Central Bank Of Nigeria Communique No 115 Of The Monetary Policy Committee Meeting Of 25TH And 26TH September, 2017

Background

The Monetary Policy Committee met on the 25th and 26th of September, 2017 against the backdrop of a relatively optimistic global economy. The Committee examined the global and domestic economic and financial environments up to the third quarter of 2017, and the outlook for the rest of the year. The recent spate of flooding and hurricanes in some parts of the globe; the flooding in Nigeria; the increasing tension between the US and North Korea, and the perception of hostilities on the Korean Peninsula as well as the associated geo-political tensions, were identified as key risks to global output growth.

On the domestic front, the economy exited recession (which began in the first quarter of 2016) in the second half of 2017, with a modest positive short to medium-term outlook, resulting largely from deliberate macroeconomic stimulus and a stable naira exchange rate. Inflation expectations also

appeared anchored on the strength of prevailing tight monetary policy stance. Seven (7) members of the MPC were present at the meeting.

External Developments

Global output is projected to improve further in 2017, as growth forecast by the IMF in its July World Economic Outlook (WEO) was projected at 3.5 per cent, up from 3.2 per cent in 2016. Output growth in some advanced economies, including Japan, the Euro-area as well as some emerging market and developing economies is expected to improve in 2017. Nigeria, Brazil and South Africa, all exited recession, while Russia is likely to exit recession in the fourth quarter of 2017, after a mild contraction of 0.57 per cent in the second quarter. Growth forecast for the US was revised downwards from 2.3 per cent to 2.1 per cent in 2017, as a result of the weak growth observed in the first quarter of the year.

The MPC, however, noted some headwinds confronting the optimistic global growth prospects to include: recent developments on the Korean peninsula; the damage to infrastructure caused by hurricanes - Harvey, Irma and Maria; the lull in BREXIT negotiations and the normalization of monetary policy by the US Fed, which is expected to instigate global capital flow reversal. Other challenges include the continued slow pace of recovery in global oil and other commodity prices and China's reduction in uptake of global commodities. In addition, the Committee noted the tepid global inflation

momentum, implying that continued monetary policy normalization could be injurious to global growth prospects.

The uptick in global inflation persisted, but moderated, in response to rising oil prices, continued accommodative monetary policy in the advanced economies; and currency appreciation in some emerging markets and developing countries. Average inflation for the developed economies is projected at 1.9 per cent in 2017, while it is forecast to average 4.5 per cent in the emerging and developing economies, as prices are expected to moderate due to seasonal effects. The Committee observed that the outlook for global monetary policy remains predominantly accommodative, in support of recovery and growth.

Domestic Output Developments

Data from the National Bureau of Statistics (NBS) showed that real Gross Domestic Product (GDP) grew by 0.55 per cent in the second quarter of 2017, against the contractions of 0.91 and 1.49 per cent in the previous quarter of 2017, and the corresponding quarter of 2016, respectively, marking the technical exit of the Nigerian economy from recession. Non-oil real GDP grew by 0.45 per cent in Q2, 2017, driven largely by agriculture (3.0%), industry (1.1%), and construction (0.1%). The modest growth was attributed to fiscal injections from the implementation of the Economic Recovery and Growth Plan (ERGP), and enhanced supply of foreign exchange arising from improved crude oil prices. The Committee also noted the positive outlook

from the Purchasing Managers Index (PMI) for manufacturing and non-manufacturing activities, which stood at 53.6 and 54.1 index points in August 2017, respectively, above the 50 index points benchmark, indicating moderate signs of recovery. The Committee further noted that, although the recovery was weak, it was hopeful that the active implementation of the 2017 budget could boost aggregate demand and employment.

Developments in Money and Prices

The Committee noted that money supply (M2) contracted by 11.06 per cent in August 2017 (annualised), in contrast to the provisional growth benchmark of 10.29 per cent for 2017. The development in M2 is largely due to the contraction of 18.42 per cent in other assets net (OAN) in August 2017. Similarly, M1 contracted by 12.25 per cent in August 2017, (annualised to -18.37 per cent). Net domestic credit (NDC) contracted by 0.14 per cent, annualized at -0.20 per cent, driven majorly by net credit to government, which also contracted by 1.05 per cent against the programmed growth of 33.12 per cent. Credit to the private sector, however, grew marginally by 0.07 per cent in August 2017, compared with the provisional benchmark of 14.88 per cent. The MPC also noted the policy constraints in ensuring the flow of credit to the real sector in the face of weak and underperforming monetary aggregates. Inflationary pressure in the economy continued to moderate with headline inflation (year-on-year) receding for the seventh consecutive month to 16.01 per cent in August 2017, from 16.05 per cent in July 2017. Food

inflation declined slightly to 20.25 per cent in August 2017 from 20.28 per cent in July 2017, while core inflation increased to 12.30 per cent in August 2017 from 12.21 per cent in July 2017. This development was attributed to the contraction in money supply, decline in imported food and non-food prices, favourable base effects, and the moderating effects of stable exchange rates. The Committee, however, noted that the high food inflation was traceable to rising prices of farm inputs and supply shortages, intermittent clashes between farmers and herdsmen, as well as weak harvest, due to increased flooding of farmlands.

Money market interest rates oscillated in tandem with the level of liquidity in the banking system as the average inter-bank call rate which opened at 18.00 per cent on July 26, 2017, closed at 7.00 per cent on August 31, 2017. The OBB rate opened at 15.03 per cent and closed lower at 7.83 per cent in the same period. However, the average inter-bank call and OBB rates for the period stood at 22.63 and 39.66 per cent, respectively. The movement in net liquidity positions and flows reflected the effects of OMO sales; foreign exchange interventions; statutory revenue payments to states and local governments; remittances by Nigerian Customs and Federal Inland Revenue Services for FAAC meetings; and the maturity of CBN Bills.

The Committee noted the continuing improvement in the external reserves position and the equities segment of the capital market. External reserves position grew to US$32.9 billion at close of business on 25th September, 2017 while the All-Share Index (ASI) rose by 7.20 per cent from 33,117.48 on June

30, 2017 to 35,504.62 on August 31, 2017. Market Capitalization (MC) improved by 6.90 per cent to N12.24 trillion from N11.45 trillion during the same period. Relative to end-December 2016, capital market indices rose by 32.10 and 32.30 per cent, respectively, reflecting growing investor confidence, due to improvements in foreign exchange management.

Total foreign exchange inflows through the Central Bank of Nigeria (CBN) rose by 1.98 per cent in August 2017, compared with the previous month. Similarly, total outflow increased by 7.03 per cent during the same period, as a result of increased international remittances, inclusive of public sector and JVC payments; which rose by 58.59 per cent in the period under review.

