Central Bank of Nigeria Communiqué No 110 of the Monetary Policy Committee Meeting of Monday and Tuesday 21st and 22nd November, 2016.

The Monetary Policy Committee met on 21st and 22nd November 2016, amidst relatively subdued global and domestic economic and financial conditions. The Committee evaluated the global and domestic macroeconomic and financial developments as well as the challenges to the domestic economy up to November 2016, and the outlook for the first quarter of 2017. In attendance were 10 out of 12 members.

International Economic Developments

The Committee acknowledged the tapered growth in global output, stemming from relatively unbalanced risks to the global economic outlook. Global recovery remains fragile in the advanced economies while the emerging markets and developing economies (EMDEs) continue to struggle against strong headwinds, including low commodity prices, slowing demand and instability of capital flows. The path to the modest improvements in the advanced economies has increasingly turned fragile owing to persistent uncertainties. While still being expected to unravel, the BREXIT shocks have been rapidly followed by the outcome of the U.S. Presidential Elections; a development which has created its own uncertainties. Accompanied by the planned referendum in Italy, and general elections in France and Germany, the global political environment could not be more uncertain. In effect, current judgments about growth prospects in the first half of 2017 could be overly optimistic. The IMF's current outlook for global growth for 2016 which was revised to 3.1 per cent in July and retained in October could be missed by a significant margin. The World Bank has been more cautious in retaining its June 2016 global output growth projection of 2.4 per cent. Headwinds to global growth prospects are also emanating from weak trade and financial conditions. The OECD' Economic Forecast, September 2016 Update, emphasized that both elements underpin the current low-growth trap facing the global economy. The United States (US) economy exceeded it's growth expectation in Q3 2016, growing at an annual rate of 2.9 per cent, a significant uptick from the average growth rate of 1.1 per cent in H1 2016. The enhanced performance of the economy was attributed largely to the growth of inventories and robust surge in exports, coupled with improved consumer spending, even as the mining sector recorded a pull back. Japan's economy grew at a seasonally adjusted annualized rate of 0.2 per cent in Q2 of 2016 compared with 1.7 per cent in Q1 of 2016. The moderation in growth was largely attributed to weak wage growth and a strong yen. The Bank of Japan (BoJ) in a rare move at its September MPC meeting set a target for government bond yields and introduced an inflation-overshooting commitment. The Bank voted to apply an interest rate of minus 0.1 per cent to the policy rate on balances in current accounts held by financial institutions. The Bank also announced a plan to purchase Japanese Government bonds up to JPY 80 trillion (approximately USD788 billion), among series of policy measures taken towards achieving the price stability target of 2 per cent. The government had, in August, approved a fiscal stimulus of ¥13.5 trillion (US$132 billion) in a spirited attempt to jumpstart the economy. Real GDP in the Euro area is expected to maintain or outperform its Q2 growth rate of 0.3 per cent in the third quarter. While short-term downside risks from the Brexit vote have largely subsided, the longterm potential economic impact remains uncertain. As such, the zone's growth path remains challenged. At its October 20th, 2016 meeting, the Governing Council of the European Central Bank decided to retain its key interest rates on refinancing operations, the marginal lending facility and the deposit facility at 0.00, 0.25 and -0.40 per cent, respectively. The Council also reaffirmed its commitment to sustain its quantitative easing programme of monthly asset purchases of €80 billion (US$85.6 billion) until March 2017 and beyond, as economic conditions dictate. The growth outlook for the

UK in 2016 was upgraded to 1.8 per cent from 1.7 per cent, although that for 2017 was downgraded to 1.1 per cent from 1.3 per cent. The Bank of England (BoE), at its November 2nd meeting, decided to leave its benchmark interest rate unchanged at 0.25 per cent as part of its earlier commitment to support output recovery in the aftermath of the Brexit vote. In addition, the Committee voted to continue its quantitative easing programme of £435 billion. Whereas some Emerging Market and Developing Economies (EMDEs) continue to contend with low capital inflow and unstable macroeconomic environment, the prospects for their recovery look more promising. The IMF (WEO October 2016 Update) projected growth rate of 4.2 per cent, an upward review from 4.1 per cent projected in July 2016 for the EMDEs. The marginal improvement in growth outlook is expected to be powered by improvements in India and China. Global inflation rose moderately in response to rising prices in the advanced economies due to the modest recovery in oil prices. However, their central banks are expected to stay the course on accommodative monetary policy. Following the Brexit vote and the recent outcome of the US Presidential Elections and uncertainties surrounding both events as well as the regime of negative interest rates and heavy fiscal and monetary stimuli in Japan and elsewhere, we expect a resurgence of aggregate demand and even higher price increases.

Domestic Economic and Financial Developments Output

Data released by the National Bureau of Statistics (NBS) in August showed that the economy slipped into recession following a second consecutive contraction in Q2, 2016. Domestic output contracted in the quarter by 2.06 per cent. The latest release in November 2016 by the NBS shows that real income actually worsened in Q3, 2016 as output contracted further by 2.24 per cent relative to its level in the previous and corresponding quarter of 2015. The non-oil sector grew by 0.03 per cent, driven by Agriculture which grew by 4.54 per cent, following the 0.38 per cent contraction in Q2 2016,. The MPC noted that the key undercurrents – shortage of foreign exchange, low fiscal activity, high energy prices and the accumulation of salary arrears, especially at the sub-national levels of government – continued in the third quarter of the year. Members also noted that those conditions could not have been ameliorated directly with monetary policy instruments. It, however, recognized the need to continue to engineer monetary policy in such a way as to enable fiscal policy the required space to improve public investment in infrastructure.

Prices

The Committee noted that headline inflation (year on-year) continued to rise in October 2016 to 18.3 from 17.9 per cent in September and 17.6 per cent in August, 2016, thus maintaining the upward momentum since January 2016. The increase in headline inflation in October reflected increases in both the food and core components of inflation. Core and food inflation increased from 17.7 and 16.6 per cent in September to 18.1 and 17.1 per cent, respectively, in October, 2016. The Committee also noted the less rapid movement in the month-on-month CPI between September and October. Headline inflation index (month-on-month) rose by 0.83 per cent in October, from 0.81 per cent in September, contrasting the successive declines since May 2016. Similarly, the core index has been increasing at a slower pace since May when it rose by 2.7 per cent. It moderated to 0.75 per cent in October from 0.96 in September. A similar pattern is noted with the food (month-on-month) index which rose by 0.86 per cent in October from 0.81 per cent in September. The MPC observed that the incessant pressure on consumer prices continues to come from structural factors including high cost of power and energy, transport, production factors, as well as rising prices of imports.

Monetary, Credit and Financial Markets Developments

Broad money supply (M2) grew by 10.50 per cent in September, 2016, compared with the 8.08 per cent in August, 2016. When annualized, M2 grew by 14.0 per cent in September 2016, above the growth benchmark of 10.98 per cent for 2016. Net domestic credit (NDC) grew by 21.88 per cent in the same period, annualized at 29.17 per cent. At this rate, the growth rate of NDC was above the provisional benchmark of 17.94 per cent for 2016. The development in NDC, essentially reflected the relative growth in credit to the private sector of 20.69 per cent in September, annualized to 27.59 per cent. Credit to government grew by 29.57 per cent in the review period, which annualized to a growth of 39.43 per cent compared with the growth benchmark of 13.28 per cent for fiscal 2016. The growth in government borrowing was largely to compensate for the continued decline in oil receipts. Money market interest rates oscillated in tandem with the level of liquidity in the banking system. Thus, average inter-bank call rate, which stood at 11.50 per cent on 11th October 2016, closed at 15.02 per cent on November 17, 2016. Between these periods the interbank call rate averaged 11.68 per cent. However, the average interbank call rates fell to 10.00 per cent on October 24, 2016, following net government financing of N149.00 billion between October 18 and 28, 2016 and the payment on October 24th 2016 from statutory revenue allocation of N174.00 billion. The Committee noted a decline in the equities segment of the capital market as the All-Share Index (ASI) fell by 7.33 per cent from 27,839.93 on September 19, 2016, to 25,797.88 on November 16, 2016. Similarly, Market Capitalization (MC) declined by 7.11 per cent from N9.56 trillion to 8.88 trillion during the same period. In addition, relative to end- December 2015, the capital market indices fell by 9.93 per cent and 9.85 per cent, respectively, reflecting the challenges facing the economy.

