



CENTRAL BANK OF NIGERIA COMMUNIQUÉ NO 113 OF THE MONETARY POLICY COMMITTEE MEETING OF 22ND AND 23RD MAY 2017

Background

The Monetary Policy Committee (MPC) met on the 22nd and 23rd of May, 2017, against the backdrop of slowly improving global growth prospects even as international cooperation continues to be threatened by anti-globalization sentiments in major advanced economies. On the domestic front, the economy has shown greater resilience in the intervening period since the last meeting of the Committee, anchored on more focused macroeconomic policies and improvements in oil prices. While the general economic outlook seems cautiously optimistic for the remainder of fiscal 2017, emerging indicators suggest that economic policy must remain circumspect.

In attendance were 8 out of 12 members of the Committee. The MPC assessed the global and domestic economic and financial environments in the first five months of 2017 and the outlook for the rest of the year.

External Developments

The global economy continued to gather momentum in Q1, 2017, aided by gradual recovery in the emerging markets on the back of a pick-up in global demand and higher commodity prices, coupled with fairly robust domestic demand in the advanced economies. Accordingly, global output growth in Q1 2017 is estimated to expand by 2.8 per cent annualized. In spite of the fairly optimistic global economic outlook, uncertainty surrounding the direction of macroeconomic policy in the advanced economies continues to cloud the prospects of sustained recovery. Global inflation appears to be upward trending on the back of improved commodity prices and depreciated currencies in several emerging markets.

Domestic Output Developments

Data from the National Bureau of Statistics (NBS) showed that the economy contracted marginally by 0.52 per cent in Q1 2017, a much more positive development since Q1 2016. The data also shows that about eighteen (18) economic activities recorded positive growth in Q1 2017; indicating that the economy was firmly on the path of recovery. The key growth activities were led by quarrying (52.54%), metal ores (40.79%), road transportation (12.35%), water supply and sewage (12.63%), fishing (5.49%), crop production (3.5%), oil refining 93.01%), motion pictures (2.95%), telecommunication (2.89%), forestry (2.59%), amongst others. The

Committee noted the positive effects of improved foreign exchange management on the performance of the manufacturing sector and other economic activities. The non-oil sector grew by 0.72 per cent in Q1 2017, largely reflecting the growth recorded in agriculture and solid minerals, and recovery in manufacturing, construction and services sectors. The Committee urged the fiscal authorities to expeditiously commence the implementation of the recently approved 2017 budget, especially, the capital expenditure portion, in order to sustain the momentum of recovery, engender employment and restore confidence in the Nigerian economy.

Developments in Money and Prices

The committee noted that money supply (M2) contracted by 8.48 per cent in April 2017, annualized to a contraction of 25.44 per cent in contrast to the provisional growth benchmark of 10.29 per cent for 2017. Net Domestic Credit (NDC) grew by 1.40 per cent in April, 2017, annualized to 4.21 per cent, which is significantly below the 17.93 per cent provisional growth benchmark for 2017. However, net credit to government grew by 24.08 per cent over end-December 2016, representing an annualized growth of 72.0 per cent. The Committee was concerned that credit to government continued to outpace the programmed target of 33.12 per cent for fiscal 2017, while credit to the private sector

declined considerably far below the programmed target of 14.88 per cent.

Headline inflation (year-on-year) moderated for the third consecutive month, falling to 17.24 per cent in April, from 17.26 per cent in March, 17.78 per cent in February and 18.72 per cent in January 2017, effectively reversing the monthly upward momentum since January, 2016. The food index component, however, rose to 19.30 per cent in April, from 18.44 per cent in March and 18.53 per cent in February, 2017. The moderation in headline inflation in April, 2017 thus reflected the decline in the core component to 14.80 per cent in April from 15.40, 16.01, and 17.87 per cent, respectively in March, February and January, 2017. Similarly, month-on-month inflation moderated to 1.60 per cent in April from 1.72 per cent in March, 2017.

The Committee attributed these developments in part to the effects of the recent gains in the naira exchange rate, brought about by the Bank's interventions in the foreign exchange market and the resulting downward price adjustments on imported items and their derivatives. Against this background, the Committee emphasized the need to sustain and deepen the Bank's foreign exchange management policies and measures in order to reap the benefits of the pass-through to consumer prices. The MPC recognized the continued influence of structural factors such as high energy and transportation costs, production bottlenecks on prices and hoped that the ongoing reforms by the Government would address some of these constraints.

Money market interest rates moved in tandem with the level of liquidity in the banking system. Rates were relatively stable during the review period. The interbank call rate opened at 11.40 per cent on March 22, 2017 and closed at 38.94 per cent on May 18. The movement in net liquidity position was influenced by sales at the Open Market Operations, foreign exchange interventions, the payment of statutory revenues to States and Local Governments as well as maturing CBN Bills.

The MPC noted the bullish trend in the equities segment of the capital market as the All-Share Index (ASI) rose by 10.20 per cent from 25,516.34 on March 31, 2017, to 28,113.38 on May 19, 2017. Similarly, Market Capitalization (MC) increased by 10.10 per cent from N8.83 to N9.72 trillion during the same period. Relative to end-December 2016, the capital market indices rose by 4.60 and 5.10 per cent, respectively, reflecting growing investor confidence following improvements in foreign exchange supplies reflected in the over US\$1 billion injected through the investor window and exchange rate management. Total foreign exchange inflows through the CBN increased by 69.77 per cent in April, 2017 compared with the previous month. Total outflows, however, rose, but less significantly, at 29.35 per cent during the same period. Consequently, the Committee observed that the average naira exchange rate remained stable at the inter-bank segment of the foreign exchange market in the review period.

