above the set threshold and thus counterproductive. My take is that the BDCs' market is very shallow as the proportion of foreign exchange in this market is still relatively small. Using its rate to mirror the real effective exchange rate could be misleading as well as heavily penalize industries whose products are critical to the growth of the Gross Domestic Product. Besides, depreciation of the exchange rate may not be beneficial to our economy in view of the inelastic nature of our exports and imports. I would rather prefer a guided flexibility in the market such as the widening of the band around the interbank rate. Overtime, with domestic production of goods, excluded from the interbank foreign exchange market, demand pressure would reduce and convergence of the two rates would be feasible. In the meantime, rather than further devaluation, effective monitoring mechanism should be put in place to prevent round tripping and the attendant arbitrage opportunity as well as continuance of the demand management measures. In addition, the Bank should not hesitate to make appropriate sanction in respect of any infraction on the part of all the agents in the foreign exchange market

- **Need to Manage the Liquidity Surfeit in the Banking Industry**: The decision to harmonize the CRR at the last meeting has significantly achieved reduction in the degree of liquidity surfeit. Further tightening through CRR could help achieve optimal liquidity condition but at the risk of banking system stability as some banks may fail liquidity ratio. Besides, the twin effects of exchange rate depreciation and liquidity shortage in the foreign exchange market are posing significant threat to the bottom line of the banks. It is also my view that adjustment process is yet to complete in respect of the series of decisions taken recently to address liquidity condition in the banking system. As such, the current state of excess liquidity could be managed with administrative measures rather than upward adjustment in policy instruments

- **Need to Manage Threat to External Reserve:** In the very unlikely event of attracting new capital flow to shore up the external reserves, the need to stem outflow and related hemorrhage could not have attracted utmost consideration at any other period than now. Most emerging economies have continued to maintain tight stance to reduce their vulnerabilities to strengthening US dollar and likely contagion from bank holiday and the attendant referendum in Greece. Notable central banks in emerging economies have recently strengthened their tightening stance through upward adjustment to their policy rates. Given the intense competition in the global financial market, monetary policy in the country cannot afford diverging stance from the other emerging economies. This, invariably, rules out easing of policy stance at this period. The increase in the MPR equally has the tendency to increase the yield on financial instruments and make the economy competitive for global capitals that could help shore up the reserves buffer. I would like to quickly add, however, that the entire gamut of portfolio flows need to be reviewed with a view to minimizing the disruptive impact of its volatility on the economy

Decisions

Against the foregoing, I propose as follow:

- Increase the MPR by 50 basis points to 13. 5 per cent
- Retain the CRR at 31 per cent
- Retain the LR at 30 per cent
- Retain the symmetry corridor of 200 basis points around the MPR

5.0 DANIEL-NWAOBIA, ANASTASIA

1. The Nigerian economy is expected to continue on its growth path in 2015, although with less robustness than it did in the corresponding period in 2014. The relatively tepid growth outlook is based largely on the rather sluggish crude oil markets. The risk to the outlook continues to be developments in the external environment, particularly the slow accretion to reserve as a result of weak global economic recovery and declining demand of Nigeria's crude oil.

2. Despite the gradual recovery in global oil prices in the last four months, there is still a great threat to the global oil price. Increase in production by the U.S., OPEC's refusal to cut production and the weakening demand of crude oil from China have led to the significant fall in global oil prices and pose a threat to the growth of oil revenue in Nigeria, especially in the medium to long- term. Furthermore, the nuclear agreement between Iran and Western powers may give rise to increase in global oil supply as sanctions imposed on the country ease off, effectively contributing to the supply glut. The expected decline in crude oil prices signals a major threat to the Nigerian economy, in the short to medium term.

3. The year-on-year headline inflation has been creeping upwards in the past few months, moving from 8.2 per cent in January, 2015 to 9.2 per cent in June, 2015. At 9.2 per cent in June, 2015, the year-on-year headline inflation has exceeded the CBN upper limit target of 9.0 per cent. Staff estimates show that the year-on-year headline inflation is expected to rise further in the coming months.
4. The performance of monetary aggregates in the review period was below the indicative benchmarks, indicating the impact of the sustained tight monetary policy stance in controlling system liquidity. Retail lending rates of DMBs, however, remained high, and the interest rate spreads still widened.

5. The exchange rate remains weak partly due to low accretion to foreign reserves. There is therefore the need to put policy in place to attract more foreign investments while we retain the existing investments in order to boost the level of the external reserves. Efforts should also be made to block all revenue leakages as well as discourage speculative demand in the foreign exchange market.
6. Though the Nigerian Banking Industry remains sound with capital adequacy of 17.3 per cent as at June, 2015, which is well above the 8 per cent minimum required by Basel for internationally active banks, the recent increases in non-performing loans (NPLs) should be closely monitored.
7. Staff forecasts indicate that share prices in the next three months may decline but projected to increase from October to December, 2015. The initial decline in share prices suggests investors' continued concerns about the fragility of the global economy, unstable oil prices and capital flow

reversals and uncertainties as the new administration gradually settles down.

8. The key challenges to monetary policy currently include: managing inflation and exchange rate expectations, and building fiscal buffers to insure against external shocks.
9. In view of the above, it is advisable to sustain the current tight monetary policy stance of the Bank.

Consequently, I vote as follows:

(i) The Monetary Policy Rate (MPR) to be retained at the current level of 13% and corridor of +/- 2% for the inter-meeting period.
(ii) The CRR to be retained at 31 per cent, but a portion of it could be remunerated in order to free some funds for bank lending to the economy.
(iii) The liquidity ratio should be retained at 30 per cent.

6.0 GARBA, ABDUL-GANIYU

Context of Decision

The global economic outlook remains uncertain, tenuous and tough for emerging markets and resource driven economies. The Euro-Greek crises, the busting of the Chinese asset market bubble and the persisting uncertainty about the timing of the US Fed's rate increase have heightened uncertainties in global financial markets. For oil exporting countries such as Nigeria, the economic effects of the Iran P5+1 nuclear deal (potentially good for global security) are not likely to be positive if it leads to a weakening of the crude oil prices. Weaker oil prices could have adverse consequences for public, private, external and national accounts and cause expectations to be even more pessimistic with resultant pressures.

Available macroeconomic data show that GDP growth has slowed down considerably from 6.33% in 2014 and 5.9% in the fourth quarter of 2014 o 3.96% in the first quarter of 2015. The GDP growth rate in the first quarter was 1.54% below the 5.5% projected for 2015. It would be short-sighted to ignore the fact that GDP has been trending down in the aftermath of the commencement of monetary tightening that began at the September 2010 MPC. Much of the opportunity costs of the deflationary policies have been disproportionate in terms of growth and employment losses. It would seem therefore, that the downward trending of the real GDP of real sector activities is part of the costs of the price stability that was achieved between 2010 and November 2014 as well as that of the exchange rate stability that was achieved until the ''Bernanke effect'' of May 2013 began to unravel the stability of emerging markets.