External Sector Developments

The average naira exchange rate weakened at the inter-bank segment of the foreign exchange market during the review period. The exchange rate at the interbank market opened at N305.00/US$ and closed at N305.90/US$ between September 1st and October 27, 2016. The Committee observed that total foreign exchange inflows through the CBN decreased by 31.85 per cent, from US$1,404.84 million in September to US$957.37 million in October 2016. The decrease was due to lower crude oil and other government revenues in the period under review. In spite of the resumed Joint Venture payments in October, total outflows also continued to decrease, dropping significantly by 58.68 per cent from US$2,456.86 million to US$1,015.08 million during the same period. The Committee also implored the Management to continue to direct more focus at making foreign exchange available to agriculture and manufacturing sectors of the economy by enforcing its policy directing DMBs to allocate 60 per cent of the FX available to these sectors. The MPC believes that the Security agencies should sustain their checks on the activities of illegal foreign exchange operators in order to bring sanity to that segment of the market. The Committee reiterated that the extant foreign exchange regulation outlaws the trafficking of currency on the streets as some unlicensed operators currently do. Thus, to evolve an appropriate naira exchange rate that stabilizes the foreign exchange market, BDC operators must strictly observe the terms and conditions of their license.

The Committee's Considerations

The Committee assessed the fragile macroeconomic conditions and the strong headwinds confronting the economy. In particular, the Committee considered the implications of the twin deficits of current account and budget deficits, the rise of nationalist sentiments across the West and implications for national elections in France and Germany as well as the forthcoming referendum in Italy. Other considerations include the yet to be unveiled long term uncertainties of Brexit and expectations of significant shifts in US economic policy. The Committee reaffirmed the urgency of prioritizing the diversification of the economy given the emerging gloomy protectionist outlook of the global economy. The Committee also evaluated the impact of its July and September 2016 actions on the macroeconomy noting that while foreign exchange inflows into the economy had improved significantly in July and August, it declined after the September MPC meeting, leading to rising inflation and increasing negative real interest rates. However, outflows significantly dropped, lending credence to the propriety of the decisions of the July and September MPC meetings. The MPC reiterated the limitations of monetary policy in reversing the current stagflationary condition in the economy, which it traced to supply and demand shocks. Members stressed the need for a robust and more keenly coordinated macroeconomic policy framework that would restart output growth, stimulate aggregate demand and rein in inflation expectations. Consequently, the MPC welcomes efforts at resuscitating planning, noting the progress made in developing the medium term economic recovery plan. The MPC urged the Federal Government to urgently assess the extent of its indebtedness to domestic economic agents and develop a framework for securitizing the debts in order to settle its outstanding domestic contractual obligations which cuts across all sectors of the economy. These accumulated debts have slowed business activities of economic agents; most of who are indebted to the banking system, thus compromising the integrity of the financial system. It also advised the Bank to commit to greater surveillance and deployment of early warning systems in managing the banking system. Overall, members called for an enrichment of fiscal and other sector initiatives and interventions towards resolving the growth challenges in the economy in order to promptly revive confidence in the economy.

Outlook

Available data and forecasts of key economic variables indicate that the outlook for growth and inflation in the medium term continues to be challenging. Growth is expected to remain less robust given the absence of sufficient fiscal space while the current tight stance of monetary policy and improved agricultural harvests are expected to contain further price increases and moderate price expectations as the trend has already revealed.

The Committee's Decisions

The Committee assessed the relevant risks to the global and domestic economy and concluded that the risks to the economy remained highly elevated on two fronts (price and output). However, considering the importance of price stability, and being mindful of the limitations of monetary policy in influencing output and employment under conditions of stagflation, the Committee decided unanimously in favour of retaining the current stance of monetary policy, thus keeping the MPR at 14.0 per cent alongside all other policy parameters. In summary, all 10 MPC members voted 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 Window at +200 and -500 basis points around the MPR

Thank you for listening.

Godwin I. Emefiele

Governor, Central Bank of Nigeria

22nd November 2016

PERSONAL STATEMENT BY THE MONETARY POLICY COMMITTEE MEMBERS

1.0 ADELABU, ADEBAYO

The condition of key macroeconomic indicators at this meeting has not significantly altered from the position at the last meeting. This, however, should not be construed in terms of loss of potency of monetary policy measures but largely a manifestation of the drag from legacy factors cum the lag in transmission of monetary policy impulses to the real economy. Besides, there are some new shocks from the global environment with the latest one being the outcome of the recent US presidential election. These shocks have somehow exacerbated the fragility in both the real and financial sides of the domestic economy. From the real sector side, the upward trending inflation dynamics since the beginning of the year is still much at play, with the headline inflation accelerating to 18.3 percent in November, while the contraction in output has occurred for three consecutive quarters. From the financial sector side, the pressure in the FX market is still unabated, culminating in some level of depreciation of the exchange rate at the parallel market although the rate at the interbank market has been fairly anchored around N305/US$. The money market rates of OBB and IBR have equally displayed a high level of volatility, reflecting swings in liquidity condition.

Against this background, it may seem expedient to introduce some new measures particularly to address new shocks from the global environment but I would like to vote for a hold in this meeting in light of the following considerations. Firstly, an analysis of the current inflation dynamics shows that while the October headline inflation at 18.3 percent on year-on-year basis could still be adjudged significantly high, the month-on-month basis at 0.83 percent represents considerable deceleration. It may therefore be plausible to assume that the current elevated year-on-year headline inflation is to a large extent reflective of base effect and therefore the current explosive trend may revert to single digit by mid-2017 as the effect of legacy factors begins wane.

Secondly, as recognized in most of my previous statements, the challenge posed by structural factors has equally played a dominant role in inflation dynamics. It is without doubt that the influence of monetary policy in reversing recession is limited. Recent experience from Japan has lent further credence to this assertion. The Bank of Japan has been doing monetary stimulus since 2013 to wade off recession but the impact has been very minimal until the Treasury embarked on massive injection estimated at US$132 billion in fiscal measures in August 2016. The latest IMF WEO indicates that Japan is now on the path of exiting recession. The lesson here is the need for fiscal stimulus to jump start activities in critical sectors of the economy.

Thirdly, with respect to the contraction in output, the critical mass of the challenge lies in the supply side of the economy, in which monetary policy has limited impact. It is commendable that the Federal Government is making efforts to boost aggregate demand particularly through the release of another tranches of bailout funds of about N388.3 billion to alleviate the burden of salary payments by the sub-national governments but there are some critical private agents whose operations are crippled by debts owned by government parastatals and agencies. There are reports that the power market is becoming highly illiquid on the heel of massive unpaid bills by Ministries, Departments, and Agencies (MDAs) of governments to electricity distribution companies (Discos) who in turn find it difficult to meet their commitments to the generating companies (Gencos), crippling their operations. Recent statistics revealed that the Egbin power terminal has lost output by about 74 percent on account of acute financial strain. Against this perspective therefore, settlement of these debts would not only improve the demand side of the economy but it would considerably improve the production environment and invariably ease supply side.