The Committee noted the trend towards convergence between the rates at the bureau-de-change (BDC) and the Nigeria Autonomous Foreign Exchange (NAFEX) segments, as well as the stability of the exchange rate at the inter-bank segment of the foreign exchange market during the review period. Similarly, the Committee noted the success of the Investor and Exporters' window (I &E) of the foreign exchange market and traced this not only to foreign investor confidence but also to the zeal and commitment of Nigerian exporters who have demonstrated preference for the window to the parallel market. The Committee observed that the I&E window has increased liquidity and boosted confidence in the market with over US$7.0 billion inflow in the last five months. The Committee will continue to introduce policies that will improve the confidence of foreign investors in the country's macroeconomic management regime.

2.0. Overall Outlook and Risks

Available data and forecast of key macroeconomic variables indicate a relatively positive outlook, predicated on existing policy initiatives including the ERGP. Other potential drivers of economic recovery are; the expected increase in government revenue arising from favourable crude oil prices, stable output, and general improvements in the non-oil sector, especially, agriculture, industry and construction. The intervention by the CBN in the real sector is expected to continue to yield positive results in terms of output and lower consumer prices.

The Committee, however, noted some downside risks to the overall short- to medium-term positive outlook for the economy. These include; flooding which displaced farming communities and political agitations. On the external front, the hawkish policy stance in the United States, rising geo-political tensions and sluggish output recovery in the Euro-area and Japan, could slow-down the momentum of global output growth, with significant spillovers to emerging markets and developing countries, including Nigeria.

3.0. The Considerations of the Committee

The Committee applauded the exit of the Nigerian economy from recession but observed that the growth remains fragile and, therefore, hopes that complementary fiscal and monetary policies would sustain the growth momentum. The Committee further expressed satisfaction with the gradual, but consistent decline in inflation, noting, however, the substantial base

effect in addition to the continuous improvement in the naira exchange rate across all segments of the foreign exchange market; and considerable improvement in foreign capital inflow. The Committee welcomed the steady implementation of the 2017 Budget, especially, the capital component of the budget, and urged increased momentum in expenditure directed at the growth-stimulating sectors of the economy in order to reduce youth unemployment and restiveness.

The Committee, however, expressed concern on the sustained pressure on food prices, noting risks posed by floods, strikes and insurgencies in various parts of the country to food production and distribution. Regarding the tepid turnaround in economic activities in the second quarter of 2017, the Committee emphasized that the employment gains of recovery were still minimal, noting that a number of important job elastic sub-sectors were still weak and may require more fiscal support to regain traction. The Committee, however, commended the Federal Government for issuing the Executive Order aimed at improving the ease of doing business in the country. It also noted the efforts of the government to create jobs in the agricultural sector with the inauguration of the Presidential Committee on job creation, targeting at least ten thousand jobs in each state of the Federation, over the next six months through a boost in agricultural support and funding. The Committee enjoins the state governments to work with the Presidential Committee to actualise this plan without further delay.

The MPC also noted with satisfaction, the directive of the Federal Government to all states to promptly pay outstanding salary arrears, in order to boost aggregate demand. It commended efforts to clear outstanding contractor arrears; prompt settlement of trade disputes with certain Unions of organised labour, including the Academic Staff Union of Universities (ASUU) and Health Workers; as well as the release of money to settle outstanding entitlements of the erstwhile workers of the defunct Nigeria Airways. These efforts, the Committee reasoned would improve aggregate demand and strengthen the weak recovery. The Committee restated its commitment to maintaining stability in prices, without which meaningful recovery cannot be achieved. In this regard, members welcomed the gradual narrowing of rate spreads in the foreign exchange market and urged the Bank to continue to monitor and respond proactively to threats and vulnerabilities in the foreign exchange market.

On the outlook for financial stability, the Committee noted that, in spite of the banking sub-sector's resilience, the weak macroeconomic environment has continued to impact negatively on the stability of the sub-sector. The Committee reiterated its call on the Bank to sustain its surveillance of deposit money banks (DMBs) activities for the purpose of prompt identification and mitigation of potential vulnerabilities. The Committee also called on the DMBs to support the quest to move the economy forward by extending reasonably low priced credit to the private sector.

4.0. The Committee's Decisions

In arriving at its decision, the Committee took note of the gains so far achieved as a result of its earlier decisions; including the stability in the foreign exchange market and the moderate reduction in inflation. The option was whether to hold, tighten or ease. These were subjected to extensive debate. As in previous meetings, although tightening would help rein in inflation expectations and strengthen the stability in the foreign exchange market, the Committee felt that it would further widen the income gap, depress aggregate demand and adversely affect credit delivery to the private sector. The Committee also noted that tightening may result in the deposit money banks re-pricing their assets and loans, thus raising the cost of borrowing and therefore heightening the already weak investment climate and non-performing loans.

With respect to loosening, the Committee believed that although while it would make it more attractive for Nigerians to acquire assets at cheaper prices, thus increasing their net wealth, and therefore stimulate spending as confidence rises, it nevertheless, felt constrained that loosening at this time would exacerbate inflationary pressures and worsen the exchange rate and inflationary conditions. The Committee also felt that loosening will further pull the real rate deeper into negative territory as the gap between the nominal interest rate and inflation widens.

On the argument to hold, the Committee believes that the effects of fiscal policy actions towards stimulating the economy have begun to manifest as

evident in the exit of the economy from the fifteen-month recession. Although still fragile, the fragility of the growth makes it imperative to allow more time to make appropriate complementary policy decisions to strengthen the recovery. Secondly, the Committee was of the view that economic activity would become clearer between now and the first quarter of 2018, when growth is expected to have sufficiently strengthened and gains in receding inflation, very obvious. The most compelling argument for a hold was to achieve more clarity in the evolution of key macroeconomic indicators including budget implementation, economic recovery, exchange rate, inflation and employment generation.

In consideration of the headwinds confronting the domestic economy and the uncertainties in the global environment, the Committee decided by a vote of 6 to 1 to retain the Monetary Policy Rate (MPR) at 14.0 per cent alongside all other policy parameters. In arriving at this HOLD decision, the MPC commits to employing maximum flexibility to guide the economy on the path to optimal growth. Consequently, 6 members voted to retain the MPR and all other parameters at their current levels, while one member voted to lower the MPR to signal an ease to the current stance of tight monetary policy. However, overall, majority of the members expressed a strong commitment to policy flexibility that would allow the Committee to promptly take the necessary actions that would promote overall macroeconomic stability and engender sustainable growth.

In summary, the MPC voted to:

(i) Retain the MPR at 14.0 per cent;

(ii) Retain the CRR at 22.5 per cent;

(iii) Retain the Liquidity Ratio at 30.0 per cent; and

(iv) Retain the Asymmetric corridor at +200 and -500 basis points around the MPR.

Thank you for listening.