Headline inflation which had trended downward from 2008:07 to 2014:11 began trending upwards in December 2014 such that between November 2014 (7.9%) and June 2015 (9.2%) headline inflation had risen by 1.3%. The 9.2% rate of inflation is above the 9% upper band of the target inflation band. The 9.2% rate of inflation is also, the highest rate since May 2013 (9.3%). NBS data indicates that most of the items that make up core and food inflation contributed to the rise in headline inflation in June 2015. It is not a coincidence that the rise in domestic price inflation started a month after the major policy shifts of the November 2015 MPC. Indeed, the evidence indicates that the paths of headline, food and core inflation have been sensitive to the downward revaluation of the value of the Naira on 25 November 2014 and on 19 February 2015.

It is however, important to note that the exchange rate markets of emerging countries have been under pressure since June 2013 well before commodity prices slumped. It follows that the commodity price slump simply worsened an already deteriorating situation. The underlying cause of pressures has deeper roots in capital account liberalization (equity and debt) where it was a deliberate policy to fund the forex market and some foreign and Naira denominated bank loans with the savings of foreign players. As far back as September 2011, I had been concerned about the lack of ‘’harmony between the fiscal system and monetary system’’ which I believed was ‘’critical to the medium to long term success of fiscal and monetary policies and indeed, macroeconomic management.’’ I argued, in my personal statement (September 2011) that it was of ‘’the outmost necessity, that the fiscal system be brought into harmony with monetary policy and to be bounded by the requirements for price stability, sustained growth in investment, employment, productivity and output. It is also, important that monetary system is similarly, bounded.’’ Then, it would have been possible to increase fiscal savings, build needed buffers and limit the need for foreign savings as means of funding the forex market and government deficits. However, the failure to bring fiscal operations within the provisions of the Fiscal Responsibility Act, 2007 meant that the fiscal savings did not reflect rising oil prices. The decision to relax capital account liberalization (equity and debt) was a choice for short term stability at great risk of medium term instability which began to crystalize in June 2013.

The dangers of portfolio flows to medium term stability and the risks to the value of the Naira, the stability of the capital and money markets, to growth, employment, external balance and to financial system stability led me in January 2013 to warn against the ‘’sharp growth in portfolio flows (i) after October 2011 and (ii) after July 2012 (which were) well above trend’’. I argued that the effects of the growth in portfolio flows ‘’on the capital market already (signaled) that financial and macroeconomic instability (lay) in the future unless the right forward looking policies are implemented now . . . (and that the) effects of the last episode of outflows in 2008 . . . on the capital market, the banking system and the costs of bailouts are still fresh.'' In voting for a rate cut at the January 2013 MPC, I sought to signal ''a commitment to macroeconomic stability now and, in the future and, to avoid history repeating itself at an even greater cost.''

About four months later (May 2013), the dangers of portfolio flows to medium term stability began to crystalize in most emerging countries which imprudently raised rates to attract portfolio flows. The Bernanke's mis-communication about tapering after the meeting of the US Fed on May 19, 2013 sent shock waves through the global financial markets triggering flight of portfolio capital from emerging countries. The evidence that the competitive capital account liberalization in emerging markets was imprudent is the forex crisis that was a consequence of the Bernanke effects. Analysis made it clear that the financial flows to emerging markets triggered by episodes of quantitative easing in the global Central Banks which purchased toxic assets as means of injecting liquidity into their economies were unsustainable. While emerging countries including Nigeria raised rates to attract the ''hot money'', the US Fed, European Central Bank and the Banks of England, Japan and China were reducing rates to stimulate their economies. Thus two traps prevailed globally: a low interest rates (US, Germany, UK and Japan) and high interest rates (most emerging countries). It was clear that exits from low interest rate traps by the US would unsettle global financial markets. It was also obvious that emerging markets will suffer the adverse consequences of the inevitable reversal of hot money flows. This is why one warned against the dangers of ''hot money'' and repeatedly argued for forward looking and coordinated strategies to ward against the looming dangers given the experience of 2008 and its costs.

The malfunctioning of the forex market is a major constraint to policy effectiveness and the way it is being addressed has significantly altered the framework for monetary policy. The data shows upward trending of forex market spread (difference between official and BDC) from an N2.7 (January 1, 2013) to N3.19 (June 10, 2013), N14.76 (December 31, 2013) and N16 a day before the policy shifts of November 25, 2014. The rising forex spread is a clear indication of inefficiencies in the allocative mechanism and ineffectiveness of policy. After the policy shifts at the November 2014 MPC, the spread rose steadily to N42.32 on February 18, 2015 when the RDAS auction system was abolished. The forex spread (now the difference between interbank and BDC) widened further to N44 on July 21, 2015. Clearly, the mechanism for allocating forex in Nigeria is not working and needs an urgent fix to restore efficiency, effectiveness, credibility, transparency and liquidity.

The real issue for me at this MPC (July 2015) are the weaknesses of the mechanism for allocating forex in Nigeria. The failure has adverse effects on growth, inflation, external balance and capital market stability as well as on the credibility of the interest rate corridor and indeed, the credibility of monetary policy. Given the liberalization of foreign borrowing, restoring efficiency and effectiveness of the mechanism for rationing foreign exchange is also critical to financial system stability.

A key area of failure besides the widening spread and the pressures to depreciate far in excess of fundamentals is the structure of allocation of forex and its implications for growth and external balance. Available data show that between January 2013 and June 2015, industrial sector (15.6%), transport (3%), agricultural sector (0.79%), manufactures (8.35%) and food (7.56%) combined accounted for 35.3% of total transactions valid for foreign exchange while financial services accounted for 38.33% out of which asset management (cash or portfolio management) took up 20.72% of forex. With oil imports taking up 15.65%, it implies that asset management and oil imports combined took up 37.37% of total foreign exchange sold for transactions valid for foreign exchange. It is hard to see how this structure of forex utilization could promote growth, investments, employment or macroeconomic stability.

The issues for me at this MPC Meeting are not about tightening or loosening or about the flexibility of the exchange rate band. It is far more fundamental. It is about institutions, incentives, strategy, coordination and forward looking. At the heart is the primacy of mechanism design and about leveraging on the new government's positive signals about fiscal prudence, consolidation of NNPC Accounts in the Central Bank and possibility of re-starting production in the refineries to develop a macroeconomic management strategic framework for Nigeria.

I am convinced that unless an allocative mechanism that restores credibility, liquidity and confidence is designed and operationalized, the opportunities for arbitrage and currency depreciation are more likely to persist and so would be the demand and related pressures. The idea of funding BDCs to narrow spreads has not been successful: spread has widened creating opportunities for arbitrage and short positions that self-fulfills depreciations. I have never supported the shifts from WDAS to RDAS because there is sufficient evidence from credible researches to the effect that forex spreads tend to widen in RDAS regimes than in WDAS regimes because of the restrictions in RDAS and institutional weaknesses. There is also sufficient evidence on the high likelihood of collusion or rigging of rates by buyers in the auction system. In principle therefore, the greatest challenge is how to ensure that players play by the rules. This in turn implies that the mechanism must be rules driven, non-discretionary and non-ad-hoc.

