Central Bank of Nigeria Communiqué No. 106 of the Monetary Policy Committee Meeting of Monday and Tuesday, March 21 and 22, 2016

The Monetary Policy Committee met on 21st and 22nd March 2016 amidst uncertain global economic prospects and continuing challenges in the domestic economy. In attendance were 8 out of the 12 members. The Committee appraised the international and domestic economic and financial environments in the first two months of 2016 as well as the outlook for the rest of the year.

International Economic Developments

The Committee noted with concern the further decline in global output at the end of 2015, which grew at 2.3 per cent, year-on-year in Q4, its slowest in three years, representing a 0.3 percentage point decline compared with 2.6 per cent in Q3. This deceleration stemmed from the continuous slowdown of growth in the emerging market economies, worsened by deteriorating conditions in the Euro area and China as well as key emerging market economies. Other factors include sustained pressure in global financial markets arising from US monetary policy normalization, depressed global oil market and persistently weakened global aggregate demand.

The slowdown in growth in the United States to 1.0 per cent in Q4 from 2.0 per cent in Q3 was attributed to slowdown in private consumption expenditure (PCE) and non-residential fixed investments. In Japan, output declined by 1.4 percentage points in Q4, 2015 in contrast to the 1.3 per cent growth recorded in Q3. The Bank of Japan's monthly asset purchase program of ¥6.7 trillion ($56.71 billion) remains substantially sub-optimal, as the economy continues to lurch between contraction and expansion, with the adoption of a negative interest rate policy in January 2016.

In the Euro area, GDP grew by 1.5 per cent in Q4 of 2015, and projected to grow at 1.7 per cent in 2016. The European Central Bank (ECB), at its meeting on 10th of March, 2016 eased monetary policy by further reducing its refinancing rate to 0.0 per cent and deposit rate to -0.4 per cent. The Bank also expanded its monthly asset purchase program from €60 billion ($65.4 billion) to €80 billion ($87.2 billion) to further stimulate output growth and move inflation towards its long term objective of 2.0 per cent.

On the other hand, the Bank of England (BoE) sustained its stock of assets purchase, financed through the issuance of reserves at ₤375 billion ($536.25 billion), while retaining its policy rate at 0.5 per cent. The BoE further committed to investing ₤8.4 billion ($12.01 billion) of cash flows associated with redemption of the January 2016 government securities held in the Asset Purchase Facility, with a commitment to bring inflation closer to the 2.0 per cent target, reducing unemployment and promoting growth.

Uncertainties and geo-political tensions in the Middle East, including a negotiated ceasefire agreement in Syria and Iran's re-entry into mainstream international oil market may have further redefined conditions in the oil market. The market witnessed some uptick in prices following the resolve of the Organization of the Petroleum Exporting Countries (OPEC) and some non-OPEC members to pursue a higher anchor price, coupled with smaller-than-anticipated build-up in stocks at the Cushing Oklahoma delivery hub for United States crude futures.

The Emerging markets and developing economies (EMDEs) were forecast to grow at 4.3 per cent in 2016, an improvement over the 4.0 per cent recorded in 2015. However, external and domestic challenges have persisted, stemming from low commodity prices, troubled financial markets, tepid global demand, policy uncertainty as well as continuously feeble growth in global trade. In addition, weaknesses in major emerging market economies, diminished capital inflows, rising borrowing costs and geopolitical factors have been identified as possible deterrents to growth in the EMDEs. In the environment of suppressed inflation, slow growth, weak global demand and volatile financial markets, the stance of monetary policy in the advanced economies is expected to remain accommodative in 2016, while in the EMDEs, it is expected to be underpinned by currency adjustments and other complementary policies.

Domestic Economic and Financial Developments

Output

The Bank had adopted accommodative monetary policy since July 2015 in the hope of addressing growth concerns in the economy, effectively freeing up more funds for DMBs by lowering both CRR and MPR, with excess liquidity arising from the lower CRR warehoused at the CBN. DMBs were to access these funds by submitting verifiable investment proposals in the real sector of the economy. The funds have not impacted the market yet because the CBN was still processing some of the proposals submitted by the DMBs. In the first episode of easing which resulted in injecting liquidity into the Banking system, DMBs did not grant credit as envisaged. Moreover, the delay in passage of the 2016 Budget has further accentuated the difficult financial condition of economic agents as output continues to decline due to low investment arising from weak demand. The cautious approach to lending by the banking system underpinned by a strict regulatory regime conditioned by the Basel Committee in the post global financial crisis era has further alienated investors from access to credit as banks prefer to build liquidity profiles in anticipation of government borrowing.

In the light of these developments, domestic output growth in 2015 remained subdued as reported by the National Bureau of Statistics (NBS). Consequently, real GDP grew by 2.11 per cent in the last quarter of 2015, more than half a percentage point lower than the 2.84 per cent recorded in the third quarter and 3.83 percentage points in the corresponding period of 2014. Overall, growth in 2015 was estimated at 2.79 per cent, compared with 6.22 per cent in 2014. The major impetus for growth continued to come from the non-oil sector which grew by 3.14 per cent in Q4, 2015 compared with 3.05 per cent in the preceding quarter. The key drivers of growth in the non-oil sector were Services, Agriculture and Trade; contributing 1.23, 0.83 and 0.76 percentage points, respectively.

The Committee noted that the sluggish growth in output was directly attributable to certain fiscal uncertainties, which inadvertently hampered movement of labor and goods; fuel scarcity, increased energy tariffs, foreign exchange scarcity as well as slow growth in credit to private sector in preference to high credit growth to the public sector. The Committee noted that many of these factors were outside the control of monetary policy and given these limitations, in the absence of complementary fiscal and structural policies, the only option was to continue with the existing measures. The MPC believes that complementary fiscal and structural policies are essential for reinvigorating growth.

Prices

The Committee noted the increase in year-on-year headline inflation to 11.38 per cent in February 2016, from 9.62 per cent in January and 9.55 per cent in December, 2015. The increase in headline inflation in February reflected increases in both food and core components of inflation. Core inflation rose sharply for the first time to 11.00 per cent from 8.80 per cent in January after a lull of three consecutive months at 8.70 per cent through December, 2015. Food inflation also inched up to 11.35 per cent from 10.64 per cent in January and 10.59 per cent in December, 2015. The rising inflationary pressure was traced to the lingering scarcity of refined petroleum products, exchange rate pass through from imported goods, seasonal factors and increase in electricity tariff. The Committee noted that the factors responsible for rising inflation were more structural in nature than monetary, but reaffirmed its commitment to monitor the developments closely and to work with the relevant authorities to address the underlying drivers of the upward price movements.

Monetary, Credit and Financial Markets Developments

Broad money supply (M2) grew by 2.29 per cent in February, 2016 in contrast to 1.69 and 0.25 per cent in January 2016 and February 2015, respectively. When annualized, M2 grew by 13.74 per cent in February 2016 against the provisional growth benchmark of 10.98 per cent for 2016. Net domestic credit (NDC) grew by 3.71 per cent in the same period, annualized, at 22.26 per cent. At this rate, the growth rate of NDC was below the provisional benchmark of 17.94 per cent for 2016. Credit to the private sector grew by 1.45 per cent in February 2016, which annualized to a growth of 8.70 per cent, below the benchmark growth of 13.28 per cent. The Committee noted with concern, the dismal performance of growth in credit to the private sector, noting that even at that, credit went primarily to low employment elasticity sectors of the economy. This had a significant negative impact on output growth.

Money market interest rates reflected the liquidity situation in the banking system. Average inter-bank call and OBB rates, which stood at 0.5 and 2.77 per cent on 25 January 2016, closed at 4.00 and 5.00 per cent, respectively, on March 9, 2016. Between January 25th and end-February 2015, interbank call and OBB rates averaged 1.43 and 2.68 per cent, respectively. This was traced to liquidity surfeit in the banking system. The deposit money banks were, however, reluctant to grant new credit because of rising non-performing loans (NPLs), mainly in the oil sector, amongst other reasons.

The Committee also noted the slight improvement in the equities segment of the capital market during the review period. The All-Share Index (ASI) rose by 8.1 per cent from 23,916.15 on January 29, 2016 to 25,853.58 on March 14, 2016. Similarly, Market Capitalization (MC) rose by 8.02 per cent from N8.23 trillion to N8.89 trillion during the same period. However, relative to end-December 2015, the indices declined by 9.73 per cent and 9.74 per cent, respectively.

