Central Bank of Nigeria Communique No. 99 of the Monetary Policy Committee Meeting of Monday 19th and Tuesday 20th January, 2015

The Monetary Policy Committee (MPC) met on January 19 and 20, 2015 against the backdrop of challenging external conditions and downside risks in the domestic economic environment. In attendance were all the eleven members of the Committee. The Committee reviewed key external developments as well as domestic economic and financial conditions and outlook for 2015.

International Economic Developments

The Committee noted the tepid recovery of the global economy in 2014. The major impetus for global growth in 2014 came from the U.S, and supported later in the year by the drop in oil prices. However, both developments fell short of returning the global economy to the pre-crisis growth path. This was mainly due to the weakness in Europe and the much slower pace of expansion in the emerging market economies in particular. Specifically, global growth continues to be constrained by a number of old and new adversities including high debt and rising unemployment in many countries; geopolitical tensions and conflicts; the negative impact of commodity price shocks on commodity exporting countries; weak external demand; and the tapering and eventual exit of the US Federal Reserve Bank from quantitative easing; triggering sharp corrections in the financial markets. Consequently, global output rose by about 3.3 per cent in 2014, which was the same rate of growth attained in 2013. It is estimated to strengthen to about 3.5 per cent in 2015.

The Committee, however, noted many downside risks to the outlook. The Euro Area and Japan appear trapped in low inflation and low growth conditions. High unemployment and debt could persist much longer in the Euro Area in particular while a possible deflation is likely if inflation continues on the downward trend. The Committee also acknowledged the high likelihood of an increase in interest rates in the United States; which portends negative consequences for emerging and frontiers economies. Already, growth is moderating in most industrial countries and could further be dampened by the strengthening of the U.S dollar, more volatile capital flows and financial system vulnerabilities arising from currency depreciations. All of these could be compounded by increased geopolitical risks arising from the Ukrainian stand-off, militant terrorism, armed insurgency and the aftermath of the Ebola epidemic in some countries in the West African sub-region. Furthermore, the divergence between the US and Euro Area monetary policy stance, non-inclusive growth and the regional impact of falling oil prices with acute revenue shortages in countries like Nigeria, Venezuela and Russia add to the risk factors.

Evidently, the outlook for growth in the various economic clusters continued to be shaped by the identified risks and opportunities. The IMF projects the major advanced economies to grow at a modest pace of about 2.3 per cent in 2015, premised on the sustained growth in the U.S and some improvements in Europe. The decision of the European Central Bank (ECB) to continue with the existing provision of unlimited short-term liquidity as well as the implementation of new programmes will be critical to the global economic performance in 2015. For the emerging markets and developing economies, , growth could be modestly maintained in 2015 at about 4.3 per cent, driven essentially by domestic consumption and increased investment as net exports continue to moderate in response to softening commodity prices.

Inflation is not an immediate global priority as most of Europe and Japan grapples instead with potential deflation and high unemployment. The outlook for monetary policy suggests continued divergence amongst the various economic blocs. The Euro Area and Japan are expected to sustain this accommodative monetary policy stance while the U.S authorities appear to be leaning towards monetary tightening. Similarly, monetary policy is likely to remain restrictive amongst developing and emerging economies in order to stabilize their local currency, and to rein-in potential inflation pressures. The Committee was generally of the view that monetary policy play a pivotal role in restoring economic activity to optimum levels globally, especially when complemented by structural reforms, fiscal adjustments and better coordination of policy actions. In fact, current conditions call for engagement of multiple macroeconomic and structural policy levers.

Domestic Economic and Financial Developments

Output

The National Bureau of Statistics (NBS) estimated real Gross Domestic Product (GDP) growth rate at 6.23 per cent in the third quarter of 2014 compared with 6.54 per cent in the second quarter. The Committee noted the continued dominance of the non-oil sector, particularly Services which contributed 2.53 percentage points, Agriculture (1.21 per cent) and Trade (1.08 percentage point). The Committee noted with satisfaction the Federal Government's efforts to boost power generation and supply, among others, which would improve the economy's job creation prospects in the medium- to long-term.

The Committee was, however, concerned about the weakening contribution of the oil sector to overall growth, which is now being exacerbated by the rapid drop in oil prices since June 2014. In addition, the Committee noted that the security challenges in some parts of the country might also be contributing to the dampening effects on overall growth in the country.

Prices

Headline inflation at end-December 2014 was 8.0 per cent, which was within the range of 6.0-9.0 per cent benchmark for inflation set by the Central Bank of Nigeria. The inflation recorded in December 2014 reflects a reduction in core inflation, seasonal factors related to the Yuletide celebrations, as well as the stabilization in food prices. The Committee, however, recognized some upside risks to inflation in the near-term including the likely higher import prices on the strength of an appreciating dollar and possible food supply bottlenecks linked to insurgency and insecurity in some major agricultural zones of Nigeria.

Monetary, Credit and Financial Markets Developments

Broad money supply (M2) grew by 7.29 per cent at end-December 2014 over the level in 2013. This represented a marked improvement over the 1.32 per cent increase in 2013, but lower than the benchmark of 15.02 per cent for 2014. The relatively slower growth of total monetary liabilities (M2) reflected developments in both credit to government and the net foreign assets (NFA). During the period, credit to government contracted by 21.8 per cent, far below the growth benchmark of 28.4 per cent. Similarly, the NFA declined by 15.02 per cent. Credit to the private sector, however, grew by about 12.1 per cent, essentially pushing aggregate domestic credit growth of about 11.0 per cent. The weak performance of NFA was largely due to the lower oil prices with the attendant consequence of reduced accretion to external reserves. The Committee welcomed the posture of fiscal policy, which reflected in the decline in credit to government coming especially at a time when government revenue was greatly pressured by adverse oil price developments. The Committee noted that this orientation of fiscal policy would have an overall beneficial effect by leaving DMBs with greater room to support the real sector with the much-needed credit. The Committee encouraged the Management of the Bank to continue to implement measures aimed at providing support to enable increased flow of credit to the private sector.

Interest rates in all segments of the money market trended upward between 26th November 2014 and 13th January 2015. The interbank call rate opened at 8.98 per cent on 26th November 2014 and closed at 26.15 per cent on 16th January 2015. Similarly, the OBB and 30-day NIBOR increased from 10.2 and 11.38 to 23.46 and 11.63 per cent, respectively, during the period. The significant increase in these rates particularly for interbank and OBB was mainly due to the further tightening measures introduced at the November 2014 meeting of the MPC.

The Committee observed that the bearish conditions in the capital market continued as the equities market indicators trended downwards in the review period. The All-Share Index (ASI) declined by 16.1 per cent from 41,329.19 to 34, 657.15 between December 31, 2013 and end-December 2014. Similarly, Market Capitalization (MC) decreased by 13.2 per cent from ₦13.23 trillion to ₦11.48 trillion during the same period. The Committee noted that the downward trend has continued into January 2015 as, year-to-date, both have declined by 16.2 and 15.7 per cent, respectively. Although this phenomenon is driven by global economic conditions, in Nigeria in particular, the situation is exacerbated by the declining oil prices as foreign portfolio investors divest from the country. These developments call for closer monitoring and proactive interventions by all institutions concerned. The Committee reiterated its commitment to sustaining and deepening measures aimed at fostering confidence and stability in the financial system.