2.0. Overall Outlook and Risks

Available data and various forecasts of key economic variables as well as assessment of government initiatives, including the recently released Federal Government Economic Recovery and Growth Plan (ERGP), all point to prospects of recovery in 2017. The Committee expects that the timely implementation of this plan, judicious execution of the approved 2017 Budget and sustenance of the new foreign exchange implementation regime supported by the restoration of security in different parts of the country, especially, in the Niger Delta region, would help accelerate growth and restore confidence in the economy. The MPC however, identified the downside risks to this outlook to include the possibility of low oil prices due to renewed investments in shale oil exploration and production, continuing monetary policy normalization by the U.S. Fed which may result in strengthening of the U.S dollar, and consequent capital reversal from Nigeria and other emerging market economies. Also, the MPC believes that the inflation outlook does not appear benign as the limit of the base effect driving the current moderation in prices may have been reached.

3.0. The Considerations of the Committee

Notwithstanding the improved outlook for the economy, the Committee weighed the implications of continuing global uncertainties arising from the dwindling commitment to global

cooperation, the strengthening of the U.S. dollar, and the unsteady commodity prices. The Committee similarly evaluated other challenges confronting the domestic economy and the opportunities for achieving economic growth and price stability in 2017. The MPC was of the view that whereas the downward trend in inflation in April 2017 is a welcomed development; the rate was still significantly above the policy reference band.

The MPC is particularly pleased with the gradual retreat in inflation, the relative stability in the Naira exchange rate across all segments of the foreign exchange market and the improved prospects of foreign investment inflow. The Committee also welcomes the passage of the 2017 Budget and called on the relevant authorities to ensure its judicious implementation, especially, the capital budget in line with the Economic Recovery and Growth Plan. It, however, noted the associated risks to banking system liquidity of the envisaged fiscal injections during the remainder of the year. Against this risk, the Committee contemplated the prospects of further tightening of monetary policy should the need arise. The MPC however, noted that further tightening would widen the income gap, depress aggregate consumption and adversely affect credit to the real sector of the economy.

Nevertheless, against the backdrop of the rather unclear outlook around key economic activities (food production especially) and some optimism about current deceleration in inflation as well as relative stability in the naira exchange rate, the MPC was

reluctant to alter the current policy configuration in any fundamental manner. This is intended to allow the existing policies to fully achieve their intended goals and objectives. On the other hand, the Committee noted that the cost of capital in the economy remains high and not helpful to growth. The MPC was however, concerned that loosening would exacerbate inflationary pressures and worsen the gains so far achieved in the exchange rate of the naira. It was also convinced that loosening would further increase the negative real interest rate as the gap between the nominal interest rate and inflation widens.

On the financial stability outlook, the Committee noted that in spite of the banking sector's resilience, the weak macroeconomic environment has continued to exert pressure on the banking system. The MPC urged the CBN to intensify its surveillance, in order to address emerging vulnerabilities. The Committee also called on the DMBs to step up credit to the private sector to support economic recovery and convey a positive feedback to the financial system.

4.0. The Committee's Decisions

In consideration of the challenges weighing down the domestic economy and the uncertainties in the global environment, the Committee decided by a unanimous vote of the 8 members in attendance to retain the MPR at 14.0 per cent alongside all other

policy parameters. One member was absent at the meeting. In summary, the MPC decided to:

- (i) Retain the MPR at 14 per cent;
- (ii) Retain the CRR at 22.5 per cent;
- (iii) Retain the Liquidity Ratio at 30.00 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

23rd May, 2017

PERSONAL STATEMENT BY THE MONETARY POLICY COMMITTEE MEMBERS

1. ADELABU, ADEBAYO

The imbalances in the macroeconomic environment are beginning to show gradual correction particularly with the restoration of a fair degree of stability in the foreign exchange market. The last two months have seen naira stabilizing around N305/US\$ at the interbank market while the stability at the BDCs' segment was further accompanied by some level of appreciation. In other word, the hitherto wide margin between the rates in the two markets has narrowed considerably. In addition, the episodes of contraction in GDP which commenced in 2016:Q2 appears to be moving towards a halt as the statistics for 2017:Q1 revealed a very modest dip in output, compared to the size of contraction in the previous three quarters. Headline inflation at 17.24 percent in April is still reasonably high but the estimate represents two consecutive months of deceleration. These achievements, no doubt, are the outcome of the various monetary policy measures in the last couple of months. Among others, the recent decision to improve the liquidity condition in the foreign exchange market has positively impacted on confidence in the market and therefore reduced demand pressure. The major issue at this period, logically, is to strengthen the evolving stability.

Strengthening the stability, however, is confronted with significant risk factors from both the global and domestic environments.

Within the domestic environment, one of the key issues is the protracted delay in the commencement of implementation of the 2017 Fiscal Budget. The Budget has just been passed by the National Assembly and awaiting Presidential assent, at almost the end of the first half of the year. This, invariably, has constrained capital expenditure which is very critical in reducing the binding supply side constraint. Given that recurrent expenditure could continue unabated under this scenario, the implication is that aggregate demand could increase while expansion in aggregate supply is constrained, putting pressure on domestic price. Against this perspective, it is expedient that all the necessary processes to formalize the budget be swiftly completed to avert the likelihood of inflation resuming on the upward trajectory. Moreover, a strong commitment to the economic recovery and growth plan of the government implicitly assumes a timely implementation of the budget particularly the capital expenditure component.

Another key issue in the domestic environment is the evolving fragility of the banking system, being the direct consequence of the negative growth in output and the depreciation of the domestic currency. The contraction in output has reduced profitability of firms and business outfits, leading to escalation of NPLs in the banking industry while depreciation of the naira, on the other hand, has reduced the asset base of the banking sector in real term, thereby constraining their intermediation capacity. The banking industry has been reacting to this adverse developments through a gradual cut in credit, particularly, credit

to the private sector. This development is not expected to show improvement within the near term given that the shocks appear to be permanent in nature. As a result, further tightening of monetary policy stance, though could help to address the imbalance in price level, may not be the preferred option under the present circumstances.

