



Central Bank of Nigeria Communiqué' No. 105 of the Monetary Policy Committee Meeting of Monday and Tuesday, January 25 and 26, 2016

The Monetary Policy Committee met on 25th and 26th January, 2016 against the backdrop of weakening global economic prospects as well as increased risks in the domestic economic environment. In attendance at the meeting were 10 out of the 12 members. The Committee reviewed the ensuing international and domestic economic and financial environments in 2015 as well as the outlook for the first half of 2016.

On the global front, uncertainties and geopolitical tensions have increased in the Middle East, leading to a major standoff between two major oil producers; Saudi Arabia and Iran, in the face of improving relations between the United States (US) and Iran. In the global oil market, both Iran and the US are emerging as new suppliers while OPEC appears to have shifted from protecting price to defending market share. These developments underscore the conclusion that the current global oil prices would remain for a much longer period. Widespread stock market weaknesses and worsening macroeconomic conditions in China have further exacerbated the already stifling global economic challenges. These uncertainties have blended well with domestic vulnerabilities to affect the monetary policy environment in Nigeria.

International Economic Developments

The Committee noted the considerable divergence in global output recovery in 2015, as growth picked-up in the most advanced countries compared with slowdown in majority of emerging and developing economies. Following the slowdown in the emerging market economies, the IMF in its January 2016 World Economic Outlook (WEO), revised its global growth estimate from 3.4 to 3.1 per cent and 3.4 per cent in 2015 and 2016, respectively.

In the United States, growth has remained relatively firm with 2015 third quarter growth rate revised to 2.1 per cent from an earlier estimate of 1.5 per cent. The country's overall growth in 2015 is expected to be the strongest since the post-crisis recovery began in 2010. Likewise, 2016 growth rate has been projected at 2.6 per cent. The major drivers of this growth remained improvements in consumption spending supported by a robust labor market recovery; low inflation stemming from soft global crude oil prices; massive and dynamic investments in the non-oil private sector, improved foreign investment demand due to the recent normalization of monetary policy by the Fed, as well as housing market recovery.

Japan's recovery in 2015 remained fragile despite the continuous policy stimulus by the Bank of Japan. The Bank's asset purchase program injects ¥6.7 trillion (\$56.71 billion) monthly into the economy, with the possibility of expansion. However, this has done little to restart growth which is estimated at 0.8 per cent in 2015. Private consumption and investment spending remained modest in 2015, worsened by rising skill shortages.

Japan's outlook for 2016 remains dampened by the feeble response of the economy to monetary and fiscal stimuli.

In the Euro area, weakening fiscal consolidation and improving labor market conditions generated 1.5 per cent growth in 2015 with prospects for achieving 1.7 per cent in 2016. The European Central Bank (ECB) further eased its monetary policy stance in December 2015, despite the Bank's continuous monthly asset purchase of €60 billion (\$64.8 billion), as both inflation and wage growth remained subdued. In the same vein, the Bank of England continued its accommodative monetary policy through its £375 billion (\$540 billion) asset purchase program, even as it announced a decision to reinvest another £6.3 billion (\$9.07 billion), being the proceeds of redemption of the December 2015 gilt (government securities) held in the Asset Purchase Program. The Bank also maintained its core rate at 0.5 per cent in an attempt to herd inflation towards its target rate.

Growth in the emerging markets and developing economies (EMDEs) decelerated to 4.0 per cent in 2015, the lowest since 2009, as both external and domestic challenges continued; owing to low commodity prices, financial market volatility, slowing productivity, policy uncertainty and eroding policy buffers as well as weak global trade. The slowdown in the majority of EMDEs has also been attributed to spillovers from weaknesses in major emerging economies, diminishing capital inflows, rising borrowing costs and other geopolitical factors.

The stance of monetary policy in the advanced economies is expected to remain largely accommodative in 2016, except for the United States

where monetary policy normalization has commenced. Against the background of suppressed commodity prices and slow recovery, global inflation is expected to remain moderate through 2016.

Domestic Economic and Financial Developments

Output

Domestic output growth in 2015 remained moderate. According to the National Bureau of Statistics (NBS), real GDP grew by 2.84 per cent in the third quarter of 2015, almost half a percentage point higher than the 2.35 per cent recorded in the second quarter. However, third quarter expansion remained substantially below the 3.96 and 6.23 per cent in the first quarter of 2015 and corresponding period of 2014, respectively. The major impetus to growth continued to come from the non-oil sector which grew by 3.05 per cent compared with the growth of 3.46 per cent posted in the preceding quarter. The major drivers of expansion in the non-oil sector were Services, Agriculture and Trade; contributing 1.42, 1.03 and 0.79 percentage points, respectively. The outlook for the fourth quarter of 2015, based on staff estimates, suggests further improvements over the third quarter growth level.

The economy is expected to continue on its growth path in the first quarter 2016, albeit less robust than in the corresponding period of 2015. This expectation is predicated on the current low global oil price trend which is projected to hold low over the medium-to long term, and with attendant implications for government revenue and foreign exchange earnings. Other downside risks to growth in 2016 include: capital flow

reversal, high lending rates, sluggish credit to private sector and bearish trends in the equities market.

However, the Committee remains optimistic about a gradual recovery in economic activity due to notable improvements in power and supply of refined petroleum products, improved policy recalibration aimed at improving the flow of financing resources to the real sector and suppression of internal insurgencies, which will boost general agricultural activity.

Prices

The Committee noted the slight uptick in year-on-year headline inflation to 9.6 per cent in December, from 9.4 per cent in November and 9.2 per cent in October, 2015. The increase in headline inflation in November 2015 reflected an increase in the food component, even though the core component remained unchanged at 8.70 per cent. Core inflation declined for the third consecutive month to 8.70 per cent in November and December from 8.74 per cent in October 2015, while food inflation inched up to 10.32 per cent from 10.13 and 10.2 per cent over the same period. Consistent with its primary mandate, the Committee would continue to monitor consumer price developments with a view to formulating policies that will keep inflation in check.

Monetary, Credit and Financial Markets Developments

Broad money supply (M2) rose by 5.90 per cent in December 2015, over the level at end-December 2014, although below the growth benchmark of 15.24 per cent for 2015. Net domestic credit (NDC) grew by 12.13 per

cent in the same period, but remained below the provisional benchmark of 29.30 per cent for 2015. Growth in aggregate credit reflected mainly growth in credit to the Federal Government by 151.56 per cent in December 2015 compared with 145.74 per cent in the corresponding period of 2014. The renewed increase in credit to government may be partly attributable to increased government borrowing to implement the 2015 supplementary budget.

During the period under review, money market interest rates generally reflected the level of liquidity in the banking system. Average inter-bank call and OBB rates, which stood at 1.00 and 1.50 per cent on 25 November 2015, closed at 4.75 and 4.50 per cent, respectively, on January 21, 2016. Between the November 2015 and end-December 2015, interbank call and OBB rates averaged 0.81 and 0.98 per cent, respectively.

The Committee noted the bearish movement in the equities segment of the capital market during the review period. The All-Share Index (ASI) decreased by 13.15 per cent from 27,435.56 on November 30, 2015 to 23,826.50 on January 22, 2016. Similarly, Market Capitalization (MC) fell by 13.06 per cent from N9.42 trillion to N8.19 trillion during the same period. However, relative to end-December 2014, the indices declined by 31.25 per cent and 28.66 per cent, respectively. This development reflected capital flow reversals accentuated by soft commodity prices and monetary policy normalization in the United States.

External Sector Developments

The Committee noted the ongoing activities in the informal segment of the foreign exchange market, which led to the stoppage of dollar sales to BDCs, even as the average naira exchange rate remained relatively stable at the inter-bank segment during the review period. The exchange rate at the interbank market opened at N197.00/US\$ and closed at N197.00, with a daily average of N196.99/US\$ between November 23 and January 11, 2015. The Committee underscored the necessity of improving the supply of foreign exchange to the market, especially from autonomous sources. It also reiterated its commitment to maintaining stability in the naira exchange rate.

Committee's Considerations

The Committee observed that the last episode of low oil prices in 2005 lasted for a maximum period of 8 months. However, the current episode of lower oil prices is projected to remain over a very long period. Consequently, it is imperative to brace up for a longer period of low government revenues from oil sources, which would necessitate hard and uncomfortable choices as the economy transits to more sustainable sources of revenue, consistent with the economic realities and strategic objectives of the country. In the circumstance, certain tradeoffs must be envisaged and duly accommodated.

In view of the foregoing, the imperative for consistently sound and coordinated macroeconomic policy has become inevitable. In the medium term within which monetary policy is cast, the need to allow policy to produce the desired outcomes becomes a key consideration in

the policy mix. Consequently, the Bank is fine-tuning the framework for foreign exchange management with a view to ensuring a more effective and liquid foreign exchange market, taking into account Nigeria's strategic development priorities; with the policies being designed within an environment of regularly ensuring consistency with monetary and fiscal policies.

The Committee noted that at its November 2015 meeting, it eased monetary policy with a view to increasing the liquidity of the banking system. This was aimed at moderating domestic interest rates so as to encourage indigenous businesses to borrow. While the objective of stabilizing the financial system in the aftermath of the Treasury Single Account (TSA) withdrawals and J. P. Morgan delisting of Nigeria have been largely achieved, the goal of increasing lending to key sectors of the economy is yet to be achieved as the Bank continues to adopt moral suasion to encourage the DMBs to support targeted lending to the real sector including agriculture, solid minerals and SMEs sub-sectors of the Nigerian economy.