External Sector Developments

The Committee noted that significant pressure persisted in the foreign exchange market during 2014 resulting in further weakening of the Naira across the three segments of the market. The exchange rate at the rDAS-Spot opened at N157.34/US$ (including 1% commission) and closed at N164.08/US$, representing a depreciation of N12.34 or 4.28 per cent. The inter-bank selling rate opened at N165.7/US$ and closed at N180/US$, representing a depreciation of N14.73 or 8.63 per cent in the period, while at the BDC segment, the selling rate opened at N170/US$ and closed at N191.50/US$ representing a depreciation of N21.50k or 12.64 per cent.

Gross official external reserves as at December 31, 2014 stood at $34.25 billion compared with $42.85 billion at the corresponding period of 2013. The decrease in the reserves level was driven largely by increased funding of the foreign exchange market interventions to stabilize the exchange rate in the face of decline in reserve accretion. The country's external reserves as at the end of December, 2014 could finance 7.44 months of imports, which we considered very good given the average of 3 months of import that is the standard.

Considerations

The Committee noted with satisfaction the growth performance of the economy as well as the year-end inflation outcome. It was, however, concerned about a number of risks including the security challenge in parts of the country, which has continued to disrupt farming and related activities; and the sustained decline in oil GDP. With regard to inflation, the Committee noted the recurring challenge of excess liquidity in the banking system and the possible complications arising from capital flow reversal, as well as the demand pressure in the foreign exchange market.

On the external front, falling oil prices, slowing global output recovery, divergent monetary policy postures between the US and Euro Area as well as non-inclusive growth remain very important risks. The gradual normalization of monetary policy by the US Fed could exacerbate the current retrenchment of portfolio flows and increase pressure on currencies in emerging and developing countries including Nigeria.

In the light of the above considerations, the Committee observed that its decisions of November 2014 needed sometime for the effects to crystallize in the economy and therefore, voted to retain the current position.

Consequently, the Committee decided as follows:

Decision

(1) All eleven members voted to retain the MPR at 13 per cent; retain the CRR on Private Sector deposits at 20 per cent; retain CRR on Public Sector deposits at 75 per cent; and retain the liquidity ratio at 30 per cent.

(2) One member, however, voted for an asymmetric corridor around the MPR.

I thank you all for Listening

Godwin I. Emefiele, *CON*
Governor
Central Bank of Nigeria

<u>20th January, 2015</u>

PERSONAL STATEMENT BY THE MONETARY POLICY COMMITTEE MEMBERS

1.0 ADELABU, ADEBAYO

Developments in the macroeconomy at end-December 2014 revealed intensification of weakness to adverse global economic conditions. Apart from inflation, which was contained within the single digit target of the Bank, almost all other key macroeconomic indicators exhibited one form of weakness or the other. The aggregate growth of GDP at the end of third quarter of 2014 could be adjudged fairly impressive but the renewed plunge in oil GDP is a cause of serious concern. Despite measures taken at the November 2014 meeting, significant volatility and pressure were evident in the financial market particularly in the foreign exchange market. The pressure in the foreign exchange market not only resulted in the exchange rate at the r/WDAs veering off the 5 per cent band but it equally created wider divergence in rates across the three segments of the foreign exchange market. Similarly, considerable volatility was exhibited in the money markets as both the inter-bank and Open

Buy Back (OBB) rates ascended to a new height, far above the ceiling of the Monetary Policy Rate (MPR).

An assessment of the near to medium term outlook does not suggest that the underpinning factors would die out soonest. The pressure in the foreign exchange market is largely due to a variety of issues. First, the softening oil price has not only reduced accretion to external reserves but has led to erosion of sentiments in favour of the country with the latest being the placement of the Federal Government bond under watch by JP Morgan.

Some analysts have projected that the weakness of oil price may bottom out by the second half of 2015 based on the assumption that marginal shale oil producers may exit the market due to inability to break even. My take is that this thesis should be taken with cautious optimism given the unfolding developments particularly the position of Saudi Arabia to continue pumping oil regardless of OPEC's stand with respect to supply cut. This is a clear signal that supply glut may persist, at least up to mid-2016. In relation to this is the sluggish recovery in key advanced and emerging economies. Latest data from the IMF is indicative that the Euro zone is not completely out of the wood even with series of monetary easing measures by the European Central Bank (ECB) while China is expected to post about 7 per cent growth rate in the near term compared with an average of 10 per cent in the decade preceding the global financial crisis. This invariably suggests that global demand for crude oil would be shrinking in the face of expanding supply.

Apart from the effect of crude oil, the stance of monetary policy in the US is also a key consideration. After about three years of monetary easing, normalization of monetary policy by the US Federal Reserve is anticipated by the second half of 2015 as labour market firms up. This would invariably scale up retrenchment of portfolio flows in developing and emerging economies including Nigeria, thus, accretion to external reserves could show further slowdown. The conditions in the money markets suggest some elements of fragility. Given the pressure in the foreign exchange market coupled with the demand for the Standing Deposit Facilities (SDF) of the Bank, the spikes in the interbank rates following the November 2014 meeting could not be possibly due to tightness of the market alone. Other risk elements particularly elevated counter party risk could probably be at play.

In addition, the benign inflation outcomes appear vulnerable to set back as economic agents continue adjustment to key measures, particularly change in the mid-point exchange rate, taken at the last meeting. Upside risk to price level in the domestic environment is further complicated by election related expenditure which is expected to heighten in the first quarter of fiscal 2015.

In the light of the foregoing, my take is that the tightening mode be sustained. I would be cautious to introduce further measures in the light of monetary policy transmission lag as empirical evidence suggests that actions of monetary authorities take between 18-24 months to permeate the entire economy. In other words, in spite of the seemly intensification of risks, it may be in order to wait and ensure that the far reaching measures taken in the November 2014 meeting completely transmit to the economy in order to avoid time inconsistency challenge.

Based on the foregoing, I vote for the retention of all monetary policy measures in place.

2.0 ALADE, SARAH O.

This first MPC of 2015 is expected to set the tone and anchor expectation of monetary policy direction for the year and send a strong message to the market on the readiness of monetary policy to weather the storm under the current falling oil prices and dwindling reserves. Headline inflation ended the year at 8 percent, but GDP growth for 2015 has been downgraded to about 5 percent on the back of low international oil prices the main source of revenue for the economy. On the global scene, there are mixed results, while the low oil price will give boost to global growth, the boost will be offset by the effects of declining oil price on oil exporting countries and weak investments in some advanced and emerging economies such as China, Russia and the euro area. These developments suggest that monetary policy should give considerations to both global and domestic development, thus a hold on Monetary Policy

Rate, Cash Reserve Requirement in other not to strangle domestic growth.