Beside the challenges in the domestic environment, there are some thorny issues in the global environment. One of the global issues with far reaching implication is the commencement of monetary tightening by the US Federal Reserve (Fed). In response to this development, most currencies particularly, emerging countries' currencies have started shedding weight against the US dollar. For example, the Euro, Pound Sterling, Japanese Yen, and Chinese Renminbi depreciated by 0.23, 4.67, 2.26, and 3.0 percent, respectively against the US dollar in 2016. Economic agents can suspect that the domestic currency would follow similar route with other emerging countries' currencies and such suspicion would weigh on confidence with the ultimate effect of speculative attack on the currency. Given that further tightening is not appropriate at this period based on output concern, the current flexible exchange rate regime should be appropriately managed to avoid appreciation that does not align with key fundamentals which could be detrimental to the stock of external reserves and competitiveness of non-oil exports. This notwithstanding a careful analysis would be required to maintain optimum liquidity in the foreign exchange market to sustain

confidence. Furthermore, the ongoing hike in interest rate by the Fed has the potential of tightening external financing condition, implying that support for the budget through external financing may remain elusive. Consequently, there is a need to strengthen all available means for mobilizing domestic resources.

The other key issue within the global environment with considerable implication is the unsteady nature of oil price. There has been some rally in crude oil prices since the beginning of the year on account of cut in supply like the output freeze deal by the OPEC and host of other factors. The challenge is that the drivers of the price increases have little to do with improvement in global fundamentals. Perhaps more disturbing is the renewed interest in shale oil exploration in the US with considerable potential to increase global supply of crude and thereby exert downward pressure on price. Latest information indicates that three major oil companies are pumping a whopping investment in the neighborhood of US\$10 billion into shale oil exploration in an adventure that could make shale oil production profitable at US\$20/barrel. In essence, the current rally in the prices of crude oil appears vulnerable to setback with far reaching consequence on not only the external sector but with equal degree of severity on the fiscal sector as well as other sectors.

Perhaps more importantly, there is the issue of rising economic nationalism and waning support for global trade in advanced economies, which is further complicated by heightened

uncertainty in the euro area. It is without controversy that many emerging markets (EMs), including Nigeria, have been able to transit from low to middle-income status by integrating into the global economy. It is, however, becoming clearer that inward looking economic strategies could become the preferred global framework as the rebalancing model is gaining momentum in China while the US, under the new dispensation, is shifting towards protectionism. The point here is that net export may still be driving growth process but the prospects over the long term appears diminished. For Nigeria, the balance of payment account witnessed considerable challenge from mid-2014 to the end of first half of 2016. The improvement in the latter half of 2016 resulted mainly from drastic reduction in imports which initially was due to foreign exchange constraint but later due to substitution of some imported items with domestically produced ones. Viewed within this prism, emerging economies such as Nigeria should start re-examining their economic model to avoid being caught napping. It is commendable that the country has recorded significant milestone in rice production such that it has taken over imported rice within a space of two years. This initiative should be sustained by extending the success story on rice to other critical products like refined petroleum products. Put succinctly, there is a compelling need to strengthen structural policies particularly in the area of encouraging the consumption of home made goods in line with the thrust of economic recovery and growth plan

Against the perspectives of the issues highlighted above, it is very clear that concern for growth is important but at the same time one must be conscious that growth is not a zero-sum game. Efforts must be devoted to strengthening the fledgling stability in the macroeconomic environment. In this regard I vote for the retention of all the existing measures of monetary policy.

2. BALAMI, DAHIRU HASSAN

The global challenges likely to affect the Nigerian economy include the following: slowdown in global recovery; low commodity prices and weak fiscal buffers; weak demand and consumer spending; terrorism and geopolitical tensions; significant exchange rate volatility and widening global imbalances. However, at the domestic level, the banking sector level of resilience is becoming weaker as shown by the stress tests result.

The May 2017 MPC meeting met a deteriorating situation of the Nigerian financial sector. The result of the stress tests showed that capital adequacy ratio had deteriorated from 13.6 per cent in February to 12.81 per cent in April, which is below the prudential requirement of 15 per cent for banks with international authorisation. The NPLs have also risen to 15.18 per cent from 13.59 per cent in February 2017 which is far above the prudential limit of 5 per cent. The liquidity ratio has also registered a decline from 46.61 per cent to 44.60 per cent. When compared with the prudential limits of 30 per cent, it can be seen that the interbank market has not been active, reflecting the fact that banks have not been trading among themselves which is not a desirable situation. Some of the banks are making use of the SLF which under normal circumstances are meant for weaker banks. This needs to be discouraged. Even with the bad ratios, banks are still making profit. It should be noted that the three previous outlier banks have now become four. If adjustments are made for foreign exchange, the banks will be making lower levels of profit.

To move the economy forward, the MPC would have preferred to have low interest rates, stable exchange rate, low inflation and high GDP growth. However, the current low level of reserve due to low commodity prices and output, pressure on the Naira and strengthening of the dollar, low agricultural output, and terrorism in the North-East as well as low energy supply and broken down infrastructural facilities and risen cost of transportation, does not permit the quick reversing of the situation. The critical question is what can be done to bring down interest rates and as well increase the rate of economic growth without affecting inflation?

The relationship between the Government and the CBN in terms of financing through ways and means need to be guarded because of the likely negative implications on the economy if not handled with care. The case study of other countries should be reviewed so that we do not fall into the Zimbabwean situation.

I vote to retain the existing stance in its entirety to allow previous policy measures taken to work through the economy. Currently, inflation is trending downwards from 17.24 per cent in April to 16.13 per cent in May 2017. This however, needs to be watched because the downward trend may be as a result of base effect, and the negative level of growth is trending downward which is an improvement. The Purchase Manager's Index (PMI) also signals recovery of the Nigerian economy. It is hoped that the effective and holistic implementation of the 2017 budget will assist in moving the frontiers of growth to support the economy's gradual recovery from recession.