External Sector Developments

The average naira exchange rate remained stable at the inter-bank segment of the foreign exchange market during the review period. The exchange rate at the interbank market opened at N197.00/US$ and closed at N197.00/US$, with a daily average of N196.99/US$ between January 25 and March 14, 2016. The Committee reiterated its commitment to maintaining a stable naira exchange rate. The MPC took note of the level of activity in the autonomous foreign exchange market as well as the rising demand in the interbank market but observed that the data on demand for foreign exchange, was being overshadowed by speculative demand. However, the Committee charged the Bank to speed up reforms of the foreign exchange market to improve certainty and eliminate noise and opportunities for arbitrage.

The Committee's Considerations

The Committee noted the weakening macroeconomic environment, reflected particularly in foreign exchange shortages, slowing GDP growth rate and rising inflation. Overall economic growth slowed significantly in 2015, particularly in Q4. Apparently, the conditions responsible for the slowdown – uncertainty around fiscal policy, adverse external environment, security challenges in some parts of the country affecting production and distribution of agricultural produce, low electricity supply, fuel shortages, and sluggish growth in credit to the private sector – have continued in the first quarter of 2016.

On the monetary side, contrary to the notion of liquidity overhang in the financial system, the wider economy appears starved of the needed liquidity to spur growth and employment. Recent performance of the monetary aggregates lends credence to this fact. With the exception of credit to government, growth in all the monetary aggregates remained largely below their indicative benchmarks, yet; headline inflation spiked to 11.38 per cent in February 2016, substantially breaching the policy reference band of 6 - 9 per cent. Apart from liquidity, the increase in inflation was driven by structural factors such as fuel scarcity, increased electricity tariff, persistent insecurity, exchange rate pass through and seasonality of agricultural produce. The conflicting signals from slowing growth and rising inflation present a difficult policy challenge. Though mindful of the limitations of monetary policy in influencing the drivers of the current price spiral, the Committee stressed the need to urgently address the key sources of the pressures. In this regard, the Committee reaffirmed its commitment to closely monitor the development while encouraging relevant authorities to address the structural bottlenecks.

From the monetary data, the Committee noted that the excess liquidity in the banking system was contributing to the current pressure in the foreign exchange market with a strong pass-through to consumer prices. The Committee further noted that previous efforts to reflate the economy in order to spur growth did not elicit the required response from DMBs, hence; the surfeit of liquidity in the interbank market. Obviously, the attendant low rates at that market have not transmitted to the term structure of interest rates. Concerned about the need for low interest rates to support growth and employment, the Committee urged the CBN to explore innovative ways of ensuring the unhindered flow of credit at low cost to key growth sectors even as monetary policy has to, under the circumstance, address the liquidity surfeit in the banking system as well as the pressure on exchange rate and consumer prices. The Committee hopes that fiscal and other structural policies would soon be deployed to strengthen the overall response of macroeconomic policy to the shocks.

The Committee was also concerned that with headline inflation at 11.38 per cent, noting that the policy rate had become negative in real terms. This development has the potential of keeping both foreign and domestic investments on hold. As part of measures to address the supply constraint in the foreign exchange market, yields on domestic instruments have to be competitive to attract the much needed foreign inflows. On the administrative side, this will have to be complemented by a comprehensive reform of the foreign exchange market which is currently being undertaken. For the avoidance of doubt, the Bank would continue to allow domiciliary account holders unfettered access to funds in their accounts.

The Committee also urged speedy passage of the 2016 Budget in order to halt the depressing effect of the uncertainty that engulfs the waiting period, hoping that the implementation of the budget would go a long way in boosting business confidence, and reinvigorating the financial markets. In the circumstance, the Committee urged the Bank to continue to upscale its surveillance of the financial system with the aim of promptly detecting and managing vulnerabilities to ensure sustained stability.

Finally, the Committee remains committed to price stability across the range of consumer prices, exchange rate and interest rate, which is fundamental to reviving economic growth and employment generation. In the meantime, the Bank would continue to leverage its development finance policy to support critical sectors of the economy. The MPC also stressed the need to sustain, deepen and speed up reforms designed to ensure focused coordination of monetary and fiscal policies.

The Committee's Decisions

The Committee, in its assessment of relevant internal and external indices, came to the conclusion that the balance of risks is tilted against price stability. The MPC therefore, voted to tighten the stance of monetary policy. One member voted to retain the CRR at 20.00 per cent while another member voted to retain the current width of the asymmetric corridor.

In summary, the MPC voted to:

(i) Raise MPR by 100 basis points from 11.00 per cent to 12.00 per cent;

(ii) Raise CRR by 250 basis points from 20.00 to 22.50 per cent;

(iii) Retain Liquidity Ratio at 30.00 per cent; and

(iv) Narrow the asymmetric corridor from +200 and -700 basis points to +200 and -500 basis points

Thank you for listening.

Godwin I. Emefiele

Governor, Central Bank of Nigeria

22nd March 2016.

PERSONAL STATEMENT BY THE MONETARY POLICY COMMITTEE MEMBERS

1.0 ADELABU, ADEBAYO

The challenges in both the domestic and global macroeconomic environments since the latter half of 2014 appear somehow intensified. The global economic landscape is grappling with slow recovery with global growth projected at 3.0 per cent in 2016, a somewhat flat trend relative to 2015. Perhaps, more disturbing is the medium to long term outlooks for key emerging and developing economies where growth prospect is confronted by three significant headwinds. The first one is the lingering slowdown of economic activities in China in which the likelihood of quick bottom out remains low given the complication introduced by the ongoing rebalancing model. A sharper than expected slowdown in countries like China would not only weigh down on growth prospects of other developing and emerging economies but for Nigeria in particular it would aggravate the weakness in external demand for export, worsening the current account deficit which reared its ugly head at end-December 2014.

Another headwind is the persisting lower energy and other primary commodities prices. It is a little bit comforting that a rally was observed in the price of crude oil in the last one week with the price of Brent inching to about US$41/barrel but I would apply some caution in building projections around this new price. This is because the rally was not driven by fundamentals but by mere speculation of likely cut in production by OPEC members at their next meeting in April. Persistent softness in energy prices would directly impinge on at least two macroeconomic accounts. The first is the current account component of the balance of payment with potential implication on external reserves. The other area is the fiscal account as the odd of fiscal revenue under-running its target becomes elevated. The implication is either under-implementation of the budget or heightening of fiscal deficit with the attendant worsening of the fragile condition of public debt.

The last headwind from the global environment is the ongoing tightening of the monetary policy stance by the US Federal Reserves (Fed). Further tightening of monetary policy by the US Federal Reserves in the face of monetary stimulus by the European Central Bank (ECB) would widen the diverging stance of monetary policy between the two blocs, heightening volatilities in the global financial markets. Given that the tightening process of the Fed would further strengthen the dollars, the cumulative effect is elevated risk level for financial markets in developing economies and consequent acceleration of capital outflow.

The risk elements in the domestic environment are not in any way less pronounced. Firstly, inflation is above the single digit threshold of the

Bank with the pressure emanating from both the core and food components. Growth is tepid as overall output growth at 2.79 per cent in 2015 was significantly lower than 6.22 per cent recorded in 2014. Another worrisome dimension on growth is the challenge with some important subsectors of the GDP. The industrial sector, with the greatest employment generating potential, contracted by 0.7 per cent in 2015, thus, it is not much of surprise that unemployment rate commenced an upward trend in the third quarter 2015. The challenge of banking system liquidity is yet unabated while the seemly perennial pressure in the foreign exchange market appears intensified as external reserves recorded a mild negative growth between end-December 2015 and March 18, 2016.

In the light of these multidimensional challenges, what is the logical way forward for monetary policy? As I have always pointed out, a careful diagnosis of the challenges revealed that monetary factors could have played some roles but the dominant factors are structural in nature. Take the issue of headline inflation for instance, the only monetary factor that could have played some role is exchange rate depreciation as other factors like growth in monetary aggregates, which could fuel aggregate demand, remained suppressed during the period. Analysis of inflation dynamics revealed that food and non-alcoholic beverages which have the highest weight in headline inflation (about 51 per cent), increased by 0.37 percentage point on year-on year basis in February 2016. Farm produce, which is an important component of food inflation, also increased by 39 percentage points during the same period. Given the significant weight of these items on inflation, any enduring effort to curtail headline inflation must of necessity tame rising risks in these areas. Some prominent factors that drive price level in these sectors are seasonality in agricultural produce, higher cost of energy, and recurring fuel scarcity. The point here is that monetary policy response alone would not be sufficient to address the current underlying rising risk to price level but in view of the fact that some forms of monetary factor is at play, I may be cautiously disposed to a modest upward adjustment in the Monetary Policy Rate. With this in mind, continuous efforts should be made to fast track fiscal and structural policies that would address the inherent bottlenecks in production process.