Despite current challenges, the Committee remains guided by evidence underpinned by credible data in its holistic evaluation of the emerging scenario and in its assessment of policy choices. Consequently, the Committee believes that given sound and properly coordinated monetary, fiscal, and external sector policies, there is wide room for optimism about the medium to long term macroeconomic prospects for the Nigerian economy, especially, given the clarity in the policy direction of the administration, the various interventions in the real sector; gradual

improvement in the power sector, and the reinvigorated fight against corruption. The Committee also believes that the effect of the softer monetary policy stance adopted at the last MPC, should start crystalizing soon through expansion of credit to critical sectors of the economy. In addition, the unveiling of the Federal budget, oriented towards socio-economic and infrastructural development is expected to provide the necessary impetus for growth.

The Committee acknowledged the continuous liquidity surfeit in the system stemming partly from the recent growth-stimulating monetary policy measures, as well as the tendency of the banks to invest excess reserves in government securities, rather than extend credit to the needed sectors of the economy. To this end, the Committee once again urged the deposit money banks to improve lending to the real sector, as part of their patriotic obligations to the country and enjoined the Management of the Bank to continue to explore ways of incentivizing lending to employment- and growth-generating sectors, particularly SMEs.

The MPC also emphasized the necessity of coordination between monetary and fiscal policies as a prerequisite for resolving the nation's economic problems, particularly, steering the economy away from oil dependency. In particular, the Committee stressed the need for the fiscal authorities to compliment the Bank's low interest rate policy orientation by properly coordinating its borrowing activities (and rates) with the Bank in order to push the common objective of stimulating banking system credit delivery at low interest rates to the key sectors of the Nigerian economy. It noted that given the current economic reality of dwindling oil revenue

and the rather unclear outlook for commodity prices, there would be need for a recalibration of the fiscal strategy to increasingly explore opportunities in non-oil tax revenue.

Finally, the Committee reiterated its unyielding commitment towards achieving a stable exchange rate regime to ensure more flexibility for sustainable inclusive economic growth in the medium to long term.

The Committee's Decisions

The Committee, in consideration of the headwinds in the domestic economy and the uncertainties in the global environment decided by a unanimous vote to retain the Monetary Policy Rate (MPR), Cash Reserve Requirement (CRR), Liquidity Ratio (LR) and the asymmetric corridor of +2/-7 around the MPR.

In summary, the MPC voted to retain:

- (i) The CRR at 20.0 per cent;
- (ii) MPR at 11.0 per cent;
- (iii) Liquidity Ratio at 30 per cent;
- (iii) The asymmetric corridor at +200 basis points and -700 basis points.

Thank you for listening.

Godwin I. Emefiele

Governor, Central Bank of Nigeria

26th January 2016

PERSONAL STATEMENT BY THE MONETARY POLICY COMMITTEE MEMBERS

1.0 ADELABU, ADEBAYO

The decisions at the last meeting (November 2015) represented a watershed in the journey of monetary policy since 2011. Having changed the stance of monetary policy at that meeting, it could be too early to determine the relative potency of these measures given the length of lag in policy transmission in developing economies such as ours. Nonetheless, bearing in mind that macroeconomic policies could rarely be water-tight without some unintended consequences or tradeoffs, what I consider germane at this point might be the need to fine-tune the new policy stance with a view to minimizing unintended consequences.

Among others, liquidity surfeit has assumed a new height following the reduction of the CRR at the last meeting, while exchange rate differentials has widened considerably between the two markets. With respect to exchange rate differentials, I could observe a lot of noise in the market which is a normal phenomenon in the quest towards equilibrium price. Thus, it may be necessary to sieve the noise from signals before any fine tuning process could be effective.

Liquidity surfeit, on the other hand, has always been a recurring issue but the new cause is placing some kinds of burden on monetary authority. The ultimate objective for reducing the CRR is to improve flow of credit to the private sector in general and the real sector in particular. In my opinion, the renewed liquidity surfeit is not much of surprise because the reduction of CRR represents a kind of shock that shifts the supply curve of loanable funds upwards, which would require some time for economic

agents to create the effective demand that would neutralize the excess supply. Thus, in the interim, there is a need to revisit the liquidity management framework and fine-tune it in such a manner that it would not create undue imbalances in the economy, particularly in the foreign exchange market.

Apart from challenges arising from the change of monetary policy stance, the dynamic nature of macroeconomic environment implies continuous emergence of issues. One of such issues in the last one month is the increase in the policy rate by the US Federal Reserves. Although the initial increase of 0.25 per cent could be adjudged relatively small, one should still expect further tightening in the near term based on evolving indices. First, the US economy is rapidly expanding with GDP growth estimated at 2.8 per cent in 2016 compared with 2.6 per cent in 2015. In addition, the US consumer prices accelerated by 0.5 per cent in November 2015 compared to 0.2 per cent in the preceding month, representing one of the highest rate of increase in a fairly long time. Continuous tightening measures by the Federal Reserves would not only put additional pressure on the Naira, with implications for inflation, but would also make the current low price regime of crude oil to persist for a longer period. Under the conventional approach, policy response to this type of challenge would be tightening measures with a view to competing for portfolio investment. As I have always argued, portfolio capital with little or no value added to the real sector should be given less priority at this time. I am of the view that diversifying our economy by supporting the real sector would make it less dependent on global monetary conditions and by extension on volatile portfolio flows. Consequently, supporting the real

sector at this time through expansionary monetary policy stance cannot be compromised.

Beside the challenges of the monetary sector, there are number of issues from the fiscal side that could pose substantial risks to monetary policy in the near to medium term. It is commendable that the fiscal authority is equally taking an expansionary stance to address the imminent headwind of recession frontally, but the rising public debt stock is a cause for concern. Total domestic bond market capitalization around mid-January 2016 was N7.08 trillion out of which FGN debts accounted for 89.2 per cent. The proposed 2016 budget expects N984 billion to be added to the domestic debt stock, which would increase bond market capitalization by about 14 per cent. This will invariably impinge on private sector through crowding out of banking credit, thereby defeating the original objective of expansionary stance of monetary policy. In addition, about an estimated N900 billion is expected from external sources. Based on developments in both the domestic and global environment, particularly with the commencement of monetary policy normalization by the US Federal Reserves, interest rate on these loans would also increase. Given that interest rate on risk free government securities are usually the benchmark rates on lending by banks, it should be expected that lending rates to the private sector would also increase, regardless of the recent reduction in the MPR. Thus, coordination between the monetary and fiscal authorities needs to be strengthened as the Bank continues to refine the interest rate model to ensure that the original goals of the current stance of policy are achieved.

The other issue that could pose threat to monetary policy is the recent attack on oil installations in the Niger Delta area. Some refineries have been shut down with implication of an increase in importation of petroleum products to meet domestic consumption, which could put additional pressure in the foreign exchange market. Besides, the disruption of gas flows to the independent power plants would undermine the current efforts to revamp the power sector with severe consequences on real sector and by extension the GDP. In view of the fact that the issue is largely outside the purview of the monetary authority, it is expedient for the appropriate agencies to beef up security around oil and power installations within the country to avert the risk of recession.

From the foregoing, it is obvious that there are challenges but they are surmountable and indeed measures taken at the last meeting are necessary initial steps on the path of progress. Some of these challenges are outside the purview of the monetary authority, but it is worth noting that relevant agencies like the security agencies are playing their bit. From the monetary side, the teething issues could always be addressed by fine-tuning some measures without altering the strategic goal of policy, which is the need to support the real sector and promote inclusive growth. Consequently, I vote for the retention of all the measures taken at the November 2015 meeting.

2.0 ALADE, SARAH O.

This first MPC of 2016 is coming at a period of widespread turbulence in the global economy. Global financial markets are behaving erratically while most emerging markets currencies have depreciated significantly as a result of slow growth in China, global uncertainty and geopolitical tension. These uncertainties coupled with domestic vulnerabilities is affecting monetary policy environment in Nigeria. Under these conditions monetary policy must remain steady to overcome challenges in the domestic economy.

Headline inflation ended the year at upper single digit, underpinning the strength of monetary policy throughout the year. Headline inflation ended 2015 at 9.6 per cent in December. Core inflation on the other hand declined for the third consecutive month to 8.70 per cent in November and December from 8.74 per cent in October 2015. Food inflation increased to 10.32 per cent from 10.13 and 10.2 per cent over the same period. Despite the risk posed by the declining oil prices and the implication for the economy, staff projection suggests that outlook in inflation in the coming months is expected to remain below 10 per cent through third quarter of 2016.

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 2016. New estimates for GDP growth in 2016 is projected to be around 3.2 percent. Although this is higher than

2015 growth of 2.8 per cent, it is low for Nigeria that has maintained an average growth rate of 6 percent for the last ten years. The 2016 budget aims to stimulate the economy through increase capital expenditure and reduction in recurrent expenditure. However, its effectiveness will be hinged on its ability to mobilize revenue to adequately fund the budget. In the event of shortfall in projected revenue, budget implementation and growth will be affected. These developments suggestion that both global events and domestic challenges possess huge challenge to growth in the coming months, and monetary policy should remain balanced in tackling both domestic and global vulnerabilities.

The distribution of risks to global economic growth still remains on the downside, as global rebalancing takes place. Global growth is projected at 3.4 per cent in 2016 according to the January 2016 version of the IMF, World Economic Outlook (WEO). While the outlook in advanced economies remain positive and uneven, growth in emerging market and developing economies is projected to be lower than in 2015 as low commodity prices and tighter financial conditions pose increasing risk to growth in the region. In addition, slowdown and rebalancing of the Chinese economy, gradual exit of US expansionary monetary policy, and strains in some large emerging market economies will continue to weigh on growth prospects in 2016. 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 and Cash Reserve Requirement in other not to strangle domestic growth is the best option for now.