Headline inflation ended the year at single digit, underpinning the strength of monetary policy throughout the year. Headline inflation ended 2014 at 8.0 percent in December, making it the twenty four consecutive months that inflation has remained at single digit. Core inflation on the other hand decreased from 6.3 percent in November, to 6.2 percent in December. Food inflation increased marginally to 9.3 percent in December, from 9.2 percent recorded in November due to festivities spending. All major inflation indices, headline, core and food inflation remained at single digit for the whole of 2014, a remarkable achievement for the country and for monetary policy. Despite the risk posed by the declining oil prices and the implication for the economy, staff projection suggests a benign outlook in inflation in the coming months. Therefore, inflationary pressure is not a concern in the short term.

The decline in global oil price will pose downside risk to Gross Domestic Product (GDP) Growth. The declining oil price and the resultant reduction in revenue and negative terms of trade shock will imply significant downside risk to GDP growth in 2015. New estimate for GDP growth in 2015 is between 4.8 and 5.2 percent. Although this is still within Sub-Saharan Africa GDP estimated average of 4.9 percent for 2015, it is low for Nigeria that has maintained an average growth rate of 6 percent for the last ten years. The decrease will come mainly from cutbacks in growth-enhancing capital expenditure as revenue from oil decreases and government implements austerity measures. These developments suggest that both global events and domestic challenges pose huge challenge to growth in the coming months.

Past monetary policy actions should be allowed to take full effects before further action is taken. Money policy action taken at the last MPC to stabilize the market should be monitored before taking further action. Interest rates in all segments of the money market trended upward since the last MPC, between 26th November 2014 and 13th January 2015. The interbank call rate opened at 8.98 percent on November 26 2014, after the MPC meeting and closed at 26.15 per cent as at January 16, 2015, signaling the effect of the policy action on the market. Similarly, the Open Buy Back (OBB) and 30-day NIBOR increased from 10.2 and 11.38 to 23.46 and 11.63 per cent, respectively during the period. The significant increase in these rates particularly interbank and OBB was mainly due to the tightening measures introduced at the November MPC. In addition, lending rate on consumer loan increased between 200 to 300 basis points. While the decisions were intended to stabilize the exchange rate and conserve reserves, considerations should also be given to domestic growth concerns.

Momentum to global growth is mixed but more balanced on the upside than in 2014. The IMF in its January 20th 2015 World Economic Outlook (WEO) projected global growth to 3.5 percent in 2015 up from 3.3 percent recorded in 2014, boosted by lower oil prices as a result higher supply. There are marked divergences among countries both in terms of growth and monetary policy. While the USA is experiencing increased growth and winding down its accommodative monetary policy stance, the euro area and Japan are trapped in low inflation, low growth path with accommodative monetary policy. Overall, the main upside to growth is the lower oil prices, although no one is sure on how long this would persist. On the downside, the shift in sentiment in global financial markets, especially for oil exporting countries where lower revenue have introduced some external and balance sheet vulnerabilities. Under these uncertain conditions, monetary policy at this time should be focused at minimizing the downside risks and restoring confidence in the economy.

Against this background, I support the retention of the current stance of monetary policy. I vote for no change in Monetary Policy Rate at 13 percent, retain Private Sector Cash Reserve Requirement (CRR) at 20 percent, retain Public Sector Cash Reserve Requirement (CRR) at 75 percent and retain Liquidity Ratio at 30 percent to address both growth and macroeconomic concerns.

3.0 BALAMI, DAHIRU HASSAN

Global Economy

The most significant development in the international economy is that crude oil prices had fallen significantly further during month of November 2014 to mid-January 2015. This could be attributed to the demand and supply factors, although a compendium of conspiracy theories does exist. It is pertinent to note also that during the month under review, some non-oil commodity prices had also weakened significantly. For example agricultural prices had fallen by 9% after a bumper harvest in North America and other parts of the world. In the same vein, the price of industrial metals price had fallen by about 2% during the month of December.

At the international level, there has been downward pressure on inflation rates around the world. In terms of growth, the United States' economy GDP had been revised upward. The growth performance is also witnessed in Germany as the country's output had bounced back after contraction in the second quarter of last year. However, a different manifestation of economic performance was witnessed in Japan as the country's GDP was estimated to have fallen by 4% in third quarter of 2014. In China, economic activities had continued to grow at a slower rate than seen on average since the end of the financial crisis.

In the months of November, down to mid-January, the international economy has witnessed lower inflation rates. This necessitates emerging economies like China to review the country's interest rate downward. In the Euro zone inflation had also fallen to 3.3% in November, with further reduction in December 2014. Re-assessment of growth prospect of oil exporting countries by investors, have contributed to capital out flows and recession. It should be noted that current development in the United States of America's economy is not likely to have any substantial effect on the Nigerian economy. This is largely because the United States of America has stopped patronizing Nigerian crude oil.

At the Domestic Level

With the local economy, the level of growth is expected to be around 6.5%. The local economy had witnessed considerable challenges which more often than not with vigorous polices had been surmounted to the barest minimum. These challenges include but not limited to the following: security in the north-east region; falling oil prices; lower foreign reserve; volatility in the exchange rate; outflow of reserve, and election expenditure.

It is my candid opinion, to put the economy in a proper state and to ensure that all economic buffers are appropriately aligned the following variables that could hamper financial system stability should be addressed.

(i) Continuous falling oil prices
(ii) Risk of rise in Non-Performing Loans
(iii) Loan concentration
(iv) Macroeconomic Issues (*pressure on the exchange rate, Rising inflation and unemployment*).

In view of the above, there is need for monetary policy management to be put in place Policies of reassessing inherent risks and associated costs with the above mentioned variables. It is expected that when the current polices put in worked itself through, the results will be positive in terms of stabilizing the economy. There is the need to put the major variables under close watch in the days ahead.

On the basis of the above I vote to retain the following:

(i) MPR-Retain the MPR at 13%
(ii) MPR Corridor- Maintain +/- 200 basis points
(iii) CRR- Retain the CRR at 20%
(iv) Liquidity Ratio- Retain the 30%
(v) FX Rate Mid- point retain at N168/U.S$
(vi) FX band be maintained at +/- 5 point basis.

4.0 BARAU, SULEIMAN

Introduction

I entered the 242nd Monetary Policy Committee with the due realization that every crisis comes with its opportunities. If the current drop in oil price is to be seen in the context of a crisis, then it also provides opportunity for us to, as it often said, "bite the bullet". I'm therefore convinced that we need to articulate more strategic and radical response to the issues confronting us and the current meeting provides the opportunity for us to throw up and discuss these strategic responses rather than an opportunity to prescribe tactical responses in a rather rash and not well thought through fashion. I therefore think that this is the time to hold policy actions where they are.

Review of Current Developments

The following key issues continued to confront the MPC:

- Declining oil price. Oil price closed at $48pb for Brent Futures on 19/1/15 a decline of 50% since June 2014, riding on unprecedented production coming from the oil fields in the US. The sustained decline in oil price in the last few months has threatened the efficacy of policy because of its effect on government revenues, level of foreign reserves, foreign portfolio flows and ultimately the exchange rate.
- Sustained disturbing developments in the global economic environment. The IMF just reviewed its global growth forecast for 2015 from 3.8% to 3.5% it projected in October, 2014. This downgrade is coming on the back of the fact that weaker

anticipated investment would more than offset whatever benefit declining oil price will have on the non-oil producing economies. The US economy demonstrated a strong rebound in 2014. However, the developments in the Euro area and Japan continued to be disturbing. These were compounded by sanctions on Russia and the effect of decline in commodity prices on the fortunes of other emerging and frontier economies. China's GDP growth in 2014, as an example was 7.4%, the slowest level since 1990.