Godwin I. Emefiele

Governor, Central Bank of Nigeria

26th September, 2017

PERSONAL STATEMENTS BY THE MONETARY POLICY COMMITTEE MEMBERS

1. BALAMI, DAHIRU HASSAN

The September 2017 MPC came at a time when the economy had technically moved out of recession, but faced with the problem of stagflation. Inflation in the economy had fallen from a high of 16.05% at the end of July 2017 to a low of 16.01% by September. GDP growth had moved from -0.91% in March 2017 to 0.55% in June 2017. There has been relative stability in the foreign exchange market at N305.85 to the US dollar. External reserves have risen from US$30,869.69 million to US$32,833.80 million in September, 2017. Another variable that has witnessed change is the higher oil prices that have moved from US$52.59 per barrel in July to $59.51 per barrel, due partly to development in the US Shale oil. It should be noted that although the economy has witnessed some positive developments, there are critical areas of concern which include: unemployment, inflation and interest rate. It should be noted that the gap between inflation (16.01%) and MPR (14.0%) is still wide.

In my opinion, unemployment is an important area that requires sound policies both from the monetary and fiscal authorities, to reduce the level of unemployment, which would help spur growth in the economy. What can be done to reduce unemployment in Nigeria by the monetary authority? In the past, Ministries, Departments, Agencies and Banks, would visit institutions to interview potential graduates for employment positions. The situation has however changed as unemployment exists among primary and secondary

school leavers as well as graduates. It is disheartening that many graduates with First Class and Second Class honours are roaming the streets without jobs. Unemployment refers to a situation where an able-bodied individual with the requisite qualification, and who wants to work, does not have a job. The CBN has a responsibility to assist in reversing the situation through putting in policies that would facilitate or support economic growth. What can we do to increase employment and livelihood among the youths?

As monetary authorities, there is need to intervene in the various sectors of the economy that have a high propensity of employment generation such as: agriculture, small and medium scale entrepreneurship, establishing Silicon Valley centres etc. Credits should also be extended to those who have participated in the various centres for entrepreneurship development, in the country. This should be in the form of seed money. The largest employer of labour in Nigeria is in the private sector, and as such, should be supported. The government should provide an environment for the private sector to thrive, so as to create job opportunities. It is true that graduates do not see themselves going to the farm, and as such, the private sector should be supported to provide employment for our teaming graduates. Addressing the issue of power/electricity by guaranteeing at least six hours a day, of constant and adequate voltage power, would go a long way in assisting the private sector. For example, those in the welding and hairdressing heavily depend on electricity for their businesses to run. The entrepreneurships

centres all over the country could serve as job creation centres through the provision of seed money to trainees on their successful completion.

Interest rate is another important area the monetary authorities could come in, at the theoretical level, lowering the MPR will lead to lowering the prime lending rate. This would make loanable funds relatively cheaper, which would induce investors to borrow and invest, thereby creating more employment opportunities, raising the level of income, output, and growth of the economy. However, to lower the MPR, CBN has to study this in relation to the inflation dynamics, monetary conditions, real economic activities, as well as inflation risks in the economy. The exchange rate as well as the global environment are areas that need to be looked into.

Credit targeting can also be favourable to the agricultural sector. We however, have to go back in history, because a lot of intervention schemes had been introduced in the past. While interventions are good, some could destabilize the system. What went wrong with the previous interventions? How can they be sharpened or modelled to contribute towards the effective growth and stabilisation of the economy? How can the loopholes in the past schemes be blocked to make them more effective because unemployment is worrisome? Policy makers practically want low interest rates so as to make credit available to economic agents. This means that Deposit Money Banks should be encouraged to direct credit to sectors with high job generation ability. The Central Bank should design an incentive scheme that would encourage banks to lend direct to job creation areas such as agriculture.

Taking into consideration the data available for the above variables of the economy, three options are available: to hold, tighten, or to ease. In my opinion, at the global level, the achieved growth is fragile because of the global risks and vulnerabilities. At the domestic level, some stability has been achieved at the interbank foreign exchange market as well as a trendy growth of resources; inflation has gone downwards, though not as much as expected; liquidity has improved, as well as return on assets (ROA) and return on equity (ROE).

The GDP has also registered some positive growth, although the improvement was due largely, to favourable commodity price (oil). Easing at this time will lead to capital flight, discourage the inflows in terms of FDIs and FPIs. Inflation would rise, and the external revenue may go down. The excess liquidity to be created, as a result of the easing may destabilize the foreign exchange market, thus, draining away the gain that has been achieved. Tightening should not be considered now because of the current economic condition. I vote to hold on, and wait for more clarity on the direction the economy is moving, with the hope that the fiscal side would play its role in stimulating growth through the implementation of the 2017 budget; and putting money into the hands of the various consumers, which would help stimulate consumption, demand, as well as improvement in purchase manager index of the various sectors of the economy.

I therefore vote for the following:

a. To retain the MPR at 14.0%

b. To retain the CRR at 22.5%

c. To retain the liquidity ratio at 30.0%

d. To maintain the asymmetric corridor at +200/ -500 basis points around the MPR

2. BARAU, SULEIMAN

Background

The overall macroeconomic condition continued to show relative improvement. The result recently released by the National Bureau of Statistics (NBS) showed an expansion in economic activities by 0.55 per cent in the 2nd quarter, after a contraction for three successive quarters, indicating that the economy is exiting recession. Inflation is still high, but receding, while the imbalance in the external sector is equally waning. These developments, in addition to other monetary policy measures have strengthened the foreign exchange market and bolstered the value of the domestic currency as well as sustaining its stability for the past two quarters.

The foregoing notwithstanding, GDP growth at 0.55 per cent in the face of annual population growth rate of 2.7 per cent summarizes the story of the weak economic recovery. The tepid nature of the recovery, among other risks, suggests that the likelihood of relapse cannot be completely ignored. In my view therefore, the next stage of policies should not focus only on accelerating the pace of economic recovery, but should equally include crisis mitigation measures. This would naturally entail elimination of uncertainties in the macroeconomic environment and rebuilding of confidence among economic agents, including foreign investors. In practical terms, such a process would involve continuous fine-tuning of policy pathways for managing complex interaction of many macroeconomic variables with a view to promoting accelerated economic recovery,

strengthening the exit from recession, and achieving enduring economic growth. Against this perspective, it is commendable that the Federal Government has put up a number of initiatives particularly the N-power under the Economic Recovery and Growth Plan (ERGP), but the speed of progress may be challenged by a number of supply side bottlenecks like rising level of industrial unrests, political agitations, all forms of militancy and herdsmen activities, as well as limited fiscal space.

Under the present macroeconomic regime therefore, it may be expected that the appropriate mode through which monetary policy could complement the various fiscal stimuli is by some easing measures. This, however, may not be the optimum path at the moment given the primacy of building resilient macroeconomic environment. In the light of the need to build a defense around the ongoing recovery through a strong and stable macroeconomic environment, I will propose that the existing measures of monetary policy be retained.