Another key issue is the liquidity surfeit which I would not want to treat in isolation. I would, as always, like to consider it within the context of overall macroeconomic objectives which are output growth and employment. One of the key disadvantages of excess banking system liquidity is the tendency to filter into inflation through the channel of excessive aggregate demand. Available statistics is indicative that this has not happened so far because broad money only grew by 2.29 percent at end February 2016, translating to annualized growth rate of 13.74 per cent. The major challenge with the current liquidity surfeit is that it is not translating to improve private sector credit as anticipated when we commenced monetary easing in the second half of 2015. It is equally feared that this might eventually drive pressure in the foreign exchange market, thus a need for sterilization. My position is that we should not derail from the overall goal of monetary policy on account of some teething issues that could be handled administratively. As I pointed out earlier, growth is not only softening but contraction is taking place in key sectors like industrial sectors. If growth must be enhanced, banks must lend, and if banks must lend, liquidity must be available. From this perspective, I am of the view that concerted efforts should be put in place by all stakeholders including Bankers Committee on effective and efficient means of utilizing excess banking system liquidity in the real sector of the economy instead of sterilizing it through higher CRR.

In the light of the foregoing, I would like to propose that the MPR be increased by 100 basis points to 12 percent while the CRR be retained at 20 per cent. The asymmetry corridor around the MPR could be adjusted from +2/-7 per cent to +2/-5 per cent.

2.0 ALADE, SARAH O.

Headline inflation accelerated to 11.38 percent in February from 9.62 percent recorded in January, the highest since December 2012. Projected growth for 2016 has been further downgraded from over 4 percent to 2.3 percent according to the IMF Article IV report. On the global scene, weak economic activities in China and Euro area and geopolitical tension pose great challenge to growth in 2016. The United States is showing strong signs of recovery on the back of stronger consumer spending and improved unemployment figures. However, in the emerging market economies, lower commodity prices and sluggish growth in the economies of trading partners are affecting growth. These developments suggest that monetary policy should remain balanced and cautious in managing both domestic and global events in the face of inflationary pressure; therefore I will support an increase in Monetary Policy Rate and Cash Reserve Requirement to counter adverse external shocks to the economy and contain inflationary pressure.

Headline inflation edged up to 11.38 percent in February reflecting a combination of limited foreign exchange supply and seasonal effect as all categories of prices increased during the period. Headline inflation edged up to 11.38 percent in February 2016, from 9.62 percent recorded in

January. Core inflation increased to 11.04 percent from 8.84 percent recorded in January, while food inflation rose to 11.35 percent from 10.64 percent in the previous month. This is attributable to the pass-through effect exchange rate, higher transportation cost as a result of inadequate fuel supply and seasonal effect. The current level of inflation is above the indicative target of between 6 to 9 percent set by the Central Bank and the single digit rate set for the ECOWAS monetary zone. The sudden upsurge in inflation will need to be monitored to ensure that inflationary pressure is contained, as staff projection suggests a further increase in the coming months, before moderating towards the end of the year. Therefore, in the short to medium term inflationary pressure is a major concern and monetary policy must respond appropriately.

Gross Domestic Product (GDP) growth is slowing on the back of lower international oil price and lower government revenue. The unabated decline in oil price and the negative impact on government revenue poses downside risk for domestic GDP growth in 2016 as growth has been sluggish. This is because revenue measures to mitigate the negative impact of oil price decline will include high borrowing which may impact on some growth-enhancing capital expenditures and austerity measures, including increase in tax rate and broadening of the tax base. These developments suggest that both global events and domestic risks pose huge challenge to growth in the coming months. Policies should be mindful of the impact of the fallout of decline in government revenue on growth and therefore, efforts at economic diversification should be intensified and judicious use of available resources made a priority to minimize waste.

Foreign exchange scarcity is affecting economic activities and impacting growth. While the Central Bank is making all efforts to meet all legitimate foreign exchange demand, reduced inflow is making foreign exchange scarce.. It is important for the Bank to implement policies that will encourage inflows and increase supply of foreign exchange to meet import demand and reduce Current Account Deficit (CAD) which has been widening. The lack of liquidity in the interbank market is fueling capital outflow and currency weaknesses outside the interbank market. These developments are having a dampening effect on growth. Under these uncertain conditions, monetary policy should be focused at restoring confidence in the domestic economy, increasing supply of foreign exchange, accretion to reserve and making all efforts to bring inflation to the target level.

Against this background, I vote for a change in Monetary Policy Rate from 11 percent to 12 percent, increase in Private Sector Cash Reserve Requirement (CRR) to 22.5 percent, to address the increase in inflation rate.

3.0 BALAMI, DAHIRU HASSAN

Growth: The second MPC meeting for year 2016 is coming at a time when the global economy is facing a number of headwinds which includes; continued fall in crude oil and other commodity prices, weak response to stimulus and deflation in Europe, slow economic growth in China as well as declining import and export figures. In the same vain, economic growth in Europe is expected to inch up to 1.7% in 2016. The tepid growth in the global economy would continue to weaken demand for crude oil which will negatively affect Nigeria's fiscal position, budgetary revenue and ability to execute the 2016 Federal budget and also affect the accretion to foreign reserves. Furthermore the normalization of the U.S economy and expected hike in US interest rate which also has implications on the Nigerian economy. With Nigeria being an import dependent economy, a hike in the US Fed rate implies further pressure on the Naira, while a weaker Naira and stronger dollar will lead to higher inflation in Nigeria; and this will also fuel capital outflows as investors would want to take advantage of the U.S interest rate hike. The divergence of monetary policy between the U.S.A and other developed and emerging economies will present a problem to the Nigerian economy e.g. higher interest in the U.S and lower rate in Europe. The general implication of the slowdown in growth will mean less aid for the rebuilding of the Northeast part of Nigeria that has been devastated by the Boko Haram insurgency. Though reconstruction has commenced, it is estimated to gulp more than N1.3 trillion in order to meet with the socio economic demand of the people of the affected region. Hence, Boko Haram insurgency should be treated as a global phenomenon. Thus requiring synergy within and between countries.

At the domestic level the economy is currently heading towards stagflation. This is evidenced in declining growth with unemployment and inflation itching up. The headwinds affecting the domestic economy include the external macroeconomic imbalances highlighted earlier. In my earlier statement, I had argued that Nigeria should seriously promote growth rather than attacking inflation because of its own medium and long-term effects on the economy. Growth could be encouraged through targeted diversification of the economy using sectors like agriculture, solid mineral, education and industrialization. Nigeria has comparative advantage in the sectors. The identified sectors can be used as major growth drivers of the economy. However, it should be noted that development banking will be critical in this pursuit. The issue of the fiscal side is also of paramount importance.

Prices: The global inflation rate is likely to remain subdued as a result of weak demand and negative output gaps. The global consumer prices estimated for 2016 is expected to be as high as 6.9% for sub-Saharan Africa and 1.1% for advanced economies, while emerging and developing countries will witness 5-6% increase in consumer prices. The headline inflation in Nigeria rose from a single digit figure of 9.0% and 9.6% in December 2015 and January 2016 respectively to double digit figure of 11.4 % in February 2016 while unemployment rate stood at about 9.9 % during this period and forecasted to increase further as the implementation of 2016 budget starts.

The rise in Nigerian inflation has been attributed to several factors among which are rising food prices, hike in electricity charges, declining power generation and insufficient distribution system as well as rising prices of imported commodities given that Nigeria is an import dependent economy. In addition, lack of urgency in the move towards diversification of the economy despite the collapse of the oil prices, and lack of market friendly return to attract private sector capital in real sector of the economy. It is also envisaged that when the budget is finally approved in March the inflationary trend is likely to rise in the short run. What policy option can be put in place to tackle the problems of inflation? To my mind the shift from the consumption of foreign to locally made goods should be sustained while provision of infrastructural facilities that will encourage and raise the level of production should be improved.

External Reserve: The external Reserve rose from \$27.50 billion to \$27.78 billion in January and February respectively and later declined to \$27.43 billion on 16th March 27, 2016 which represents a drop of 3.04% relative to the balance of \$28.29 billion recorded in

December 2015. The decline in revenue was attributed to fall in non-oil revenue compared to the previous month before March 2016. It is my opinion that with fall in oil price the revenue can be boosted by concentrating and boosting the growth of the non-oil sector through effective and efficient diversification of the economy as highlighted earlier. It should be noted that external reserve has been drawn to support the naira, payment for school fees abroad and Basic Travel Allowance (BTA). But again on the fiscal side, what are our authorities doing with the educational institutions, health, power, and importation of simple equipments in order to add to its demand side.