- These key issues also confronted the MPC to a lesser degree and elicited its response at the last meeting. In my view the measures taken by the MPC at the last meeting produced the following results.

  - Inflation was stable. Year-on-Year Headline Inflation (HI) marginally increased to 8% from 7.90% in December and November respectively. YoY Core Inflation (CI) however declined from 6.3% to 6.2% respectively on account of reduction in the Education and Housing, Water, Electricity, Gas etc segments. YoY Food Inflation (FI) was literally flat while Imported Food Inflation increased from 7.98% to 8.16% during the review period on account of substantial pressure from other Edible Oils segment.

- In effect, the various measures taken by the MPC and implementation of these produced the desired result.

- The exchange rate continued to come under speculative pressure. This was and continues to be supported by existence of sustained liquidity in the banking system. The Naira depreciated by 7.90%, 12.57% and 11.34% in rDAS, Interbank and BDC segments respectively. The adjustment and widening of the reference band for rDAS from 3% to 5% around the midrate and the adjustment of the midrate from N155/USD to N168/USD should have narrowed premium between the three market segments and reduce aggregate demand for foreign exchange. However the speculative demand supported by systemic liquidity has elicited the reverse outcome; widening of premium and increased demand across all market segments. Rates closed at N169.68, N180.00 and N191.50/USD at rDAS (effective), Interbank and BDC respectively on 31/12/14. There still exist pressures on exchange rates in the interbank and BDC segment with rates trending above N181 and N191/USD respectively. The major driver for the speculative demand continues to be the decline in oil price. It is normal for market operators to panic during periods of oil price declines. It is however unjustifiable for operators to decide the rate at which Naira should be exchanged without any due consideration of CBN's assurances and determination to meet legitimate demand, the decent levels of foreign reserves (over $35 billion) and in circumvention of various complementary measures taken to check abuses. In my view there are four factors driving this unjustified market behavior.

- Market distortions and imperfection that has created a window for arbitrage and rent seeking.

- Existence of implied subsidy at rDAS window which has supported or exacerbated this arbitrage. A determination has to be made as to whether the benefits of rDAS outweigh the costs. The benefits are that in view of abuses observed, we should facilitate unfettered access by legitimate buyers of foreign exchange for healthy growth of the economy. The unintended cost includes fueling of arbitrage, creation or perception of a subsidy window by operators and absence of a unified and market determined exchange rate.
- Existence of sustained market liquidity.
- Sustained tendency by operators to continue to exploit the foregoing in order to make easy profits.

- In my view, MPC should take a strategic decision as to whether it is in the overall interest of the national economy to allow these tendencies and subsequently elicit appropriate responses.

- The level of foreign reserves continued to be impressive. At the $35.4 billion, though lower than prior year period level, compares well with $35.2 billion and $34.2 billion in November and December 2014 respectively. The supply issues that impacted negatively on accretion to reserves include reduction in oil price, reversal of portfolio flows and reduced production/oil theft. At the same time we witnessed unjustified increase in demand due largely to speculative tendencies that have rather been supported by sustained liquidity and the desire of operators to make quick profits. The desired adjustment in the mid reference rate for rDAS from N155 to N168/$, and the ensuing depreciation in the interbank and BDC segment have shockingly aggravated rather than stem the demand pressures.

- Similarly, a review of the flows into and out of our foreign reserves shows that total inflow in 2014 was $54.8b. Staff estimates also showed that utilization during same period was $65b compared to slightly over $32b five years ago. It is therefore clear that the significant rise in the demand for foreign exchange in the last few years are for reasons other than those directly related to the growth in national output. It is obvious that the current foreign exchange windows have supported increasing appetite for acquisition of foreign assets, increased use of foreign currencies as store of value and increased appetite for consumption of foreign made goods. These justify the demand measures taken by CBN and the need for more measures in the face of the current realities in order to elicit exchange rate stability.

- Current level of systemic liquidity remains a concern to me. Volatilities in money market rates are also a concern. These volatilities are aggravated by the monthly FAAC allocations and have in a way supported swings in liquidity and pressure on the exchange rate. Smoothing the effect of FAAC disbursements on systemic liquidity, which appears feasible and desirable, must be part of the strategic response to our exchange rate management equation. Another strategic issue to resolve relates to determining the level of liquidity that is not harmful to financial stability. In other words should any liquidity beyond the minimum required ratio of 30% be considered undesirable in the context of the current pressure on exchange rate? If this is so, then we clearly need to take this out using the most appropriate instruments available and in the context of the need to concurrently ensure financial stability.

Challenges/Outlook

These include:

- Uncertainty with respect to the direction of oil price. Further decline will complicate policy
- Continued pressure on the exchange rate due largely to continued speculative attack
- Continued downward pressure on foreign reserves.
- The risk of increased fiscal deficit given the limited room for radical cut in projected expenditure.
- Impact of sustained liquidity on inflation and exchange rate.
- Upside risk to inflation as shown by staff estimates.

- Other challenges such as high lending rates and the need for increased lending to the real sector.

Conclusion

The current realities and the above challenges/outlook call for deeper and more strategic response to the issues. I believe that the traditional spaces for tactical responses are rather limited for us.

In the light of this, I have decided that the best course of action for now, and in further reflection of the overall success of policy, is to hold the tight monetary policy actions where they currently are.

Recommendation

I have therefore voted to hold:

- MPR at 13%
- Private sector CRR at 20%
- Public sector CRR at 75%
- Symmetric corridor at minus and plus 2% around the MPR for SDF and SLF respectively.

5.0 DANIEL-NWAOBIA, ANASTASIA

The recent slowdown in the global oil industry leading to declining oil prices and dwindling reserves made it imperative for the Monetary Policy Committee (MPC) to realign the value of the Naira from a previous band of USD-NGN155 (+/-3%) to a new band of USD-NGN168 (+/-5%) at its November, 2014 meeting. The fear of a further depreciation of the naira as oil prices continued to fall may induce current portfolio holdings to exit rapidly in order to avoid future loss in value while potential investors may hold off speculatively to gain on weak Naira. Policy tools that will stabilize the Naira should therefore remain the primary focus of monetary policy in the short run.

The Nigerian economy is projected to grow by 6.1 and 5.9 per cent in 2015 and 2016, respectively. The positive outlook is based on sustained implementation of the on-going economic reforms through the Federal Government transformation agenda, which is expected to continue to stabilize and support various macroeconomic policies. The continued implementation of the power sector reform, as well as the accompanying investments in the sector is expected to improve power generation and supply. However, the continued slow recovery in the developed countries, slowdown in China, tighter global financial conditions, declining oil price and terrorism may constrain growth in 2015.

The headline inflation rate has remained in single digit consecutively for twenty four (24) months since January, 2013 confirming the effectiveness of the sustained tight monetary policy adopted during the period. Projections indicate that for the next six months, the year-on-year headline inflation will accelerate from 8.0 per cent in December, 2014 to 8.6 per cent in January 2015 and further to to 8.8 per cent in March, 2015 and 9.4 per cent in June 2015, respectively. Thus, inflationary pressure is expected to intensify in the coming months. In particular, the exchange rate pressure could induce higher core and imported inflation while the food supply shock arising from disruptions to agricultural activities on the back of insurgency in the North- East could negatively affect food inflation.