The banking system continues to show high level of Naira liquidity, while foreign exchange market continues to experience tightness. Interest rate in all segments of the money market trended downwards since the last MPC reflecting the level of liquidity in the domestic banking system. Average inter-bank call and OBB rates, which stood at 1.00 and 1.50 per cent on 25 November 2015, closed at 4.75 and 4.50 per cent, respectively, on January 21, 2016. Between November 2015 and end-December 2015, interbank call and OBB rates averaged 0.81 and 0.98 per cent, respectively. However, liquidity remains tight in the foreign exchange market posing significant threat to growth in 2016. To mitigate the adverse effects, effort should be made to increase foreign exchange supply to the inter-bank market. However, it should be noted that the average naira exchange rate remained relatively stable at the inter-bank segment.

Therefore, I support the retention of the current stance of monetary policy. I vote for no change in Monetary Policy Rate at 11 percent, retain Private Sector Cash Reserve Requirement (CRR) at 20 percent, and retain Liquidity Ratio at 30 percent to address both growth and macroeconomic concerns.

3.0 BALAMI, DAHIRU HASSAN

Global growth is projected by the IMF in 2016 to be 3.6 percent while the World Bank has downgraded its previous 3.3 percent to 2.9 percent for the same period with a possible rise to 3.7 percent in 2017. However this should be supported by generally less restrictive fiscal and accommodative monetary policy frame stance; particularly in advanced economies where growth is expected to be 2.2 percent and 4.5 percent in emerging and developing economies. At the Domestic level the economy is forecast to grow at 3.4% in 2016. The identified growth drivers include: agriculture, works and housing and services like education and manufacturing in Nigeria.

The global economy is going through shocks such as declining crude oil and other commodity prices, geopolitical tension and price wars, disparity between the U.S and other developed nations and emerging economies monetary policy. Others include the slowing down of growth in the Chinese economy and declining stock prices; in addition, the low inflation trap in the Europe Zone and the normalization of the U.S economy leading to raising interest rate and its implication on FDI and their reserve in the emerging and less developed economies. Although the U.S and UK economy have registered positive growth levels, the

quantitative easing in the Euro zone and Japan have not been able to stimulate growth in the emerging markets of China, Brazil, Russia and South Africa. In the MENA zone conflicts and crisis have slowed down the level of economic activity and prosperity in that region in countries such as Yemen, Iraq, Syria, Libya, etc. this is further exacerbated by huge emigration problems.

Oil glut has seriously affected the foreign exchange earning capacity of many crude oil exporting countries. As it relates to the oil glut the new positive relationship between Iran and the United States of America which led to the removal of sanctions entails additional oil flow into the global market with obvious implications in the world market. The declining oil price and the cost of production of a barrel of crude have implications on the profitability of the oil industry globally. As the price continues to slide downward many countries that depend on crude oil are sliding into low revenue trap which has affected their budgets as well as development efforts. The oil importers on the other hand are having cheap oil imports but facing problem of weak demand from external trade partners due to foreign exchange problems.

Looking at the Nigeria economic situation the domestic challenges as well as the major headwinds affecting the economy in the 2016 transition

budget are as follows: declining crude oil prices in the international market, shading away of stocks, rising unemployment and underdevelopment. Others include; infrastructure deficit such as power, energy, roads, rail etc, foreign exchange problem, debt problem, rising non-performing loans (NPL), import driven nature of the economy, the issue of the TSA and high level of interest for credit to the SMEs which are critical to the growth and development of the economy. As always, inflation is a major concern and a challenge to growing economy; the headline inflation stood at 9.60% slightly breaching the CBN target band of 6-9 percent, slow growth, and the pressure on the exchange rate.

In the face of the above, what can be done to stimulate the economy and the strategies to be adopted? Although government wants to stimulate the growth of the economy through the Keynesian approach, it may not adequately meet its shopping list like fighting insurgency, reconstruction and rehabilitation in the Northeast of Nigeria, and pipelines vandalism in Niger Delta areas, etc. The strategy to stimulate the economy include; diversification, lower interest rate particularly for SMEs, and rehabilitation of decayed infrastructure etc. This can be achieved partly through deployment of expansionary monetary policy to be supported with an appropriate fiscal policy. This policies and strategies

put in place must be the right ones to address our problems. For example, in the transition budget, how do we promote the government effectiveness if there is huge deficit bearing in mind that huge government borrowing will crowd out the private sector? What will be the consequences on the economy if the right decision is not taken? If government have credit account in TSA, does it pay for it to borrow? The simple solution is appropriate articulation of economic problem solving solution by all concerned agents of government. Primarily, monetary policy cannot be applied in blanket for everything hence the need for policy coordination between the monetary authorities, the government and the Regulators of the economy. However, the framework to be developed must take into consideration the independence of the Central Bank which is critical.

Having attained synergy between monetary and fiscal policies we need to organize ourselves to do something that will support the economy through nationalistic beliefs by cutting down on the consumption of foreign products, thus, reducing level of imports. In addition, aside from moral suasion for the consumption of local product, the government should promote effective reorganization of the Solid Mineral Sector to assist in the exploitation of mineral resources that abound in almost all the

states of the economy including the FCT. This would lead to employment generation and job creation to support the real sectors. On the side of banking industry, the Nigerian banking industry remains healthy or buoyant as demonstrated by Sound Financial indicators at the end of December 2015. The Capital Adequacy Ratio (CAR) stood at 17.66% which is above the minimum prudential requirement of 10% - 15%, NPLs of 4.88% which is slightly less than maximum 5%, liquidity ratio of 48.63 which is greater than a minimum of 30%. However, the empirical evidence as per providing loans to SMEs is not encouraging, there are pressure points which include potential risk of raising Non-Performing Loans (NPL), pressure on the exchange rate and other macroeconomic issues like declining oil price.

Given the above, I vote to hold on the November 2015 MPC policies so as to allow previous measures to work their way through as well as to achieve the benefit associated with policy stability. In my opinion we should maintain the following:

- i. CRR at 20%
- ii. MPR at 11%
- iii. Liquidation Ratio at 30%
- iv. Asymmetric Corridor at +2/-7

The rationale for the above is to allow the (i)-(iv) such that the nation's transition budget to be financed permeates the market effectively, stimulate output growth and employment generation, raise the capital market activities, encourage lending at low rates so as to help stimulate aggregate domestic demand in the economy. Although, this may have some downsides to the economy like disincentive to portfolio investors and pressure on the exchange rate and inflation, etc. The variable should continue to be monitored.

4.0 BARAU, SULEIMAN

Background

After about four years of consistent tightening, the Committee, at its meeting in November 2015, decided to ease the stance of monetary policy, at least, in partial consonance with the tenets of countercyclical monetary policy. The fiscal stance, though details of the 2016 Appropriation Bills are yet to be completely unveiled, equally suggests leaning against the wind. This, I think is a step in the right direction.

Having just settled for this strategic direction from both ends of macroeconomic policy, some teething issues should naturally arise but such may not necessitate immediate policy response given the required time lag for policy impulses to filter through the economy. These initial challenges include renewed liquidity surfeit in the banking system and the unprecedented differentials of rates in the foreign exchange markets. All the same, it is incumbent on us to continue fine-tuning the new direction of policy through administrative measures until satisfactory outcomes are delivered on various macroeconomic fundamentals.

With this in mind, my vote in this meeting is to hold on all measures taken in the last meeting.

Key Developments

Global Development: As widely expected, the US Federal Reserve increased its policy rate at its December 2015 meeting, albeit marginally (0.25 per cent). The magnitude of the increase notwithstanding, the

development clearly signals the end of an 8-year interest rate regime. This would fairly pose challenges on both the real and financial sectors of the domestic economy. On the real side, given the inverse relationship between currency and global commodity prices, another round of downward movement in oil prices may commence or at the minimum the current bearish condition would persist over a fairly long time. From the financial side, the dollar has appreciated by almost 20 per cent against a basket of currencies in the last one year. This level may likely be sustained in the near to medium term with consequences for inflation and perhaps banking system stability.

Domestic Developments: Developments in the domestic economy appear mixed, though the balance of risk appears a little bit more elevated. On the positive side, the 2016 Appropriation Bill is already before the National Assembly with the expectation that its passage into law would not extend beyond the first quarter. Contrary to what was gradually becoming the norm, early passage of the Bill would enhance planning and predictability required to bolster confidence among economic agents. It is equally heartwarming to note an improvement in the proportion of the budget allotted to capital expenditures. In addition, the retail price of premium motor spirit (PMS) has been marginally adjusted downwards, which could moderate inflation expectation. Lastly, unlike the previous episodes of economic crisis, the banking sector still remains sufficiently resilient with key prudential indicators well anchored; creating some latitude for the deployment of monetary policy tools.

On the other hand, the spillover of global economic condition to commodity prices continues to adversely impinge on fiscal revenue, putting considerable strains on the financial markets, among other pains. Furthermore, low accretion to external reserves continues to fuel pressure in the official foreign exchange while unprecedented rate differential exists in the markets.

Moreover, depreciation in the exchange rate as well as liquidity surfeit arising from reduction in the CRR remain upside risks to inflation, while softness in growth still persists.

Likely Pressure Points

In my view, the likely pressure point in the near to medium term revolves around the fiscal stance particularly through the channel of rising public debt. The other issue is perhaps the evolving security conditions in the Niger Delta region.

- i. **Rising Public Debt**: Although debt/GDP ratio at about 10.0 per cent is still within the prudential threshold, the debt/revenue ratio as well as debt to export ratio have steadily and rapidly increased in the last one year. Given the deteriorating condition in the global oil market, the possibility of slippage on the proposed fiscal revenue of N3.8 trillion in the 2016 Appropriation Bill cannot be completely ruled out. The consequences on the economy include:
 - **Risk of Fiscal Dominance**: It is well known that rising fiscal deficits and the attendant increases in public debt create the spectre of fiscal dominance. This is because purchase of government securities by central banks might be considered appropriate

monetary tools to support the fiscal stimulus. The downside is that these types of operation are equivalent to monetary financing with the implication of central bank subjecting itself to fiscal dominance and by extension heightened inflation expectation.