I therefore decide as follows:

Retain the MPR at 14 percent

Retain the CRR at 22.5 percent

Retain the liquidity ratio at 30 per cent; and

Retain the asymmetric corridor at +200 and -500 basis points around the MPR.

3. BARAU, SULEIMAN

Background

The imbalances in key macroeconomic sectors are gradually waning in response to various monetary policy as well as administrative measures enunciated in the last couple of meetings. Of significant importance is the reduction in the financial market volatility with the achievement of a fair degree of stability in the exchange rate while the margin in rates between the two markets equally narrowed considerably. Furthermore, the latest statistical estimates indicate that the trough on real GDP is on the verge of bottoming-out as real output contracted by 0.52 percent in 2017:Q1, a modest shrinkage relative to the magnitude recorded in the previous three quarters. Although inflation remains elevated, it is comforting that it is equally decelerating.

The key issue at this period revolves around strengthening the nascent stability in the macroeconomic environment in the expectation of a positive spillover to the real sector. Towards this, some key challenges are still glaring, notably the evolving fragility of the banking sector and the unsteady nature of commodity prices which could trigger volatility in the foreign exchange market. Within the context of strengthening the macroeconomic environment particularly with inflation and exchange rate stability in focus, it may not be expedient to commence loosening of monetary policy stance at this period while concern for output recovery may not support further tightening. Consequently, I opt

to vote for a hold on key monetary policy measures, a decision that is further reinforced by the need to allow for full transmission of various measures in place.

Pressure Points

External Environment

The latest projection by the IMF shows that global output would expand by 3.5 percent in 2017, a significant improvement over 3.1 percent recorded in 2016, anchored on buoyant financial market condition and cyclical recovery in manufacturing, particularly in the advanced countries. These developments portend the capacity to improve external demand for emerging market economies including Nigeria but not without some downside risks. Among others, the near to medium term stance of policy by the US Federal Reserve is an issue most monetary authorities in the emerging market economies must contend with. Rate was hiked in their last meeting which was held in March but it is not unlikely that the sequence of interest rate hikes may proceed at a faster pace than anticipated. My view is premised on the body language of some top officials of the US Fed as well as recently released statistics, which revealed that inflation is getting close to the natural rate of 2 percent. Given that the US dollar has rallied against most currencies since the beginning of the year, it could therefore be expected that most currencies particularly developing and emerging economies currencies could still shed more weight against the US dollar. Outside the advanced nations,

it is widely expected that some leading emerging economies like China could also tighten financial market condition on the backlash of rapid credit growth. These developments could trigger financial market volatility in other emerging market economies with potential spillover to the real sector.

On another dimension, global recovery over the medium term would continue to be weighed down by certain structural constraints including the lingering challenges of low productivity, high income inequality, and the evolving stance of nationalism and protectionism, which is a marked deviation from economic integration and globalization that have propelled global output in recent times. The evolving economic architecture would in the first round act as a drag on global volume of trade and ultimately reinforces the downside risk to growth with the emerging and developing economies being at the receiving end.

Another key issue is the rising level of uncertainty heightened by developments in global political arena. France has just concluded an election that produced the youngest president in the history of the country while a number of countries in the euro area are still heading for the poll during the course of the year. Under this condition, business confidence may be hurt as investors take a cautious approach to clearly discern the direction of policies of new governments. For euro area that is just exiting from recession, such a move may likely weigh on growth prospects with a spillover to the entire global economic landscape. The channels of transmission of these developments to the domestic economy

remain the commodity and financial markets. From the commodity market, oil prices have shown some rally since December 2015 as global demand strengthened in the face of tight supply condition. The complex interaction of strengthening US dollar with possible downward revision of global output growth could weaken oil price with pronounced negative impact on both accretion to external reserves and fiscal revenue in Nigeria.

The last issue is the commencement of uptick in global inflation. Headline inflation is projected to increase in the US from 1.3 percent in 2016 to 2.7 percent in 2017. Similar trend is also expected in most of the advanced and a number of emerging market economies. This, in essence, implies that as domestic upside risks to inflation recede, the contagion from the global environment is being activated.

Domestic Environment

Delay in Budget Process: The 2017 Appropriation Bill has just being passed by the National Assembly, five months into the current fiscal year, while it is yet to receive Presidential assent. Given a lot of controversy that is still ongoing around the document, it is not unlikely that the final presidential assent may take a while. In light of the fact that the constitution permits expenditure on only recurrent component under this scenario, it implies that the capacity to improve the supply base is constrained while pressure from the demand side could increase with the obvious implication of heightening inflation risk, notably structural inflation.

Reduced Capacity of the Banking Sector: The banking sector has been highly challenged by the adverse developments in both the financial and real sectors of the economy. The contraction in real GDP contributed substantially to elevated NPLs in the industry, which has, invariably, elicited cutback in the level of credit exposure by the banks since the latter half of 2016. From the financial sector development, the depreciation of the domestic currency has reduced the value of banking asset in real terms. Recent statistics showed that total banking assets denominated in US dollar reduced by 27.4 percent in 2016 compared to the level in 2015 on account of currency depreciation of about 55 percent during the period. The reduction in asset in real term coupled with the elevated NPLs would therefore weigh on the capacity of the banks to support the recovery process.

Unsteady Nature of Commodity Prices: Crude oil prices rallied in the last couple of months mainly due to transitory supply restraining forces including supply outage in Libya, production cut deal by OPEC, geo-political tension in the Middle East due to Syria, and the intention by Russia to extend major producers production cut agreement. In essence, upturn in prices was not due to strong fundamentals in the global economy. Some of these upward driving forces can easily be resolved which invariably implies that the current rally in price is vulnerable to set back. My position is further informed by the renewed interest in shale oil production in the US with significant capacity to boost global supply of crude oil.