However, reduction in pump prices of petroleum could moderate inflationary pressures.

Gross official reserves as at December 31, 2014 stood at US$34.25 billion compared with US$42.85 billion at the corresponding period of 2013. The decline in the reserves level was driven largely by increased funding of the foreign exchange market interventions in the face of decline in accretion to the reserves.

Given the continued demand pressure on foreign exchange, coupled with the declining oil prices as well as the dwindling reserves, efforts need to be made to minimize speculative demand and stabilize the exchange rate in the short run.

The key challenges to monetary policy currently remain: excessive liquidity in the banking system; pressure on the exchange rate and decline in external reserves. Also, as emphasized in my last statement, efforts need be made towards addressing the issue of high lending rates as well as ensure the flow of credit to the real economy in order to engender growth and create employment.

Given the current challenges to monetary policy, I will advise that the current monetary policy stance be sustained. However, policy measures should be put in place to address the dwindling foreign exchange reserves and engender the stability of the naira exchange rate.

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 Private sector CRR should also be retained at 20 per cent, given the current banking system liquidity profile. The policy relating to 75% CRR on public sector deposits should also be sustained in order to discourage banks' reliance on such deposits.

(iii) The liquidity ratio should be retained at 30 per cent.

6.0 GARBA, ABDUL-GANIYU

I am still convinced that "far too much is expected of monetary policy in Nigeria and globally today" in the context of the extant institutional environment, market malfunctions, fiscal operations, fiscal dominance and the underlying games (state and non-state). I also maintain a preference for (1) a forward-looking creative and strategic approach to monetary policy; (2) systemic and forward looking monetary-fiscal coordination that strengthens both fiscal and monetary policies to deliver low-inflation and high employment elastic growth and (3) building the capacity of the economy to seamlessly (i) transit from the globalized regimes of quantitative easing to a post-quantitative easing regime and (ii) exit from the high interest rate trap.

Given that interest rate corridors and exchange rate corridors are the core of a Hong Kong type monetary framework, the short term requires addressing key vulnerabilities (the fiscal and political risks) and the "arbitrage gap" particularly between the RDAS and Interbank markets. There is obvious evidence of speculative currency substitution. In the short term, the challenge is that of closing the arbitrage gap by changing the auction system from one that is historically inefficient and tends consistently to widen spreads and shatter the ceiling of the exchange rate corridor. It is “most critical” to make the necessary market functioning adjustments through institutional changes of the rules of the game and underlying incentive structures. Further tightening are unlikely to potently correct the fundamental market structure and market function problems. This was why I argued at the last MPC in November 2014 that: “market segmentation and arbitrage spread make arbitrage, currency substitution, sharp practices and short positions rational . . . Auction theory is clear that in repeated auctions such as RDAS/WDAS, the likelihood of collusion is very strong. Indeed, at least three Nigerian studies have provided strong evidence of collusive behaviours in Nigerian foreign exchange auction markets.” I had argued that it was important “to ensure that the auction systems in the financial markets are no longer rigged against the goals of monetary policy or the commonwealth. The Monetary Policy Implementation process would support policy effectiveness if it gives priority to quick detection and punishment of collusive behaviours.”

I still stand on my argument. It is important support the policies at the last MPC by actively and decisively correcting the market failures that work together to guide financial markets further from policy goals. In the short term therefore, the more potent tool in my reasoned view is changing the forex game by institutional and operational changes that eliminate the arbitrage gap and the leakages. Removing the subsidy in the forex market is an important first step. However, it must be backed by an efficient and effective operational system for ensuring that all players play by the rules and infractions are such that the net potential gains are negative.

In addition, I am convinced that an asymmetric corridor is more effective than quantitative restrictions on the SDF window. The argument is that (1) if MPR in the interest rate corridor framework is a signal to players about the desired level of the interbank rate; (2) if the desired interbank rate in the interbank market is expected to impact on aggregate demand and inflation through short term interest rates, then (3) the shrinking of the interbank market in 2013-14 weakened policy effectiveness and efficiency of the market as an allocative and rationing device. An asymmetric corridor with plus 200 basis points on SLF and -600 basis points on SDF without any quantitative restrictions is a better incentive to the DMBs than quantitative restrictions. I believe the asymmetric corridor has a greater likelihood of reducing pressures in the foreign exchange market and in stimulating play in the interbank market.

The real challenge for economic management (monetary, fiscal and political economy) still remains that of steering the economy seamlessly through the turbulence of a post quantitative easing era. The turbulence will not be limited to commodity prices and currencies. It will more likely involve asset prices, volatile financial flows in response to policy and performance divergence between the US and its European and Japanese allies and policy shocks like the "SWISS Shock" of January 15 as Central Banks act to minimize perceived potential damages that expected policy and market outcomes could inflict on their national interests.

I will continue to argue for (1) the institutionalization of a purpose driven rule-based and performance oriented forward looking fiscal strategy and budgeting system and (2) the elimination of distortions that undermine markets, the fiscal system and monetary policy. I am still convinced that the economic circumstance of Nigeria today is best viewed as an opportunity for policy makers on the monetary and fiscal sides to work together to build medium to long term resilience of the economy through creative approaches to vulnerabilities, systemic coordination, commitment problems and market functioning problems. It is more difficult if not impossible to walk efficiently, effectively and sustainably on one foot.

7.0 LAWSON, I. STANLEY

Global Economy

During year 2014, the global economy experienced a fragile recovery as it grew marginally from 2.5% recorded in 2013 to 2.6 %. The recorded growth level of 2.6% fell below the initial projection for 2014, a common pattern of disappointing outcomes that has spanned a few years now. The international economic landscape was shaped by several major political and economic developments occurring together in the year 2014. Specifically, there were significant corrections in the financial markets due to the exit of the US Federal Reserve Bank from its quantitative easing program. There is also the issue of the obvious widening economic and monetary policy divergence among the leading economies of the world. The implications of these economic and monetary policy divergences among the major economies can be broadly seen in the appreciation of the US dollar to about 6% during the year, as against the depreciation of the euro by 2%, and the Japanese yen by 8% during the same period. Also the currencies of several emerging economies and some crude oil exporting countries have been severely weakened during the period leading to volatile capital flows and financial system vulnerabilities in these areas. Geopolitical tensions and armed conflicts have also contributed significantly to the constrained global growth during the period. The sharp drop in crude oil prices during the period has also led to acute revenue shortages in countries like Nigeria, Venezuela and Russia. All of these risk factors have led to weak external demand; high debt and rising unemployment in many countries (both industrialized and developing); and a near deflation situation in the Euro area and Japan.