➤ **Preference for Short Term Credit by the Banking Sector:** It is equally settled in both economic and finance literature that increases in public debt crowd out private sector credit. This is already manifesting in the domestic economy as shown by the sluggish growth in private sector credit in the last couple of years. Beyond this, another likely issue of worrisome dimension is the tendency for the structure of new credit to the private sector tilting towards short term due to the new emphasis on issuance of long term debt securities. Although government debt instruments and private sector credit are not perfect substitutes in the portfolios of banks, they tend to compete with each other. Given that banks seek to strike appropriate balance between short and long term investment in their portfolios, once their long term investment appetite is met through long term debt instruments, little or no consideration would be given to long term private sector credit. This portends significant risk for medium to long term growth trajectory.

➤ **Increase in Lending Rates:** Prevailing lending rates range from 16-25 per cent, which is adjudged to be high. Both the MPR and CRR were reduced at the last meeting with a view to moderating the rates, among others, but the attainment of this objective remain elusive. This is because the combined effects of depreciating

exchange rate and the rise in the level of debt stock may manifest in elevated risk premium on government debt instruments. Given that these instruments are normally the benchmark rates, lending rates to the private sector may not adjust downward substantially.

- ii. **Buildup of Tension in the Niger Delta Areas:** It is worthwhile that the government has made remarkable progress in containing the insurgency of the North Eastern part of the country, but it is regrettable that militant activities are beginning to rear their ugly trend in the Niger Delta area, reminiscent of the 2006-2008 period. The NNPC has disclosed that two domestic refineries with estimated production capacity of six million litres of PMS per day would be shut down as a result of the recent attack on oil facilities in the region. In addition, it is estimated that the nation would lose about N400 million per day on power generation resulting from disruption of gas flow to NIPP plant. Besides, unlike the 2006-9 era when attractive oil prices could compensate for the elevated risk due to production in an unfriendly environment, the prevailing price regime does not offer such comfort. Any activity that would drive up cost of oil production under the prevailing price regime would be highly inimical to the industry and could result in closure of oil fields with far reaching implications on GDP, exchange rate management and fiscal revenue, among others.

Way Forward

Adherence to Existing Rules on Ways and Means: The age-long orthodoxy that expansionary fiscal stance plays a catalytic role in staving off imminent recession is still relevant in our present circumstances, but it is

equally important to avert doubts around fiscal solvency in order to engender confidence in the economy. In most of the advanced economies as well as some low income countries, the focus of policy discourse is now on fiscal consolidation. Given that expansionary fiscal policy cannot be avoided in our current circumstances, both the fiscal and monetary authorities should ensure that issues around fiscal sustainability and broader economic and financial markets consequences are completely avoided.

Innovative Credit Products for the Real Sector: The decision to reduce the CRR in the last meeting was the first step towards supporting credit growth in the private sector. As highlighted under the section on pressure points, the flow of credit through the conventional banking channel may still be constrained by several other factors most especially the fiscal stance. The solution has in having a vibrant capital market that is characterized by a deep fixed income issuance and finding capabilities.

Effective Management of Excess Liquidity: The overall motivation for reducing the CRR is to deploy banking sector liquidity into the real sector. It needs to be noted however that such goal could not be achieved instantaneously without some initial challenges like the re-emergence of liquid surfeit. As pointed out earlier, the need to reverse the policy does not arise given the nobility of the objective but the Bank may need to fine tune the liquidity management framework in a win-win manner for the entire system.

Decisions

As highlighted above, some initial challenges could emanate from the implementation of the new direction of monetary policy but they do not necessarily require policy response, at least now. Most of the issues could be handled administratively, particularly through effective collaboration with the fiscal authority. More fundamentally, it would be in order to allow for the necessary time required for these policy measures to transmit through the economy.

In the light of the foregoing, I propose to hold on all subsisting policy measures. Specifically, I vote to retain MPR at 11.00% with corridor of +2/-7% while CRR should also remain at the subsisting 20%.

5.0 GARBA, ABDUL-GANIYU

Context and Decision

My position at this first MPC meeting of 2016 is the same as it was in the last MPC of 2015. The foundations for my positions were summarized in the personal statement of September 2015. My analysis based on available facts, lessons of history and the outlook is that the core policy issues are not simply that of moving financial metrics (quantities and prices) one way or another or from one "static equilibrium" to another where a new round of contestation begins. Rather the core policy issues are far more fundamental and, a piecemeal magic bullet approach leads inevitably to fundamental policy errors that tend to lead to lasting damages.

Indeed, there is emerging consensus on three key points: the challenges facing Nigeria are multifaceted, a piecemeal approach to policy is ineffective and consistency between monetary, prudential and fiscal policies is necessary to the effectiveness of the policies and, to the realization of the Constitutional mandate of the MPC.

When I voted to hold at the last MPC, I re-emphasized two points I have made consistently and repeatedly. First, the strategic choice is between **altering financial metrics** in response to greed, fear or worry **or** "harnessing and directing all available intellectual and political resources to engage the fiscal authorities to develop a strategic macroeconomic management framework for Nigeria." Second, a vote to hold is not a vote to maintain a status quo. Rather it is a vote for 'harnessing and directing all available intellectual and political resources to engage the

fiscal authorities to develop a strategic macroeconomic management framework for Nigeria. I remain convinced that macroeconomic policy in Nigeria at this historical epoch must be centered on a comprehensive and consistent medium to long term strategy that is anchored in sound **“institutions, incentives, strategy, coordination** and a **forward looking** (perspective).’

This remains my position as I vote to hold. My vote still 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 long term.

I am not unaware of the view canvassed by key players that moving the price metrics of the forex market ought to be the primary issue of monetary policy in Nigeria. In my considered perspective the view exemplifies the type of piecemeal approach to policy that tends to create hysteresis – adverse permanent effects. Historically, the view of moving price metrics without fundamental and comprehensive analysis of causes and effects has helped to move prices in ways that profit short position takers, forces policy makers into perpetual defensive positions and that drive the key metrics into the path of self-fulfilling prophecies.

In a matter of cause and effect, a bias towards effects does not help to understand underlying strategic and policy problems without which it is impossible to fulfill the primary and secondary mandates of the MPC. Based on what we know about the nature of cause and effect of

financial market processes and the dynamics of their metrics (quantities and prices) and the evolutions of the structures (allocation and gains) and the psychological instabilities as well as the opportunities they offer rational (that is, greed-fear-worry driven) actors, simply moving the level of a metric from a lower to a higher one simply will simply shift the defense line to a higher level. There is thirty years of concrete data and policy experience on this including the experience of the last two years.

Existing work on currencies in emerging markets and globally makes it clear that movements in the metrics of the forex market are due to many cross-currents that mere movements of the price metric cannot resolve. We also know from settlements after the global financial crises that key attacking players in the global financial markets rig markets and their metrics to bias “market payoff” in their favour. Therefore, considerable care must be exercised in assuming that one price is “efficient” and another “inefficient” because the former is higher than the latter. It is simple economics that in segmented markets; neither the lowest nor the highest price is efficient. The efficient price if it exists; will lie between the two prices **provided that the prices are not manipulated prices.**

Not much can be gained in the short to medium terms if the underlying structural deficiencies in allocations and in gains; the deficiencies in institutions and incentives and, the vulnerabilities as well as the administrative actions or inactions that cause spreads and resource misallocations are not comprehensively, consistently and dynamically understood and addressed. Policy without strategy is doomed to fail.

Worse, it tends to be followed by long term damages. This is exemplified by how the decision in 1978 to borrow from the international money market opened the door into a debt crisis that was only partly resolved in 2005-2006 before it transitioned into a malignant tumor shortly after.

In my view, improving administrative actions, institutions and incentives as well as reducing the scope and strength of vulnerabilities are key prerequisites of an effective monetary policy framework. These issues ought to take precedence over movements of metrics which are never sufficient to guarantee the goals of monetary policy. The problem of malfunctioning markets cannot be solved by mere changes in metrics. Policy effectiveness requires policies to be *appropriate* but also, that markets function *efficiently and effectively*. The problem is that players who react to and influence the greed-fear-worry index exploit vulnerabilities to make markets and policies work perversely. No one concerned about the primary and secondary goals of the monetary policy could afford to be complacent about and blind to the true cause-effect nexuses. Otherwise, policy could not serve the interests of the majority.

It is clear that policy effectiveness is relative because every policy generates winners and losers. This is why there would always be a contest of positions by rational players whose arguments reveal their interests. The contest is good. But policy must follow the facts and its mandate. Otherwise, it loses its essence and relevance. The key issue always for policy must be what best serves the medium to long term interests of the

majority which includes the 50 million unemployed and underemployed. For the majority, improving the efficiency and effectiveness in the allocation of credit, forex and securities and strengthening the transmission mechanisms of monetary policy are urgent. Also key is the urgency of reducing the structural vulnerabilities of small open economy like Nigeria in a greed-fear-worry driven global financial and economic system washed with the liquidity unleashed by the episodes of quantitative easing of the last decade.

Global Outlook and the Urgency of Coordination

The January 2016 MPC held amidst **global structural problems** (slowdown in China, policy conflicts among large economies, slowing global demand, declining commodity prices and the consequences of medium and small economies) and **psychological instabilities** (exemplified by the observed shift from high greed to high fear and worry on the fear-greed index and on the worry board at the 2016 Davos meeting).

Because of the pre-eminence of “investors” and the growing dominance of “financial markets” in the global economy, much focus is given to the psychological shift from high greed to high fear and worry. However, no serious policy making body could make effective medium term compatible policies on the basis of greed, fear and worry. At the very least, the leading central bankers anchor policy choices on medium term outlooks generated from forecasts of the medium term paths of a set of key financial variables (interest rate and prices) and economic variables (GDP, unemployment, demand). This explains why key policy organs of

Central Banks that met in January 2016 did not react to the volatilities in financial and commodity markets in January.