Elevated Margin in the Forex Markets: As pointed out in my last statement, the Bank has made giant stride in narrowing the margin between the rates at the interbank and the BDCs' markets from as high as over 150 per cent in the last quarter of 2015 to the current level of about 23 per cent. The achievement notwithstanding, the current margin is still fairly elevated as it is considerably higher than the threshold of 5 per cent in most jurisdictions. The margin, therefore is a potential source of arbitrage which could distort monetary policy implementation.

Way Forward

Improve Confidence in the Forex Market: The ability to sustain the gain recorded so far is critically hinged on stability in the foreign exchange market. With the ongoing appreciation of US dollar against most currencies, there may be tendency on the part of economic agents to express doubt on the capacity of the Bank to sustain the current trend in rates. This, invariably, would fuel speculative demand and self-reinforcing depreciation. Towards this, there is a need to sustain the current tempo of liquidity in the forex market while equally fine-tuning the administrative measures that could narrow the margin in the two markets.

Quick Implementation of the Budget: Fiscal policy must play a pivotal role in driving economic progress in the face of the rapidly emerging anti-benign global economic condition. The instrument of budget in particular is very crucial in staving off downside risks to growth and therefore offers the necessary support for the

ongoing recovery process. On this note, I want to commend the National Assembly for the recent passage of the 2017 Appropriation Bill but it needs to be equally stressed that the passage of the Bill at five months into the fiscal year is grossly short of the urgency required to address the current macroeconomic imbalance. This notwithstanding, it is expected that the ongoing reconciliation and verification as well other issues surrounding the 2017 Appropriation Bill would be swiftly completed such that the document would receive Presidential assent and implementation commence in earnest.

Support for the Banking Sector: Net domestic credit, on annualized basis, grew by mere 4.2 per cent at the end of the first quarter, significantly lower than the target of 32 percent per cent. This low level of growth in credit, obviously, cannot drive the anticipated recovery process. The abysmal performance was largely due to the strains on the banking sector from the imbalances in the macroeconomic environment. The Central Bank, under its developmental mandate, has put in place a number of credit initiatives to support the recovery process but it needs to be borne in mind that the task of channeling financial resources to the private sector lies primarily with the commercial banks. To this end, I would like to emphasize, as contained in my last statement, the need to provide necessary support that could repair the balance sheet of the banks in order to help them resume credit delivery to the critical sectors.

Decision

Inflation is decelerating but still elevated, while the stability in the foreign exchange market is not completely free from potential headwinds, hence loosening of monetary policy stance may not be a preferred option at the moment. Similarly, the need to support the ongoing recovery makes further tightening less attractive. Consequently, I vote for retention of all monetary policy measures in place.

4. GARBA, ABDUL-GANIYU

Decision and Context

I vote to hold.

At the March meeting of the MPC, I considered voting for loosening the monetary policy stance as I did at the two previous MPC meetings in November 2016 and January 2017. At the May 2017 meeting, I did not consider a loosening stand.

My consideration of loosening in the three meetings from November 2016 to March 2017 was to ensure consistency and credibility of the monetary policy stand. I was concerned at (i) the contradiction between a 70 per cent growth in money supply between October 2015 and December 2016 and raising interest rates and (ii) the sharp depreciation of the Naira by between 36 per cent (interbank) and 51 per cent (Bureau De Change) and rise in inflation from 9.3 per cent to 18.5 per cent (100 per cent increase) in the same period. The excellent tracking between monthly money supply (M1), exchange rate and inflation in the period is remarkable. This was why in last personal statement, I cautioned against the usual generalization that Nigerian inflation is structural.

The **contradiction problem** arose because when money supply is increased, it is expected that interest rate will fall. To grow money supply and raise rates at the same time is a contradiction. So is loosening only to tighten. The tracking of M1 by the exchange

rates (Interbank and BDC) and inflation indicates that the depreciation and inflation were driven by the strong positive money supply shock. When liquidity created chase after a declining supply of dollars and goods, it is inevitable that the value of the Naira will fall and the cost of goods and services rise.

With the slowdown in the inflow of forex and, the negative economic growth in the five quarters since the end of 2015, it is easy to see how a strong positive money supply shock could fuel both currency depreciation and domestic prices directly (quantity effects) and indirectly (exchange rate effects) and amplify the slowdown in the economy into a negative growth. It was clear to me that the excess liquidity was a key problem not only because of the size of the expansion, but also, because of its sources (AMCON, “mop-up liquidity” mop-up and “accommodation liquidity”) and structure of debt growth.

Raising MPR given the size of liquidity growth and its negative consequences on exchange rate and inflation is contra-intuitive and contra-positive. Even without the adverse effects on private investment, employment and growth and financial system stability the expected rise in “mop-up liquidity” will simply compound the liquidity problem and impact adversely on fiscal operations of all tiers of government through rise in cost of public debt and size of debt service and, the crowding-out of the expenditure that will raise consumption (recurrent) and investment (capital) by debt service.

The sharp expansion in public debt in 2016 exemplifies the problem. In 2016, total public debt of the Federal government rose by N3.6 Trillion or 32 per cent to a total of 14.54 Trillion! [In Comparison, before Nigeria started the process of exiting the Paris Club, total federal debt was N6.3 Trillion in third quarter of 2004. At the exit point in the third quarter of 2006, total federal debt was N2.3 Trillion or just 64 per cent of the increase in 2016).

My vote to hold at the March 2017 MPC was “based on the consensus to work out a clear path to price stability conducive to growth which is the goal of MPC consistent with its mandate.” We agreed that this “requires a cap on money supply, a resolution of the “AMCON liquidity” problem, a reduction in “mop-up liquidity” and end to monetization of the crude export income as well as moderation of “FAAC effects” on the stability of Call rate and OBB.”

My vote to hold at this meeting is to support a further movement along the paths of return to price stability conducive to growth, financial system stability and prudent fiscal operations. This inevitable requires a deepening of coordination between monetary and fiscal authorities.