In terms of performance of the major economies across the world, the United States of America and the United Kingdom recorded moderate growth in the year 2014. China continued to experience a phase of managed slowdown with its growth rate in 2014 standing at 7.4%, whilst in the Euro area and Japan, the risk of protracted stagnation or deflation still looms large. The foregoing downside risks to global economic growth, combined with rising geo-political tensions and increasing threats to financial markets in the emerging and frontier economies have resulted in the global economy experiencing moderate but uneven growth in 2014. The poor global economic outcomes across the various regions of the world have resulted in the World Bank recently lowering its forecast for the 2015 global economic growth to 3%. Even at that, global economic growth may be further worsened by several on-going and escalating regional crises around the world.

Domestic Economy

On the domestic front, our national economy declined marginally between the 3rd Quarter and the 4th Quarter of 2014, as a result of the sharp drop in the price of crude oil to about $58 by the year end. The resultant reduced revenue profile of the country and the attendant consequence of reduced accretion to external reserves put a lot of pressure on the exchange rate during the period. The supply gap in the foreign exchange market widened substantially and huge arbitrage opportunities naturally led to currency substitution and the dollarization of domestic bank deposits. Despite several policy and administrative measures taken by the Central Bank of Nigeria, our external reserves was substantially depleted from $42.85billion at the end of 2013 to $34.25billion at the end of 2014.

Inflation during the period remained relatively stable and stayed all through within the range of 6.0-9.0 per cent benchmark for inflation set by the Bank. Headline inflation in December 2014 was 8.0 per cent. In the money market, the interbank call rates, the open buy back rates, and the 30-day NIBOR rates moved up substantially towards the end of 2014, but dropped back to previous levels by the 2nd week of January, 2015.

Though our domestic economic outlook as represented by the 2014 growth performance and inflation outcome appears satisfactory, several existing and unfolding internal and external risk factors pose a cause for concern and need to be closely monitored. Internally there are issues like security challenges in parts of the country, the recurring challenge of excess liquidity in the banking system, the demand pressure in the foreign exchange market, the ever increasing arbitrage opportunity that exists in the market, and the possible complications arising from capital flow reversal. On the external front, there are issues like the falling oil prices, slowing global output recovery and the divergent monetary policy postures between the leading economies of the world.

Conclusion

Flowing from the foregoing, it is my honest view that the decisions reached at the Committee's meeting of November, 2014, and the administrative interventions in the foreign exchange market made subsequently by the Management of the Central Bank of Nigeria be sustained. At this time, I am inclined to permit the allowance of time for the maturation and objective assessment of what I consider to be well-reasoned decisions of the Committee at its meeting of November 24 and 25, 2014. Though the recent downward fall in crude oil price poses a major challenge and shift in the country's revenue profile since the last MPC, most of the other risks and opportunities in the global and domestic economic environments, earlier identified during the Committee's meeting in November, 2014, have not changed significantly. While I vote for the retention of all indices at this time, I am mindful of the need to closely monitor the internal and external risk factors I have highlighted with a view to taking proactive and stringent monetary and fiscal measures as and when they become necessary.

Consequently, I vote as follows:

i. Retain the MPR at 13 per cent;

ii. Retain the CRR on Private Sector deposits at 20 per cent;

iii. Retain CRR on Public Sector deposits at 75 per cent; and

iv. Retain the liquidity ratio at 30 per cent.

8.0 UCHE, CHIBUIKE U

At the November 2014 Monetary Policy Committee meeting, far reaching steps were taken to tighten money supply in our mono product oil dependent economy. Specifically, the meeting increased MPR by 100 basis points from 12.00 to 13.00 percent; and increased CRR on private sector deposits from 15.00 to 20.00 percent. Despite the above, MPC still considered it necessary to move the midpoint of the rDAS exchange rate from US$155 to US$168 and widen the band around the exchange rate midpoint from +/- 3 percent to +/ - 5 percent. Such measures were at least in part necessitated by the sliding oil prices which put pressure on our balance of payment and foreign exchange reserve.

Although at the time I supported monetary tightening, I was of the opinion that this could be better achieved through the implementation of the Treasury Single Account. Specifically, I voted for an increase in CRR on public sector deposits from 75 percent to 100 percent. At the very least this could help minimize the anomaly where government departments and agencies hold huge amounts of money in current accounts attracting little or no interests while at the same time borrowing funds at double digit interest rates from banks. More important however is the fact that it will also encourage banks to focus on their core mandate of intermediation and thus begin to engage more actively with the real sector of the Nigerian economy. It was on the basis of the above that I was pleased to learn that the Federal Government has now set a deadline of end February 2015 for the full implementation of the Treasury Single Account.

The implication of the above is that money supply will be further tightened before our next MPC meeting in March 2015. Since we are yet to see the full effect of our November 2014 decisions and in the light of the above expect further tightening of money supply, I consider it unwise to advocate for further tightening at the present time.

The above however does not detract from the fact that these are indeed very difficult times for monetary policy formulation in Nigeria. As already mentioned, a major threat to the Nigerian economy and indeed to the formulation of effective monetary policy is the relatively low international crude oil prices that have persisted for some time now. This clearly has put pressure on the country's exchange rates and reserves. Equally important is that this undesirable trend has the potentials to threaten banking system stability in Nigeria. This is obvious especially given the rentier nature of our economy.

In the light of the above, I am of the humble view that the only way to ensure monetary stability in the medium and long term is to diversify our economic base. Although this may not be easy especially given the fact that the current unhealthy situation has existed for decades, I believe that it should be possible. I also believe that monetary policy has a role to play in promoting the above goal. A starting point will be to discourage the attraction of short term foreign capital/ portfolio inflows into the country. With respect to the above, few will disagree that such portfolio inflows are unhelpful to our long term economic growth and development. Although such portfolio inflows may have helped to sustain the value of our local currency in the past, this was only for a time. Within the last year, we have increasingly witnessed the negative effects of the volatility of such portfolio flows on our Naira exchange rate. It is obvious that the main motivating factor that influences the investment behavior of portfolio managers is the pursuit of profit. The sophistication and complexities of today's financial markets have made it easy for portfolio fund managers to exploit international investment regulations and interest rate arbitrage in their pursuit of profit. From experience, we also know that increasing interest rates in order to retain such foreign capital is both unhealthy and unsustainable.

In the light of the fact that we have for some time been witnessing net foreign capital outflows, there can be no better time than now to begin to introduce some measure of capital account control in our economy. At the very least, incoming portfolio investments should be made to stay in our country for a minimum of one year. Capital that exits before one year should be seen as speculative capital and punished as such. If adopted, such a policy should not be retroactive. It should therefore not affect existing foreign capital currently invested in Nigeria.

Another major concern for me is the widening gap between the rDAS and interbank exchange rates for the Naira. It is not my intention to comment on the wisdom of subsidizing foreign exchange for preferred sectors of an economy. My concern in this report is the fact that banks are taking advantage of the arbitrage opportunities to *roundtrip* the subsidized foreign currencies to the detriment of the objectives set out by the government subsidy policy. This in my view is economic sabotage and should be treated as such. Unless offenders are appropriately punished, there is little chance that such government policies will ever achieve their set objectives.

Another major concern that we should try to address is the increasing margins between deposit and lending rates charged by commercial banks. Reducing the rates of interest charged on loans and advances is critical to the need to encourage lending to the real sector in order to diversify our economy away from its overdependence on oil rents. Since inflation is still in single digit territory, it is my humble opinion that there is room for a gradual reduction in the current levels of interest rates on loans and advances.