For Nigeria which is a small open economy, the global structural problems have caused the **current account balance** to turn negative while the combination of global structural problems and the plague of **psychological instabilities** have combined to drain financial flows from Nigeria. Did we see these coming? If yes, did we prepare for them? Could we have prepared for them? My answer to the first and third questions is the same: yes we saw it coming and yes we could have been better prepared. Understanding why we did not prepare despite the Fiscal Responsibility Act of 2007 and associated economic laws is in my view, the crux of the strategic and policy discourse.

We must understand our vulnerabilities in a world ruled by greed, fear and worry otherwise, we will keep repeating the same mistakes at growing economic, social and political costs. There is enough historical data and advice incidentally, from former leading officers of the International Monetary Fund against the idea of small open economies opening the barn doors only to close them when the horses have bolted or opening the barn door when they lack the prerequisites for managing what goes in, what comes out and what they take away and what they leave behind.

A Consistent Medium Term Monetary-Prudential-Fiscal Strategy

Connecting monetary, prudential and fiscal policies within a comprehensive and consistent framework is critical. It is important to

agree on this and then, follow up immediately to make it happen. A sufficiently comprehensive framework would make it easier to understand why raising fiscal deficit when the current account deficit is growing will worsen a precarious **twin deficit problem**. The implications of a planned increase in public debt by over N2.2 trillion will become obvious: increase in debt from N10.5 Trillion to N12.7 Trillion, crowding-out of private borrowers including the small and medium scale firms that have higher growth and employment elasticities, a rise in interest rates, adverse effects on investment hence, employment and growth and the likelihood that debt service in the 2017 budget would significantly exceed the 22% of the proposed 2016 budget. It will thus become clear that fiscal choices can constrain monetary choices also, that neither the goals of fiscal or monetary policy could be achieved without efficient and effective coordination.

It is worth noting that after Nigeria exited the Paris Club in 2006, the total federal debt was N2.1 Trillion which is well below the borrowing plan for 2016. The borrowing plan will continue a trend that picked up in 2009 during which total federal debt almost quadrupled from N2.8 Trillion to N10.5 Trillion.

Raising the debt by another N2.2 Trillion clearly needs much more detailed analysis of the implications for policy effectiveness. An ongoing study has shown that had domestic debt risen along the 1981-2006 trend, government expenditure, total debt service and budget deficit would most likely have been significantly lower while private sector investments,

credit to private sector and real GDP growth would have been significantly higher than they were. The results imply that excessive public borrowing was harming private investment, employment and real growth while creating and worsening a fiscal problem.

A more comprehensive framework would also make it easier to see that with lower domestic borrowing and a more effective management of petro-dollars, liquidity would not need to be mopped up frequently after each round of fiscal injections which often tend to raise interest rates, “kill money” and reduce opportunities for viable real private sector activities that have relatively high growth and employment elasticities. In addition, high interest rates tend to worsen the performance of loans and therefore, a threat to financial system stability.

Clearly, harmonizing monetary, prudential and fiscal strategies and policies are indispensable to the credibility of macroeconomic strategy and policy in Nigeria. The harmony has legal foundations in the CBN Act of 2007 which specifies the primary mandate of the CBN to be price stability and its secondary mandate to be, supporting the economic policies of the government. Without coordination, neither the primary nor secondary mandate can be efficiently and effectively actualized.

Available information indicates that the Treasury Single Account has a balance of over N2.2 Trillion. If supplemented by recoveries either from voluntary returns or legal successes on the “war on corruption” and more effectiveness in the budget design and implementation following strictly

provisions of the Fiscal Responsibility Act, 2007, there is a great likelihood that the problem of fiscal deficit should be significantly reduced in 2016. If cash management were to significantly improve even to the levels of household budget management, it should be possible for the spending programmes for 2016 to support a more efficient and more effective monetary and prudential strategy and policy. The short to medium term gains will include: lower interest rates, lower crowding-out of private sector credit, enhanced intermediation and significantly lower crowding out of resources for social and economic infrastructures.

In the 2016 spending plan, the planned debt service of N1.36 Trillion is 76% of planned capital spendings, 62% of planned deficit, 22% of total expenditure and exceeds the sum of the recurrent allocation to the top five MDAs (Education, Defense, Police Formations, Health and Interior) by about N46 billion! The idea that we are below a threshold and should continue to borrow led Nigeria to a debt overhang problem that took more than half a century (1982-2006) to resolve at very high economic, social and political costs. To rely on the same idea to worsen the **triple problems** (fiscal deficit, current account deficit and a growing debt problem) is to fail to learn from history and to worsen the likelihood of efficient and effective policies.

I am still convinced that “the 2016-2020 planning and budgeting cycle offers opportunities that the monetary and the fiscal authorities should use to have continuing purposeful and thorough strategic sessions, working out and agreeing on a continually adjustable strategic macroeconomic

management framework at least, for 2016-2020." It is important that fundamental errors are avoided and key vulnerabilities are positively addressed otherwise, the policy environment will remain challenged by structural problems, psychological instabilities (greed-fear-worry) and by avoidable strategic and policy errors whose effects are systematic and long termed.

6.0 NNANNA, O. JOSEPH

Key global macroeconomic indicators suggest that economic headwinds and fragilities are still lingering. In addition, the persistent decline in oil prices and the aftershocks of US monetary policy normalization have created ripple effects on financial markets and fiscal regimes in emerging and frontier economies. Given the disparate sources of external macroeconomic shocks, which are still unravelling, and its intractable impact on Nigeria's macroeconomic conditions, the need to exercise cautious monetary policy strategy cannot be overemphasized.

OUTPUT AND PRICES

The tepid improvement in growth in Q3 seemed inadequate to inspire confidence in quick recovery given sustained decline in oil prices, rising inflation and worsening unemployment.

Data from National Bureau of Statics indicated that growth slightly improved from 2.35 percent in Q2 to an estimated 2.84 percent in Q3 of 2015 but down from 6.23 percent in corresponding quarter in 2014. The lukewarm uptick in growth was driven by non-oil sectors: namely, services, trade, agriculture and construction. The marginal improvement in GDP growth in Q3 of 2015 suggests that, while the potential slide into recession may have been reversed, the impact of external and domestic shocks still dampen expectations of quick recovery in the medium term. However, despite the slight improvement in growth, unemployment increased from 8.2 percent in Q2 to 9.9 percent in Q3, 2015. In addition, headline Inflation has been creeping upward from 8.0 percent in December 2014 to 9.6 in

December 2015, largely driven by rising food inflation from 9.1 percent in December 2014 to 10.59 percent in corresponding period in 2015.

EXCHANGE RATE DEVELOPMENTS

Increasing demand pressure on the Forex market amid declining reserves due to softening oil prices and capital outflow, demands flexibility in Exchange rate management.

The persistent decline in oil prices coupled with increasing capital reversals significantly impacted external reserves which decreased from \$29,346.62 billion in March 2015 to \$27,756.23 billion as at end-January, 2016. Notwithstanding the relative success achieved in halting the hemorrhage in reserves through demand management strategies and stoppage of forex to BDCs, the pressure in the forex market remains a concern in the short term. While the interbank rate slightly depreciated from N196.95/N/US\$ to N197.00/US\$ between June, 2015 and January, 2016, the BDC rates depreciated significantly from N237.00/US\$ to N267.00/US\$ with a spread of N71.00 during the period under review. Therefore, while demand management strategies still remain valid in the circumstance, the current incessant pressure on the forex market requires additional proactive market measures to rein in speculative attacks on the naira.

Developments in the Banking System

The financial system remained very resilient despite the marginal increase in non-performing loans (NPLs) of the banking system from 4.5 percent to 4.8 percent, as a result of banks' exposure to the oil and gas sector. Similarly, Capital Adequacy Ratio (CAR) of banks stood at 17.66 percent,

as at end- December, 2015- which is well above the prudential requirement of 10 percent. Overall, the ability of the banking system to withstand current economic headwinds and play its intermediation roles is reassuring.

Conclusion

Given the uncertainties in global economic developments and the lingering impact of external shocks on domestic macroeconomic conditions, I see merit not to change the stance of monetary policy from previous decisions. Therefore, I vote to:

- i. Retain MPR at 11.0 percent
- ii. Retain CRR at 20.0 percent
- iii. Retain Liquidity Ratio at 30 percent and sustain
- iv. the asymmetric corridor of +200 basis points and -700 basis points.

7.0 UCHE, CHIBUIKE U

In my view, this MPC meeting was one of the least complex meetings we have had for some time now. Unlike in recent meetings, the new Government's fiscal policy direction has now been made clear. We for instance now know that the present administration is determined to implement the TSA. This in my view is a welcome development. For a number of years in the past, the MPC was forced to charge discretionary CRR on government deposits all in the attempt to force the Government to adopt TSA. The political will the current Government has demonstrated

in enforcing TSA, which is in line with prudent fiscal policy management, will definitely help monetary policy formulation in the country.

At another level, it is also instructive that the Federal Government has now released its 2016 budget proposal. With a proposed budget deficit of N2.2 trillion, it is clear that the Government is determined to spend its way out of the current economic difficulties. In this direction, the Government has particularly noted that it is determined to increase the capital expenditure segment of the budget with the view of enhancing infrastructural development which will provide the much needed support for the diversification of the Nigerian economy. Specifically, the Government has increased its capital expenditure segment of the budget from N557 billion (2015) to N1.8 trillion (2016). With oil prices hovering around 30 dollars per barrel, and expected to remain at such levels for a considerable period of time, it is clear that our economy is in trouble and that the projected budget deficit may further increase. The only sustainable solution will be for us to develop other sources of foreign exchange earnings by diversifying our mono-product oil dependent economy.

The clarity of Government fiscal policy direction has however not in any way made monetary policy formulation easier. While I see merit in the Government decision to run a deficit budget at the present time, especially given the dearth of basic infrastructure that can aid economic development, it is clear to me that this may come at some cost. Some of these costs are already obvious and are bound to increase in the future. Statistics available to MPC, for instance, clearly show that inflation is already inching upwards and approaching double digit territory.