I have observed a significant reduction in “accommodation liquidity” and the moderating effects the reduction in liquidity has had on inflation and to some extent on the value of the Naira. Much works needs to be done in reducing “mop-up liquidity” and in integrating the foreign exchange market and in enhancing the

interbank money market to minimize the volumes in the Special Lending Facility (SLF) and Special Deposit Facility (SDF).

Unresolved Issues

These are the longer term issues that we must not lose sight of. I keep them in my personal statement because we cannot wish them away. They are: (a) the need for a clearer forward looking medium to long term strategic macroeconomic management framework for Nigeria as the context for policy analysis and choice; (b) the need to improve the functioning of the credit market to allocate resources to sectors with highest output and employment elasticities and with lower default rates; (c) the conversion of **rent havens** in both the real and financial sectors to efficiency and effectiveness centres; (d) a shift from a **present hedonistic orientation** to a longer term commonwealth-oriented perspective; and (e) the elimination of **strategic vacuums** for policy analysis and choice that increase costs of policy failures.

I am still convinced of the need (i) to harness and put to effective use the best Nigerian minds and talents in the analysis of national and global political economy from a diverse set of perspectives and skills sets to arrive at the best dynamic strategic context for macroeconomic management in Nigeria compatible with our national aspirations and (ii) of a continuous engagement between fiscal and monetary authorities on mutually agreed principles for fiscal-monetary policy coordination: humility, sincerity and integrity.

5. NNANNA, OKWU JOSEPH

Since the MPC meeting in March 2017, indicators of economic activity suggest a gradual rebound in growth. The index of industrial production rose by 1.38 per cent in Q1 of 2017 relative to the level in 2016 with manufacturing and mining indices rising by 0.01 per cent and 1.28 per cent, respectively. At -0.52 per cent growth in 2017Q1, compared with -1.51 per cent at end-December 2016, the negative growth is contracting, and ultimately expected to turn positive by end-December 2017. I am cautiously optimistic that further investments in critical sectors through the implementation of the ERGP would shore up economic activity and reduce unemployment.

Inflation dynamics also showed improvement on account of positive supply shocks and reduced exchange rate volatility. Headline inflation slowed from 17.26 per cent in March to 17.24 per cent in April 2017 given the negative supply shock of food inflation. Food inflation remained sticky downward, rising from 18.44 per cent in March to 19.30 per cent in April 2017 arising from higher energy cost, transportation cost and prolonged disruption of farming activities due to insecurity. Core inflation, however, stood at 14.75 per cent down from 15.40 per cent in March 2017. I expect the deceleration in the inflation trajectory to be sustained, as a result of positive public sentiments and expected fiscal consolidation, and less expansionary monetary policy.

It is apparent that the flexible exchange rate policy supported by improved crude oil export receipt is yielding relative stability in the foreign exchange market. Despite the distortions in the foreign exchange market caused by multiple rates, a near-term convergence in the rates and gradual normalisation is being achieved. Noticeably too, from the sharp depreciation of the exchange rate to near ₦500/\$US towards the end of 2016, it appreciated by about 28.94 per cent to ₦380/\$US (BDC segment of the market) as at May 19, 2017. At that level, the rate show some degree of undervaluation, compared with the relative purchasing power parity exchange rate estimate of about ₦350/\$US. In my opinion the current exchange rate policy regime including all the access windows to foreign exchange should be retained.

Despite the rebound in global growth, outlook remains uncertain. Uncertainty surrounds the stability of commodity prices and effects of monetary normalisation in the United States. I anticipate the pass-through impact on domestic economic conditions to remain benign as the economy has self-corrected the distortions from recent portfolio capital reversals.

Fiscal reforms should be expedited in areas such as building of fiscal buffers. The authorities should cautiously execute its planned fiscal deficit in the 2017 budget, in order not to spoke inflation and significantly, crowd-out private sector credit.

Effective reforms would allow inflation deceleration and low interest rate regime.

Overall, in the future, keeping a tab on eliminating second-round effects of negative supply shocks due to food inflation is key. On account of the recent macroeconomic trends and the balance of risks based on available information, I vote to retain the current policies.

6. UCHE, CHIBUIKE U

Although inflation has continued to inch downwards, it remains in solid double digit territory. At the present time, the inflation rate is also above MPR. With Government currently borrowing at double digit interest rates, the pressure to reduce MPR is meaningless. In other words, it is unlikely that the cost of credit for businesses will come down when the interest rates on Government securities, which are risk free, are in double digit territory. Bluntly put, the Government is increasingly crowding out the private sector from accessing bank credit.

Although economic history has shown that it is possible for countries to borrow and spend their way out of recession, this cannot happen when recurrent expenditure continues to dominate government spending. Based on the above, I personally find it frustrating when Government officials who are supposed to monitor our debt profile consistently argue that Nigeria is yet to reach its optimum debt capacity. Surely such views are arrived out without taking into consideration, the peculiar nature of our economy. Although Nigeria drastically reduced its debt burden during the Obasanjo era, our debt profile is now rising at an alarming rate. Unfortunately, very little of such cash inflow is being invested in projects that can boost our country's income in the future. Recently, the World Bank expressed concern about our ability to generate enough cash flows to repay our rising debt in

the future. Our chances of being able to come out of this deepening debt hole is increasingly dependent on the sole expectation that oil prices will soon miraculously recover and then sustained at \$100+ per barrel range.

The above scenario is however relatively minor especially when compared with the unrelenting demands on the CBN to fund/ intervene in all manner of government expenditure. In my policy statement submitted after the March 2017 MPC meeting, I addressed this subject matter thus:

One can fully understand the pressure on the management of the CBN to intervene in diverse sectors of our national economy including paying salaries on behalf of government entities some of which are very poorly run and lack financial transparency. The reality however is that there is little the CBN can do in the above direction without either contravening the legal instrument that established it or flouting national appropriation rules or sabotaging its own balance sheet. Perhaps more dangerous is the fact that the action of the CBN can actually undermine its monetary policy role and weaken the efficacy of its monetary policy tools. It is therefore, in my humble opinion, prudent for the CBN to do all within its power to resist any pressure to intervene in diverse sectors of our economy.