In the light of the above factors, 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 on private sector deposits at 20 percent; (3) to retain CRR on public sector deposits at 75 percent, and; (4) to retain Liquidity Ratio at 30 percent.

9.0 SALAMI, ADEDOYIN

Even though prices were recorded to have risen 8.0 percent in December 2014 compared with 7.9 percent the previous month, this was yet another meeting where the rate of increase in prices weighed least on my mind. Past interventions had put downward pressure on the rate of increase in general prices thereby keeping inflation within the target band of 6 – 9 per cent.

Simply stated, how should Nigeria's monetary policy react to an uncertain global environment? Notwithstanding moderate inflation and robust output growth, domestic policy would have to respond to the challenges posed by international and domestic uncertainties. Despite the diversification of output, Nigeria remains vulnerable to external shocks transmitted through oil-dependent exports and capital flows. While the impending elections create domestic uncertainty, lack of clarity about the specifics of policy reaction to external developments pose arguably the biggest internal doubt.

Even though the Federal Government had presented its budgetary proposals to the National Assembly for consideration, the pace of external events had overtaken the proposals. The oil price assumption in the budget, though revised downward to US$65/barrel from the US$75/barrel set out in the Medium Term Expenditure Framework, looks optimistic in the light of current realities. What is clear is that unless the current characteristics of the external environment improve significantly in the short term, the year ahead will be very challenging.

In reflecting on the decision at this meeting, 2 issues dominate my thinking –

(i) The outlook for the external environment; and
(ii) The need to ensure internal coherence and consistency of policy that safeguards the hard won credibility of Monetary Policy in Nigeria.

With regard to the influence of the external environment, it is clear that its direction is unfavourable to Nigeria – fragile growth, lower oil prices and a stronger US Dollar. In consequence of this, my expectation is for pressure on the Naira as export earning diminishes significantly leading to a Current Account deficit. The expected outflow of Foreign Portfolio investment capital is well underway.

In this context, I have recently argued that monetary policy will have to choose between continuing to keep the currency stable as a means of lowering price pressures; and allowing a weaker and more volatile currency in order to enable monetary policy escape the present constraints and exert greater discretionary influence on the cost of capital. The issues of domestic policy reaction to developments in the global environment are complicated by the approaching election. In my view, 2015 will divide into 3 distinct periods as far as policy management is concerned. Q1 will see a complete shift from Policy to politics. Between March and August, there will be a transition. Policy normalcy will only be restored in the latter part of Q3-2015. If I am correct, monetary policy will have its work cut-out in the months ahead.

The uncertainty of the outlook for Crude Oil prices and the domestic fiscal policy reaction suggests to me that a greater premium should be placed on the conservation of FOREX reserves in contrast to maintaining a stable exchange rate. Trying to maintain a stable exchange rate whilst conserving FOREX reserves by continual resort to administrative measures and moral suasion – especially, when external conditions are unfavourable and there is a price differential in excess of 20 per cent between the 'official' and Bureau de Change segments of the FOREX market - is not only based on an unduly optimistic view of human nature, it is market distorting! Furthermore, it runs the risk of incoherence which markets will doubtlessly interpret as reactionary, destabilizing and consequently lacking in credibility!

Whilst it is already clear that Nigeria will have to adjust to the emerging trends in the global and local environment, the absence of clarity around the domestic and external outlook suggest that we retain the status-quo and wait to get a greater sense of magnitudes.

10. YAHAYA, SHEHU

I vote to maintain the current monetary stance: MPR at 13%, along with the symmetric corridor of +/-2%; CRR for public sector deposits at 75%; CRR for private sector deposits at 20%. It is also critical that steps are taken to address the gap between rDAS and the inter-bank rate in the foreign exchange market to reduce opportunities for arbitrage and to stem speculative demand. My reasons are outlined below.

Global Economic Developments

The dominant factor affecting the world economy is the dramatic fall in crude oil prices due to both demand and supply factors. Moreover, the prognosis is that prices are expected to remain low for some time, probably beyond mid-year. While the fall in prices could have a marginal overall positive effect on global growth as well as in Africa, it definitely adds to uncertainty, elevates many risks and complicates the deflationary challenges facing Japan and many countries in the Eurozone.

Growth in the US is strengthening along with falling unemployment. The prospect of rising interest rates posits additional challenges to the capital markets and reserves of emerging and developing country economies. Moreover, growth recovery in the US will mainly have a positive effect on countries that can take advantage of the opportunity to expand exports to the country, especially given the rise of the US dollar against most major currencies. However, the strengthening of the US dollar will impose an additional burden on many developing countries with respect to debt service for foreign country loans.

Growth in the Eurozone has still not gained traction and unemployment remains a challenge. There are near-term prospects for a commencement of a government bond-buying program. QE continues in Japan and is commencing in China. There are positive signs of recovery in South Africa, which will be assisted by the fall in oil prices. Prospects for growth in 2015 are good for particularly the non-oil exporters in Africa and the opportunities for expanding intra-African trade should be explored.

Global food and general prices are expected to remain low for some time.

Developments in the Domestic Economy

Crude Oil Prices

The main challenge for the Nigerian economy is the collapse of crude oil prices and the disappearance of part of the crude oil export market (the US). This is obviously putting enormous pressure on government revenue, reserves, Naira exchange rate, is spooking international investors, particularly portfolio investors and thereby the capital market, and is likely to dampen growth

The resulting depreciation of the Naira has undermined business confidence, strengthened reverse capital flows and may put pressure on price levels, especially for imports and import-dependent sectors. Efforts to slow the Naira depreciation have contributed to a reduction in external reserves to US$35.14 billion, 20% lower than in December 2013. Equally important is the substantial divergence between the official exchange rate at rDAS, the inter-bank market and BDC rates, which provides powerful incentives for arbitrage.

Growth

GDP growth rate in 2014 is estimated at 6.33%, but due to the reduced oil export earnings and other factors, this is estimated to fall to around 5.5%-6.1% in 2015. This will impact on jobs

Inflation

Headline inflation has, overall remained stable, estimated at 8% in December 2014, although prices of food, processed foods and utilities have nudged up in December. The main concern is the possible effect of Naira depreciation on imported items and core inflation. Nevertheless, while headline inflation may increase, it is expected to remain single digit in the next half-year.

The Fiscal

Since the oil sector accounts for about 70% of government revenue, the fall in oil prices is obviously impacting heavily on government revenues and is likely to continue to do so for some time. State government expenditures, including even basis recurrent expenditure, may be particularly vulnerable.

Nonetheless, it is evident that fiscal prudence has been maintained by the government. Actual fiscal deficit in January-November 2014 is much lower than fiscal deficit in January-November 2013. Estimated budget deficit for 2015 is 0.79% of GDP as compared to 1.2% of GDP in 2014. Credit to the government in Dec 2014 is 7.29% as compared to 40.14% in December 2013. Of course fiscal deficits are likely to be larger than anticipated due to lower than expected output and a lower price than is assumed in the budget. It is critical therefore that efforts to substantially raise tax revenue be strengthened. Tax/GDP ratio in Nigeria is one of the lowest. However, careful attention has to be paid to ensure that tax regimes are properly structured to protect the poorer segments of society and low income earners.