Pressure Points

Global Environment

A number of issues are emerging in the global environment that may negatively alter the strong rebound earlier projected for the year. Among others, the condition in the global financial markets suggests the need for cautious optimism. Although the post Brexit economic landscape is still evolving as negotiation is ongoing, Britain financial authority has issued a

deadline of end-December 2017 for EU banks within UK to signal their intent of conversion to full-fledged UK banks. Thus, uncertainty with respect to the post-Brexit status of many EU banks in the UK would weigh on investors' sentiment and heighten volatility in the global financial markets particularly through the channel of pound sterling denominated instruments. In a related dimension, the issue of monetary tightening by the US Federal Reserves may accelerate at a faster pace than earlier anticipated. Although the FOMC kept the rate unchanged at their last week meeting, emerging signals after the meeting suggests that the approach would morph from gradual to a fast track model as from next month. Besides, rising geo-political tension portends strong capacity to exhibit spillover and contagion to both global financial markets and output. The current frosty relationship between the Communist North Korea and the US has heightened fear of nuclear annihilations and weigh heavily on investors' sentiments particularly in the equity market. In response, investors are beginning to flee to safe havens like bonds, gold, the Yen and Swiss Franc. Among other negatives, the resultant appreciation in the Yen is affecting competitiveness of Japan's export and by extension trade balance. Another Asian economy that is potentially at risk is China as trade relationship with the USA could suffer setback. All these developments may impinge on global growth with far reaching consequence on the fragile recovery of the domestic economy.

Domestic Environment

The headwinds within the domestic environment include the followings.

Limited Fiscal Space: One key distinguishing feature of the current recovery process relative to the previous episodes is the apparent weakness of the government sector. Taking the 2008/9 global financial crisis induced domestic financial crisis as an example, the fast pace of recovery at that time was aided by strong fiscal buffer as there was a balance of about US$22 billion in the Excess Crude oil Account (ECA) compared to this period when the ECA has been depleted. The fiscal authority has enunciated a number of measures in the Economic Recovery and Growth including the recent inauguration of a Presidential Committee on Employment with a view to strengthening the recovery process. In as much as these schemes are laudable innovations, a key challenge is the constraint imposed by the limited financial resources available to the fiscal authority.

Rising External Vulnerability: The current Moody's rating on the country's debt is B1, four levels below investment grade, while S&P global rating is a step lower than Moody's. The government is planning to raise additional US$3.5billion external loan to finance the budget out of which about US$1.5billion would be sourced at the commercial rate in the Eurobond market. Although there is improvement in oil output, which is propelling the country out of recession, hence likely positive assessment by investors. Nonetheless, the current rating is still below the investment grade and

therefore, new borrowing by government would most likely attract higher premium. This would ultimately increase the vulnerability of the economy to the shocks in the global financial markets particularly through the much anticipated rise in the global interest rate as the US Fed commences tight monetary policy stance.

Tight Credit Conditions: The banking sector has been challenged by a number of factors ranging from prudential to macroeconomic issues. The benchmark interest rate is 14 per cent, which is still below the current inflation rate by 2 percentage point, while NPL level is rising. The level of infrastructure particularly, energy and power have not shown appreciable improvement. These factors would invariably feed into the credit pricing model, suggesting that average lending rate cannot be lower than 20 per cent. It would be extremely hard for Small and Medium Scale Enterprises to operate profitably under such a regime when their internal rate of return could barely exceed 20 per cent. This development would continue to pose considerable risk to private investment in the medium term.

Rising Socio-Political Tensions and Industrial Unrest: The inflation dynamics reveals that headline inflation eased from 16.05 to 16.01 per cent between July and August 2017, but the principal drivers were mainly imported items like processed food, clothing, and footwear. This, more likely, reflects the stability in the exchange rate. The trend was however different for farm products despite the fact that the current period falls within the harvesting season. Farm produce, fruits, vegetables, yams, potatoes and other tubers recorded

an upward trend in price level during the period. This phenomenon could only be attributed to supply shortfalls on the backdrop of disruption to agricultural production and distribution by all kinds of militancy activities including insurgency in the North-East, displacement of farming communities by herdsmen, activities of cattle rustlers, and various political agitations that have heated the polity. The development is further complicated by numerous strikes and labour unrest which had threatened the supply side of economic activities.

Way Forward

Strengthening Confidence in the Macroeconomic Environment: An integral part of the ongoing recovery phase should essentially include the need to re-ignite the confidence of economic agents, particularly foreign investors. My view is hinged on the thesis of self-fulfilling nature of expectation, which on the other hand, is driven largely by market sentiment of optimism or pessimism. The business confidence index has been rising, hinged basically on the improvement in the foreign exchange market. This invariably suggests the need to sustain the evolving stability in the foreign exchange market. Strengthening the foreign exchange market in the midst of rising uncertainties in the crude oil market must necessarily involve some trade-offs in the money market. It is desirable to reduce interest rate on the strength of supporting the ongoing recovery, but such a pathway would be very costly to the foreign exchange market and by extension hurt confidence in the macroeconomic environment. Besides, it is becoming entrenched in economic literature that

an expansionary monetary policy stance under a regime of unstable macroeconomic fundamentals would eventually become contractionary. For instance, a reduction in interest rate at such a period when global interest rate is rising would widen interest rate differential, leading to capital outflow and invariably reduce the stock of money supply. A reduction in the stock of money when demand remains constant would drive up domestic interest rate and ultimately slowdown investment. As such, it may be a sub-optimal decision to reduce the policy rate during this phase of economic recovery.

Mitigate Exposure to External Vulnerability: One of the distinguishing features of the latest recession when compared with previous episodes particularly the one witnessed in the mid-eighties was the low level of external debts which provided some latitude for policy manoeuvring. Among other benefits, it provided domestic macroeconomic policy makers with the much needed autonomy to explore an ingenious home grown approach without being cowed to accepting unfriendly conditionalities from international creditors. As the economy is moving into post-recession stage and expenditure would be required to stimulate economic activities, it is incumbent to preserve this legacy. This is more so when cognizance is taken of the ongoing rate hike by the US Fed which would generate spillover and contagion across global financial markets. With this in mind, it may be in order for government to be circumspect in respect of the component of the external financing that would come from the Eurobond. I would advocate that available widows from development banks should always be explored. Furthermore, protection

should be offered to the domestic currency through interest rate in order to avert sharp depreciation that could turn repayment of external obligations to a burden.

Activate Macro Prudential Measures: The condition in the banking sector is a little bit complex and somehow difficult to address by the conventional monetary policy tools. NPLs are significantly high and above the prudential limit, while liquidity condition, on the other hand, reveals a surfeit. The condition is complicated by weakness in credit growth to the private sector, thereby imposing strain on the foreign exchange market. Imposing additional CRR (conventional monetary policy tools) to address the liquidity surfeit would invariably tighten credit condition and complicate the NPLs position. My assessment of the nature of the liquidity surfeit reveals that it is systemic and time varying. Consequently, a blunt monetary policy instruments such as the MPR or CRR may not be able to address the challenge. I will therefore opt for the activation of macro prudential measures like systemic liquidity surcharges or time varying systemic liquidity surcharges.