Before the ink used in penning the above advice could dry, it was brought to my notice that the Federal Executive Council has mandated the CBN to fund the power sector to the tune of N701 billion. The fact that the CBN has in the recent past intervened handsomely in the said sector is of no consequence. Interestingly, the Nigerian Electricity Regulatory Commission (NERC) has already made it clear that the approved intervention fund will not be sufficient. Furthermore, the schism between the electricity distribution companies and the Federal Ministry of Power, Works and Housing over the nature and structure of debts owned has continued to widen, at least in the public space. Based on the above, it is safe to predict that the said intervention fund, like the first one, is unlikely to meaningfully address the problems of the power sector. Intervention pressures for the power sector, if unchecked, can thus only increase in the future.

It is however important to reiterate that such interventions can only worsen our very fragile monetary policy environment. An injection of such high powered money into our economy will definitely impact inflation. It will also impact the exchange rate of the Naira. Aside from the above, I will like to emphasize that it is important for the CBN to check whether it indeed has the powers to do what it has been asked to do in a country where all appropriations are supposed to be sanctioned by the National Assembly.

I am also fairly convinced that such a huge injection will impact on the health of our banking system which is currently struggling under the current harsh economic environment. With aggregate bank NPLs already in double digit territory, we should all join hands to ensure that policies and directives that are bound to unnecessarily put pressure on interest and exchange rates are avoided. Surely, we cannot at the present time afford another banking crisis. This is even more so given the fact that the fallouts of the last one are yet to be satisfactorily resolved.

In conclusion, the reality is that our economy is in dire straits and the space for effective monetary policy intervention is fast disappearing. Our current over dependence on oil rents and debts is simply not sustainable. There is thus an urgent need to meaningfully diversify our economy and rethink our recurrent expenditure profile. Until this is done, maintaining price stability will be an uphill task. Tightening monetary policy at the present time, for instance, can only exacerbate the financial system risks in our country while loosening will be meaningless.

I therefore vote as follows: (i) to retain the MPR at 14.00 per cent; (ii) to retain the CRR at 22.50 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. YAHAYA, SHEHU

I vote to maintain the current monetary stance, due to the reasons provided below

Developments in the Global Economy

The prospects for growth in the world economy are looking a little better this year, except in some key countries such as the US and the UK. In China, the growth rate is still trending slightly downwards. For most of the other countries and regions, including the EU area, Brazil, Russia, Japan, South Africa and Africa generally, the growth prognosis for 2017 is positive, even if modest. India is expected to regain its growth momentum.

Global price levels are expected to inch upwards in the Euro area, China and India. Commodity prices in the meantime are easing down.

As far as oil prices are concerned, although the futures market is indicating a slight trend rise, this is unlikely to be sustained. OPEC has indicated that it will extend its production management agreements for nine months. However, a sustained rise in prices will certainly lead to substantial increases in shale oil production in the US and other countries, thereby exerting downward pressure on price levels. This, combined with the modest prospects for growth in the global economy, puts considerable uncertainty on the market situation.

The Domestic Economy

Overall GDP growth rate in Q1 2017, although still in the negative zone at -0.52 per cent, has experienced a decrease in the rate of decline (it was -1.73 in Q4 2016). It is worrying though that the recovery in the agricultural sector appears to be faltering, except the fishing sector, which is booming, but constitutes less than 1 per cent of GDP output. This may partly be attributable to seasonal factors. Crude Petroleum and natural gas is still falling. The solid minerals sub-sector is booming, with an increase in output of more than 50 per cent in Q1 2017, although this may partly due to the exchange rate effect. The manufacturing sector is also, at last, showing a positive growth rate, led by food, beverages and tobacco. The transport sector, led by road transport, is showing a sharp recovery. Construction and services are, at last, showing positive, albeit modest growth. The picture emerging is that of a slow, tentative, uneven and fragile recovery. Careful thought and effort is needed to support and sustain the recovery.

Headline inflation, at 17.24 per cent in April is only marginally lower than in March. This was mainly due to the rise of 0.86 per cent in food prices (processed food and farm produce), whereas imported food prices decelerated. Core inflation also moderated slightly. Headline inflation is forecast to trend downwards over the next three months. However, this expectation may not be realized if electricity tariffs are raised, which would appear to be inevitable at some point, since the power sector appears to suffer from a structural crisis.

The exchange rate has remained stable and the gap between the inter-bank and BDC rates have continued to narrow due to the steady increase in reserves and Central Bank management. This should help moderate the inflationary pressure going forward and help provide some comfort to foreign investors. The major challenge is to prudently manage fiscal policy to raise tax revenue and limit debt within the Growth and Recovery program targets. This will obviously be a tough challenge, given pressures such as continuing salary and pension arrears in many states, the demands for supporting the power sector and the agitations for salary increases. Yet this is needed to help attenuate pressures on the interest rate and price levels.

The financial sector is facing some headwinds. CAR is on a downward trend, NPLs are still rising, total assets, deposits and total credit are declining or slowing down in real terms (excluding the exchange rate effect), although there appear to be some positive signs in April. ROE and ROA though still declining a bit, are still at a reasonable level. The performance of the commercial banks is however unduly affected by the relatively poor performance of a few of the Banks. The matter is being vigorously addressed by the CBN.

Yet, excess liquidity appears to be a challenge in the system. This needs to be addressed to avoid generating additional pressures on the exchange rate and via money supply, to prices.

Conclusion and Recommendations

Despite a number of changes in the macro-environment, the major challenge facing the economy remains the same: how to achieve economic recovery, promote inclusive growth and mitigate inflationary pressures.