The Banking Stability: The stress test conducted on the Nigerian Deposit Money Banks (DMBs) in terms of Capital Adequacy Ratio (CAR), Non-Performing Loans (NPLs) and Liquidity Ratios (LR) as well as the Return On Equity (ROE) and Return On Assets (ROA) revealed mixed results, but were generally sound and favorable relative to the prudential requirement. As at Feb 2016, the CAR stands at 16.55% above the prudential requirement of 10-15% mark for banks with national and international authorization. Similarly, during the same period under review the NPLs and Liquidity ratios were above the Maximum 5% and Minimum 30% prudential. While both ROE and ROA marginally declined from 18.09 and 2.28 ratios in February 2016, respectively. However, the banking sector is susceptible to vulnerabilities particularly that of NPLs due to their exposure to the oil companies as well as dollar loans. There should be need for improvement of the efficiency and effectiveness in the allocation of credit, foreign exchange and securities, and strengthening of the transmission mechanism of the monetary policy as well as reducing the structural vulnerability of the Nigerian economy. This can be achieved by understanding the system very well using appropriate data, policy and strategy to implement the proposed policies.

Exchange Rates: On the exchange rate, the official rate has been stable while the parallel market has fluctuated from N300-N315 as at 23rd March 27, 2015. A lot has been done on the demand side of foreign exchange; however, there is need to look at the supply side. Here we have to prepare adequately to get the relevant data and analysis. The gap between the official and parallel market is a source of concern because for rational economic agents it encourages round tripping which is very devastating to the economy. The level of liquidity, growth, exchange rate and inflationary trend suggest that some policy changes be put in place to deal with some of the challenges affecting the economy on the monetary side. The current situation requires tightening.

On the basis of the analysis made above, I vote in support of

i. Raising CRR from 20% to 22.5%
ii. Raising the MPR from 11% to 12%
iii. Retaining the Liquidity ratio at 30%

iv. To adjust the asymmetric corridor from +2/-700point basis to +2/-500 point basis

In conclusion, The November MPC Policies and the hold that took place in January did not produce the required result in terms of effective control of the level of liquidity in the economy. Monetary authorities have to keep an eye on growth and respond to policies affecting it appropriately.

4.0 BARAU, SULEIMAN

Background

My vote at this meeting is largely informed by the fact that enduring growth is only feasible within the context of stable macroeconomic environment, thus the issues of rising inflation and excess liquidity deserve urgent response in order for monetary policy to remain on track. I also subscribe to a compelling need for robust fiscal and structural policies given that monetary policy alone cannot deal with these and related issues.

The risk matrix in both the global and domestic macroeconomic environments appears relatively elevated since the beginning of the current fiscal year. The tepid global growth that characterized fiscal 2015 is equally being envisaged in 2016 while pockets of financial market volatility are quite discernible. In line with the trend since mid-2014, commodity prices particularly crude oil prices have not been faring well. Although a little bit of rally is currently being observed in the global crude oil prices against the backdrop of likely freeze in output by OPEC members, the sustainability of the observed gains should be treated with guarded optimism given Iran's position to pump more oil in their bid to recover lost market share.

As expected, the vulnerability of the domestic economy to the external environment suggests that key domestic macroeconomic indicators should show less than satisfactory outcomes. Inflation has burst the single digit threshold of the Bank while output growth continues with its lackluster performance since end 2014. Evidence of slowdown abound in the financial system particularly in the capital market though the banking system remains resilient despite the issues of rising NPLs, persistent liquidity surfeit, and excessive demand pressure in the foreign exchange market.

The critical issues confronting us remain the need to stem the rising inflationary trend, curtail liquidity surfeit in the banking system, moderate pressure in the foreign exchange markets and possibly provide some leverage to jump start growth. ***My candid view is that monetary policy alone cannot deliver satisfactory outcomes on all of these variables, hence the need for fiscal and strong structural policies to complement the actions of monetary authority that we have continued argued for.***

Developments/Pressure Points

Global Environment

Lingering Softness in Global Recovery: Recent data and statistics reveal that the weakness in global growth which became pronounced in 2015 is far from being over. The interim global growth for 2016 at 3.0 per cent is suggestive of flat trend relative to 2015, which was not only below the long run average but equally the slowest pace in the last five years. It is a matter of serious concern that the post crisis recovery in the US is becoming susceptible to setback on account of strengthening dollar and low investment in mining. Perhaps, more worrisome is the diminishing growth prospects for key emerging economies. For instance, the current recession in Brazil could be prolonged and more intense than anticipated on account of ongoing political uncertainty while the contraction in Russia is being intensified by continuous slide in crude oil price. In China, managing the rebalancing process constitutes a daunting challenge to growth while flood is threatening the growth projection for India.

These developments have far reaching implications on the domestic economy. Notably, the recent rally in the price of crude oil notwithstanding, medium term developments in the price of the commodity may remain insufficiently positive to lift the country out of trade imbalance trajectory. Secondly, the country's ability to diversify the economic base with a view to ameliorating the dwindling fortune from crude oil may also suffer severe setback as major emerging and advanced economies remain weak. Available statistics indicate that the country's non-oil exports declined by 58 per cent at end-December 2015 as global trade remained largely subdued owing to cut-back on imports by countries like China and other emerging economies.

Resurgence of Volatility in Global Financial Markets: Unfolding developments since the beginning of the year are suggestive of renewed wave of volatility in the global financial markets. Going by the last meeting of the Federal Reserve System of the US, the frequency of rate hike this year may be lower than earlier anticipated but the ongoing divergence of monetary policy stance between the euro area and the US would continue to fuel upside risk to market volatility. In addition, uncertainties around Renminbi exchange rate is a potential spillover of volatility to global financial markets particularly in emerging and advanced economies. Indeed available data has shown that European banks equity prices have fallen by about 20 per cent since the beginning of the year while global equities shed significant weight in the months of January and February with Morgan Stanley Capital International (MSCI) World Index plummeting by almost 10 per cent.

These developments could trigger new round of capital outflow in the domestic financial markets, heightening pressure as well as renewed wave of volatility in the naira exchange rate. It could be expected that the overall impact of these risks on the banking system may not be as severe as in the previous episode of global financial instability on account of improved macro-prudential buffer but the spillover should be expected to adversely impinge on the current faltered growth trajectory. This could be further compounded by the intensification of imbalances in the external sector due to rising deficit on the current account.

Domestic Environment

A number of issues would continue to pose upside risks in the domestic economy and these include:

Rising Inflationary Pressure: Headline inflation, at 11.38 per cent in February 2016, has crossed the single digit threshold of the Bank. The inflation dynamic is a little bit complicated given that the pressure is from both food and core components. An assessment of the upside risks is suggestive that the inflation level may remain elevated over the medium term. Among others, the exchange rate risk is prominent as economic agents begin to adjust price level in line with developments in the parallel markets even when they source foreign exchange from the interbank window. To me, the initial price adjustment is not much of an issue as this headwind would eventually ease but the more knotty issue is the self-reinforcing impetus to inflationary pressure which would inevitably increase particularly if accretion to external reserves does not increase substantially.

Persistent Liquidity Surfeit: When the Committee decided to commence monetary easing in July 2016, the intention was to free sterilized liquidity and make such available for bank lending. Available evidence to date prove to the contrary. Private sector credit increased, on annualized basis, by mere 8.70 per cent at end-February 2016 against an annual target of 13.28 per cent, while between the last week of January and end-February 2016, the average inter-bank and OBB rates were 1.43 and 1.26 per cent, respectively. Comparing these market rates with the Monetary Policy rate (MPR) of 11 per cent during the period presents a clear case of liquidity surfeit in the banking system while the wider-economy lending is dismal. Besides, this development also shows that MPR, which is supposed to be the signaling rate does not, as earlier studies demonstrated, have significant influence on the money market rates.

Rising Risk in Domestic Financial Markets: The Sovereign Yield spread between Nigeria 10-year bond and similar US Treasury instrument increased from 8.56 per cent at end-December 2015 to 11.65 per cent by end-February 2016, an increase of 309 basis points. Yield spread on similar instrument in Ghana increased by mere 127 basis points while for South Africa it decreased by 34 basis points during the period. In other words, while foreign investors' risk perception for Nigeria and Ghana has increased, the risk perception for South Africa has decreased but more disturbing is that risk perception for Ghana is lower than Nigeria. A major reason for this development is heightened exchange rate risk and rising inflation in the country. The implication of this is on the cost of financing domestic projects. Given the amount of borrowing required to finance fiscal deficit in 2016 budget (about N2.2 trillion), the financing may have to be carried out at higher interest rate with possible spillover to other rates in the economy. This could also constitute additional headwinds to growth.