Decision

From the perspectives of the foregoing, strengthening the stability in the macroeconomic environment appears to be imperative at the moment. To achieve this therefore, I would like to propose for the retention of current measures of monetary policy.

3. GARBA, ABDUL-GANIYU

Decision

1. I vote to reduce the MPR by 50 basis points (0.5%). This implies (i) a reduction in the MPR from 14% to 13.5% and (ii) a reduction in Standing Lending Facility (SLF) from 16% to 15.5% and the Standing Deposit Facility (SDF) from 9% to 8.5%.
2. My vote is a vote for (i) consistency and effectiveness of monetary policy; (ii) growth in private investment, creation of new jobs, output growth, financial system stability and medium term macroeconomic stability; (iii) a shift from passive monetary policy (Hong Kong Model) to an active and truly independent monetary policy (Chinese Model); (iv) substantive medium term macroeconomic stability rather than a superficial (whited sepulcher-type) short-term stability and (v) a gradualist approach to the shift from passive to active monetary policy regime.

Justification

3. At the July meeting of the MPC, I voted for a reduction in MPR by 200 basis points (2%) as the implied changes in SLF and SDF. I believe I need to explain as clearly as I can why I did not maintain the vote for a 200 basis point reduction in MPR or vote for passivity.
4. First, I highlight what has not changed and which strengthen the case for a shift from passive monetary policy of the last seven years to an active and independent monetary policy that is, a monetary policy that

promotes domestic investment, employment, incomes, growth and well-being. Second, I will explain why I voted for a gradualist approach rather than a shock therapy.

What has not changed

1. My conviction that finding the paths to low inflation growth conducive to job creation and economic growth, financial system stability and fiscal prudence are the most urgent strategic and policy priorities. I also remain convinced that the "March Retreat" provided a good foundation for strategic and policy progression.
2. The urgency of building on the March Retreat which laid the following foundations: (i) established humility, sincerity and integrity as the key principles for effective strategic and policy coordination; (ii) emphasized the organic links between fiscal, monetary and prudential policy and the urgent necessity for interdependent and coordinated strategic and policy analysis, choices and actions and (iii) recognized the urgent need for coordinated and effective movements along the three pathways: low inflation conducive to growth, financial system stability (FSS) and fiscal prudence or discipline. I still believe strongly that unless we build on the foundations of the "March retreat" we will be matching in retreat.
3. The growing costs of willfully or inadvertently ignoring the lessons of Nigerian and global economic history to the present and the future of Nigeria. We know from analysis of market and macroeconomic data of the last forty-five years (1972-2017) that crude prices are unstable and

continue to have destabilizing effects on Nigeria's public finance, current account balance, money survey and monetary policy. We also know from analysis of data and policy of the last thirteen years (2004-2017) that portfolio investors have powerful destabilizing effects on financial markets (money, capital, government securities and forex), interest rates, exchange rates, inflation, investment, employment, growth and public finance. We also, know that the pathways to low inflation conducive to growth, financial system stability and fiscal prudence does not pass through a portfolio flows attracting strategy or policy. We have made this same point consistently since my Personal Statement of September 2011 after one year of deflationary policy appeared then to benefit foreign portfolio investors and hurt domestic investors. I have repeatedly drawn attention to the medium to long term challenges that portfolio flows pose to the stability of the economy. From what we now know about the cost of the AMCON resolution of the banking crisis and the interventions costs and consequences, we have a better understanding now of the width and depths of the impacts of portfolio flows on the Nigerian economy. The commonwealth does not benefit from opening the barn doors to portfolio flows and the wisdom of widening the barn doors after what we know is harder to understand from the viewpoint of the commonwealth.

4. The macroeconomic challenge remains overwhelming: (a) a tentative exit from technical recession driven by oil GDP – a long way from recovery to 2014 level let alone growth from 2014 level; (b) an unemployment rate of

14.2% as at 2016:Q4 (likely to be higher given the trend); (c) a 0.04% fall in headline inflation driven by seasonal effects, which caused a decline in food inflation of 0.03% partly offset a 0.1% rise in core inflation; (d) a ₦2.01trillion rise in public debt, a Federal deficit of ₦1.9 trillion in the first 8 months, debt service of ₦1.58 trillion (2.4 times the spending on capital project); (e) rising maximum lending rate to 31.2% (by 0.26%), prime lending rates of 17.69% (by 0.04%) and widening interest rate spread to 26.95% (from 26.83%); (f) a very active revolving door of liquidity – pumping in and mopping out; (f) collapse of the interest rate corridors, which makes Standing Lending Facility and Standing Deposit Facility rates redundant as effective monetary policy tools; (g) 32.1% growth in All Share Index driven mainly by banking stocks (58.6%) and Consumer Goods (31.81%) that are in turn powered by (h) a monthly average growth in portfolio and FDI investments in the capital market that averaged 52% between April and August 2017.

5. **The unresolved issues**: (a) a forward looking medium to long term strategic macroeconomic management framework for Nigeria as the context for policy analysis and choice; (b) continuing malfunctions in the credit market which tends to allocate credit to sectors with traditionally high NPLs, low output and employment elasticities as well as a tendency to restrict access and to charge maximum rates on credit to sectors and economic agents with traditionally lower NPLs and higher output and employment elasticities; (c) the dominance of rent havens in both the real

and financial sectors, and the public space; (d) prevalence of present hedonistic and backward looking orientation and (e) efficient and effective use of existing Nigerian capacity in all aspect of the political economy.

6. The **Hong Kong model** within which monetary policy has been conducted since January 2012 imply a trading off of a capacity for independent monetary policy. The theory is clear that the trading off of monetary policy independence means that monetary policy adjustments to support the exchange rate could lead to a high interest rate trap. Therefore, the case against a lowering of interest has less to do with the inflation rate than with the risk of reversing flows. The data is clear, when deflation began in September 2010, the inflation rate was 13.6% and MPR was 6%. By August 2011, MPR had been gradually raised to 8.75% and by then, the inflation rate had dropped more than proportionately to 9.3%. It would have continued to drop, but for the policy shock of January 2012 when the price of petroleum products was suddenly raised from ₦65 per liter to ₦141 per liter before it was later reduced to ₦97 per liter. This spiked the inflation rate up to 12.6% in January of 2012. Back in October 2011, the only emergency meeting of the MPC so far, sharply raised MPR to 12% (a 2.75% increase) to respond to exchange rate pressures. Thereafter, MPR remained at the same level even when inflation was either below or at the upper bound of 9% for 29 months (January 2013 to May 2015). In several

personal statements I raised concerns about a high interest rate trap just as most of the global central banks were then in a low interest rate trap.