I am convinced that the management of demand is unlikely to be successful without (1) an efficient rule-driven or rules-based mechanism and (2) an effective coordination of monetary policy design and operations with the design and operations of fiscal policy. An efficient rule-driven or rules-based mechanism developed within the mandate and frameworks of the Central Bank will prioritize industry and agriculture ahead of asset management and oil imports. An effective coordination of monetary policy design and operations with the design and operations of fiscal policy would significantly (i) reduce oil imports hence, demand for forex by oil importers (average of 15.65% of total forex allocation in 2013-2015); (ii) reduce dollar denominated subsidy payments as well as the claim of subsidy on the budget; (iii) increase fiscal savings hence, (iv) reduce dependence on portfolio flows to superficially shore up forex reserves.

Cautious Optimism

I restate five of my fundamental convictions about Nigerian macroeconomic management process. First, a backward looking short termed monetary policy stance is inappropriate in a post global financial crisis central banking, financial market operations and global economy. Second, ''given the multiple principal objects of the CBN as provided for in Section 2 and the dual mandate of the MPC as provided for in Section 12 (1) of the CBN Act of 2007, a feasible framework for coordinating fiscal and monetary policy with macro and micro prudential policies is the top priority.'' Third, improving market functioning in the forex, money and capital markets are critical to policy effectiveness and to the ability of fiscal authorities to achieve macroeconomic goals of growth, employment and stability (price and external). Unless the markets function well, monetary policy would not be effective at least from the view point of the commonwealth. At the moment all three markets are malfunctioning and blunting the effectiveness of monetary policy. Applying products of fast thinking (heuristics) to problems that require slow (effortful, purposeful and deliberate) thinking is a critical strategic error as is; a shortsighted view of macroeconomic management. Four, normalizing the expanded balance sheet of the central bank due to its interventions and costs of resolving the banking system crisis through AMCON is necessary and critical to medium term macroeconomic stability and policy effectiveness. Five, a dependence on the savings of foreign players to fund malfunctioning forex, money and capital market undermines medium term stability, allocative efficiency, fiscal discipline, growth, employment and financial system stability. There is more than enough research evidence and historical experiences before and after the collapse of the Gold Standard to support my claim.

Notwithstanding the negative global and national economic outlook, I am convinced that policy and strategy should not be based on pessimistic outlooks because nothing in the future is inevitable: ***it is the quality of current choices that will shape future paths***. Indeed, some ***important positives*** in the recent governance system give me a strong basis for ***cautious optimism:*** the rise in accretion to reserves, stronger likelihood of fiscal consolidation and savings, easing of demand pressures from resumption of production at Warri and Port Harcourt Refineries and improved credibility of government pronouncements and; greater likelihood of a buy-in by fiscal authorities to a coordinated medium to long term macroeconomic management strategy for Nigeria.

Decision

I vote for holding the existing policy stance.

I also strongly support re-designing the mechanism for allocating foreign exchange to improve efficiency, effectiveness, transparency and credibility and to eliminate the opportunities for arbitrage that have widened since November 25,2015. I am convinced that relying on BDCs to stabilize the Naira or to narrow the forex spread is self-defeating. The evidence is unimpeachable!

I do not support a remuneration of CRR as proposed. The argument is very weak and in conflict with evidence: industry profits are rising and there is no evidence that remuneration of CRR will pass-through to borrowers in terms of lower borrowing costs or growth in lending to real sectors and retail borrowers. Any expectation that remunerating CRR will expand credit to higher growth and high employment elastic sectors is incompatible with current concentrated structure of credit or with historical evidence.

I support a leveraging on the positive signals from fiscal authorities to begin conversations that will produce a strategic macroeconomic management framework and strategy for medium to long term. This is the credible path to attaining the goals of macroeconomic policy. The earlier this conversation takes place the better given expected tail winds from the potential disruptions of global financial markets by the inevitable increase in US interest rates, the weakening of the Chinese economy and the busting of the contrived asset price bubble of the Chinese Stock market.

7.0 LAWSON, I. STANLEY

The 245th MPC meeting of the 23rd and 24th of July 2015 was held in a period of lingering uneven recovery in the global economy and worsening economic situations on the domestic front. The meeting was therefore, as expected, a very difficult one and thus elicited intense and extensive discussions around the domestic economic and financial environment over the two-day period; all aimed at ensuring monetary and financial systems stability in the country.

The Global Economy

The global economy continues to face recovery challenges with a moderated growth momentum in half year 2015. Increased financial market volatility, disruptive asset price shifts, and lower commodity prices continue to be the near-term risks and the main drivers of the sluggish growth output recovery. Despite a 0.2 percentage points dip in the world economic output growth projections for 2015 by the IMF, The United States and some advanced economies continue to show prospects of improved outlook due largely to the softening oil prices (price of OPEC Reference Basket stood at USD 53.79/barrel on July 21 2015) which presents improved growth opportunities for the advanced economies and oil importing countries while at the same time catalyzing dampening growth prospects and weak performance in oil exporting countries. With her inflation below the Federal Reserve's 2% target and her economy projected to grow by 2.5% in 2015, the United States remains a bright spot in the global economy and a clear leader of global growth.

Despite the risk posed by the Greek crises, the Euro zone economy presented a strong 2015 H1 outlook. The Euro zone economy is projected to grow by 1.5% in 2015 and 1.7 in 2016. Inflation in the region rose to 0.3% in May 2015, up from 0 in April. The massive quantitative stimulus programs by the ECB, the Bank of England, and the Bank of Japan would appear to be subduing the crystallization of the risk of deflation in the Euro area and Japan.

Growth in China is projected to decline from 6.8% in 2015 to 6.3% in 2016 due to financial market vulnerabilities, declining productivity, excess capacity, and weakening domestic demand.

Domestic Economy

On the domestic scene, Nigeria continues to witness a deceleration in growth. This deceleration which commenced in the third quarter of 2014, intensified in the first quarter of 2015 in the aftermath of declining crude oil prices. The National Bureau of Statistics (NBS) estimated Real GDP growth at 3.96 per cent in the first quarter of 2015, which is significantly lower than the 5.94 and 6.21 per cent in the preceding quarter and the corresponding period of 2014, respectively.

Real Gross Domestic Product (GDP) growth is expected to decline to 5.54% in 2015 from 6.22% in 2014. As is typical, the non-oil sector comprising services, trade, agriculture and construction was the major contributor to growth. Industry growth was negative at -1.02% in Q1 2015.

For six consecutive months since December 2014, headline inflation rate has continued to edge higher up to 9.2% in June from 9.0% in May 2015, arising from a steady increase in food inflation which inched up marginally to 10.0% in June from 9.8% in May 2015, and a continuous increase over the same period of the core sub-index which recorded an increase to 8.4% in June from 8.3% in May 2015. The rise in food inflation may be due to the gradual crystallizing impact of the current exchange rate regime on imported food prices as well as escalating transportation costs due to scarcity of petroleum products. This needs to be closely monitored and pre-emptive administrative actions taken as appropriate to halt the continuous slide in the exchange rate.

Between December 31, 2014 and July 22, 2015, the Naira has depreciated at the interbank and BDC markets by 9.44% and 25.85% respectively, leading to a widening of the premium between the interbank and BDC market to 22.34% up from 6.39%. The widening gap between the interbank and bureau-de-change exchange rates continues to be a source of concern as it continues to fuel arbitrage and speculative activities. Ongoing currency substitution and partial dollarization of the economy by economic agents is also a source of immense pressure on the exchange rate.