It is however pertinent to recognize the limitation imposed on the fiscal space by resource constraint due to dwindling revenue from oil and the fact that borrowing from the domestic market is almost crossing the sustainable bar. It is in this regards that I would like to advocate for innovative financing options such as the securitization of the debt to the contractors in order to provide some leeway to stimulate economic activities from both the demand and supply sides. Although the domestic debt is very high, total public debt at less than 10 percent of the GDP still suggests room for borrowing. It is in light of this that I would like to reiterate my support, initially canvassed in my September's statement, for the proposed external debt of about US$30 billion which the Federal Government has submitted to the National Assembly and hope the Assembly would expeditiously consider the request.

While my support for new external loans is unequivocal, I strongly oppose loan facilities that could create spectre of debt overhang similar to the pitfall of the eighties. Consequently, the terms and conditions of the new loans must be concessionary but it needs to be recognized that such facilities are only available for countries that have put credible macroeconomic policies in place. Against this perspective therefore, I would like all the relevant agencies of government to expedite actions on the proposed Medium Term Expenditure Framework and Fiscal Strategy Paper and secure the endorsement of world class monetary and financial institutions like the International Monetary Fund (IMF). Obtaining such endorsements, in my view, should not be difficult in light of the fact that a reasonable components of expected reform measures such as elimination of unproductive fiscal transfers like fuel subsidy, flexibility in the exchange rate, efficiency in public resource management, and commitment to good governance through fight against corruption are already in place. It needs be clarified that the proposal here is not to secure IMF loans, which terms may not necessarily align with the development aspirations of many developing countries, but to secure an endorsement like Policy Support Instrument (PSI) which the country undertook between 2005 and 2007.

One other issue that cannot be discounted in the overall macroeconomic policies framework is the likely direction of US foreign policy from 2017 when the President-elect formally takes over. Going by some key appointments in the transition team of the incoming US President, the direction of economic policy is becoming fairly discernible. Issues of trade restriction against some notable emerging economies like China may not be completely ruled out with severe implication for global growth and export demand of many developing countries like Nigeria. Consequently, it may not be unlikely that the softening global demand for crude oil may continue with implication of prolonged dampening price. Although it is expected that that the forthcoming OPEC meeting would lead to cut in output, most analysts are highly critical about the likely success of the meeting in view of the huge magnitude of output freeze required to equate demand to supply. Bringing this to perspective therefore, the urgency of structural reforms that would reduce the dependence of the economy on crude oil export cannot be overemphasized. Still on the external sector, with the US election over, the US Fed may see a clear coast to commence hikes in the policy rate which in essence would further strengthen the US dollar against most currencies. As argued in my immediate past statement, I do not subscribe to the need to hike interest rate with a view to competing for portfolio capital for beefing up external reserves. My view is further strengthened by push and pull theory of capital flow which posits that interest rate adjustment as a means of attracting capital to developing economies is only effective if there are sufficient factors which push out the capital from developed countries. In other words, interest rate could only be used to allocate capital flowing out of developed economies among competing developing economies but not potent enough to solely push the capital out of the developed economies.

In light of the foregoing, I would like to propose for the retention of all the monetary policy measures currently in place in anticipation that the fiscal authority would continue to address some of the binding constraints on the path of aggregate demand particularly the issue of debts owed key economic agents.

2.0 ALADE, SARAH O.

A combination of domestic and external events will have profound influence on monetary policy in most emerging economies in the coming months and Nigeria is no exception. The election of Donald Trump as the President of United States and his policies for United States will affect the world economy. Global recovery remains fragile in advanced economies while the emerging markets and developing economies (EMDEs) continue to struggle against strong headwinds, which ranged from low commodity prices, slowing consumer demand to instability of capital flows. The United States (US) economy grew at 2.9 percent in the third quarter of 2016 exceeding growth expectation. However, growth is projected to decline if Donald Trump implements some of the policies that he has campaigned on. These will have spillover effect on most emerging markets including Nigeria. Therefore monetary policy should be ready to act in the event of adverse impact on the economy. On the domestic front, foreign exchange scarcity will continue to impact growth negatively and keep inflationary pressure elevated. Since the policy direction is still fluid, I will support a hold on monetary policy rate.

The election of Donald Trump as president has heightened global uncertainty: Although the policy direction of a Trump presidency is still being formed, some of the promises made during the campaign are bound to have a huge effect on the global economy. Mr. Trump has criticized the monetary-policy choices of the current Federal Reserve and could push the Federal Reserve in a significantly more hawkish direction, leading to a quicker than expected increase in interest rate. The rate increase will impact many emerging market economies negatively especially with the lower commodity prices and depressed consumer spending. According to the research firm Oxfam, "If Mr. Trump is able to fully implement his plans to impose tariffs on goods from China and Mexico and force large numbers of undocumented immigrants to leave the United States, the United States economy would begin to stall by 2019". Their research also show that economic expansion would also slow globally as weakness in China and the United States spread to their trading partners. In the wake of such development, Emerging Market and Developing economies that are already experiencing weak aggregate demand and low commodity prices will see output decline resulting in more difficult economic and business environment. Depressed commodity prices will continue to pose downside risk to growth in emerging markets, especially on commodity exporting countries, thus, dampening prospects for near term economic and financial recovery in these economies.

Gross Domestic Product (GDP) growth continues on a negative trajectory: Output growth in the third quarter declined further to 2.24 percent. The effect of energy shortages, high electricity tariffs, fuel price hikes, scarcity of foreign exchange and depressed consumer demand continue to dampen growth in the second quarter. In addition, the implementation of the 2016 budget remained slower than expected affecting the speed of economic activities at a time when fiscal policy is needed to complement the efforts of monetary policy to spur growth. According to the Minister of Budget and Planning, "The Federal Government has spent about N3.577 trillion as at September 2016 out of the full year budget of N6.06 trillion for the 2016 fiscal year. This translates to a 59 percent performance of the prorated budget for the first three quarters. The decline of -0.18 percentage points in output from the second quarter numbers revealed that the recession is bottoming out. The policies being put in place, including the different government schemes in agriculture and the plan by the government to come up with economic recovery plan is expected to impact growth positively. In the face of rising inflation and drying up of capital inflow, monetary policy should still be focused on its core mandate of price stability, especially given the possibility that the United States Federal Reserve will quicken its rate rising plan under a Donald Trump Presidency. Monetary policy should therefore focus on achieving stability at home and creating the environment necessary to attract foreign inflows to cushion the loss on revenue from low oil price. In addition, policies to expand internal revenue base should be pursued vigorously.

Headline inflation has remained elevated during the period. Headline inflation further increased to 18.3 percent in October 2016, from 17.10 percent recorded in July. The increase in headline inflation in August reflected increases in both food and core components of inflation. Core and food inflation have increased from 16.93 and 15.80 per cent in July to 17.2 and 16.43 per cent, respectively, in August 2016. However the rate of increase is declining, headline inflation index rose by 1.0 per cent in August from 1.3 per cent in July, 1.7 per cent in June; and 2.8 per cent in May 2016. Similarly, the core index has been increasing at a decreasing rate since May when it rose by 2.7 per cent. It moderated to 0.85 per cent in August from 1.22 per cent in July and 1.83 per cent in June. The rising inflationary pressure can largely be attributed to structural factors, including high electricity tariff, high transport cost as a result of higher fuel prices, high cost of inputs, low industrial activities as well as higher prices of both domestic and imported food products. In addition, the effects of increase in monetary aggregates cannot be ignored. Broad money and Narrow money supply has been on increase showing a correlation between their growth and inflation. The persistent upsurge in inflation calls for balanced monetary and fiscal policy intervention to mitigate the effect on the poor. High inflation hurts the poor as it erodes their purchasing power and affects investment decisions negatively, policy middle ground to achieve the objective of lower inflation and growth should be pursued.