Way Forward

Need to Halt Creeping Inflation: Growth issues are very pertinent in macroeconomic policy but sustainable growth is only possible within the context of a stable macroeconomic environment particularly low and stable inflation. Latest empirical work undertaken by staff of the Bank on inflation-growth nexus in Nigeria indicates that inflation level of 13 per cent and above is inimical to growth. As pointed out above, foreign investors are already responding to the evolving macroeconomic environment through the pricing of long term bonds. On this note, I am of the opinion that though we are passionate about the need to jump start growth, it is expedient to follow a path that can guarantee durable upward growth trajectory, which is curtailing inflation to an acceptable threshold. Besides monetary policy actions alone cannot deliver growth. This justifies our sustained call for the pre-requisite structural and real sector reforms to support monetary policy decisions. In light of this, it becomes compelling to adjust the MPR upward

Strengthening of Agricultural and Food Policies: Analysis of inflation especially from January 2016 reveals that the rise in core inflation has been relatively moderate while food inflation particularly farm produce has assumed phenomenal increase. Given the large share of food in the average household budget, the effect is the new elevated general price level. Under these circumstances, the capacity of central bank to fight inflation is limited. It is therefore incumbent for the Federal Government particularly, the Ministry of Agriculture, to put in place robust policies for intervening in food production and distribution.

Urgent Curtailment of Liquidity Surfeit: As pointed out earlier, liquidity in the banking system has not led to improvement in private sector credit. Secondly, in the face of low money market rates and apathy towards private sector lending, the inter-bank foreign exchange market would likely become the ultimate destination of the banking system excess liquidity that had continued to put pressure on our exchange rate and become a fertile ground for market bubbles. Perhaps more worrisome is the fact that the disturbing weakness of monetary policy transmission signaled by the excess banking system liquidity threaten a loss of one of the vital tools of monetary policy. Against this perspective, pending the deployment of appropriate framework that would enable the banking system to channel excess liquidity into the real sector, such liquidity should be sterilized.

Structural Policies: Price stability is a cardinal mandate of monetary authority but monetary policy alone cannot address all forms of inflationary pressures particularly if the causes are structural. The structure of the economy contributed significantly to the current inflationary trend. Among others, the nature of production and distribution of goods and services played a significant role. For instance, the official price of Petrol Motor Sprit (PMS) is N86/litre but most economic agents obtained the product at a price above the official rate while the parallel market rate became the basis for costing inputs and pricing outputs. As I have said in my previous statements, structural policies that could fast track the turnaround of domestic refineries as well as build new ones are inevitable. Relatedly, higher transportation cost contributed considerably to the up-tick in price level in the months of January and February. These points to the fact that the dominant use of road transport in the haulage of goods need to be reviewed and replaced by more efficient means like rail and water ways if inflation is to be addressed sustainably via the traditional monetary policy tools.

Besides, the high degree of import constitutes serious issue for inflation when there is large variation in exchange rate. An open economy that seeks to control inflation must of necessity take into consideration movement in the exchange rate. Within the domestic economy, nominal exchange rate at the official window depreciated by about 22 per cent at end-February on year-on-year basis while general price level increased by about 2 percentage points during the period. Anything short of this should be regarded as abnormal. The logical way forward is to reduce the level of level of import by stimulating domestic production through appropriate policies.

It is instructive to stress that significant reduction of pressure in the foreign market would be achieved if these structural issues could be addressed and this would, invariably, reduce the risk in the financial markets.

Decisions

Against the background of the need to address the lingering liquidity surfeit while simultaneously stemming the rising tide of inflation particularly the core component, I voted as follows:

i. MPR be increased by 200 basis points from 11 to 12 per cent
ii. CRR be increased by 250 basis points from 20 to 22.5 per cent
iii. Asymmetric corridor around MPR be adjusted to +200/-500 basis points
iv. LR to remain at 30 per cent.

5.0 GARBA, ABDUL-GANIYU

Metaphors

I feel compelled to use three metaphors to illustrate the dilemma that confronts monetary policy and indeed, macroeconomic management in Nigeria today so that we could all have the conversations that is necessary for policy effectiveness and achieving the mandates of the monetary and the fiscal authorities. The first metaphor is the 'medical diagnostics metaphor'. When a doctor suspects that a patient is anemic, it is sound medical practice to send the patient to the laboratory for a full blood count test. When the result is ready, the doctor carefully and thoroughly analyses it to understand the problem, and if necessary recommend additional tests to determine underlying problem(s) and consult with relevant colleagues/team members before determining the best intervention for the patient. To transfuse a patient without screening the blood and without knowing the blood type of the patient is murderous and a serious criminal breach of the ethics of medical practice and the laws of any sane nation. No sane persons will use the services of such a doctor unless they were suicidal. Most serious countries will keep such doctors off medical practice for the entirety of their lives. Recently, a 46 years old US medical doctor was sentenced to 30 years to life in prison by a judge in Los Angeles after murder convictions in connection with prescription drug overdose deaths of three of her patients. She was convicted for recklessly and criminally prescribing drugs fueled by greed. The implications of this metaphor for monetary policy is that more than ever before, rigorous, critical and mandate focused and evidence based diagnostics is needed first, because so much has changed in the last decade and second, because good and bad policies have long lasting effects. Shortness of the policy sight dooms policy analysis, policy choice and actions and policy effectiveness. This is why I keep repeating the point that my vote is for "harnessing and directing all available intellectual and political resources to engage the fiscal authorities to develop a strategic macroeconomic management framework for Nigeria" for the medium to the long term.

The second metaphor is the 'tapeworm metaphor' and it addresses the dangers of quick-fix measures. A hungry person decides to swallow live tapeworms with a large dose of hope that his hunger would be satiated. Clearly, to swallow life tapeworms whole because one wants to satiate hunger pangs is a quick fix to a hunger problem, but an unwise solution. For only the tapeworms will benefit from such folly. Indeed, the health of the individual will become inversely proportional to the health of the tapeworms in the individual. The tapeworm metaphor implies that trading-off monetary policy independence for exchange rate stability using portfolio flows was bound to profit only portfolio investors. Sooner rather than later, their rational behaviours would destabilize the foreign exchange market and further limit the latitude of the MPC for effective monetary policy. It was also very clear from the credible evidence from sound research papers on the Nigerian Foreign Exchange Management that the Retail Dutch Auction System (RDAS) is inherently unstable because it inevitably creates arbitrage opportunities which rational speculators would inevitably take advantage of. The data on global economic slow-downs particularly in China from 2013, forward guidance on US Fed rate hike and the 'Bernanke effects' of May 2013 and historical pattern of movements of commodity prices all pointed to headwinds from negative commodity price shocks and reversals of portfolio flows out of commodity exporters and emerging markets. It was also clear that negative commodity price and reverse financial flows tend to have the most destabilizing effects on the financial markets and macroeconomic management of small open commodity exporters. It was also obvious to the discerning that exchange rate instability and widening spreads were highly probable in the absence a forward looking and creative macroeconomic management strategy. For it was clear that a backward looking strategy will fail to ensure the allocation of scarce forex resource to those who could best use it to create tangible values and create jobs in Nigeria. Simply put the real economy and jobs were at risk not in 2015 or 2016 but as far back as December 2011. To think that the journey to stagflation began only recently is to think amiss.

The third metaphor is the 'recovering addict metaphor'. The recovering drug addict who after being released from rehab seeks advise on how to stay off drugs from the drug dealer who aided him to develop dependence on drugs is doomed to suffer a relapse. The dealer clearly has a conflict of interest between truth and profit and a rational drug dealer would rather have a client than a friend. This metaphor applies to Nigeria's fiscal processes where in terms of its conflict between saving excess crude and at the same time doubling its public debt every 14 quarters between 2007 and 2016 on the advice of institutions that profit from its borrowing. Like the addict, Nigeria is urged on; on a borrowing binge on the disingenuous premise that it is under-borrowed in disregard of the fiscal and monetary trade-offs and crowding-out effects.

When you put together, the consequences of the three metaphors, you get a strategic conundrum that makes purposeful, effective and consistent monetary and fiscal policy very difficult to achieve. Were experience the best teacher as the cliché say, then we would have learnt from the aftermath of the jumbo loan of 1978 and of the capital account liberalization of 2006. Then we would have prepared for the shocks that were inevitable given the scope of quantitative easing globally and the risks of nomalisation.

Failures to learn the rights lessons lead to repeated cycles of errors at rising costs. I believe the window of opportunity for changing the strategic character of Nigeria's macroeconomic management is not widening or remaining static. I believe the earlier we have *purposeful*, *effective* and *sustainable* harnessing and utilization of all available intellectual and political resources to develop a *people-centered* strategic macroeconomic management framework for Nigeria, the better for the Nigerian people. When the United States confronted the global financial crisis in the summer of 2008, the fiscal and monetary authorities and the US Senate and Congress worked together with the Presidential candidates - John Mccain (Republican) and Barack Obama (Democratic) - to put together a comprehensive strategy that started to steer the ship of their state from the precipice even when it required many to commit ideological volte-faces. I believe that Nigeria has been at such a point for some time. Every delay makes it more difficult and more costly.