Low oil prices have continued to take a toll on Nigeria's foreign reserves. The latest official foreign reserve figures show a slight increase from $30.181 billion in May 2015 to $32.46 billion as at July 21, 2015. This amount represents 6.6 months of import cover.

In the money market, interest rates continue to be volatile, mirroring the fluctuations in the liquidity position of the deposit money banks. Average inter-bank call and OBB rates, which opened at 6.55 and 6.45 per cent on 1st July 2015, closed at 26.51 and 21 per cent, respectively, on July 23, 2015.

Conclusion

The global outlook has remained largely sluggish and continues to face the risk of deflation. Other than the Greece situation the global economy has not witnessed any significant change over the last two months. On the domestic front, most of the parameters and economic indices are coming under a lot of pressure driven largely by softening oil prices and dwindling foreign reserves. It is my candid opinion that any measure taken by the MPC to stem the present trend will be insufficient unless it is reinforced with corresponding fiscal measures. Increasingly, opportunities for further effective maneuverability by the MPC is being crowded out as the source of the continued deterioration in most of the indices can be traced to fiscal activities. The need for supporting fiscal and structural policies to stimulate output growth, encourage foreign investments, and stabilize the exchange rate is now imperative.

Though adverse developments in international oil prices have affected government revenues and accretion to reserves, the financial system has remained relatively stable with key banking stability indicators showing robustness. It is imperative to ensure that the existing banking stability is maintained and therefore any administrative action that is likely to impinge on, or dampen the resilience of the financial system and the functioning of the financial markets should be promptly reviewed. It is noteworthy that in general the profitability of banks increased in H1, 2015 not as a result of foreign exchange arbitrage activities but largely from their ordinary business of financial intermediation.

While it is not good economic practice to attempt to hold price and quantity, our peculiar circumstance has forced the Central Bank of Nigeria to attempt to strike a delicate balance between demand and price control. Since this has not yielded the desired result, the introduction of some flexibility around price may be advisable at this time. With this, I believe that some of the distortions that prevail in the market today will begin to self-moderate.

It is gratifying to note that the Central Bank of Nigeria, through preemptive and timely administrative actions have succeeded in mitigating several domestic risk factors confronting the economy.

In the light of all the above, I am inclined to vote as follows:

1. Retain the MPR at 13% with a corridor of +/- 2% around the midpoint;
2. Retain the non remuneration of CRR and
3. Retain CRR at 31%.

8.0 NNANNA, O. JOSEPH

Global macroeconomic development during the first half of 2015 was generally characterized by uneven growth in both the advanced and emerging/developing economies. In the United States, economic growth gained momentum – largely driven by low crude oil price, sustained aggregate demand and relatively high industrial production. In the Euro-zone, recovery was moderate, but concern over Greece exit from the zone continued to influence market sentiment. In Asia, Chinese economic growth was stable, but sluggish due mainly to the downward pressure associated with structural reforms.

OUTPUT AND PRICES

Weak output growth accompanied by inflation uptick amid worsening unemployment suggested emerging stagflation and the need for monetary policy to encourage deposit money banks to strongly embrace financial intermediation and lending to the private sector.

The Nigerian economy during the review period was characterized by ‘stagflation’ as evidenced by inflation uptick of 9.2 per cent; and sluggish output growth. The GDP growth rate fell to 3.9 per cent in Q-1 2015, vis-à-vis 5.9 per cent during the fourth quarter in 2014. The decline in output coupled with the creeping rise in the domestic price level demanded for the implementation of a comprehensive structural reform policy measures aimed at addressing the weaknesses in the product and financial markets. While the responsibility of addressing the numerous infrastructure challenges such as – power supply, transportation, security etc. are outside the sphere of the monetary authority, nevertheless, ensuring a level playing field for the deposit money banks to carry out their role of financial intermediation falls within the mandate of the monetary authority. Accordingly, the critical focus of monetary policy remains: exchange rate management under the binding constraint of foreign reserve short-fall and enhancing monetary policy transmission mechanism in the money market.

However, with the collapse of the global crude oil market and the consequent decline in Nigeria's foreign exchange earnings, monetary policy has inordinately relied on demand management strategies. Available data and anecdotal evidence suggested that financial intermediation was less than optimal, while the excessive demand pressures in the forex market was largely speculative.

LIQUIDITY MANAGEMENT

Maintaining optimal liquidity in the banking system and avoiding financial repression has become a delicate balancing act.

Available data during the period showed that the deposit money banks were awash with excess liquidity – as evidenced by the un-seasonally low inter-bank and call rates in the money market as well as the persistent demand pressure in the Forex market, despite the prevalence of a high Cash Reserve Requirement (CRR) of 31.0 per cent and 30.0 per cent Liquidity Ratio during the period. Yet, another set of worrisome indicators which emerged during the review period were the low rate of growth of banks' credit to the private sector and the rising trend of non- performing loans (NPLs).

The liquidity surfeit in the banking system which spilled over to the forex market despite the subsistence of the high CRR of 31.0 per cent and the decline in domestic credit to the private sector from 11.9 per cent during the fourth quarter of 2014 to 4.3 per cent In June 2015 were indicative of a dysfunctional money market. Of serious concern was the rising incidence of non-performing loan (NPL). All things being equal, the decline in aggregate credit to the private sector may be attributable to risk aversion on the one hand, and financial repression on the other. I believe that going forward, monetary policy shall endeavor to address the challenges of time inconsistent monetary policy. A short-term solution to the problem of financial repression may lie in remunerating the deposit money banks for their accrued stock of CRR with the Central Bank of Nigeria.

EXCHANGE RATE MANAGEMENT

Despite the accumulation of a marginal reserve accretion – the demand pressure in the forex market remained strong in spite of the strong demand management strategies which were introduced to encourage local substitution by excluding the funding of non-core imports. Perhaps, a complimentary foreign exchange 'supply' management strategy may require the introduction of some 'guided' flexibility in the exchange management going forward.

There is enough empirical evidence to show that the Nigerian economy performs relatively better during the period of relative exchange rate stability. In fact, average growth rates 6-7 per cent per annum from 2004-2014, were achieved when the naira/dollar exchange rate fluctuated within the narrow band of +/- 3.0 percentage points. Nevertheless, the relative stability which was achieved in the inter-bank and bureau de change (BDC) exchange rates markets following the closure of the WDAS and RDAS forex windows was eroded partly as a result of the weakening of crude oil price and the consequent decline In foreign exchange reserves inflows, portfolio capital reversal and speculative attack. Market conditions and anecdotal evidence seem to suggest that the demand pressure in the forex market is not likely to abate in the near term despite stringent application of the demand management policy measures recently introduced. In the circumstance, I saw merit advocating for the implementation of a policy of 'guided' flexibility in the determination of the naira/dollar exchange rate in the interbank market in order to induce greater supply of forex higher liquidity in the interbank market. I am certain that this strategy shall assist in narrowing the widening arbitrage premium in the inter-bank and BDC rates.

CONCLUSION

In the light of the emerging macroeconomic developments – particularly, the sluggish product and labor markets, the demand pressures in the forex and money markets and the bearish capital market, I saw merit in advocating for:

1. Remuneration of DMBs' accrued CRR at the rate of 3.0 per cent to lessen the negative impact of financial repression. I also voted to reduce the CRR to 25 per cent from 31 per cent.