The recently adopted foreign exchange regime is having less than expected outcome requiring the fine tuning of the implementation framework. After a period of restriction in the foreign exchange market, a new market driven approach was adopted in June, 2016. This was supposed to result in price discovery and greater participation in the market. To achieve this, the implementation of the framework needs to be fine-tuned to attract inflows and harmonize exchange rates in the different segments of the market. This will not only increase confidence in the market, but will also ensure continuation of economic activities, and reversal of the negative growth path. At this time therefore, monetary policy should be focused on restoring confidence in the domestic economy and increasing supply of foreign exchange to attract inflows.

Against this background, I support policy continuity by voting for a hold on the policy rate to gradually bring inflation under control and bring interest rate to a less negative territory. I therefore support the retention of Monetary Policy Rate at 14 percent, the retention of Private Sector Cash Reserve Requirement (CRR) and Liquidity Ratio at 22.5 percent and 30.00 per cent respectively; and retention of the Asymmetric Window at +200 and -500 basis points around the MPR to help attract capital inflow and spur growth.

3.0 BALAMI, DAHIRU HASSAN

At the global level, estimated growth rate in 2016 was downgraded to 3.1% by the IMF and World Economic Outlook from 3.2% pre-Brexit estimate. This is in addition to the risks highlighted in my September personal statement: the election of Donald J. Trump, the apostle of America's first as U.S president, political tensions and inward looking policies. Although crude oil prices are stabilising around $48.0-$50.0 per barrel, it is considered very low by crude oil exporting countries' growth expectations in their economies. Apart from the US economy, global growth has been generally sluggish including emerging economies like China. Inflation at global level has slightly inched up in advanced economies and some emerging markets. However, the global events have not impacted much in stimulating growth in LDCS such as Nigerian.

At the domestic level, the summary of statistics shows that the Nigerian economy had a turbulent year 2016. The economy consecutively registered negative growth rates of -0.36, -2.06, and -2.24% in the first, second and third quarters of 2016 respectively. The low level of growth was not unconnected with low level of productivity which is supported by low level of aggregate demand in the economy. Primarily, movements in output come from movement in demand for goods. What matters when it comes to aggregate output is the supply side, such as how much the Nigerian economy can produce? What role will monetary policy play to promote growth?

It should be noted that from January to November 2016, the following factors have not favoured the aggregate growth of output in the economy: poor economic and social infrastructure; bad roads network, poor communication and transportation, erratic power supply, scarcity of investable funds, insufficient portable water; unstable educational and health systems. Other challenges include insecurity such as Boko Haram, Niger Delta militancy, armed banditry, cattle rustling, clashes between herdsmen and farmers; weak economic institutions; poor corporate governance and endemic corruption. It should be noted that domestic debt to government contractors is running into more than 1.7 trillion naira, a threat to stimulating growth in the economy because it affects the financial system stability. This is so because the contractors owed the banks thereby contributing to the rising level of non-performing loans (NPLs) which is threatening the capital base of the DMBS.

There is also the high interest rate charged by the DMBs. The high interest rates do not promote new investment in the real sector of the economy. The transmission mechanism of the DMB is not functioning as expected.

From December 2015, the level of inflation had risen from a single digit of 9.55% to a double digit of 18.74% by mid of November 2016. The rising level of inflation in the economy was caused mostly by structural factors including the PMS fuel subsidy removal and the depreciation of the naira at the interbank rate as a result of the liberalisation of the foreign exchange market leading to increased pressure on the foreign exchange market. Insecurity has also affected agricultural production in the North-eastern part of Nigeria, especially Borno and Yobe states. It should be noted that the technology sophistication of the Nigerian economy depends on its ability to innovate and introduce new technology. The size of the economy's capital stock is very low. The wide gap between the interbank and the parallel rate is not a healthy development, because it encourages round tripping. The current sharing Formula requesting that 60% of allocation by the DMB'S goes to manufacturing while the remainder to other sectors seems to be inadequate. The monitoring strategy of the share and utilisation of the foreign exchange that goes to the manufacturing sector is inadequate. I had earlier argued for the adoption of an integrated approach to managing the scarce foreign exchange by customs and excise Department to play a critical role in making sure that foreign exchange allocated to the manufacturers are properly utilised in bringing in the inputs and put it to use in the production process. What monetary policy tools do we put in place to revamp the economy out of the recession as we move to 2017? The various levels of government are encouraged to settle the domestic contractors who are also indebted to help reduce the rising level of NPLS which is stifling the activities of the banks in the disbursement of further credit to the economy. This is necessary because price stability is the core mandate of the CBN. There is need for government to signal the downward trend in the interest that banks charge customers. Demand also could be assisted through the development banking of the CBN such as the Anchor Borrower's Programme (ABP). Unenlightened Nigerians should be educated to understand that MPC is required to take the best decisions on behalf of the country. For example it does not make sense to reduce MPR to less than 14% when inflation is about 18.74% in November 2016. The Nigerian government should as a matter of urgency pay the amount of electricity consumed to the power sector. The power sector also needs to be diversified by optimising the utilisation of other sources of energy which include the following: coal, solar dam construction, and wind as alternatives. The government can issue service bonds to domestic contractors so that they can continue to pay the banks they owed. It is a process of securitisation of federal government bonds.

My current position is that both monetary and fiscal policies need proper coordination to complement each other to stimulate the economy to grow out of this current recession. This justifies my thinking that given the current economic situation and the earlier polices put in place, I vote to hold so as to allow earlier policies put in place to work out. Hence:

(i) I Retain the MPR at 14 percent
(ii) Retain the CRR at 22.5%
(iii) Retain the liquidity ratio at 30%, and
(iv) Retain the symmetric corridor at +200 and -500 basis points around the MPR.

4.0 BARAU, SULEIMAN

Background

My vote is to hold at this meeting, partly based on the need to allow for the full transmission of the policies agreed at the July meeting and partly due to the need to remain cautious in the face of rising uncertainty in the global environment. Within the domestic environment, the upward trend in general price level continued albeit at a declining rate in the month of October even as demand in the foreign exchange market remained elevated, exerting pressure on the exchange rate. The contraction in output, which has occurred for three consecutive quarters, is most likely to persist to the end of the year on the backlash of shocks from both demand and supply sides. Within the global economic space, recovery remains soft on the backdrop of emergence of new shocks with the latest being the outcome of the recent presidential election in the US. The outcome of the election may likely escalate the level of uncertainty in the global economic arena as investors anticipate drastic shift in policy stance and invariably elicit a wait and see attitude on the part of investors. Although the immediate outcome of the election has had some favorable impact on emerging market economies with the dollar shedding some weights, sustainability of the trend should, at best, be taken with guarded optimism.

Overall, the balance of risk tilts towards upside in the domestic economy and invariably suggests the need for a proactive policy action. However, given that current inflation pressure is largely due to supply shocks in addition to the fact that transmission of the impulses of recent hike in the policy rate is still ongoing, I will opt for retention of all the existing monetary policy measures in place.

Pressure Points.