The implementation of the 2016 budget will only cause the inflation problem to get worse. The fact that the proposed budget benchmark oil price of \$38 per barrel is unlikely to be achieved will no doubt further put pressure on inflation. The dwindling international price for crude oil is also behind the widening gap between the official market exchange rate and the parallel market exchange rate for the Naira. This widening gap between the parallel and official exchange rate for the Naira can only add fodder to the inflationary pressures we are currently witnessing.

Based on the above dynamics, the biggest challenge for monetary policy in my view is how real sector development can be encouraged in the face of rising inflation. This is especially so given the fact that the banks, which are one of the main vehicles for aiding real sector development, are unlikely to lend at rates attractive to businesses when inflation is high. It for instance makes little economic sense for any bank to fix their lending rates below the inflation rate. This is because such practice can only result in the degradation of the bank's real capital.

Furthermore, with the Government set to increase its borrowing in order to bridge its budget deficit, there is little incentive for banks to lend to the real sector of the economy. Under the above dynamics, the sustainable path for monetary policy to tread so as to achieve its main policy objective of promoting price stability and supporting the economic policy of the Federal Government of Nigeria remains difficult to identify. This is even more so given the fact that our banking sector, partly as a consequence of its credit exposure to the oil sector, is increasingly facing

trying times. Evidence available to MPC, for instance, suggests that the bad debt portfolio of the banking industry is gradually inching upwards.

Despite the above difficulties, I still believe that there is still some room for monetary policy manuevre in order to aid sustainable economic development in Nigeria. As I stated in a recent policy statement, I am philosophically in agreement with the idea that the CBN should devise creative ways of extending credit to the real sector of the economy as part of its developmental function. I however believe that there is need for more studies in this area before we take the leap. This is particularly important especially given the fact that Nigeria has a long history of using monetary policy to incentivize banks to lend to the preferred sectors of its economy. Learning from the mistakes and/ or successes of the past will in my view lead to better policy making.

In summary therefore, I am inclined to adopt a cautious attitude at the present time. I therefore vote as follows: (1) to retain MPR at 11 percent with asymmetric interest rate corridor of + 200/- 700 basis points around the MPR; (2) to retain CRR at 20 percent; and (3) to retain Liquidity Ratio at 30 percent.

8.0 YAHAYA, SHEHU

The Global Economy

Generally, the growth prospects in the global economy have not changed much since the last meeting of the MPC in November 2015. Growth estimates for 2016 have remained low, slightly higher than 2015. Modest growth has been fairly well established in the US, despite some concerns about the possible effects of interest rate increases on growth in 2016; the UK is still growing, although at a lower pace; India is maintaining its fast growth rate, while Brazil and Russia are contracting. Japan is barely growing, while the Eurozone is still battling against a recession. What is clear is that global demand is unlikely to have a major stimulatory effect on output in African economies this year. While intra-African trade is growing, it is still not playing a major factor in growth in most African countries

Global prices are also expected to remain low, only slightly higher than 2015, due to lower oil, commodity and food prices. Hence, the US dollar exchange rate, which has strengthened against most currencies, may be much more important in affecting domestic price levels in Africa, including Nigeria, than imported inflation. The challenges facing oil producing and exporting countries are unabated. The stock market in many countries around the globe, especially in emerging markets, have been bearish, perhaps a reflection of the low confidence generated by weak growth and low commodity prices, as well as anticipated adjustments.

The domestic economy

The major challenge for the Nigerian economy is to boost growth, create jobs and ensure a more even spatial and inter-personal distribution of income and opportunities. Yet growth in 2015 is estimated at between 4 and 5%, despite the slightly better performance of the economy in Q3 as compared to Q2, with various projections for 2016 at around the same levels.

The budget proposal of the Federal government has been designed to reflate the economy, to drive growth and jobs through investments in infrastructure and local production and to reduce poverty. The implications of the substantial budget deficit and the financing of the deficit on price levels and the exchange rate would have to be thought through and addressed in the coming months.

The downward pressures in oil prices are unrelenting, which poses a significant challenge to growth, external reserves and even on budgeting. Oil prices are hovering around the cost of production. Yet, the non-oil sector, which is expected to take up the driving force behind growth, experienced a decline in growth rate in Q3. Growth rate in the manufacturing sector also fell, despite a significant increase in Bank lending to the sector.

Headline inflation has nosed up to 9.6% in December 2015, largely driven by food and transportation. It is expected to maintain a forward momentum in the near term. It is likely that economic agents will price many of their goods to reflect the value of the Naira in the parallel

market, which may contribute to inflationary pressures. Prices are expected to level off during the middle of 2016.

The government still dominates access to credit, a phenomenon which is expected to increase this year due to the sizeable planned budget deficit. Credit to the private sector remains much lower than the benchmark. Sectors such as agriculture, construction, power and energy, mining and quarrying that are important for growth and jobs do not appear to have benefitted from increased access to bank credits during the year. This may have implications for the nascent growth strategy.

The Naira/dollar exchange rate still dominates the conversation on the external sector. Administrative measures are maintaining the exchange rate at a stable rate, while a combination of reverse capital flows, declining levels of external reserves, falling oil prices, reduced supply, speculative demand and uncertainty are driving the value of the Naira down at the parallel markets.

The banking system has to be constantly vigilant and innovative to adequately meet the challenges to asset quality, exposure to foreign assets and liabilities and uncertainty emanating from the fall in oil prices and the pressure on the exchange rate. The transfer of public sector deposits to the Central Bank also pose some challenges. Nevertheless, given its overall capital adequacy, liquidity and profitability, the Banking system has the capacity and the resilience to respond to the changing global and domestic economic and financial environment.

Conclusions and Position

Growth, jobs and welfare in the course of the year will be influenced much more by fiscal, trade policies than by monetary policy. Given the thrust of the draft budget and explicit/implicit exchange rate policies, it appears essential for the government to develop a more comprehensive medium term framework, so that elements of policies to promote local production and value addition, economic diversification and social protection can fit into a self-reinforcing and coherent strategy. This can also provide a more analytical and sound basis for an exchange rate policy- rather than short term responses- as well as provide clearer signals for supporting monetary policies.

Given the critical importance of the fiscal side in these circumstances it would be helpful to see the actual budget approved by the National Assembly. Also, a raft of measures have been adopted during the last meeting of the MPC, whose effect are still working through the system.

In consideration of the above therefore, I vote to maintain the current policy stance as follows:

- CRR at 20%
- MPR at 11%
- Assymetric corridor of +2/-7%
- Liquidity Ratio at 30%

9.0 ADEDYOIN SALAMI

At the end of the MPC's deliberations, members were invited to vote on either of these options:

(i) Maintain the status quo – in other words leave all parameters unchanged; or

(ii) Change the band around the Monetary Policy Rate (MPR) from +2/-7 to +2/-11 whilst retaining all other parameters unchanged.

I voted in support of keeping the Monetary Policy Rate (MPR), the Cash Reserve Ratio (CRR), Liquidity Ratio (LR) unchanged and retaining the asymmetric corridor around the MPR at +2/-7. *In addition, I had proposed, for the Committee's consideration, that the -*

- *The mid-point of the exchange rate band be moved from N197/US\$ to N220/US\$; and*
- *The exchange rate band be widened to +5/-5 percent around my proposed mid-point of N220/\$.*

My additions to the proposal gained no support.

In my mind, the questions facing the MPC at this meeting included –

- How to deal with rising cost in the face of slowing activity growth?

- What implications do the budget proposals for 2016 have for the framework – goals and instruments - of monetary policy management?
- Does the worsening international economic environment require a change in approach to, or direction of, monetary policy?

With headline inflation ending the year at 9.6 percent – making for a 2015 average of 9.01 percent in comparison to 8.0 percent in 2014, the challenge of rising cost continued to face both the design and implementation of monetary policy. Similar to the overall measure of prices, the rate of increase in the index of food prices increased from 10.3 percent recorded in the previous month to 10.6 percent in December 2015 – resulting in the year average rising to 9.9 percent from 9.5 percent the previous year.

At 8.7 percent, core inflation, remained unchanged between November and December 2015 – unlike the food and the overall indices of prices. However, the trend towards higher cost noted in the preceding paragraph also extended to core inflation when the year average is considered – this rose from 6.9 percent in 2014 to 8.2 percent in 2015.

Ordinarily, rising inflation would have required a tightening of monetary policy. Nonetheless, available evidence suggests that structural supply side weakness rather than any significant pick-up in demand (notwithstanding the payment of salary arrears, by some subnational governments) explains rising prices.

Available income and expenditure side data, albeit limited to 1st half of 2015, shows that employee compensation, when compared to the same period the previous year, shrank by 1.14 percent - approximately 10.00 percent when adjusted for inflation. In the same period, inflation rose faster than aggregate disposable income implying a 'real' contraction in disposable income of almost 5 percent. Since then, anecdotal evidence supports significant staff layoff – especially in manufacturing.

Furthermore, in notes accompanying the figures for December 2015, the National Bureau of Statistics (NBS) drew attention to rising cost of imported food and the impact of disruptions to fuel supply as the primary factors in explaining rising prices at the end of 2015.

The NBS' reference to the adverse effect on domestic inflation of rising cost of imported food is, in my view worthy of note. Given the continuing decline in the global food price index (including cereal and sugar which are our key food imports), higher domestic costs of these imports may suggest that the 'fixed' exchange rate at the CBN window may no longer be the basis for setting the domestic price of imports!

Indeed, review of the data available for exchange rates shows that the premium of between the CBN and non-CBN window closed 2015 at 33 percent for parallel market and 31 percent for bureau-de-change – rising from 9 percent and 11 percent respectively at the end of 2014. By January 2016, however, this potential arbitrage window had furthered worsened to 54 percent and 47 percent respectively.