Background to Decision

At the March 2016 MPC I asked and attempted to answer many questions before deciding. The questions included: (i) What are the *real* problems confronting the economy and what are their underlying and immediate causes? (ii) What can we learnt from the recent domestic and global economic strategies, policies, interests, behaviours, market processes, the outcomes and the paths? (iii) What are the short to medium term domestic and global outlooks?

(iv) What do we know about the stagnation-inflation process, the allocation and pricing relations in the segmented forex and money markets, the relationships between the spot and futures forex market, the relationships between fiscal and monetary policies in the recent pasts, the effectiveness and efficiency in the allocation the loanable funds and forex and the short to long term effects of capital account liberalization of debt and equity? In addition, how has policy choices affected uncertainties, risks, expectations and rational behaviours of key players? How do we separate the short term noises in the markets and policy space from the trend factors? How strong the exchange rate is pass-through and how effective and symmetrical is the transmission mechanism of monetary policy? What is the real trade-off compatible with medium to long term low inflation growth? What are the likely effects of a high leverage fiscal expansion budget on the feasible options of monetary policy hence, on the effectiveness of monetary policy in 2016? (v) What are the domestic and global medium term outlooks? (vi) What the relationships between fiscal, monetary, prudential (macro and micro) and development finance policies? (vi) What are the strategic goals set, the binding constraints, the inherent trade-offs and framework for evaluation and choice of the best feasible options as well as the evaluation criteria? These are some of the questions that needs clear answers to in the conversations leading to a *people-centred* strategic macroeconomic management framework for Nigeria.

In a policy choice context, the framing of options is rather limited and costly trade-offs may be the price to pay for strategic and coordination weaknesses. What we know from the Economic Report prepared by Bank Staff is that there has been for at least 10 quarters, a steady build-up of stagnation pressures mainly in industry (peaking in the four quarters of 2015) and a build-up of inflation from November 2014 and with the most significant increase in February 2016. The build-up is partly explained by the deflationary monetary policies, the Bernanke effects which triggered the exit of portfolio, exchange rate generated supply shocks and, eventually, commodity price shocks amplified by the economic slowdown in China, Japan and the Eurozone.

It is clear from the pattern of stagnation and inflation that exchange rate pass-through is a key factor in both. It is also clear from an evaluation of the over thirty three exchange and trade related administrative measures between June 2014 and January 2016 that the consistent shifting of demand pressures first from RDAS market to interbank, then from interbank to BDCs and finally from BDCs to the parallel market has been a strong factor in (i) the widening of the exchange rate spread and the attractiveness of the arbitrage opportunities and (ii) the growing importance of the parallel forex market which ought to have been kept so small that its noise value is greatly minimized as it was when the Wholesale Dutch Auction System (WDAS) was in operation. It is also, evident from data that the growth of money supply driven by a spike in demand deposits in December 2015 and February 2016 and the final shift in forex demand to the parallel markets in January 2016, the announced commitment to supply a key player forex contributed significantly to the unprecedented spread between the 'official interbank' and the parallel rate from January 2016. The data on utilization of forex and indeed on allocation of credit do not show that economic activities with the highest output and employment elasticities attract forex or credit under both tightening and easing regimes. The high interest rate spreads and rising exchange rate spread signal market malfunctioning problems that need to be urgently corrected as part of a comprehensive strategy.

The MPC communiqué has given forward guidance about its commitment to forex market comprehensive strategy. Therefore, as MPC works towards the comprehensive strategy, the main issue for me at this MPC is stemming the drift into the global stagflation trap of the 1970s. The 1970s 'stagflation trap' made it clear that the traditional demand management strategies were ill-suited to correcting supply shocks. This is because a short-run trade-off between unemployment/growth and inflation does not exist. Stimulus programmes of Presidents Nixon, Ford and Carter administrations (before President Carter appointed Volcker as Chair of the UD Fed) worsened the stagnation and the inflation and helping the neoclassical counter revolution in macroeconomics. If we fail to learn from history, we are condemned to repeating it and much higher costs.

The lessons of history imply that the MPC has to decide which goal it could most effectively achieve in the short term for it is impossible for monetary policy on its ‘sore legs’ to stimulate growth and deflate the economy at the same time. Paul Volcker’s US Fed chose inflation. Inevitably, the sacrifice ratio was high not only for the US which suffered several episodes of recessions, but more for those who naively walked into the ‘debt trap’. The high costs within the US could partly be attributable to both recognition and action lag which in turn, could be explained by weight given to political exigencies in decision making. The lessons for me are clear, getting out of a stagflation trap is neither easy nor low cost. That is why getting into the traps of stagflation, debt and capital account (equity and debt) is very dangerous and ought to have been avoided when they lay in the future.

It is clear to me from available evidence that (i) monetary policy has more effective impact on inflation in the short term, (ii) the impending fiscal expansion will be inflationary and crowd-out private investment given its high leverage structure, (iii) the asymmetrical nature of interest rate and the malfunctions in the credit market and the rational behavior of DMBs rendered the easing at the September MPC ineffective and counterproductive (the release of the ‘forex chasing liquidity’ that MPC had been mopping-up since the **huge**

quantitative easing of 2009-2014 contributed to exchange rate pressures), (iv) the consistent shifting of demand towards the parallel market contributed to the sustained widening of exchange rate spreads; (v) inflation has asymmetrical effects on poorer individuals, households small businesses and domestic producers (through negative budget and supply shocks), and (vi) **effective fiscal-monetary-prudential-development policy coordination is necessary indeed critical to job creating growth and to macroeconomic and financial system stability**. To want is not to have: **nothing can be produced out of nothing!**

I am persuaded based on what we know about (i) the recent inflationary pressures (it was triggered by exchange rate pass-through effects of recent forex market shifts and amplified by the post-September 2015 liquidity shocks and the lingering fuel crisis), (ii) the structural path of economic stagnation, (iii) the asymmetrical nature of interest rate policies and (iv) domestic and global economic and financial outlook, my vote is for a tightening regime. Clearly, a tightening regime conflicts with the requirements for reversing economic stagnation. The easing at the last two MPCs of 2015 which I did not support, did not achieve lower interest rates or greater access by real sector operators because the allocation pattern in key markets – money and forex – are biased against real sector operators. Without correcting for the factors that predisposes the financial markets to allocate to sectors that have lowest output and employment elasticities and to wholesale borrowers that have higher default risks, easing is unlikely to generate real investment, growth and job creation. Yet, a runaway inflation undermines the mandate of the MPC. The balance of policy effectiveness is on the side of tightening checking the advance of inflation pressures. The status quo not only is unable lower lending rates and interest rate spread, it has undercut inflation through its effects on exchange rate and undercut growth through by triggering significant supply shocks through its exchange rate effects and allocation bias.

In the constrained policy space that the MPC is in, tightening is the best option for the short term. It allows MPC to work to fix to the transmission mechanism that has been considerably weakened and distorted by attractiveness of inverted intermediation and the pricing and allocation problems of the forex and money markets that have trend effects on growth and employment. Therefore, I am convinced about the urgent need to correct and avoid further escalation of inflation expectation and pressures. I am also convinced about the urgency of a forward looking comprehensive strategic framework for evaluating options based on sound knowledge about nexuses, constraints, trade-offs, strength of transmission mechanisms, hysteresis and the true cost-benefits of alternative choices to help the MPC make wise, effective and sustainable decisions.

Decision

First, I strongly support the forward guidance about a comprehensive strategy for foreign exchange management framework. In addition, my vote reiterate my conviction about the urgent need to harness, direct and put to effective use the best available intellectual and political resources to engage the fiscal authorities to develop a forward looking strategic macroeconomic management framework for Nigeria" for the medium to the long term effectiveness of macroeconomic management compatible with the long term wellbeing of Nigerians. **<u>The great challenge for MPC is to deliver on the promise of a forward looking comprehensive strategy and for the fiscal and monetary authorities to deliver on a forward looking strategic macroeconomic management framework for Nigeria</u>**.