Global Environment

The global political economy is yet to revert to the steady state in the aftermath of Brexit which occurred in the mid-year and consequently reinforced existing shocks like the rebalancing model in China and persisting adverse terms of trade for commodity exporting countries. While the impact of these shocks is yet to wane, the global risk profile appears to have become elevated again on the backlash of the outcome of the recent US presidential election. With respect to the outcome of the US election in particular, the fact that the incoming ruling party is also in firm control of the Congress has heightened controversy around socio economic policies like the climate change, health insurance, immigration, NATO trade deals, taxes, and the whole gamut of US foreign policy. As such, investors may likely make cautious moves in near term until the outlook of the US economic policies becomes clearly discernible. This view is supported by the latest IMF statistics which reveals that the estimated global growth for the first half of the year was below projection on account of loss of momentum by the US economy. When this development is added to the fragility in the euro zone as well as the recession in emerging economies like Brazil and Russia, global output gap is much likely to widen with dire consequence for the external sector of emerging and developing economies. Although global growth is expected to pick up in the medium term due to increased weight attached to fast growing economies, this should not be much of a good news for countries such as Nigeria because the prospect of export demand is much linked to systemically important countries.

Another issue of serious concern in the global environment is the development in the crude oil market. Oil prices witnessed considerable rally in the month of October, moving close to US$50/barrel. Current global output is about 33.6million bpd against market clearing output of 32.5 million bpd. To balance the supply side therefore, output cut must be in the neighborhood of 1 million bpd, a huge magnitude that has made most analysts skeptical of the success of the forthcoming November meeting of the OPEC. The implication for the domestic economy becomes extremely grave in the light of the fact that current domestic production is equally below projection due to production shutdown in the Niger Delta area.

Finally, unfolding scenarios have clearly signaled that the much anticipated hike in the US Fed Fund rate would commence soonest. The US Fed Chair confirmed to the Congressional Joint Economic Committee last week that the labor market has improved considerably, while inflation is equally inching towards the target rate of 2 percent. The major reason delaying the commencement of the hike in rate is the need to factor into consideration the direction of the policies of the incoming government particularly the promised increased spending and massive tax cut.

In essence, the above highlighted global issues will in the first round severely affect both the external and fiscal sectors of the domestic economy while the spillover effect would aggravate the imbalances in the real sector through the second round effect.

Domestic Environment

The risk profile in the domestic environment has generally been elevated and there is the likelihood to further tilt upside due to new shocks from the global environment. The rising price spiral since the beginning of the year continued with headline inflation accelerating to 18.3 percent in October, on the backdrop of the second round effect of upward adjustment in the prices of electricity and refined petroleum products as well as sharp swings in the exchange rate. Staff forecast indicates that inflation will revert to single path trajectory by mid-2017 on the assumption that new shocks do not emerge in the economy. It is however very likely that the medium term inflation forecast would be altered by both demand and supply shocks. From the demand side, the Federal Ministry of Agriculture has recently put the nation on alert of imminent famine from the early part of next year as a result of new trend of trans border movement of grains to the detriment of supply to local markets particularly in the northern part of the country. This should be fairly expected as it reflects re-allocation of resources in response to the depreciation of the local currency which makes exports exceedingly attractive. From the supply side, it is a welcome development to note that normalcy is gradually returning to the war ravaged north eastern part of the country, but it may take a while for full economic activities to resume in this region. Given the contribution of this region to agricultural production, the output gap would still filter into the general price level.

With respect to output contraction, there are three major risks. The first one is from the global environment, particularly due to the emergence of a new government in the US in which the direction of foreign trade particularly to Africa is still pretty clouded. The US is the major importer of crude oil from Nigeria and in the event of reversal of key items of US foreign policy against emerging economies, the export of crude oil could suffer significantly with implication for the already shrinking oil GDP. The second issue is also related to crude oil and this has to do with declining level of production due to the rising wave of militancy in the Niger Delta area. My view is that the situation is far from being normal in the region and this position is largely premised on available statistics on crude oil production. Current statistics show that the average crude oil production in the year is in the neighborhood of 1.6million bpd against the projection of about 2.2 million bpd in 2016 budget outlay. The third issue is about the entire production environment as indicated by both the real sector and monetary condition indices. The production environment is still highly challenged mainly on account of high infrastructural deficit particularly in the power sector. In one of the recent briefings by the Honorable Minister of power, it was indicated that attainment of steady power supply is contingent upon adding new generation capacities to the grid but this is highly constrained by paucity of funds. The 2017 appropriation bill is yet to be released but it is doubtful if considerable positive deviation could be achieved in terms of availability of funds for critical projects in light of binding constraints imposed by revenue shortfall. With respect to monetary condition index (MCI), the two major variables namely the interest rate and exchange rate have been high and the need to keep to the primary mandate of monetary authority in terms of price stability could not offer the comfort to relax MCI in the near term.

Way Forward

Manage Inflation Expectation: It needs to be recognized that economic agents particularly in our type of economy are generally backward looking in terms of forming expectation about the future. With inflation being in double digit territory in the last 10 months, the likelihood of inflation persistence could be high not necessarily due to macroeconomic fundamentals but from self-reinforcing inflationary process on account of backward looking nature of economic agents. A most reliable way to reduce the backward looking habits of economic agents therefore is for the monetary authority to come out strongly in its resolve to address inflation concerns. With this in mind, I am of the view that the current tight MCI, particularly the level of the policy rate, should not be altered while some special credit schemes are put in place to mitigate the adverse impact of the MCI on output gap.

Innovation in Public Expenditure: The constraint imposed on fiscal profile on account of dwindling revenue is a clarion call for innovative approach to finance government expenditure. It is commendable that the Federal Government has devised an alternative approach to managing expenditure on importation of refined petroleum products through crude oil swaps. This approach, to a lot of extent, would not only ease pressure on fiscal authority but would equally reduce the pressure in the FX market. It should however be borne in mind that the ultimate goal of improving the capacity of domestic refineries should be pursued to a logical end. In addition, the fiscal authority should explore innovative means such as debt securitization to offset its indebtedness to domestic economic agents particularly the contractors in order to keep economic activities on track.

Concessionary External Debts: The Keynesian approach in respect of macroeconomic response to swings in business cycle is still much relevant at this critical point particularly in addressing the output gap. Inflation concern has definitely imposed constraint on the capacity of monetary policy to assume an expansionary stance. The fiscal authority, however, could still use the instrument of government expenditure to stimulate the economy by building critical infrastructure. Given the high domestic debt with implication for credit to the private sector, it becomes compelling for government to seek for alternative means for financing capital projects. Within this context therefore, I am inclined to support the proposed external debt of about US$30 billion by the fiscal authority but contingent upon the fact that the terms and conditions should be as concessionary as possible. Given this, I hope that both the Executive and the National Assembly would quickly resolve all grey areas in respect of the proposal such that the parliament would give the required approval.

Seek new Markets for Exports: The US is the major importer of Nigerian crude oil, accounting for over 60 percent of oil demand from the country. It is not unlikely that the incoming US government in January 2017 would pursue a highly restrictive trade policies, if the campaign promises would be translated to reality. Nigeria, for example, should take cue from the Mexican authority which has been working assiduously on the best approach to manage the likely adverse impact of the immigration policy of the incoming US government. Nigeria should equally begin to explore alternative export destination to avoid being caught napping in the event of unfavorable trade policies. It needs to be underscored that the prospects of such adventure hinges on credible structural policies that seek to add value to the crude oil before exporting it. Again, this brings to the fore the imperativeness of making the local refineries functional.