7. It is the Hong Kong model that locks the door on lower interest rates. We have had two major episodes of the model and have already paid excessively huge costs that has not yet been fully estimated and their implications analyzed and fully understood. I cannot support a third episode which started effectively this year because the implications are clear. I have no doubt that for Nigeria, **the Chinese model is a far better trading off of the dilemma** because it (i) limits vulnerability to destabilizing financial flows that are far too busy plucking ripe fruits and grains and storing where they had not sown and have absolutely no interest in expanding the farmland, sowing and nurturing and (ii) frees monetary policy to support paths to fiscal prudence and financial system stability and to continue the metaphor, the expanding of new farmlands and the planting and nurturing of new fruit trees and grains.

What has changed

8. New empirical evidence were provided by independents and Bank Staff on the possible impacts of alternative paths of MPR cuts. I found the new evidence on the impacts of rate cuts on a broad range of macroeconomic variables very useful in guiding my decision. Typically, the impacts were mixed as it should be given the nature of binding macroeconomic constraints and the inevitability of trade-offs. The key issue for policy has always been which macroeconomic variables hence,

underlying interests should be assigned the greater weights given current macroeconomic conditions, and future national and global outlooks.

9. The results suggested trade-off between key nominal and real variables (interest rates, credits, investments, GDP, public finance and external account balance which were positively impacted) and key nominal variables (domestic prices and exchange rate which marginally increased). In my informed judgment, I gave greater weights to interest rates, credits, investments, GDP, public finance and external account balance. These imply a preference to Nigerian investors, workforce, economic growth, a more sustainable public finance and external balance.
10. The empirical analysis of two alternative paths - a gradualist path and a shock therapy - suggested clearly that the gradualist path was more sustainable in the medium to long term. In my judgment, a significant medium to long term stability trumps a superficial short term stability from the perspective of the good of the commonwealth.

Influence on Decision

11. My careful interpretation and analysis of the results convinced me to vote for a gradualist approach in shifting from an **outward-oriented passive** monetary policy to an **inward-oriented independent** monetary policy.
12. Consequently, I moderated the rate cut of MPR to 50 basis points (0.5%) as a first step on the paths to low inflation conducive to growth, financial system stability and fiscal prudence.

13. As I concluded my last personal statement: "Lowering interest rate is just a first step towards policy consistency and policy effectiveness. It should be a consensus point on which the monetary and fiscal authorities could build on to produce a consistent forward looking strategic framework for coordinated, effective and constrained monetary, prudential and fiscal policies."

4. NNANNA, OKWU JOSEPH

Since the July MPC meeting, growth indices have strengthened and the fragile macroeconomic condition has improved. Recovery in oil production, the unwinding of growth related policies of the ERGP, improved access to foreign exchange and enhanced agriculture productivity has continued to provide the needed momentum. GDP growth is propelled by agriculture (3.0%), industry (1.1%) and construction (0.1%) subsectors, while oil GDP returned to positive growth. Manufacturing and non-manufacturing Purchasing Manager's Index (PMI) stood at 53.6 and 54.1 index points in August 2017, indicating expansion in the fifth and fourth consecutive months, respectively. Similarly, production level index for manufacturing sector grew for the sixth consecutive month in August 2017. At 57.4 points, the index indicated an increase in production at a slower rate, compared to its level in the preceding month. Downside risks to the growth outlook continue to be the subsisting structural rigidities, protracted impact of flooding in different parts of the country and uncertainty in the recovery of crude oil prices, which may weaken revenues and slow down the pace of implementation of public investment.

Inflation moderated downwards signalling subdued inflationary pressures owing to the continued favourable base effect and subdued pass-through effect of the exchange rate appreciation on domestic prices. Headline

inflation narrowed marginally by a 0.04 percentage point to 16.01 per cent in August relative to its level in July. While core inflation moderated at 12.30 per cent compared to 12.21 per cent in July. Food inflation remained high at 20.26 per cent in August, but lower than the 20.28 per cent in July due to subsisting supply-side disruptions associated with insecurity, higher energy costs, protracted infrastructure bottlenecks and seasonality factors.

Financial conditions remain fragile due to provisioning for foreign exchange interventions and open market operations, rising average interbank and open buy back market rates. Consequently, the drag on financial intermediation and credit conditions subsisted as average inter-bank call rate and OBB rate rose to 22.63 and 39.66 per cent in August 2017 from 12.28 and 19.34 per cent in July 2017, respectively. Staff estimates show that persistent output gap and exchange rate contributed to the behaviour of money market rates. Banking sector credit to the core private sector contracted by 0.36 per cent in July (-0.62 per cent on annualized basis) as a result of the persisting crowding-out effect of government borrowing requirements. Maximum and prime lending rates were elevated at 30.95 and 17.72 per cent in August 2017. The intervention in the foreign exchange market bolstered the stock market with the All Share Index (ASI) and market capitalisation (MC) rising by 7.2 and 6.9 per cent, respectively, reflecting buoying investor sentiments.

Global growth is expected to remain strong, while global inflation moderated as oil and other commodity prices showed some moderate recovery. Although there were signs of moderation in the growth headwinds, nevertheless extreme global risks persisted, the Korean peninsula crisis remained; uncertainty over Brexit were amplified; and the outcome of the Catalonian independence referendum in Spain may dampen growth. Other risks included the impact of hurricane across the globe, slack in China's growth which has reduced demand for commodities; and continued monetary policy normalisation by the US Fed with unintended implications for global capital flows.

Fiscal space to implement the Economic Recovery and Growth Plan (ERGP) remained delicate as the recovery in crude oil prices may be muted by the anticipated effect of huge investment in shale oil production. However, more revenue was expected from achieving and sustaining oil production at 2.2 mbpd. I remain positive that that the recently launched tax amnesty programme under the Voluntary Asset and Income Declaration Scheme (VAIDS) would scale-up tax revenue and build buffers to cushion the impact of oil prices on fiscal operations. Also fiscal reforms are needed to assist in speeding up capital expenditure under the ERGP.

External sector indicators remained resilient supported by improved oil production and the effectiveness of the "investors'-exporters'" foreign

exchange window in the provision of foreign exchange liquidity. The interbank and BDC premium narrowed from 27.9 per cent at end-August 2016 to 19.5 per cent at end-July 2017, 19.6 per cent at end-August 2017, and further to 19.3 per cent at September 5, 2017. This was due largely to the sustained interventions by CBN in the foreign exchange market and the increase in the volume of external reserves. External reserves at September 11, 2017 stood at US$32.85 higher than US$23.97 recorded in the corresponding period in 2016 and could finance approximately 12 months of import cover.

Overall, the macroeconomic outlook was relatively favourable, driven largely by exchange rate stability. The risk of a reversal of the current deceleration in the inflation path is very unlikely as positive core inflation shocks would moderate the uptick in food inflation in the short-to-medium term. Against the backdrop of fiscal dominance, despite lower than expected growth, and on the balance of risks based on available data, I vote to retain the current stance of monetary policy tightening.

5. SALAMI, ADEDOYIN

At the end of this meeting, I voted with the majority of colleagues to hold all monetary policy parameters constant.