In other words, costs are now reflective of the difficulty of access to FOREX at the CBN window and thus have been determined by exchange rates

at the non-CBN windows. This raises the additional question of whether the price of policy uncertainty and inconsistency is already translating to rising prices?

Beyond this unease over rising prices, my vote was also informed by worries over eroding confidence in the economy and financial system stability.

The increase in the yield on Nigeria's 10yr Eurobond issue should be of concern. At 12.25percent, Nigeria was, after Brazil, the 2nd riskiest issuer in a group of 20 Emerging and Frontier Markets. What is worrisome though is that between Dec 2015 and Jan 2016, the yield on Nigeria's Eurobond rose 1.58percent. The deterioration that this represents was by far the worst of the comparators adopted by Bank Staff. This, in my view, signals deteriorating market confidence in our economy.

With respect to financial system stability, my concern, similar to that of other colleagues on the MPC, is to ensure that there is no repeat of the systemic distress arising from poor risk asset quality that gave rise to the creation of the Asset Management Corporation of Nigeria (AMCON). In considering this possibility, I pay especial attention to the:

- (i) Ability of Deposit Money Banks (DMBs) to intermediate; and
- (ii) Effectiveness of intermediation. In my view, the financial system, especially our banks continue to face a multiplicity of growing external threats, not unlike those facing the national macro-economy.

With banking system liquidity ending 2015 at 48.63percent – the highest level since Dec. 2013, it is easy to conclude that there is no threat to the

banks' intermediation ability. However, given slow growth in the economy and the state of confidence, it is not surprising to note that Bank deposits declined by 2.89percent (which, when adjusted for inflation, translates to almost 13percent reduction).

Furthermore, it is also not surprising to observe deposit holders responding to a riskier environment by switching from demand deposits to tenured deposits – thereby raising the cost of intermediation. While data also shows a reduction in domiciliary account holdings, this figure may be an understatement of foreign currency holding – especially given that domiciliary account holdings were, until recently, discouraged.

Bank Staff report show that at NGN5,783bn, the volume of new credit dropped almost 30percent in 2015 compared to a year earlier. The quality of asset acquired in the process of intermediation and the systemic risk posed appear to be worsening.

The Banking System Report presented by Bank Staff shows the following highlights –

- 78.8percent rise in Non-Performing Loans (NPLs) to N649.63bn in the year since December 2014;
- NPL ratio ending 2015 at 4.88percent – relative to a threshold of 5percent; and
- Loan-loss provision of N514bn already made against NPLs

In the normal course of events, the loss-loss provisions already made should assuage any concern. However, granular inspection of the data shows that between 2014 and 2015:

- The number of banks with NPL ratio in excess of the 5 percent threshold rose from 3 to 8. Furthermore, NPL in 3 of these banks exceeded 10percent; and
- NPLs rose in 18 of the 22 buckets into which the CBN classifies Deposit Money Bank (DMB) lending;

Worsening NPLs reflect a combination of external and internal factors. These include: Low and volatile Oil prices; uncertainty about severe fiscal imbalance at the sub-national level of government; weak output growth; and eroding investor confidence.

Reflecting on the nature of these threats, notwithstanding reassurance provided by Bank Staff based on the outcome of various stress and contagion tests, I cannot help but remain concerned about the possibility of under-reporting of NPLs. The weakened ability of the CBN, represented by the structure of its balance Sheet, to deal with a recurrence of crisis in the banking sector requires heightened vigilance by Bank Staff.

In closing this review of outcomes that influenced my vote, it is important to note near-term inconsistencies of which sight must not be lost:

- Current FX policy is inconsistent with Fiscal Policy. After negative revenue shocks, such as our economy has experienced, using fixed exchange rates to rectify external account imbalances demands

that fiscal spending contracts or, at least, that policy brakes are applied in fiscal consolidation, not expansion;

- Furthermore, the presence of twin deficits - fiscal and current account deficit – is inconsistent with the on-going maintenance of fixed exchange rate;
- Interest Rate Policy has become inconsistent with the Inflation Policy objective. The Central Bank's concentration on FX Rate stability seems to have led to abandonment of its price stability/inflation objective. This may be understandably construed to be a temporary trade-off in our pursuit of stronger growth and employment. But interest rate policy has also been subordinated to Financial Sector Stability, and Credit Policies of the Bank. Witness the Bank's interventions on poor credit decisions in banking, and the subsidization of interest rates in its implementation of real sector initiatives. In the meantime, signs of a turnaround in trajectories for growth, employment and inflation remains to be seen.
- Market policies in general are becoming inconsistent with Investment Promotion policies. Public resource allocation decisions appear to be distorting and not leveling the playing field; i.e. not promoting broad-based equitable opportunities. They are instead entrenching the abilities of mono and oligopolies, in public and private spaces, to undermine core prerequisites for growth and economic diversification. Such decisions are imposing administered constraints that are in effect choking the free flow of increasingly scarce private capital and material to existing, varied capacities in the economy.

In addition to policy inconsistencies, some of the approval processes within the Central Bank may inadvertently be worsening access to forex. Under CBN Guidelines, import applications not requiring FOREX from the CBN window – referred to as 'Not valid for FOREX' - should be processed within 48hrs. Given that our FOREX challenge is a shortage of supply, it is difficult to understand why the CBN is not ensuring strict compliance with its guidelines. These applications represent a supply of FOREX that would ease, however insignificantly, the present constraints.

While the foregoing review of outcomes gives room for significant concern, monetary policy being forward looking, the outlook is even more worrisome.

It is clear that the changed dynamics of the oil market – strengthening US\$ and OPEC's switch to aggressive competition for market share in the face of the reality that shale oil is unlikely to go away anytime soon - coupled with the growing friendship between the USA and Iran and the simmering animosity between Saudi Arabia and Iran suggest oil prices will remain volatile and low for longer than usual. In consequence FOREX inflow, which have already dropped from US\$3.2bn/month to US\$1.0bn/month, will also remain far below 'normal' year levels.

The fiscal proposals in the Federal Government's (FG) 2016 budget will pose a significant challenge to monetary policy in the year ahead. While the expansionary nature of the budget is appropriate in the face of slowing activity growth, it conflicts, as I noted above, with the fixed exchange rate regime presently in force.

The example of Saudi Arabia, another Oil Producing Country, with a fixed Exchange Rate regime may be instructive. Saudi Arabia's defense of exchange rates for its currency, the riyal, features spending cuts and not increases. The unprecedented range of recent Saudi government spending cuts may be considered as testimony to the severity of the revenue shock experienced by oil-producing States around the world.

Furthermore, the FG's 2016 budget, as *presented*, will see the deficit increase of almost 82percent. Ignoring the resulting sharp increase in debt service payments – which in Budget 2016 may rise to 35percent of revenue, the crowding out impact on the domestic economy's private sector borrowing need cannot be similarly ignored.

Assuming that budget funding is executed as planned, I expect domestic interest rates to rise in the year ahead adversely affecting availability and cost of credit. If, as is possible, much of this deficit is, contrary to plan funded internally, the pressure on available credit and its cost will heighten significantly.

Significant as the issues surrounding the FG's budget are, attention must also be paid to the fiscal conditions of the sub-national tiers of government. It is clearly evident that, as I had argued in September, the bailout afforded the States in July 2015 provided greater succor to their bank creditors. With the State Governments getting no significant new resources, their precarious fiscal condition continues to bubble just below the surface. The impact of this issue on the outlook cannot be understated. Its adverse effect on demand and non-performing loan stock of banks should be issues for sober reflection. In the absence of new

resources, I expect State Governments to face the hard reality and make the choices that significantly reduce costs and enhance productivity.

Beyond oil and the challenge which funding the budget deficit pose, the absence of exchange rate management policy has diminished Nigeria's attractiveness as a destination for international capital flows. This policy challenge is worsened by the seeming inability of the CBN to effectively use the interest rate corridor as an effective policy tool.

With respect to exchange rate management policy, I have on several occasions drawn attention to the need for an exchange rate management policy. In my judgment, the framework of effective exchange rate provides the most appropriate vehicle for determining exchange rates. The present system of rationing without the establishment of clear criteria doubtless creates uncertainties, inconsistent outcomes and is open to abuse!

Returning to the MPC mandate of inflation management, forecast by Bank Staff show inflation, under present conditions, continuing to rise in 2016 – average inflation rate of 9.2percent.

In my view, as earlier stated, prices are already rising in response to the supply shortages arising from difficulty of accessing FOREX officially and the resort to non-CBN markets where exchange rates are significantly higher. There is a sense in which it appears the CBN may have lost control of the 'market' exchange rate and perhaps inflation management.

My proposal to move the mid-point of the exchange rate band by 10percent to N220/US\$ is based on the value of the 6month Non-Deliverable Forwards (NDF). In my view, unlike the NDFs, the prevailing price for US Dollars outside the CBN window - at almost N300/US\$, grossly undervalues the Naira. It unsurprisingly reflects the impact of scarcity of US\$ and the unnecessary uncertainty in policy around the determination of exchange rate and the access to foreign currency.

Using my preferred measure of effective exchange rate, the Naira, as at the time of this meeting is 10percent percent overvalued. The covered interest parity framework also points to a 10percent overvaluation of the Naira.

For the avoidance of doubt, while I am clear that flexibility in exchange rate management is desirable, it is not a silver bullet! Its effectiveness in enhancing and sustaining productivity in our national economy depends on a collective willingness to undertake fundamental reforms, which at the very least include –

- i. Reduction of government monopoly participation in economic activity and consequently expand the scope of private sector participation in the economy;
- ii. Improve labour productivity;
- iii. Re-organise the regime of subsidies to target production rather than consumption; and
- iv. Ensure internal coherence and consistency between objectives and policy actions.