2. Introduce a policy of 'guided' flexibility in the management of the exchange rate by establishing a wider band within which the exchange rate will fluctuate in the short-run in order to encourage greater liquidity in the interbank market. The CBN shall intervene periodically, to discourage speculative demand and ensure relative stability in the interbank market.

3. An increase in the MPR by 100 basis points – from 13.0 per cent to 14.0 per cent to signal an anti-inflationary monetary policy stance.

9.0 UCHE, CHIBUIKE U

In recent times, effective monetary policy formulation in Nigeria has become increasingly difficult. By far the most important reason for this is the declining international price of crude oil. With the recent nuclear power dispute resolution agreement reached between Iran and Western nations and the resultant imminent end to the international boycott of Iranian oil, it is unlikely that there will be any appreciable increase in the price of crude oil in the near future. In the light of the fact that the Nigerian economy is largely dependent on oil rents, it is prudent to assert that effective monetary policy formulation is unlikely to become easier in the near future.

Dwindling oil revenues have put extensive pressure on funding of governance at the federal, state and local government levels. Given the import dependent nature of our economy it is not surprising that it has also put pressure on the exchange rate of the Naira. Inflation and the nonperforming loans of commercial banks have also been inching upwards while GDP growth rate is on the decline. In order to curtail the increasing demand and pressure on its limited foreign exchange the CBN management has administratively put in place a discretionary foreign exchange management system which essentially prevents banks from allocating foreign exchange to companies that want to import specified goods which the CBN believes can be manufactured locally.

Although I am in full support of policies that encourage local production, I am not altogether sure that the CBN alone can effectively achieve this without the collaboration of the fiscal authorities. In my view, the denial of foreign exchange to businesses that engage in legitimate economic activities is confounding. It certainly makes better sense for the Government to officially ban such products out rightly. More important however is the fact that I am not convinced the CBN has the legal powers to deny the allocation of foreign exchange to legitimate businesses engaging in legitimate economic activities.

Until legal opinion is sought on my above concern, a more immediate concern is the need for the CBN to, as much as possible, reduce the information asymmetry associated with running a discretionary foreign exchange management system. One effective way to curtail speculation in such a scenario is to ensure that the rules of discretion are clearly defined and known to all stakeholders.

Another important issue that requires immediate attention is the issue of capital account liberalization. I have consistently called for some sensible controls to be imposed on capital inflows into Nigeria. The current scenario where Foreign Direct Investments and Foreign Portfolio Investments are allowed to be brought in and taken out at will has encouraged speculation to the detriment of national economic development. The data presented to MPC is clear proof of this. Such unhealthy capital flows are also responsible for the increasing pressure on the exchange rate of the Naira and the volatility of the Nigerian Stock Exchange. Available statistics, for instance, show that such financial flows constitute over 30 percent of the demand for foreign exchange in Nigeria. Prioritizing the foreign exchange demand of financial flows over that of the industrial sector is, in my humble opinion, meaningless.

Furthermore, I am not at all convinced by the argument that has been put forward by some MPC members in support of the continued maintenance of the current capital account liberalization stance. Specifically, they have argued that given our current financial difficulties, this is the wrong time for controls on capital accounts to be put in place. On the contrary, I believe that this is the right time to institute such capital controls. The fear that existing investors will interpret such action as the changing of the rules of engagement midway and thus pull out is not realistic. This is especially so given the fact that whatever we do cannot affect existing investors. International and national investment regulations do not allow us to change the rules of engagement mid-way. Any capital control that is put in place can therefore only relate to future investments and not current investments.

Insisting that foreign capital flows into Nigeria will have to stay a minimum of 12 months for instance will instantly curtail the inflow of speculative capital, which has been very destructive to our economy, into the country. I am also not convinced by the argument that we cannot withstand a sudden outflow of foreign direct investments at the present time especially given our dwindling foreign reserves. In my humble view, such an argument makes little sense as most of the foreign capital inflows have already left the country. The current desperation to attract such speculative capital can only lead to temporary relief, which is neither sustainable nor beneficial to the long term stability of the Nigerian economy.

Another issue of concern to me is the manner in which the CBN is being called to bail out various sectors of the economy. During this MPC meeting, for instance, MPC members were informed that the CBN has been directed to bail out the various state governments so as to enable them pay outstanding salaries. Although MPC had no input into this decision, I am concerned that such bailout programmes, if not well designed, could lead to moral hazard problems. In this particular instance, I am of the opinion that it would be better to apply such bailout funds to defraying the ballooning indebtedness of states to the banking sector. At the very least, this could help curtail the public sector exposure of Nigerian banks. Unconditional bailout funds could also cause the concerned states to trivialize the need to diversify their economies and restructure their civil service and governance structures.

One is also at a loss why the CBN should be asked to bail out the states when the Federal Government continues to channel huge sums of money from the Distributable Pools Account into uneconomic and corruption prone ventures like the petroleum subsidy scheme. Surely the abolition of the petroleum subsidy scheme will materially increase the revenue the states get from the DPA. The removal of petroleum subsidy will also encourage the establishment of local refineries and reduce the pressure on Nigeria's dwindling foreign exchange reserves. My recommendation that the Government should find other ways of saving money is hinged on the fact that the CBN does not have infinite reserves in its balance sheet. My suspicion is that the CBN can only meet the increasing bailout demands on it through quantitative easing. This can only further complicate the effective promulgation of monetary policy in Nigeria.

Despite the above gloomy picture, I strongly believe that the new political dispensation in the country could provide the much-needed catalyst for positive change. For this to happen however, there is need for improved policy cooperation between the fiscal and monetary authorities. Unless this is urgently done and deliberate effort made to diversify our mono product economy, we will have no choice but to further devalue the Naira and raise the MPR in the near future. These actions can only worsen our current dire economic conditions.

In summary therefore, I hereby vote as follows: (1) to retain MPR at 13 percent with interest rate corridor of + 200/- 200 basis points; (2) to retain CRR at 31 percent; and (3) to retain Liquidity Ratio at 30 percent.

10.0 YAHAYA, SHEHU

I vote to maintain the status quo with respect to MPR and the symmetric corridor, CRR. I provide the arguments for my position hereunder

Global Economic and Financial Situation

Overall, there is some improvement in the global economic and financial situation, with better growth prospects for the US despite the poor Q1 2015 performance, better prospects for Europe and Japan, partly tampered by the unresolved crisis in Greece and the slowdown in Germany. Growth in India remains strong and China is relatively steady on a slightly lower growth path. Tempered

There are improving prospects for Sub-Saharan Africa, particularly for non-oil exporting countries, while oil importing countries are faced with difficult adjustment challenges. Libya is still mired in crisis.

World oil prices are somewhat unstable, although higher than in Q1 2015. International food prices are also relatively stable.

Domestic Economy

There is some optimism following the successful elections and some keen expectations regarding the security situation, response to the corruption challenge and the development of new policies and programs. Nevertheless, there are a number of important challenges to the economy

First, there is considerable concern about the fiscal situation. Although current spot price of Brent crude at about 57 dollars/barrel is higher than the budget base, price uncertainty remains, particularly with the prospects of the full return of Iran to the market and continuing technological innovations in fracking.