Second, to stem and prevent a runaway inflation and its adverse economic consequences, I vote for:

1. Increase in CRR by 2.25% to 22.5%
2. Increase in MPR from 11% to 12%
3. Asymmetric Corridor of -5 (SDF), +2 (SLF)
4. Hold liquidity Ratio at 30%

6.0 UCHE, CHIBUIKE U

A disturbing development that MPC was faced with at this meeting was the issue of rising inflation. With inflation rate now officially above MPR, there is very little room for maneuvre. This is because any investment at the current MPR will yield a negative real return for the investor. This has negative consequences for both the competitiveness of our financial instruments and the health of our banking sector in general. Unfortunately, this inflation problem may get worse when Government begins to implement its 2016 deficit budget. In my humble opinion, therefore, there is now a strong case for monetary policy tightening.

In following the above route however, there is need for extreme care especially given the fact that the resultant higher interest rates is likely to negatively impact on the stability of the Nigerian banking system. This is especially so because for some time now we have been witnessing a slow but consistent rise in the nonperforming loan portfolio of banks in the country. Tightening monetary policy at this time will therefore further increase the pressure on the NPLs of Nigerian banks. The fact that the consequences of the last banking crisis in Nigeria continue to rear its head in AMCON's financial statements remain a major reason for my trepidation in this regard.

Given the current level of inflation, I am in total agreement with the assertion that the tightening of monetary policy at the present time must include an increase in MPR. While I support the need to increase MPR, to the extent that it does not pose a material danger to our banking system stability, I consider it prudent to reiterate that I am not convinced by the argument that enhancing our country's competitiveness in attracting foreign currency investments should also be an incentive for increasing MPR. As I have consistently argued in some of my past policy statements, the time has come for Nigeria to impose some form of restrictions on the inflow of foreign 'investments' into the country. This should be specifically aimed at discouraging short term portfolio inflows. History has taught us that such speculative capital inflows only offer temporary relief, mainly in the arena of exchange rates, and generally cause more harm than good. I therefore see no harm for the country to insist that the only types of foreign capital it will welcome are those that have long term investment intentions.

From the above, it is clear that the problem of monetary stability in Nigeria is more complicated than increasing MPR. Despite the obvious fiscal policy gains that resulted from the implementation of the TSA, inflation has continued to trend upwards. The main reason for this trend is the nation's inability to diversify its economy away from its current overdependence on oil rents. With persistent low oil prices, which has thus far shown no credible sign of abating, the ability of the country to continue to fund the indulgence of its citizens in all manner of imported goods which has been encouraged over the years by high oil prices is now very doubtful.

The result of the above is the current unrelenting pressure that is now being put on the exchange rate of the Naira. Given the dynamics of the exchange rate mechanism that is currently in place in Nigeria, a distinct and robust parallel market has emerged and the gap between the exchange rate in this market and that in the official market has continued to widen. This has created immense opportunities for arbitrage. The fact that prices and inflation in Nigeria currently correlate more with the parallel market exchange rate is evidence that such arbitrage opportunities are being exploited.

I am of course aware that the exchange rate mechanism in the country is currently being reviewed with the view of reducing (or eliminating) the variance between the official and parallel exchange rates for the Naira. It is however important to stress that whatever exchange rate management system that is arrived at will be unsustainable if the Nigerian economy continues to be dependent on oil rents.

On its part the CBN has been exploiting its developmental role in its attempt to promote the diversification of our economy. It has, for instance, recently used exchange rate allocation restrictions as a tool to discourage the importation of some 41 items. As I stated in an earlier policy statement, I am in full support of the CBN's attempt to exploit its developmental function in its bid to aid sustainable national economic development. I however believe that there is need for more studies in this area before continuing on this trajectory. This is particularly important given the fact that the CBN has a long history of exploiting its developmental function. Learning from the mistakes and/ or successes of the past will in my view lead to the formulation of more effective policies in the above direction.

Despite its developmental role potentials, there is a limit to what the CBN can achieve without the support of the fiscal authorities. In my view, for instance, the time has come for the Federal Government to ban the import of all goods that can be manufactured locally. Another way to encourage local industrial development is to impose hefty tariffs on luxury goods and goods that have reasonable local substitutes. Although these measures may appear extreme, the stark reality, in the light of the current international oil prices, is that Nigeria is no longer in a position to support the import dependent appetite of its citizens.

It is of course obvious that for any meaningful progress to be made in the direction of promoting local industries, there is an urgent need for the Nigerian Government to also tackle the country's poor infrastructure, declining educational standards, declining ethical standards, porous borders and rampant corruption that has now been engrained in our system.

In summary therefore, I support a tightening of monetary policy at the present time. I therefore vote as follows: (1) to increase MPR by 100 basis point from 11 percent to 12 percent (2) to retain the asymmetric interest rate corridor of + 200/- 700 basis points around the MPR; (3) to increase CRR by 250 basis points from 20 percent to 22.50 percent; and (4) to retain Liquidity Ratio at 30 percent.

7.0 YAHAYA, SHEHU

The Global Economy

The possible effects of the changes in global economic and financial variables, including that of our main trading partners on the Nigerian economy have remained fairly stable over the last quarter of 2015- positive GDP growth rates in US, UK, a bit lower but still high growth rates in China, high growth rates in India, much lower growth in the Euro area, slowed growth in South Africa, negative growth rates in Japan Brazil and Russia. Most oil producing countries are still facing difficult challenges. This underlines the importance of developing new trading partners. Worth noting is the additional stimulus injected into the Eurozone by the ECB to support growth and the prospects for further normalization of interest rates in the US during 2016.

General price levels as well as food prices and raw materials remain low in US, UK, Europe and much of Asia and are expected to remain generally low or even in some cases dip, for much of 2016. Crude oil prices rose to around $40/barrel in mid-March, but it is not evident that even this modest rise can be sustained, due to persisting supply glut and the prospects of resumed expansion in shale oil production once the $40 dollar threshold is crossed. For oil producing countries including Nigeria, the effects of pressures on the local currency is impacting significantly on local prices.

Domestic Economy

Q4 GDP dropped to 2.11%, the lowest in the year, with an overall growth rate of 2.79% in 2015, much lower than forecast. The decline in growth rate was mainly driven by a sharp fall in the oil sector during the quarter and a significant drop in manufacturing production. It is instructive to note that, increased lending to the manufacturing sector and privileged access to foreign exchange at the official rate did not translate into higher output.

Output in the power sector stagnated. The non-oil sector grew at a slightly faster rate than in Q3 2015. Agriculture also grew, but not fast enough. Special attention needs to be paid to this issue if agricultural production is actually to serve as the bulwark for pulling the non-oil economy forward. One important consequence of the low growth rate is that unemployment has risen consistently in each quarter of 2015, reaching about 7.5 million in Q3 2015, which is a jump of 24% over the previous quarter.

One of the most significant developments in the domestic economy is the big jump in headline inflation to 11.38% in February 2016, year on year, as compared to 9.62% in the previous month. Most of the increase emanated from core inflation, particularly processed food, housing, water, electricity, gas fuel. The increase in food inflation, though lower than core, was mainly driven by increases in imported rice and bread (due to the imported wheat component). Here, the exchange rate effect is evidently significant. It is important that the right and measured response to this price hike be developed.

From the foregoing, it seems clear that the foreign currency market and the fixing of the Naira exchange rate is posing some challenges that need to be addressed. In particular, the parallel market rates appear to be having a significant effect on price levels, particularly, but not exclusively for imported goods. On the positive side, the pick up in prices of crude oil has led to an increase in external reserves to US$28 billion by Mid-March. However, it is not at all apparent that this increase will be sustained- hence measures to adapt to the long term decline in oil prices must continue to be developed and implemented, including a longer term strategy for the foreign exchange market to avoid a significant decline in reserves, intolerable pressures on the official exchange rate, declines in inward foreign currency flows.

The banking sector remains robust, with respect to capital, asset and income based measures, as well as a lower level of risk on the Net Open Position, albeit with slight declines in capital adequacy, return on equity and on assets, as well as an increase in NPLs. Liquidity in the banking system has remained quite high, with a significant proportion of it in the form of deposit for forex. It is pertinent to note that injections of liquidity emanating from the loosening of monetary policy has been, to a large extent, used for forex bids, and has not translated, in any significant way, into lower interest rates or higher levels of lending to the productive sectors. Lending concentration remains a cause for concern.

Conclusion and Vote

Most of the evidence is pointing towards persistent oil glut in the medium term and therefore low prices. It is necessary to develop a long term approach to the foreign exchange market, which obviously has an important effect on prices, foreign reserves, portfolio investment and FDI and therefore growth. This approach should be set, not just as a short term response to declines in forex supply, but as part of wider strategic objectives of growth, job creation and a more egalitarian society.