Decision

As highlighted above, the primacy of stability in the macroeconomic environment cannot be compromised. Nevertheless, given that the transmission of impulses of the hike in the policy rate at the July meeting is still ongoing coupled with the fact that significant drivers of current inflation pressure is largely structural as well as high uncertainty in the global environment, I will opt for retention of all the existing measures of monetary policy.

5.0 OKWU JOSEPH, NNANNA

Global Macroeconomic developments have remained relatively fragile in Q3 of 2016, reflecting continued uncertainties in the economic environment since 2015. Major headwinds acting as push factors in the previous quarters of the year remained largely unchanged in the period under review. Overall, global growth performance has been uneven across board as advanced economies recorded weaker- than- expected growth, compared to a slight rebound in the emerging markets and stagnation in Euro Zone.

At the domestic front, GDP growth continued to contract from -2.06 percent in Q2 to -2.24 percent in Q3 due largely to the decline in aggregate demand, infrastructure deficits, foreign exchange scarcity, weak commodity prices and dwindling investor confidence. In this context, over reliance on monetary policy per se, to reverse current stagflation may prove ineffective without complementary fiscal and structural policy initiatives.

Though the flexible exchange rate management regime has assisted in mitigating the hemorrhage in external reserves, the subsisting challenge has remained forex illiquidity, rising fiscal gap and financial system instability.

Monetary policy in the quarter, was expansionary, arising from the quasi-fiscal operation of the Central Bank. However, the observed monetary expansion in the period under review is attributed to the increase in Central bank's intervention in the real sector without which increased food production would not have been achieved. In the context of the foregoing, the question before the MPC was how to address the challenge of the stagflation facing the economy and restoring financial system stability. In this regard, a quick win would be for the fiscal authorities to securitize all domestic (Federal, state and local) government debts owed to contractors and sundry suppliers of government services to ensure that economic activity is jump started and the rising number in the non-performing loans in the banking system mitigated.

Conclusion

Against this backdrop, I voted to:

- Retain the MPR at 14.00 percent,
- Retain the CRR at 22.5 percent,
- Retain the Liquidity Ratio at 30 percent; and
- Retain the asymmetric window at +200 and -500 basis points around the MPR.

6.0 GARBA, ABDUL-GANIYU

Context

This last MPC meeting of 2016 offers us an opportunity to take stock and to consider the outlook for 2017 as guide to policy choice. The expected path of fiscal policy and the domestic economy as well as the crystallization of "Brexit effects" and "Trump effects" in 2017 are key in analysis of possible paths of the national and global political economy. Because, the 2017 Budget proposal is not yet presented, we draw inferences from its path in 2016.

Taking stock allows us to gain insights into how successful the MPC has been. In addition, it could make clearer the strategic and policy options. The Mandate of the Central Bank is the right benchmark for stock taking. The CBN Act 2007 in Section 2 provided that the principal objects of the Bank are to: (a) **ensure monetary and price stability;** (b) issue legal tender currency in Nigeria; (c) maintain external reserves to safeguard the international value of the legal tender currency; (d) promote a sound financial system in Nigeria; and (e) Act as banker and provide economic and financial advice to the Federal Government.

The available official data show significant deviations from "mandate expectations". The inflation rates between 2015:12 and 2016:10 have risen sharply by 61.3% (Food), 91% (headline) and 108% (core) and the goal of single digit inflation was unrealized for nine straight months. The paths of domestic prices have been closely linked to the pass through effects a 35.5% loss of the value of the Naira relative to the US$ and a rising market spread from N61.3 in 2015:12 to per each US$ to N156.8US$ in October 2016. Clearly, the mandate of price stability was unmet and the deviation from announced policy target has been widening for eight months.

External reserves which had been trending downwards since its peak value in September 2009 of US$62.08 declined further from US$28.28 billion in December 2015 to US$23.81 billion –a decline of US$4.47billion. In contrast, Money supply rose by N2.97 trillion between November 2015 (N6.98 trillion) and October 2016 (N9.95 trillion), a rise of 43% (about 71% accounted for by growth in Central Bank's demand deposit). The phenomenal expansion in money supply is key to explaining the phenomenal rise in domestic prices, the loss of value of the domestic currency and the inefficiencies in the forex market indicated by the rising spreads between segments of the forex markets. The stock market continued to be bearish with a loss of 9.9% between September 30 2016 and November 18 2016!

The macro-economy receded further and the unemployment problem worsened in the first three quarters of 2016. The economic decline also expanded to most critical sectors of the economy: oil and gas, manufacturing, constructions, services and trade. The resulting unemployment therefore is more structural than frictional. From an annual positive GDP growth of 2.79% in 2015, for the first three quarters of 2016, the GDP growth rates were negative (-0.34, -2.06 and -2.24 respectively). It is also worth noting that the size of the negative growth is trending up.

The economy also faces the twin deficit problem: a rising budget deficit and current account deficit. In addition, the size of the public debt which stood at N10.975 trillion in December 2015 rose sharply to N16.297 trillion in June 2016! A significant part of the growth is attributable to the significant loss of value of the Naira and the upward revaluation of external debt as well as the rise in interest rates in 2016. The crowding out effects of debt services on non-debt government expenditure has returned to the pre-Paris Club exit days. Overall, the paths of key structural and policy variables foreshadow a very difficult 2017.

The global economy conditions are also unlikely to be favourable to Nigeria. The effect of Brexit on the UK economy so far, is visible in the loss of value of the British Pound by 16.05% in 2016. With the frosty relationships between the EU and the UK political authorities and a possibly acrimonious and long drawn out split, the regional economic implications are dire. Already many international financial institutions are threatening to relocate from London. When President Trump takes office on January 20th 2017, the greatest danger is like to be his unpredictability and the uncertainty and high risks of conflicts and instabilities within the United States political systems and between the United States and its neighbours on one hand, and

China on the other. Heightened risks and uncertainties would have adverse effects on global trade and financial flows which are highly sensitive to the psychological states of "investors". The global economic recovery in the worst case scenario; may be reversed or slowed down. Such reversals or slow down would hurt commodity exporters such as Nigeria.

Overall, the domestic and foreign outlook portends a very difficult year for Nigeria and other vulnerable commodity exporters.

Unresolved Issues

I shall keep reiterating a number of longer term issues which remain unresolved and whose resolution is critical to both the path of policy and of the political economy. The first is the issue urgently "harnessing, directing and putting to effective use the best available intellectual and political resources to" develop a forward looking medium to long term strategic macroeconomic management framework for Nigeria with the wellbeing of Nigerians as its principal end. This assignment could not be ceded profit making organisations that have never developed an economy because it is not their business to do that. Similar contracts in the past were doomed by the disconnections between "designers" and "implementors". The second issue is the need to convert **rent havens** in both the real and financial sectors to efficiency and effectiveness centres. The economy cannot thrive with rent havens distorting access, pricing and allocation and undermines growth and employment generating innovations and transferring wealth from a majority to a few rich. Three, the **present hedonistic orientation** that dominates economic policy and discourse put the future at great risks and is the source of the **dangerous quick fixes** that frankly have damaged institutions and done great harm to the future capacity of government and citizens to leverage on endowments to build sustainable value adding economic systems. The fourth issue is the conduct of economic policy within **strategic vacuums** and present hedonistic perspectives. The economic and welfare costs of the non-resolution of the issues are growing every second and with the headwinds expected in 2017, the costs could easily become prohibitive and non-reversible.