Secondly, GDP growth rate at 3.96% in Q1 2015 is much lower than previous quarters and also lower than forecast. Giving the uncertainty in the oil market, patchy rainfall so far in some of the agricultural heartlands, it is not clear that there would be a significant recovery in the second quarter of the year.

Thirdly the foreign exchange situation remains a challenge. Significant pressures on the value of the Naira remain, despite the depreciation in November 2014 and the measures taken by the CBN to manage demand. The pressures obviously remain due to the lower earnings from oil exports, a reduction of reserves, policy credibility and speculations on the future direction of the exchange rate.

Fourthly, the general price level has been rising consistently for the last 4-5 months and is forecast to continue in that direction for some time. Prices are already breaching the upper levels of the policy target.

The unemployment situation, although fairly stable, remains a challenge and is compounded by high levels of underemployment

The banking system remains stable with respect to liquidity, capital adequacy, return on equity and on assets, profitability. NPLs in the sector remain below policy thresholds, but efforts should continue to be made to ensure that they remain low.

On the fiscal side, the main challenges are to develop imaginative policies to substantially increase government revenue, fulfill recurrent expenditure responsibilities, raise capital expenditure for infrastructure and promote local production and value-addition.

Conclusion and Recommendations

In the face of the challenges outlined above, monetary policy options are not clear-cut. The MPR, although quite high, cannot be significantly reduced right now to help raise lending/investment and help support growth because it will give an additional boost to the inflationary pressure and further undermine incentives to portfolio investment at a time when reserves are already under pressure. Given the current structure of the financial markets, it is also not self-evident that such a lowering of the MPR will translate into lower lending rates for manufacturing and agriculture. On the other hand, raising the MPR to help defuse inflationary pressures and provide incentives for portfolio investment is almost certain to lead to a rise in lending rates, which may undermine growth, jobs and also impact negatively on NPLs.

Reducing the CRR will increase liquidity in the banking system which may put pressure on prices and the Naira exchange rate, without necessarily lowering interest rates or increasing lending to the productive sectors.

It might seem illogical not to do something significant on the policy options in the face of the challenges identified above. Yet, at this particular time, when the domestic and international markets are waiting to see the main policy thrusts of the new government, there is a credible probability that significant policy activism might cause more damage than provide palpable solutions

I therefore vote to maintain the status quo at this particularly meeting.

11.0 ADEDOYIN SALAMI

Ahead of this meeting of the Monetary Policy Committee (MPC), staff estimates for seasonally adjusted output for Q1 - 2015 showed GDP growth to be slowing significantly, at 3.96%. Although the growth in disposable incomes slowed to 3.34% (from 6.45% a year earlier), on the expenditure side the data showed a recovery in domestic spending over the quarter. This was driven by sharply higher government spending, and a recovery in household expenditures.

Investment expenditure continued, as usual, to significantly lag the pace set by consumption spending. Consistent with slower output growth, the data reviewed by the Committee also indicated contractions, in real-terms, of narrow money (M1) and liquidity during the period.

Given lower oil prices, the Monetary Policy stance in 2nd half of 2014, and uncertainties surrounding the potential for changes in Administration, the drop in output growth over Q1-2015 was not unexpected. However, both narrow and broad measures of liquidity continued shrinking during Q2- 2015. Worsening liquidity conditions, real□term declines in the growth of credit to the Private Sector, disruptions to fuel and energy supplies; all these factors support expectations that output in Q2- 2015 will again be sluggish.

Inflation, however, continues to rise and, at 9.2 percent, has breached the 6-9 percent band adopted by the CBN in 2013. While supply disruptions provided the impetus for the latest recorded increases in general prices, it is worth noting that Headline inflation has been rising every month since November 2014.

I believe the post-election response to depleted external reserves to be the defining challenge now facing the MPC; with important implications for exchange rate and inflation management. I however do not yet see interest rates playing a meaningful role in resolving the primary issue affecting the economy at this juncture. Indeed, higher interest rates would, in my view, simply exacerbate the economy's increasingly precarious position. I therefore voted to maintain the status quo where interest rates are concerned.

Signaling another "all-clear" for higher interest rates, by raising the MPR, would also not address overarching concerns of investors in Nigeria; the majority of whom appear to be discouraged by uncertainties around post□devaluation Naira Exchange Rate values. Investors are consequently standing back in askance, baffled also by the CBN's expressed unwillingness to countenance any further currency adjustments and market liberalizations.

The Central Bank's resistance would be better appreciated in the light of conflicts arising, once again, between its Monetary Policy objectives, and its Financial Sector Stability ambitions.

Banking Sector Stability Reports provided by CBN staff show a disconcerting rise in levels of the industry's Non-Performing Loans (NPL's). These have been rising sharply – from 2.88% in Dec 2013, to 4.65% at the end of June, 2015. Indeed, of the 22 lines into which CBN classifies bank lending, 11 business lines had NPL's breaching its 5% limit as of June this year. Furthermore, of the 10 largest borrowing sectors, 7 (i.e. 70%) produced NPL's in excess of the stipulated ceiling. Surprisingly, both Oil & Gas and Manufacturing report NPL's well below the limit – at 2.93% and 3.94% respectively. Hopefully, this outcome reflects sustainable loan-restructurings by our banking institutions; given that their loan-books tend to be highly concentrated. The Oil and Gas industry alone accounts for at least one-third of all bank loans.

Although motivated by its Exchange Rate stability objective, CBN exchange rate policy, and associated measures aimed at restraining foreign currency demand, will likely also lead to continuing increases in NPL's. There are significant currency and duration mismatches on Nigerian bank balance sheets, as well as on corporate balances, large and small. The recent oil-price collapse also introduced regulatory risk; an added challenge, to which Nigerian banks will need to respond constructively, and the Central Bank with diligence.

Beyond risks to banking soundness are risks also to jobs and economic growth. The recent decision to deny foreign currency market access to 41 categories of imported items will, doubtless, crimp growth in the short-to-intermediate term. In this regard, the CBN likely needs to unambiguously justify its decision to trade-off growth and employment for banking and exchange rate stability.

All of the above, and related developments, lead me to support rational views that a greater degree of flexibility is needed to sustainably attend Naira exchange rate management. A viable avenue canvassed with the Committee

(i.e. affording the CBN greater flexibility) has yet to gain majority support. Nonetheless, I remain guardedly optimistic that this issue will be revisited; probably after all other options have been exhausted.
My primary concern about the CBN's administrative measures relates to their potential for rapidly degenerating into "cures" that end up being worse for the "patient" (i.e. the domestic economy) than the disease. Which is to say that I remain largely unconvinced by arguments insisting that demand management measures being unveiled will not do the economy, and its prospects, more harm than good.