I have spent much of the period since September 2015 arguing that our willingness and ability, as a nation, to adjust to new realities will determine how well our national economy weathers the turbulence occasioned by low crude oil prices. I am increasingly concerned that we are unwilling to recognise the new realities and meaningfully deal with them. In consequence, we are, unnecessarily, paying – in the form of eroding confidence, slowing growth and increasing joblessness of our population – a needlessly heavy price!

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

The year 2015 was a tumultuous one for many financial markets and economies. Accordingly, expected global growth for the year was revised downward from 3.9 percent 3.1 percent in the IMF's World Economic Outlook (WEO) of January 2016. Amidst subdued demand and rising uncertainties, growth momentum over the medium-term outlook has remained fragile. However, global economic activities are envisaged to recover marginally in 2016 with a projected growth rate of 3.4 percent. The expected outcomes of global growth continued to reflect the fragility of key emerging market economies, especially the deteriorating output gap in China, softening commodities and oil prices, the uneven rebound in advanced economies and the rising geopolitical tensions in some strategic international trade routes.

For advanced economies, a modest and uneven recovery continued for much of 2015 with estimated growth revised downward marginally by 0.1 percentage point to 1.9 percent. Amidst broadly accommodative monetary conditions in these countries, growth prospect is expected to pick-up slightly with a projection of 2.1 percent for both 2016 and 2017 for the group. Individually, The United States, United Kingdom and the Euro Area economies are expected to continue their recoveries into the medium-term *albeit* at uneven pace. The recovery in key advanced economies largely reflects the increasing demand, the falling production

costs due to cheaper energy, rising investments (both domestic and foreign) due to benign monetary conditions, and fiscal ease (in Europe) due to the refugee crisis. Despite the third quarter relapse, the Japanese economy is expected to record a positive but modest growth of 0.6-0.8 percent in 2015 with a medium-term growth projection of 1.0 percent and 0.3 percent in 2016 and 2017, respectively. The asset purchase programmes of the ECB, the Bank of England, and the Bank of Japan are expected to continue into the future with variegated ramifications for the financial markets in emerging and developing economies.

Following the continued fall in commodity prices, structural imbalances, worsening vulnerabilities, volatile financial markets, weakening demand, and diminishing policy buffers, a generalised growth deceleration was observed among emerging markets and developing economies in 2015. Average economic growth for countries in this group fell from 4.6 percent in 2014 to 4.0 percent in 2015 with a tepid outlook for 2016. With the exception of India, all countries in the BRICS classification lost growth momentum in 2015, which could continue into 2016. In China, a sharper than envisaged lull in international trades due to sluggish aggregate demand, weaker investment and flagging manufacturing culminated in a sub-par growth of 6.9 percent in 2015 from 7.3 percent in 2014. Similarly, the growth rate of the South African economy is estimated to decline by 0.2 percentage point to 1.3 percent in 2015. Brazil and Russia are experiencing intense contractions with negative growths of 3.8 percent and 3.7 percent, respectively, estimated for 2015 in contrast to positive growths recorded in the preceding year. In sub-Saharan Africa,

economic growth rate is estimated to slow to 3.5 percent in 2015 from 5.0 percent recorded in 2014.

Accordingly, while the cheapening commodity prices are easing production costs and supporting consumer demands in many advanced economies it continues to worsen structural imbalances and exchange market pressure in many emerging market and developing economies as the gravitational pull on the exchange rates intensifies. Nonetheless, I note that in the wake of the prevalent fragilities in the global economy, monetary policy has generally shifted short- to medium-term emphasis to growth stabilisation as the against the *de jure* objective of price stability. This is reflected in the widespread accommodative stance of monetary policy except in the USA where a resilient recovery heralded a gradual tightening with the rescinding of the zero-bound interest rate.

Strained by the headwinds of the exacerbating global developments particularly the plunging crude oil prices, the strengthening US dollar and the slowing Chinese economy, the Nigerian economy continued to experience unsavoury challenges. As long as these exogenous developments persist, the grey outlook is not expected to lift fully in the near-term. With a third quarter growth rate of 2.8 percent and an average growth rate of 3.1 percent in the first three quarters of 2015, economic growth for the entire 2015 may not exceed 3.5 percent. Though growth could pick-up slightly in 2016 if global conditions improve, various forecasts including staff estimates predict a range of 3.7 to 4.1 percent. I note that the expected growth rates for 2015 and 2016 are substantially below the average of over 5.5 percent recorded in the

preceding five years. These growths are expected to be largely driven by the non-oil sector, especially Services and Agriculture. Aside the multiplier effects of falling oil prices and capital flow reversals (reflecting the normalisation of the US monetary policy), poor lending to the real sector remains a major threat to short-term growth prospects.

On domestic prices, the year-on-year headline inflation rose marginally to 9.6 percent in December 2015 from 9.4 percent in November. Though single digit, the rate stayed above the Bank's tolerance range of 6—9 percent. The Consumer Price Index report of the National Bureau of Statistics indicated that headline inflation has remained above the range for eight consecutive months since the upper threshold was first breached in May 2015. The uptick in headline inflation during the month reflected the 0.3 percentage point increase in food inflation to 10.6 percent even as core inflation remained unchanged at 8.7 percent. This outcome is broadly attributable to the archetypal seasonal impulses of the Yuletide festivities. This was reinforced by the acute scarcity of premium motor spirit experienced during month, the drawn-out consequences of disruptions to food supply due to insurgency in important agricultural zones of the country, and the lingering pass-through from a strengthening US dollar.

Available data on domestic monetary, credit and financial conditions indicated that broad money supply (M2) expanded, year-on-year, by 5.9 percent in December 2015 relative to a programmed target of 15.2 percent. Similarly, net domestic credit (NDC) increased by 12.1 percent;

a shortfall of 17.2 percentage points from the 29.30 percent growth targeted for 2015. The growth in domestic credits reflected the 151.6 percent expansion in net claims on the Federal Government. I note that irrespective of the sluggish monetary expansion and poor credit to the private sector, the money market was relatively awash with liquidity, as key interest rates in the market remained significantly low and outside the asymmetric policy corridor. Starting at 1.0 and 1.5 percent on 25 November, the interbank call and OBB rates recorded averages of 0.8 and 1.0 percent by end-December 2015. The incongruity of a surplus liquidity at the money market vis-à-vis a meagre credit to the private sector reflects in part the apathy at lending to the real sector of the economy.

At the capital market, the bearish conditions persisted at the equity segment. This reflected the prolonged capital withdrawals from the economy in the aftermath of the normalised US monetary policy and austere sentiments associated with falling oil prices. Closing at 23,826.5 points on 22 January 2016, the All-Share Index of the Nigerian Stock Exchanged declined by 13.2 percent from the 27,435.6 points it recorded at end-November. Over the same period, Market Capitalisation dropped from ~~N~~9.4 trillion to ~~N~~8.2 trillion.

During the review period, the exchange rate of the Naira to the US dollar stabilised at the interbank market around ~~N~~197.00/US\$ with a daily average of ~~N~~196.99/US\$ between 23 November 2015 and 11 January 2016. This reflected the CBN's commitment to safeguard the domestic

currency using a mix of administrative policies and market instruments. However, I note the need to improve foreign exchange supply from autonomous sources. This will relieve the pressure on our gross official reserves, which fell from an average of US\$29.9 billion at end-November 2015 to an average of US\$28.3 billion on 22 January 2016.

On the whole, I note that the headwinds impacting the Nigerian economy, especially those related to falling oil prices and weakening global demand are revealing the structural inadequacies of the economy. As I have maintained in the past, the current fall in price of crude oil represents a shift in equilibrium and as such is not transient. Besides, even at the new lower equilibrium, oil prices are not expected to recover anytime soon. I am convinced that the challenges confronting the Nigerian economy are largely structural, though with some cyclical undercurrents. Given that monetary policy is essentially deployed to fine-tune short-term cyclical variations, this implies that monetary policy is not equipped to singlehandedly tackle the structural base of these problems effectively. This underscores the inevitability of a coordinated and consistent macroeconomic policy framework.

While the Nigerian economy is significantly diversified, the dependence on oil for foreign exchange and fiscal revenue needs to be speedily corrected. I note once again that the lopsided dependences on external markets underlie the gradual but unrelenting erosion of Nigeria's productive base. It is important that the Nigerian economy not only reverts to more sustainable sources of fiscal and foreign exchange

revenue but also increase support for local production. We must make hard choices with respect to foreign exchange management and structural re-alignment of the economy.

I am of the view that at this critical time monetary policy must methodically consider the trade-off between inflation and output growth and its implications of this trade-off for the macroeconomy. In view of the rising inflation and slowing economic growth, policy must give priority to the growth recovery without letting inflation out of sight. If we fail to prop growth up at this critical moment, the hysteresis effect may lower our growth potential, which will imply a permanent fall in the growth trajectory. It remains expedient to ensure that there are no encumbrances to the drive to support the real sector and the productive base of the economy.

While it is imperative to maintain a regime of accommodative monetary policy, it is even more important to ensure that the surfeit liquidity from the easy stance of policy is channelled to boost lending to the private sector. This would ensure more optimal outcomes of growth, inflation and employment. I note therefore that the concurrence of surfeit liquidity in the money markets and low credits to the private sector is unwelcome. I enjoin the banking system to do more in ensuring that more lending is channelled to the real sectors particularly in agriculture, manufacturing, and SMEs.

I am of the view that the effects on inflation, growth and employment of

decisions at the last MPC are still being transmitted in the economy. It is important to allow the economy absorb the previous impulses fully before further adjustments. It is in this regard that I vote to retain:

1. The *conditional* CRR at 20.0 percent;
2. The MPR at 11.0 percent;
3. The asymmetric corridor at +200 basis points and -700 basis points, around the mid-point of the MPR; and
4. The Liquidity Ratio at 30 percent.