Decision

I vote to hold. I considered voting for reducing the monetary policy rate for the purpose of policy credibility and consistency. In my view, the expansion in money supply between November 2015 and October 2016 conflicts with and undermines whatever impacts the hike in monetary policy rates in May and July MPCs could have had in stabilizing prices and the exchange rate. Rather, I am convinced beyond all reasonable doubts that the expansion of money supply is causal to the pressure on the Naira, the rise in domestic prices and the spillover effects on financial system stability and rising costs of public debt and, the obvious crowding out effects of debt service on non-debt expenditure.

However, I vote to hold because resolving the four issues above is far more fundamental and second, the effects of lower interest rates are countered by the interest rate asymmetries institutionalized by deposit money banks who pass-on lower rates to borrowers with high interest rate elasticities (the big ticket borrowers who account for most of borrowed funds) and pass-on higher interest rates quickly to borrowers with low interest rate elasticities (retail borrowers who have higher output and employment elasticities). In the process, the favoured sectors which are the rent havens (oil and gas, general commerce, utilities, etc.) suck-in all the benefits of a lower interest rate. The reality of the Nigerian policy environment and the dire outlook for 2017 is that there are no quick fixes, a magic policy bullet that will automatically resolve all the structural, strategic and policy issues. I am convinced that a longer term perspective is critical to the right environment for thinking and choosing more efficient and more effective policies.

7.0 UCHE, CHIBUIKE U

These are indeed difficult times for monetary policy in Nigeria. With the economy deep into recession and inflation inching up, the dilemma for MPC is whether to support growth by easing or to fight inflation by tightening monetary policy. Because of the peculiarities of our economy, both options have severe pitfalls.

Tightening at the present time is likely to further depress our economy that is already in recession. Perhaps more worrying is the fact that it will likely lead to a banking crisis. With NPLs now tottering around the double digit boundary, it is clear to me that tightening monetary policy now will be an error. I am of course aware that some international investors may want to see a higher Monetary Policy Rate as an encouragement to keep their investments in the country. I am however convinced that doing this will be to the detriment of our national economy.

The argument that increasing MPR at the present time will help our economy by attracting more foreign investors makes little sense. This is so because high cost of capital can only discourage real sector investors. Only speculators can find such rates attractive. As I have argued in previous meetings, speculative capital- like short term foreign portfolio flows- end up causing more problems in an underdeveloped economy like ours. In my view therefore, only long term foreign capital, which target the real sector, can aid economic and industrial development in the long run.

Loosening monetary policy at the present time will also have severe consequences. It could for instance exacerbate the inflation that is already in double digit territory and which is still rising. At another level, it could promote financial sector disintermediation by encouraging diversion of deposits from the banking sector. Any policy that will result in the deepening of the negative real returns bank customers currently earn can only help discourage bank intermediation.

Perhaps more important is the fact that loosening could further add to the pressure on the value of the Naira. It is my reasoned opinion that our current foreign exchange crisis is the elephant in Nigeria's economic space. Since oil rents still provide most of our foreign exchange earnings, there is no easy way out of this crisis in the short run. Of course the obvious exception will be the miraculous recovery of international oil prices to golden days of $100+ a barrel level. This may however be wishful thinking. With our love for most things that are foreign and our disdain for most things that are local, there are few viable paths out of the current economic hole that we are in, at least in the short run.

While it is essential to honour existing foreign exchange needs of citizens and businesses, the time has come for Government to adopt and operationalize a clear economic and developmental programme that will help to curtail the current craze for foreign goods and services and encourage local production. What we must however do in the short run is to drastically reduce the variances between the parallel, Bureau de Change and official market exchange rates for the Naira. The current levels of arbitrage that exist in the foreign exchange market in Nigeria, if unchecked, will end up sabotaging the integrity of our banks, regulators and entire economy.

From the above, it is obvious that in the medium and long term, our economy can only get succor if we are able to reverse its current overdependence on oil rents. In this direction, there is little monetary policy can do on its own. Extensive cooperation with the fiscal authorities is required. As already stated, there are no painless options. It is for instance obvious to all that the size of Government must come down if any meaningful investments are to be made in infrastructure, which is essential for economic and industrial development. The bailouts and interventions by the CBN clearly has its limitations and cannot be the solution to our infrastructural problems. To the contrary, it may actually be adding to the problem of inflation and exchange rate devaluation. Also worrying is the fact that such interventions have the potentials to weaken the financial health of our Central Bank.

CBN interventions aimed at guaranteeing the payment of salaries to Government workers is even more dangerous. For the avoidance of doubt, I am not necessarily advocating mass sack in the civil service. Rather, a strict embargo on employment and adopting policies that support willing civil servants to become entrepreneurs may also achieve meaningful results even in the medium term.

Based on the above very difficult scenarios, I have come to the conclusion that the best line of action for MPC at the present time will be to maintain status quo. Although this may not be the solution to our current economic quagmire, it is in my view the least destructive option.

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.

8.0 YAHAYA, SHEHU

The International Context

The election of Donald Trump as President of the United States is the major recent development that may impact significantly on Nigeria, given the importance of the US as a trading partner and its overall influence on the world economy. While there is some uncertainty regarding the extent to which his pronouncements during the election campaign will actually be translated into practice, there are some outcomes which appear likely to have a significant effect on Nigeria. Firstly, it appears that stronger incentives will be provided for US domestic oil producers. This might increase the supply glut and weaken prices, even as shale oil producers continue to make efforts to improve production efficiency and reduce their break-even price level. Secondly, the vaunted prioritization of infrastructure improvement might generate a fiscal stimulus and lead to a rise in both price levels and interest rates in the US. This might encourage capital outflow from developing and emerging markets including Nigeria. Thirdly, if some of the trade protectionist policies promised by the incoming President are implemented, it might have some contractionary effect on global output as other countries respond or adjust. However, these effects are for the medium term. In the short term, even though GDP growth rate has doubled in the US in Q3, unemployment has reduced marginally and prices have ticked up a bit in October, it is highly unlikely that policy rates will be adjusted until the new administration has settled in.

Growth in China, while still strong, is slowing down a bit, mainly due to structural changes. In the Eurozone, output, prices and employment levels have remained more or less at the same level as compared to the Q2 2016. While the effects of BREXIT are still muted in the UK, partly due to uncertainties of the exit timing, the Japanese economy is still in dire straits, despite a long period of fiscal stimulus, negative interest rates and a significant debt level. Growth forecasts for Africa, Asia and Sub-Saharan Africa for 2016 are all being revised downwards.

In general therefore, there is unlikely to be a significant boost to growth in Nigeria from external demand, while downward pressures on oil prices loom. Imported inflation, however, is not expected to be a significant issue in the short run.

The Domestic Economy

Unsurprisingly, GDP growth rate in Q3 2016 has fallen to a new low of -2.24% the third consecutive quarterly fall in GDP. This decline was mainly propelled by a 22% contraction of the oil sector, due mainly to sabotage of oil and gas pipelines. Non-oil GDP for the first time in the year experienced a positive, albeit tiny growth of 0.03% in Q3, largely due to an increase of 1.22% in Agricultural output, the highest achieved in the last 15 quarters. Both Industry and Construction experienced negative growth rates for the fourth quarter in a row. Manufacturing output in particular experienced a sharp fall. Trade also fell. It is clear that the support being provided to Agricultural production is bearing some fruit, and needs to be intensified and institutionalized, so that it constitutes an important element in a broader strategy for economic diversification and domestic investment.

The significant fall in GDP growth rates also resulted in an increase in both unemployment and underemployment to 13.3% and 19.3% respectively.