As is usual, the data for inflation was published in the run-up to the meeting. In August 2017, compared to the previous month, the seasonally adjusted measures of price change (in other words, year-on-year measure) showed a decline in Headline inflation to 16.01 per cent from 16.05 per cent. Similarly, in the same period, Food Inflation eased from 20.28 per cent to 20.25 per cent. In contrast, Core or Non-food Inflation rose to 12.30 per cent from 12.21per cent the previous month. These numbers, at best, indicate 'sticky prices' – in other words, the momentum propelling inflation downwards may be losing steam.

Slightly better picture of inflationary development is provided by the month-on-month measures, which provide the most recent impression of price change. Increases at rates of 0.97 per cent, 0.93 per cent and 1.14 per cent for aggregate, Core and Food prices respectively, show a reduction in the rate of increase across all definitions of price. It may also be noteworthy that the observed change is the lowest since the beginning of this year. Taken together, the latest data on inflation shows that, whilst prices continue to ease, the speed of decline may be slowing.

Ahead of this meeting, the National Bureau of Statistics (NBS) released data on Gross Domestic Product (GDP) from the output side of the economy. These provisional figures show positive growth of 0.55 per cent – for the first time since Q4-2015. Welcome as growth is, it represents the initial positive, albeit tentative steps, away from recession. The figures also provide clarity around the enormity of the task which Policy Managers face in trying to achieve rapid, sustained and sustainable growth.

The 'big' 6 sectors which contribute three-quarters of total output – Agriculture (23 per cent), Distributive Trade (17 per cent), ICT (9.5 per cent), Manufacturing (9.38 per cent), Oil and Gas (8.99 per cent) and Real Estate (7.22 per cent) -, either slowed of shrank. In the aggregate, the fragility which the data confirms is unsurprising – first tentative steps out of recession. It is however useful to note the slowing of growth in key sectors namely Agriculture and Manufacturing.

The Banking System Stability Review provided by Bank Staff points to a Sector struggling to cope with the consequences of a fragile economy. Characterised by high levels of liquidity – approximately 44 per cent compared to regulatory requirement of 30 per cent -, and the Report authors stress that there is no 'systemic distress' in the sector, they do however note in their report that "Financial Conditions of the banks remain a concern, especially the small and medium banks – due largely to the adverse external

and domestic shocks/headwinds". They continue, "...... banking industry is significantly vulnerable to the weak economic and financial conditions". As they also point out, " .... the key risk factors to continue to watch include credit default risk, obligor and sector concentration risk and liquidity risk".

What is clear from my review of economic conditions is the urgent need for economic policy makers to define a series of pathways to (i) lower inflation, (ii) lower interest rates, (iii) banking system stability and (iv) rapid, inclusive and sustainable growth. Fortunately, these pathways do not preclude one each other. In my view, they can be mutually reinforcing of each other.

As I noted earlier, the reduction in inflation is losing its steam. Presently, inflation remains significantly above both the CBN target range of 6-9 per cent and estimates of the threshold level beyond which its impact is on output is adverse. This position should require a tightening of monetary policy. Given the provisional nature of the latest GDP data, I can only conclude that activity is fragile. I would thus like to see data covering a few more months in coming to a decision. I thus vote to hold.

6. UCHE, CHIBUIKE U

Despite the fact that oil prices have again started inching upwards, our economy remains in dire straits without any clear path for positive change ahead. Bluntly put, the additional revenue being earned from oil have at best brought about temporary relief for government. The structural defects in our national economy remain unaddressed. The confusion surrounding the exit of the country's economy from recession is indicative of the widespread pessimism about the future of the Nigerian economy.

The poor state of the Nigerian economy is perhaps not surprising especially given the fact that the Government has done very little to operationalize its economic change mantra. The inability of the Government to meaningfully reform its over bloated civil service has meant that most of the excessive monies being injected into the economy- borrowed or printed- end up being used to service the recurrent needs of this inefficient government machinery. It is troubling that the government is increasing its international indebtedness, with attendant exchange rate risks, without a clear plan of ensuring that such loans will be repaid. These huge borrowings and injections into the national economy also complicate monetary policy by making the future direction of inflation unclear.

The above dynamics also impact on the health of our country's banking system. It is for instance my view that a good way of gauging the economic health of any nation is to examine the health of its banking system. This is so

because banks essentially intermediate between surplus and deficit units of any economy. The success of such intermediation always depend on the health of the underlying economy that such intermediated capital is used to finance. Given the current high levels of the bad debt portfolio in some Nigerian banks, which has persisted for some time, it is clear that our banking system is inching towards being encumbered.

It is based on this level of increasing threats that I find calls for the further tightening of monetary policy to be inappropriate. An immediate consequence of such a hasty action will be a corresponding rise in the already high levels of the bad and doubtful debts portfolio of Nigerian banks. In my view, the need to prevent another banking crisis should be of great importance in the formulation of monetary policy in present day Nigeria. It is for instance public knowledge that the Central Bank of Nigeria is still grappling with the negative consequences on its balance sheet of the last financial crisis resolution strategy that it adopted.

At another level, it is troubling that the Central Bank of Nigeria has not been able to curtail the speculative behavior of private portfolio investors in the country. This is unfortunate especially given the fact that history has taught us that speculative short term capital flows are incapable of aiding the economic development of developing countries. Foreign capital is only useful to economic development to the extent that it helps fund the acquisition of long term capital assets, skilled manpower and technology.

While short term speculative capital can sometimes help shore up the value of local currencies in developing countries, to the delight of central banks, this has never been sustainable. The capital flight/ exit that always follow usually have far more negative consequences than whatever temporary gains the inflows may have had.

Finally, it has also been widely canvassed that MPC should consider loosening its monetary policy stance by lowering the MPR. With inflation rate currently above MPR, I do not see how this will have any meaningful positive impact on our economy. If MPR is lowered at the present time, most rational economic beings will simply convert their deposits to assets in order to mitigate against inflation driven diminution in the value of their deposits.

In conclusion, I am of the opinion that the least destructive line of action for monetary policy at the present time is to do nothing. For the avoidance of doubt this stance is not a magic wand and does not address most of our present monetary policy concerns. All it can do is to provide a semblance of stability which can enable government to undertake the structural economic reforms that are necessary for any meaningful economic progress to be made in our country. The reality is that there is little monetary policy can do in an oil rent, import dependent economy that has continued to expand its over bloated, inept and corrupt bureaucracy even when it is obvious that its oil rent income, despite hiccups, is clearly on a downward trajectory. In a country that is bereft of any meaningful infrastructure that can help facilitate

industrial development and economic growth, it is troubling that the government has shown little willingness to curtail the widespread practice, at both the state and Federal levels, of borrowing to satisfy recurrent needs. Surely such levels of fiscal recklessness were never imagined by those who conceptualized monetary policy.