To begin with, the measures seem to be setting back vital processes for deepening and advancing the development of our domestic financial markets. In the absence of transparent price discovery, and wholesale market liquidity, allocations of FX (as a scarce resource) tend to rapidly become politicized; leading to allocation by subjective considerations – at best. Similarly formulated measures have been attempted, on several occasions, by past Federal and CBN Administrations. Each time, as I recall, policy makers and the economy were fortuitously rescued by resurgent oil revenues, while visibly failing to achieve their publicly stated objectives. What makes the current approach to demand management different this time, and why, remains unclear.
Worse still, is a debilitating lack of forward guidance, or indeed, any indication of how long the current regime of measures will be needed. The credibility that CBN has carefully cultivated if not lost, is most certainly undermined. For this to have to be rebuilt in the future would be unfortunate, and an entirely avoidable distraction.

The CBN now also publicly appears unflinching in its resolve, and apparently unfazed by undesirable, largely unanticipated market developments. This 'resolve' could be misinterpreted and further unsettle local financial markets

especially as its view – with which I disagree –is against a growing consensus outlook for the global economy that bears troubling implications for Nigeria.
Witness the depth of startling declines, this year, in the markets, currencies and foreign reserves of other developing economies; from Russia through China, SE Asia, and Brazil, to economies bordering the EU and weakened peripheral states. It is clear that global capital providers are now becoming concerned about the quality and sustainability of continued, rapid GDP growth in Emerging and Frontier Markets. Such markets will be progressively less alluring as the process of US Dollar monetary normalization – the reversal of Quantitative Easing (QE) – begins in earnest.

The broad consensus is that, as early as September 2015, the US Federal Reserve is expected to decisively turn from steadily injecting dollar liquidity into the global economy to draining. QE-driven market operations led the US central bank to amassing a portfolio of US$ 4-5 Trillion in financial assets. Draining liquidity essentially means selling down this portfolio. The Banks of England, and possibly Japan, are expected to follow the Fed's lead thereafter; leaving the ECB as the only remaining advanced economy Central Bank engaged in QE, for widely understood reasons. It would also be prudent to also assume that, added to tighter monetary conditions for global reserve currencies, there will be far fewer petrol-dollars globally recycled over the next few years, owing to lower oil prices.
Real returns from financial assets in Developed Markets are thus likely to become more attractive in the next decade than they have been in the last. This also suggests that access to global capital will become more challenging; especially for laggard economies, with substantial investment needs, pitching shallow, under-developed capital markets to investors. Furthermore, should present challenges with access to foreign exchange lead to Nigeria's ejection from the widely followed JPMorgan index, our economy's attractiveness as an

investment destination will be unquestionably diminished. Such a development, in a “trickle-down” effect, could potentially deny the majority of earnest Nigerian enterprises the investment capital needed to grow and minimize our economy’s dependence on oil-based incomes.

Deploying monetary policy instruments against issues best dealt with by a robust combination of appropriate fiscal and trade policy measures buy our economy comparatively little time for adjustment. I do not view such approaches to be a sustainable, or advisable, anchor of economic adjustment. While discouraging imports in our quest to promote import substitution is desirable, it is not encouraging to see the measures relied upon appearing to misjudge the planning, physical logistics and lead-times required to succeed.

Industrial Policy based on compromised import□substitution strategies, i.e. without accessible and reliable domestic alternatives to restricted inputs, will simply create supply shortages, raise prices, and embolden smugglers and profiteers. Nigeria’s repetitive experience with fuel and electricity scarcities makes this case. Worst of all, such developments erode improvements in global perceptions of Nigerian Policy Risk; i.e. perceptions of the integrity and consistency of our policies.

Policy Risk materializes when policy-makers fail to competently mitigate the negative side-effects of their actions. It can also materialize when inconvenient truths are carelessly dismissed, only to be belatedly acknowledged as immutable forces; i.e. after compelling policy architects to undertake costly and damaging reversals. It is difficult to realistically conceive of Nigeria becoming a regular destination for large scale private investment in such circumstances. In this context, our maintenance issues with Investment Benchmark-setting institutions might be more constructively approached as a “mock” test of our collective policy-setting competence and determination. Not some inconsequential side-show, or conceited market conspiracy.

The Central Bank and MPC are committed by more than practical circumstance to defend the Naira. Indeed, because Nigerian Law compels Naira-defense, there is no shirking this responsibility. However, as I see it, no longer holding high surpluses of foreign currency reserves, to deploy against this task, calls for levels of pragmatism we are yet to discover. At its core, our strategy practically depends on a recovery in oil prices; with the Authorities, in effect, calling on citizens to hunker down and wait – until our current oil-market bets pay off. I believe we can do better than doing the same thing over and over while expecting different results.

However, if placing market bets is all we can do, or all we know, as Policy Planners, then we will need to start drastically lowering Public expectations. Because effectively offering the Nigerian economy as a macro betting-vehicle for the direction of oil prices means attracting and deploying global capital only when the economy (as a proxy for oil prices) is “on a roll”. Even then, this means retaining mostly fair□weather investment partners (i.e. hot money), and for only as long as the up-cycle lasts. This also means that we remain structurally incapable of scaling-up levels and rates of private investment needed to supplement transformative Public investment. In short (and most worryingly), placing market bets as Policy yet again seems to be doing, in reality means degrading demographic potentials of the economy.

In my opinion, financial plans underwritten through gambles are best left in the Private Sector where, under normal circumstances, fundamental disciplines and limitations systematically keep a floor under its costs of failure. Private enterprises can fail, and have their constituent capital and labor sponsors move on (to hopefully better, more informed futures). The repercussions of Public Policy failure are far more widespread and corrosive. For this reason, monetary and public policy-planning, in general, has to tread more responsible and reasoned paths than mere gambles; because here failed bets come with tremendous downside financial, economic and socio-political reactions.

12.0 EMEFIELE, I. GODWIN, GOVERNOR OF THE CENTRAL BANK OF NIGERIA AND CHAIRMAN, MONETARY POLICY COMMITTEE

Global economic growth remained fragile in the first half of 2015 and continued to be characterised by divergent and uneven outcomes across countries and regions. Recovery and prospects were broadly stronger among advanced economies relative to emerging and developing economies. Driven largely by the bolstering effects of cheap energy prices on the performance of advanced economies, global growth is projected at 3.5 percent for 2015.

Among developed countries, output growth in the United States, which was weighed down earlier in the year by a strengthened dollar and un-benign weather, is expected to pick-up in the second quarter with a maintained momentum for the rest of the year. Consequently, the US economy is projected to grow by 3.1 percent in 2015. In the UK, the strong economic growth recorded in 2014 is expected to continue in 2015 with a projected growth rate 2.7 percent. In the Euro area, available data indicate that regardless of the threat surrounding the Greek debt crisis, economic recovery has broadened. Quarter-on-quarter output growth in the region rose to 0.4 percent in the first quarter of 2015 from 0.3 percent in the fourth quarter of 2014. Among these countries, recovery is attributable to amplified private consumption due to the positive impact of cheaper energy prices on real disposable income. To a large extent, these strengthened recoveries and prospects also benefited from the prevailing asset purchase programmes of the European Central Bank, the Bank of England and the Bank of Japan.

Economic growth amongst emerging and developing countries remained tepid in the first half of 2015 with a dampened outlook for the rest of the year. Output growth is projected to decelerate to 4.3 percent in 2015 from 4.6 percent in 2014, due essentially to weak domestic demand, softening commodity prices and probable rise in the US yield curve.