A steady build-up of reserves and careful management of the exchange rate is an important ingredient. Effective management of the money supply, containing excess liquidity and supporting the financial sector are other important tasks of the monetary authorities. It is also crucial for the fiscal authorities to develop and effectively implement the EGRP and be fiscally prudent. It is unlikely that oil prices shall rise substantially. Nigeria therefore has to focus more on increasing oil output within the bounds that can be accommodated by the OPEC production strategy. More important is therefore the implementation of the plan for increased non-oil production, value addition in agriculture, manufacturing, energy, solid minerals and a supporting infrastructure.

As indicated above, GDP growth is still negative and recovering only slowly and tentatively. It is therefore not appropriate to tighten monetary policy. Nor is it wise to add to the burden of the financial sector at this moment. However, it cannot be loosened either, given the high level of inflation, the only slight reduction in inflationary pressure in March and the excessive liquidity. I

therefore vote to hold the current monetary stance, while addressing the challenge of excess liquidity.

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

Developments in the domestic economy, year-to-date, signal probable upturn in macroeconomic conditions and prospects. Though growth outcome stayed negative, the discernible gradual improvement is reassuring. Recently released GDP growth for 2017q1, at -0.5 percent, represented the smallest contraction since 2016q1. Having turned the corner during the last quarter of 2016, the new data suggests that recovery is imminent. Congruently, inflation rate slowed for a third successive month in April 2017 to 17.2 percent. The downward convergence of the exchange rates in all market segments is also satisfying. Likewise, improved metrics subsisted in the capital market alongside relative stability of money market interest rates –even as M2 slowed.

Though these developments are heartening, it is important to note that the economy is not entirely out of the woods. As such, we must remain cautiously optimistic about near-term prospects for balanced growth. Nonetheless, the emergent recovery could sustain into the short-term amidst moderate global headwinds.

Following the slight rebound in global demand and commodity prices, near-term global macroeconomic outlook improved modestly as growth impetus picked-up in 2017q1. Annualised at 2.8 percent, the estimated growth enhanced the prospect for short-term recovery. The sustainability of this is, however,

threatened by lingering uncertainties in the political-economies of key G7 countries and continued vulnerabilities in the financial markets of prominent emerging market economies.

On the domestic scene, the modest recovery of crude oil price, improving global condition and effective macroeconomic policies are having benign effects on macroeconomic conditions. External reserves rose from US\$25.8 billion in December 2016 to US\$30.4 billion as at 19th May 2017 while exchange rates converged downwards with positive knock-on effects on prices and output. Analyses indicate that the -0.5 percent GDP growth rate for 2017q1 vis-à-vis -2.1 and -1.3 percent in 2016q3 and 2016q4, respectively, was driven by resurgence in thirteen distinct sectors. This recovery was attributable, not to improved domestic demand in those sectors, but to declining costs traceable to the positive outcomes in the FX market. Similarly, the continued appreciation of the naira in various segments of the FX market had a favourable pass-through effect as it ensured, in conjunction with base-effect, that inflation rate slowed for a third consecutive month.

I note that regardless of the salutary developments recorded year-to-date, the need to correct the imbalances in the Nigerian economy remains sacrosanct. Though monetary policy will continue to do its part, I emphasise again that Nigeria's economic challenges are fundamentally due to structural factors including: foreign exchange scarcity (due to low crude oil receipts and inadequately diversified economy); constrained fiscal space; high

energy prices; and depressed domestic demand (partly attributable to sizeable salary arrears owed to some civil servants). I note that the recently released Economic Recovery and Growth Plan (ERGP), if diligently implemented could largely correct the immanent rigidities. More also, a fast-tracked and judicious execution of the 2017 fiscal budget would quicken recovery.

In the money and credit market, available data showed liquidity tightness except for public sector borrowing. Annualised M2 growth as at April 2017 was 35.7 percentage points below its 10.3 percent benchmark. At 4.2 percent, annualised growth rate of NDC fell short of the 17.9 percent growth target for 2017. However, annualised at 72.0 percent, credit to government overshot the programmed growth rate of 33.1 percent. This inadvertently culminated to a less than impressive performance of private sector credit, which considerably under-achieved its target. The contingent crowding-out of private sector credits, as more loanable funds are directed towards government, undermines the productive investment required for accelerated rebound.

In general, I note that regardless of a fifth consecutive contraction of the GDP, analysis of the trajectory suggests that the Nigerian economy is on the path of recovery. Given that the prospect remains fragile, it is important that efforts are coordinated at ensuring that the underlying structural challenges are holistically dismantled. I continue to stress that macroeconomic policies should not be parochially limited to short-term goals of overcoming the current quagmire. Policy objective should

decisively be to correct the structural imbalances that debilitate the economy. I reiterate that the CBN will continue to ensure that its short-term policies do not undermine the long-term prospects of the economy considering the trade-off between growth and price stability. I must note that the current level of inflation in Nigeria is a threat to sustainable growth. Our in-house analysis indicates that prevailing inflation rate is significantly above the threshold at which it could be deemed beneficial to growth. In this regard, if we must achieve the growth objective it behoves us to curb inflation at this time.

In considering my position at this MPC Meetings, I note the modest but gratifying improvements in the economy during the year especially reducing inflation, upturn in GDP growth, and exchange rate convergence among others. I also note that these metrics, nonetheless, are outside their preferred levels. Besides, unemployment and poverty remain visibly present as domestic demand stays depressed. Private sector credit and investment are grossly underperforming. While I personally desire that interest rates and monetary conditions ease, the fundamentals show such action would be sub-optimal at this time. There is need to ensure that liquidity conditions are appropriate to deter undue exchange market pressure and contain inflation. We must, also, always ensure that our decisions do not distort the recovery of the Nigerian economy. Given the archetypal lengthy lag of monetary policies, I note that the effects of our previous decisions are still permeating the system. In my view, policy tweaking today may be

somewhat impetuous and could unwarrantedly derail the imminent recovery.

Based on the foregoing, 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