It is on the basis of the above constraints that I vote as follows: (i) to retain the MPR at 14.00 per cent; (ii) to retain the CRR at22.50 per cent; (iii) to retain the Liquidity Ratio at 30.00 per cent; and (iv) to retain the Asymmetric Window at +200 and -500 basis points around the MPR.

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

With wide-ranging improvements in key macroeconomic indices over the last three quarters, the outlook of the Nigerian economy, both in the near- and short-term, have begun to brighten. The upturn in real GDP from a nadir of -2.3 per cent at the depth of the recession in 2016q3 culminated in a positive growth of 0.6 per cent in 2017q2 with a prospect of attaining 1.5 per cent by 2017q4. At these positive rates of growth, however, output gap remains considerably negative as real GDP stayed below its potential. Inflation rate decelerated in August 2017 for the seventh consecutive month to 16.0 per cent from the peak of 18.7 per cent in January 2017. Relative stability and convergence continued in the FX market as the Investors and Exporters (I&E) window and Bureau de change (BDC) rates hovered around N363/US$, narrowing the premium with the interbank rate.

Regardless of these heartening developments, some macroeconomic indices, including the unemployment rate and nominal interest rates, remain at undesirable levels. This is essentially due to the structural imbalances and associated rigidities, which characterise the Nigerian economy and resonate the urgent need for diversification. The inevitability of diversification is even more exigent at this time given the planned medium-term phase-out of hydrocarbon fuels by major industrialised economies and the weak short-term global demand.

Though the global economy is expected to strengthen for the rest of 2017, year-to-date outcomes in many regions are tepid. Estimated at 3.5 and 3.6 per cent for 2017 and 2018, respectively, global growth was somewhat revised downward by the IMF. Growth projections were, similarly, lowered for the US and UK. However, outlook improved for the euro-area, Japan, and a number of emerging market economies especially, Brazil and South Africa, which exited recession in the first half of 2017. While rebound in global demand would likely provide tailwind to the continued recovery of the Nigerian economy in short-term, the tepid long-run outlook of global economic conditions and the imminent discard of hydrocarbon fuels threaten the long-term path of potential output.

After five consecutive quarters of contraction, Nigeria's economic recovery took a modestly positive turn, as output expanded by 0.6 per cent in the 2017q2 from a 0.9 per cent contraction in 2017q1. This followed the general improvement in business and investor sentiment observed since the beginning of the year, the stability in the FX market, savoury developments in the oil sector, and brightening short-term outlook. The growth was driven by expansion in both the oil sector (1.6 per cent) and non-oil sector (0.5 per cent). In terms of contributions, the oil sector accounted for nearly 0.2 per cent of the overall GDP growth while about 0.4 per cent was from non-oil activities. I note that, while production improved moderately during the quarter, the observed economic growth largely reflected falling average costs of input as the FX market stabilises. To safeguard the ongoing recovery,

it is imperative to ensure that gains from declining costs and relative FX stability are complemented by strong rises in production. It is also important to strengthen household demand and business investments. Accordingly, the elevated public spending on capital projects and infrastructure as well as the recent Executive Order to improve Nigeria's ease of doing business are indeed laudable. As I stated earlier, it is vital to sustain the pace of capital projects into the medium-term so as to reduce infrastructural deficits, with potential favourable effects on output and prices.

Since the last MPC, inflation rate continued to decelerate; falling from 16.1 per cent in July to 16.0 per cent in August 2017. Food inflation, though still high, moderated around 20.3 per cent, whereas core inflation rose marginally to 12.3 per cent from 12.2 per cent during that period. Analysis indicated an uptick in imported food inflation from 14.1 per cent to 14.4 per cent reflecting inflation ascent in key overseas economies. The overall outcome in headline inflation was essentially driven by the continued stability in the FX markets as well as the tight liquidity conditions in money and financial markets. I note that, while observed disinflation is pleasing, it remains fragile and at a growth-retarding level. It behoves us, therefore, to ensure that monetary impulses are optimally delayed to avert a reversal of the current trend of disinflation and a derailing of the delicate economic recovery.

Tight liquidity conditions continued in the money and credit markets during the review period as restrictive monetary stance remained. In August 2017, broad money supply M2 contracted by 11.1 per cent annualised as against a target expansion of 10.3 per cent. Net claims on government indicated an annualised contraction of 1.6 per cent, while private sector credits recorded an annualised expansion of 0.1 per cent. I note that whereas the marginal growth in private sector credit is propitious, more needs to be done to ensure sufficient flow of financing to high impact, employment elastic real sector ventures. This is with a view to bolstering domestic productivity, creating jobs and reducing poverty. The CBN will continue to work with Deposit Money Banks (DMBs) to ensure that critical sectors are not denied vital credits at affordable rates.

As we continue to welcome the encouraging macroeconomic development especially the stability in the FX market, continued disinflation, favourable oil sector developments, and the exit from recession, I note that the fragile conditions require delicately balanced and correctly timed policy actions. The fundamental issues of structural imbalances, supply constraints and the need to diversify the economy remain significant for long-term growth and prosperity. Nonetheless, monetary policy will continue to ensure that short-term outcomes are smoothened for the overall benefit of the economy. A critical anchor variable in the Nigerian economy is the exchange rate. Today the relative stability of the rate is reflecting in moderation of consumer price inflation and in declining marginal costs in the

productive sectors as average costs of imported raw materials fall. It is therefore sacrosanct to sustain FX market stability.

Prevailing conditions in the domestic economy provide compelling arguments for all possible outcomes of MPC decisions; ease, hold or tighten. Given that the impulses from previous policy adjustments are still permeating the system, we need to be prudent with our decisions. I maintain my view that monetary impulses at this time may be impetuous. To safeguard the relative stability in the FX market and maintain balanced inflows to the economy, interest rate parity must not be distorted, especially as recent recovery is still fragile.

I understand the need to boost output by lowering interesting rate, but reiterate that inflation is still at intolerable growth inhibiting level and needs to be reined in decisively. Although, lowering rates now seems counterintuitive and counterproductive, raising interest rates is somewhat insensitive to the fragile recovery. I am of the view that the current level of real interest rate is appropriate to balance the objectives of exchange rate and price stability, and output stabilisation. As I have noted before, my personal preference is to achieve a low single-digit nominal interest rate in the long-run. Current realities do not, however, support the widely held sentiment of lowering monetary policy rate; especially as it is negative in real terms.

In my consideration, holding monetary policy instruments at their current levels is pragmatic. Policy impulses could generate adverse shocks which would not only destabilise the path of economic recovery, but also re-introduce unwarranted pressures in both the goods and FX markets. To ensure that the corrective effects of previous policies are not jeopardised by distortive shocks, I vote to:

1. Retain the MPR at 14.0 percent;
2. Retain the CRR at 22.5 percent;
3. Retain the asymmetric corridor at +200/−500 basis points; and
4. Retain liquidity ratio at 30.0 percent

GODWIN I. EMEFIELE, CON

Governor

September 2017