Financial Sector

Despite the turbulence in the oil sector, the financial sector has remained steady and reasonably sound with respect to prudential ratios and NPLs. There have also been modest increases in lending volumes. The developments in the oil sector however pose some challenges to the financial sector due to substantial exposure to the oil and gas sector, particularly upstream, as well as significant amount of Eurobonds raised by Banks. Efforts need to be made by financial institutions and regulators to swiftly address these risks.

Conclusion

As indicated earlier, the significant declines in oil income poses the major challenge to the Nigerian economy at this time. The effect on the foreign exchange market needs to be continuously addressed to minimize the negative impact. Eliminating the arbitrage between rDAS and the inter-bank market and therefore reducing the opportunity for arbitrage will help rationalize the forex demand and therefore the value of the Naira. There is no gainsaying the fact that these are short term responsive measures. Tackling the problem properly requires addressing structural, infrastructure and production issues.

Bank liquidity is an issue, but cannot be addressed at this time through the CRR without exacerbating destabilizing factors for the financial sector. Giving the headwinds facing the economy, further tightening of the MPR is also not appropriate, given its impact on the money market and on bank interest rates. Excess liquidity should therefore be addressed through other instruments.

Consequently, I vote to maintain the current monetary policy stance.

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

Though the global economy received a sizeable boost from a stronger than expected rebound of the US economy and cheaper oil prices, it was more fragile than earlier envisaged. The tepid global performance and the brittle outlook reflected the subdued economic activity in the Euro Area and Japan as well as the flagging prospects in China and Russia and some oil exporting emerging economies. Specifically, global growth continues to be constrained by a number of old and new adversities including high debt and rising unemployment in many countries (both industrialized and developing), geopolitical tensions and conflicts; the negative impact of commodity price shocks on commodity exporting countries; weak external demand; and the discontinuance of the asset purchase programme of the US Federal Reserve; triggering sharp corrections in the financial markets. Consequently, global output rose by about 3.3 per cent in 2014, which was the same rate of growth attained in 2013. It is estimated to strengthen to about 3.5 per cent in 2015. The lopsided performance of the global economy portends deep and complex ramifications for the Nigerian economy especially in terms of rising interest rates in the US and weakening domestic demand in the Euro Area and Japan.

Despite the strong global headwinds and the spillover effects of exogenous factors, the performance of the domestic economy remained largely robust, especially when compared to peer countries. The rate of economic expansion stayed above 6.0 percent throughout the first three quarters of 2014. Data from the National Bureau of Statistics (NBS) indicated real Gross Domestic Product (GDP) growth rates of 6.54 and 6.23 percent in the second and third quarters of 2014, respectively. Remarkably, over 75 percent of the latter growth was due to three dominant non-oil sub-sectors:

Services, Agriculture and Trade, which respectively contributed 2.53, 1.21 and 1.08 percentage points to growth. Slipping oil prices since June 2014 has further debilitated the already feeble contribution of the oil sector to overall GDP growth. I welcome the current efforts of the Federal Government at boosting power generation and supply, as this will bolster the economy's supper capacity and enhance job creation prospects in the medium- to long-term.

I note with satisfaction the continued stability of domestic prices as consumer price inflation was contained within a single-digit range. At 8.0 percent, headline inflation for December 2014 stayed within the Bank's target range of 6.0—9.0 percent. This outcome broadly reflected the moderation of food prices heedless of the archetypal seasonal impulses of the Yuletide festivities as well as reduction in core inflation. On the bleak side, I acknowledge that the probable pass-through of import price inflation due to the strengthening of the US dollar and possible disruption to food supply owing to sustained insurgency in important agricultural zones of the country, portend latent upside risks to inflation.

On monetary developments, the year-on-year growth of broad money supply (M2) at 7.29 percent was lower the target of 15.0 percent, essentially reflecting the slow growth net domestic credit of about 11.0 percent and the 21.8 percent decline in net foreign assets (NFA). The negative growth of NFA during the review period was largely attributable to the waning accretion to foreign reserves following the tumbling oil prices. Credit to government declined by 21.8 percent as against the projected growth of 28.4 benchmarked for 2014. In this regard, I commend the prudent stance of the fiscal authority at trimming its liabilities to the banking system, despite the constricting revenue fallout of lower oil prices. I am of the opinion that this fiscal orientation will have wide-ranging benefit on the economy as it enlarges banks' capacity to channel more credit to the private sector, especially the real sector.

Following the tight stance adopted at the last MPC, I observe that key money market interest rates generally trended upwards. Between 26th November 2014 and 13th January 2015, the interbank call rate and the OBB rose from 8.98 and 10.20 percent to 26.15 and

23.46 percent, respectively while the NIBOR climbed 25 basis points to 11.63. Conditions in the capital market remained bearish as key equity indices traversed southward during the under review. In the twelve months to December 2015, the All Share Index weakened by 16.1 percent to 24,657.15 while market capitalisation dropped 13.2 percent to ₦11.48 trillion. This trend, I note, continued in January 2015 as both measures have so far lost about 16.0 percent of their end-December values. The dwindling fortunes of the Nigerian capital market results from the divestment of portfolio investors from Nigeria in the aftermath of rapidly falling oil prices, which was reinforced by exogenous global factors. I call on all relevant institutions in the capital market to intensify their efforts and be proactive in monitoring the market and reiterate the CBN's commitment at ensuring financial system stability.

In the foreign exchange market, adverse oil price movements and profound speculative activities amplified demand pressure during 2014 causing the Naira to debilitate in all spheres of the market. From a rate of ₦157.34/US$ at the rDAS window the Naira depreciated by

4.28 percent to ₦164.08/US$. At the inter-bank and BDC segments, a depreciation of 8.63 and 12.64 percent were respectively recorded with the rates closing at ₦180.0/US$ and ₦191.50/US$. The increased pressure also reflected in the stock of foreign reserves. As at 31st December 2014, gross official reserves at US$34.25 billion was 20.0 percent below the US$42.85 billion recorded in at end-December 2013. The rate of reserve depletion was attributable to the enlarged interventions at the foreign exchange market aimed at stabilising the Naira in the face of dwindling crude oil receipts.

In the light of the foregoing, it is my belief that the effects of the decisions at the last MPC are still unfolding. I note with satisfaction the resilient growth of the domestic economy and the continued stability of consumer price inflation. I acknowledge the immanent risks both domestic (possible food supply shock due to insurgency, sustained decline in oil GDP, recurring excess liquidity, portfolio flow reversal, and demand pressure in the foreign exchange market) and external (cheapening crude oil and tepid cum lopsided global recovery). Nonetheless, in order to circumvent the problem of complex policy indeterminacy, I strongly belief that there is need to allow the policy impulse from the November MPC to fully impact on the economy before taking further action.

Consequently, I vote as follows:

1. Retain the MPR at 13.0 percent;
2. Retain the CRR on private sector deposits at 20.0 percent;
3. Retain the CRR on private sector deposits at its current level of 75.0 percent;
4. Retain the liquidity ratio at 30.0 percent; and
5. Maintain a symmetric corridor of ±200 basis points around the MPR.