Divergent growth prospect is also expected within emerging and developing economies. With the exception of India, which has a robust positive outlook, growth prospects among the BRIC economies is expected to worsen in 2015 vis-à-vis 2016. The Chinese economy is projected to decelerate to a growth rate of 6.8 percent in 2015 from 7.4 percent in 2014, while Russia and Brazil are set to undergo contractions of 3.8 percent and 1.0 percent, respectively, in 2015 compared with modest growths of 0.6 percent and 0.1 percent recorded in 2014. The economic outlook among low-income developing countries remains cloudy in 2015 with output growth projected to slow-down to 5.5 percent in 2015 from 6.0 percent in 2014. For Sub-Saharan Africa, prospects remain weak as output growth is projected to shed 50 basis points in 2015 to 4.5 percent. These projections broadly reflect structural imbalances, financial market vulnerabilities, cheap commodity prices and non-accommodating monetary policy.

On consumer prices, I note that against the backdrop of genuine threats of deflation among major advanced economies, global inflation is expected to moderate in 2015 reflecting softer energy prices, nominal wage rigidities and weak demand particularly in economies with below-target inflation rate. For advanced economies, the IMF projects a 40 basis points disinflation in headline consumer prices in 2015 with inflation dropping to 0.6 percent from 1.0 percent in 2014 to keep the rate appreciably below the 2.0 percent target set in these economies.

The continued asset purchase programmes to re-inflate the Euro area and Japanese economies pose an immediate risk to sustained inflationary pressure amongst emerging and developing countries. In the addition, the lingering expectation of a US interest rate hike in the light of a strengthening economy may pose a pervasive risk to markets in emerging and developing economies, which compel a further may tightening of monetary policy in these economies.

In Nigeria, the successful and stable transition of power in May 2015 strengthened the short-term growth prospects of the economy and supplanted the uncertain outlook that pervaded the first quarter of 2015. Although output growth rate decelerated by 200 basis points to 3.9 percent in 2015Q1 from 6.2 percent 2014Q4, the economy is likely to pick-up in the subsequent quarters with annualised growth rate projected at 5.5 percent for 2015. The less-than envisioned performance of output in the first quarter of 2015 reflects the 8.1 percent contraction in oil GDP in the face of continued turbulence in the international crude oil market. The harmful impact of the oil sector was counteracted by the 5.6 percent growth in non-oil GDP, which regardless of an 85 basis points slow-down remained the main driver of domestic output. The performance of non-oil GDP was propelled by growths in the services, trade, construction, crop production and telecommunications while the drag in the oil sector is traceable to receding investments and productivity in that sector as a result of falling oil prices.

Though the subdued performance in the first quarter is not peculiar to Nigeria, but to all other commodity exporting economies, it underscores the importance of diversifying our economy away from primary commodities, especially crude oil, and towards value-added products. I note that the continued infrastructural challenges illustrated by the lingering fuel scarcity and the power cuts represent a genuine deterrent to meaningful growth prospects. However, I believe that the short-term growth prospect of the Nigerian economy is stronger, at the moment, following our recent strategy of restricting frivolous demand from the Foreign Exchange market to boost domestic supply.

On domestic consumer prices, I note with concern that whilst headline inflation remained single digit, it has breached the upper limit of the Bank’s tolerance range of 6—9 percent. Data from the National Bureau of Statistics indicated marginal increase in the rate of inflation to 9.2 percent in June 2015 from 9.0 percent in the preceding month furthering the successive uptick noticeable since December 2014. The ascent in the review month reflected the rise in both the food and the core components of headline inflation, which respectively accelerated by 20 basis points and 10 basis points from their May 2015 levels to 10 percent and 8.4 percent in June. Though transitory, the lingering inflationary pressure is essentially attributable to both structural and cyclical factors including the aforementioned infrastructural challenges and the legacy effects of the bustle that heralded the 2015 general elections, Easter celebrations and Sallah festivities. I am of the view that the continued fear of deflation in major advanced economies is genuine and, in the short-term, could moderate the potential upside risks of imported inflation that ensues from a strengthening dollar.

Examination of the liquidity conditions in the domestic monetary, credit and financial markets indicate that broad money supply (M2) declined by 0.6 percent in June 2015 vis-à-vis the end-2014 level. This represented an annualised contraction of 1.2 percent in contrast to the programmed expansion rate of 15.2 percent targeted for 2015. Much of the decline in money supply was due to the 16.2 percent contraction in net foreign assets and the 21.4 percent fall in other assets (net). These combined to offset the 13.5 percent growth in net domestic credit during the review period. On an annualised basis, the growth in net domestic credit at 27.0 percent is comparable to the programmed target of 29.3 percent set for 2015. The recurrent spikes observed in the liquidity conditions of the banking system translated to some instability in money market interest rates. Average interbank call and the OBB rates rose from 6.6 and 6.5 percent, respectively, at the beginning of July 2015 to 26.5 and 21.0 percent as at 23 July. Year-to-date, the rates held at 9.8 and 10.2 percent, respectively. At the capital market, bearish outcome continued since the last MPC as key equity indices plunged during the period under review. Relative to the levels at end-March, the Nigerian Stock Exchange's All Share Index shed 1.7 percent to close at 31,216.7 as at 23 July 2015 while market capitalisation, at ₦10.7 trillion, fell by 0.4 percent. This weak performance of the capital market largely reflected the dampening effects of softening oil prices and its attendant transmission to investors' sentiments.

I note the somewhat divergent performance in the two segments of the foreign exchange market in July 2015. Whereas relative calm was observable at the interbank segment of the market, the bureau de change segment experienced some volatility. At the interbank market, the exchange rate held at ₦197.00/US$ throughout the review period. The observed stability recorded in the interbank exchange rate follows from the firm resolve of the CBN to ensure stability by effective demand management. Following efforts since the last MPC, the gross official reserves rose by 10.4 percent or about US$2.9 billion from US$28.6 billion at end-May 2015 to US$31.5 billion as at 22 July 2015. The observed accretion in reserve during this period was largely attributable to the drive of the present government to curb leakages in the system supported by the insightful strategies of the CBN's management.

Overall, I note that the smooth transition of power and the consolidated political stability is expected to reflect positively on the domestic financial markets and bolster macroeconomic outlook. While the associated improvement in market perceptions, sentiments and confidence support net capital inflows and stability in the foreign exchange, the lingering effects of falling oil prices and the potential rise in US interest rates continue to challenge domestic markets and monetary policy.

Given that the transient drivers of domestic inflation are evidently outside the influence of monetary policy and given the existing tight stance of monetary policy, I reiterate the need for complementary fiscal and structural policies to spur domestic aggregate supply and rein in inflation. There is an urgent need to resolve the infrastructural challenges including the protracted fuel scarcity and incessant power cuts, which are inflating domestic consumer prices and affecting the ease of doing business in Nigeria. As the economic plans of the government unfold, I believe that the positive effects will enhance the outcomes of its current efforts by strengthening productive capacity, calming our financial markets, and moderating domestic inflation.

In this regard, and given the constrained space for further tightening of monetary policy, I vote as follows:

1. Retain the MPR at 13.0 percent;

2. Maintain a symmetric corridor of ±200 basis points around the mid-point of the MPR; and

3. Retain the CRR at a single rate of 31 percent.