The other important task is to respond to the short term threat of inflation. In devising the right response, it matters if the causes of the current spike in prices is due to transient factors or due to unfolding cumulative effects of pressures in the foreign exchange market, increases in the cost of fuel and power etc. It is also important that the overall objective of supporting expansionary fiscal policy to stimulate growth is not lost sight of. At the moment, the real MPR is negative. We consider the cumulative effects of various factors as providing a better explanation of the spike in prices. Approval of the budget later in the month and the surge in fiscal spending may also generate additional pressure on price levels. Moreover, the banking sector is characterized by excess liquidity. Under the circumstances we deem it essential to tighten monetary policy and therefore vote as follows:

Raise the MPR by 100 basis points to 12%.

Asymmetric corridor to be tightened to +2/-5

Raise CRR to 22.5%

Liquidity Ratio remains at 30%

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

Global economic performance throughout 2015 was generally tepid and uneven as output growth dropped to 2.3 percent in the fourth quarter from 2.6 percent in the third quarter. Though medium-term outlook remain modest, growth is projected to gain marginal traction in 2016 with the IMF forecasting a rate of 3.4 percent during the year. The fragile global economic environment reflects depressed demand, rising uncertainties and enormous vulnerabilities especially among key emerging markets and developing economies. Nonetheless, recovery and expansion in advanced economies is envisaged to remain largely robust buoyed by relatively benign conditions and accommodative monetary policy. In the US recovery is expected to be sustained *albeit* at a cautious pace, fuelled by cheaper energy and modest private demand. The euro area is also likely to continue its rebound largely on the back of dynamic private consumption.

Average growth among emerging markets and developing economies is forecast to increase slightly from 4.0 percent in 2015 to 4.6 percent in 2016. This is regardless of rising uncertainty related to developments in China, softened commodities and energy prices, financial markets fragilities, and weak global trade. The key downside risks to the envisaged fragile recovery in emerging markets and developing economies include the withering capital flows, currency volatility, fiscal vulnerabilities, and heightening geopolitical tensions. On the back of the uneven global outlook, accommodative monetary policy is expected to largely remain among advanced economies even as emerging markets and developing economies generally deal with currency and structural issues.

In Nigeria, recent data by the National Bureau of Statistics shows that domestic output growth decelerated further to 2.1 percent in quarter four of 2015 from 2.8 percent in quarter three. At that pace, fourth quarter growth is 1.7 percentage points lower than its level in the corresponding period of 2014. Growth for the entire 2015 slowed to 2.8 percent from 6.2 percent at the end of 2014 and the average of 5.3 percent in the preceding three years. Though growth in the non-oil sector decelerated from 7.2 percent in 2014 to 3.8 percent in 2015, it continued to be the driver of overall growth given the deeper contraction of the oil sector from -1.3 percent to -5.5 percent over the same period. By respectively contributing 1.23, 0.83 and 0.76 percentage points to non-oil growth, services, agriculture and trade sub-sectors remain the key growth propellers. In line with various forecasts including staff estimates, we expect a moderate pick-up of growth to between 3.5 and 4.0 percent in

2016, especially if global conditions improve. I note that the major domestic impediment to growth is the apathy of the financial sector to lend to the real private sector even in the presence of enormous systemic liquidity.

On domestic prices, the year-on-year headline inflation rose sharply from 9.6 percent in January 2016 to 11.4 percent in February. According to the National Bureau of Statistics, this sudden ascent was attributable to the effects of acute fuel scarcity, exchange rate pass-through (especially to imported foods), and the hike in energy tariffs. Consequently, both the food and the core components of inflation rose during the month to 11.4 percent and 11.0 percent from 10.6 percent and 8.8 percent respectively, in the preceding month. Though the underlying causes of inflation in February were essentially structural and supply sided, it is exigent to curb its ascent in order to ensure that the projected trend of future inflation reverses downward.

Data on domestic monetary, credit and financial conditions indicated that, during the review month, broad money supply grew by 2.3 percent over preceding December. This implies an annualised monetary expansion of 13.7 percent relative to the provisional programmed target of 15.2 percent. Similarly, net domestic credit increased by 3.7 percent which annualises to 22.3

percent and is 7.0 percentage points below the 29.3 percent expansion provisionally targeted for 2016. The flow of credit to the private sector was unacceptably far less than anticipated. With a growth rate of 1.5 percent, the annualised growth at 8.7 percent was significantly below the target rate 13.3 percent. I note once again that sluggish growth of credit to the private coexisted perversely with a highly liquid money market.

The extent of liquidity surfeit in the banking system is reflected in the repeatedly low interest rates in the market. Starting at 0.5 percent and 2.8 percent on 25 January 2016, the interbank call and OBB rates, respectively, recorded averages of 1.4 percent and 2.7 percent between 25 January and end-February 2016. The aberrant concurrence of excess liquidity in the banking sector and poor flow of credit to the private sector is expounded by the lethargy at lending to the real sector of the economy due in part to a heightened default risk. Developments at the domestic capital market indicated a rare return of bullish episodes at the equity segment. Starting at 23,916.2 points on 29 January 2016, the All-Share Index of the Nigerian Stock Exchanged grew by 8.1 percent to the 25,853.6 points as at 14 March 2016. Over the same period, Market Capitalisation rose by 8.0 percent from ₦8.2 trillion to ₦8.9 trillion.

During the review period, the exchange rate of the Naira to the US dollar at the interbank market continued to steady around ₦197.00/US$ with a daily average of ₦196.99/US$ between 25 January and 14 March 2016. This reflected the strong commitment of the CBN to safeguard the domestic currency, even in the presence of immense speculative pressures, using a mix of orthodox and alternative policy measures. I note, once again, that fostering a sustainable autonomous inflow of foreign exchange is expedient and imperative as this can feasibly ease the pressure on our gross official reserves. In this regard, the Bank is currently working on a number of initiatives that will boost the supply in the foreign exchange market. On official reserves, our data indicate a decline of 0.8 percent in 30-day moving average position from US$28.1 billion as at end-January 2016 to US$27.9 billion on 18 March 2016.

On the whole, I note the multiplicity, complexity and simultaneity of challenges confronting the Nigerian economy at this time. These include decelerating growth, rising inflation, excess liquidity, low credit to the productive private sector, and a constricted foreign exchange supply. Most of these are largely attributable to low crude oil prices and its spill-over effects on structural vulnerabilities and a constrained fiscal space. In recent times, the MPC has adopted a largely accommodative stance of monetary policy to prop flagging growth. The aim was to release liquidity into the system with a view to elevating the flow of credit to the real sector. While the policies succeeded in raising the level of liquidity in the banking system, it however did not translate immediately to increased credit to the core private sector. Instead, financial institutions channelled the excess liquidity to the foreign exchange market and increased downward pressure on the Naira exchange rate. Consequently, the goal of bolstering growth was stymied while the heightened pressure on the exchange rate transmitted to rising inflation. In addition, the continued delay in ratifying the 2016 fiscal budget further complicated growth outcomes, as the attendant uncertainty around fiscal policy delayed investment decisions.

I reiterate that the structural vulnerabilities of the Nigerian economy, which was once again undraped by the prolonged fall in crude oil prices, is underpinned by a problem of weak aggregate supply. Nigeria needs to learn from the experiences of past episodes of low oil prices and accept the current episode as an opportunity to diversify the economy once and for all. To this end, the CBN will not relent in its efforts at supporting the broad diversification of the economy and the build-up of our domestic productive capacity. It is in this regard that I deem it fitting to be tactful in tackling the problems of slowing growth, rising inflation, liquidity surfeit and poor private sector credit. Given the apparent trade-offs inherent in policy decisions, we need to make some sacrifices and choose the least costly policy options.

I strongly believe that in the medium term, we need to boost productivity and domestic supply capacity to ensure that jobs and goods are in abundant supply. On its part, the CBN will sustain and strengthen its development finance initiatives to ensure that concessionary credits are channelled to strategically selected real sector ventures. In the immediate term, however, there is need to tame inflation which has maintained an upward trajectory over the last year. It is also imperative to rein in the banking system's excess liquidity which is stoking the pressure on the exchange rate. On the balance of inflation-output trade-off, it is most optimal at this time to tighten the noose on inflation and reduce the speculative pressures on the exchange rate. To mitigate an excessive sacrifice of output growth, the CBN development finance schemes will be used to channel concessionary credit to the private sector. I am of the view that this option will correct the perverse simultaneity of excess liquidity and poor credit and will moderate exchange market pressure and the attendant pass-through to inflation.

I therefore vote as follows:

1. 100 basis points increase in MPR from 11.0 percent to 12.0 percent;

2. 250 basis points increase in CRR from 20.0 percent to 22.5 percent;
3. Narrow the asymmetric corridor from +200/–700 basis points around the mid-point of the MPR to +200/–500 basis points; and
4. Retain Liquidity Ratio at 30 percent.