The combination of falling growth and rising prices continue to stalk the Nigerian economy. Headline inflation rose to 18.33% in October 2016, compared to 17.85% in September (YOY), and by 0.83% month-on-month, which is slightly higher than the MoM growth in September, yet the second lowest MoM increase since May 2016. Both food and Core inflation rose in October, with Food and Non-Alcoholic beverages making the strongest contribution to the inflationary pressure. It should also be noted that imported Rice was the single most significant contributor to food price increases in October.

In the external sector, external reserves rose slightly to US$25.21 in November 2016. However, it is unlikely that this trend can be sustained due to the sharp fall in foreign inflows. Also, the trade balance has deteriorated sharply to the lowest level this year. While the Naira exchange rate at the inter-bank market has remained steady for a while, there are still pressures in the unofficial market, and there continues to be a wide gap between prices at the two markets.

The fiscal operations of the government up to September this year indicated a substantial gap between budgeted and actual revenue of about 25%, with a corresponding gap in expenditure of about 20%. The objective of reflating the economy to get out of recession has therefore been undermined. On the other hand, the relatively low fiscal operations may have helped to slightly dampen the inflationary pressure in the short term.

The financial sector has continued to come under pressure mainly arising from the negative growth rates in the economy and the Naira depreciation effect. Hence banking sector profitability, ROE and ROA have all declined, while NPLs have risen. Given the dominance of the oil sector, this outcome is to be expected, as is indeed happening to many other oil-exporting developing and emerging economies. Steps are being taken by the DMBs and the monetary authorities to adequately respond to these challenges.

Conclusion and Recommendations

It is becoming increasingly clear that the path to economic recovery and social progress in Nigeria has to come from sustained internal efforts. It does not appear that there would be much succor to the economy from international economic developments- such as strong demand stimulus, sharp and sustained recovery in oil prices or significant and enduring increases in capital inflows. The role of monetary policy is also increasingly narrowing. The significant increase in agricultural output seen is an encouragement to intensify efforts to boost output in this sector. Even the evident contribution of imported rice to the inflation figure highlights the opportunity to redouble efforts to boost local rice production.

One of the bigger challenges though is that the manufacturing sector has been experiencing a sharp fall in output and capacity utilization, despite increased lending by the DMBs to the sector. This is mainly due to inadequate access to foreign exchange. However, the foreign exchange scarcity is unlikely to abate soon. The need for a structural shift in manufacturing output to focus more on local inputs is therefore imperative.

One of the lessons recently learnt, in my opinion, is that raising the MPR is not likely to have an appreciable and enduring effect on capital flows right now, as we have argued earlier. This is because the macroeconomic and policy environment is not very supportive, and oil output remains uncertain.

Consequently, tightening monetary policy will not at the moment lead to a substantial increase in the supply of foreign currency. Of course, inflation remains a serious challenge, which is eroding the purchasing power of income earners and therefore deepening poverty. We have argued earlier though, that the current inflationary pressure has largely emanated from Naira depreciation, utility tariffs, PMS and supply bottlenecks and will therefore not be appreciably affected by monetary policy tightening. In addition, despite the central mandate of the CBN and the MPC for price stability, it would be difficult to justify a tightening of monetary policy when the fiscal authorities are trying to provide fiscal stimuli to address the negative growth rate. Moreover, tightening will substantially complicate the challenges facing the financial sector. At the same time, loosening monetary policy is not appropriate at the time of surging inflationary pressure.

In consideration of the circumstances described therefore, I vote to maintain the current monetary stance with respect to the MPR, CRR, liquidity ratios.

9.0 ADEDOYIN SALAMI

The data releases ahead of and during this meeting made for sober reflection on how much self-harm we continue to inflict on ourselves. With Headline inflation for October 2016 recorded at 18.3 percent – a further increase from 17.9 percent the previous month – and Output growth, measured by quarterly GDP figures, at -2.24 percent for Q3 2016 showing, a further deepening of the recession, our national economic situation thus continues to worsen.

In voting at this meeting, it was clear there was no real option other than to hold. Any measures to tighten monetary conditions would worsen the recession. Easing conditions will only exacerbate inflationary conditions and continue to stoke the pressure in the FOREX market. Furthermore, we still await fiscal proposals for 2017.

As I noted in my comments at the end of our previous meeting, contracting output and rising costs create a major dilemma for policy-making. What should be the priority and which measures should we adopt? Simply stated, should we reduce interest rate to stimulate investment and subsequently output; or should inflation be the primary focus of monetary policy – in which case we should raise interest rate and curtail liquidity growth. Any hope that base effects, which should apply early in 2017, will help with the prioritization is at best feeble. It is already clear that inflation will continue rising for the rest of this year and into the new year.

Clarity requires stating that this has been a bad year for monetary policy! As is clearly shown in liquidity data, both money supply and demand deposits have risen quite sharply in the past year. At the same time as we have sharply raised liquidity, largely through an almost unceasing flow of liquidity from intervention funds and lending to government, Monetary Policy has pretended to tighten by raising the MPR – which now stands at 14 percent. The use of monetary policy to achieve objectives best attained through fiscal policy measures – fiscalisation of monetary policy – must now stop.

It is therefore in my view, important to note that the regime intervention funds may now be distorting the dynamics of markets and competition within the Nigerian Economy. To remind those, who have forgotten, these funds were created in response to the imminent failure of some key banks in 2010. They were not intended to be perpetual. The distortions they now engender imply that we MAY make their beneficiaries unable to compete in their absence. In my view, if this regime is to be sustained, it would be useful to inject a large dose of transparency. In other words, declare the size of the funds, the criteria for their creation and perhaps even the beneficiaries – afterall, we do publish the beneficiaries of FOREX sales (arguably a more scarce resource).

Evidence that the injection of liquidity has overwhelmed any efforts at tightening is manifested in continued slide in the Naira's rate of exchange and rising inflation. Worst of all, this position has resulted in almost complete erosion of the Central Bank's credibility.

This situation throws up a new challenge which must be addressed in 2017. Irrespective of any inconsistencies between fiscal and monetary policy, there may now be appearing a gap between Central Bank Management, which has sole responsibility for Intervention Funds and the Monetary Policy Committee. Whilst MPC has either held or tightened, the easing of liquidity conditions has arisen largely out of management decisions.

Beyond ensuring consistency between management decisions and that of MPC, the Central Bank must, in 2017, address the challenges in the FOREX market. Multiple FX rates don't help in any way. Having agreed to FOREX Market liberalisation at the meeting in May, I doubt if any of us on the MPC foresaw the current position. A fragmented market with price discovery only in parallel market was hardly what was envisaged. In my view, the energy and effort devoted to 'managing' the Naira would perhaps have been more fruitful if the paradigm for currency management shifts from managing the volume of US Dollars available to managing Naira liquidity.

In addition, it becomes imperative, going forward, to define the role of exchange rate management in stimulating the productive capacity of our economy. As I have argued before, exchange rate policy must coherently be deployed with other measures to stimulate production. Whilst continued devaluation of the currency will achieve nothing beyond rising prices, a well-thought-out policy for managing the forex rate consistent with well-defined national economic priorities begins to restore credibility and thus confidence. Ironically, the Purchasing Power Parity (PPP) value for the Naira is estimated at between N315-329/US$. The gap between this figure and the N455/US$ at which the currency trades in the parallel market, as we hold this meeting, represents a 40percent undervaluation of the currency. This provides a proxy for the cost of loss of confidence.

I have in the past consistently drawn attention to the challenge posed by the deteriorating quality of bank risk assets. Whilst is it understandable in the context of a shrinking economy, I remain concerned as to whether we have a good grip on this issue. Data shows Non-Performing Loans of Banks to have further risen to 13percent at the end of Oct., 2016. Perhaps because of my limited knowledge of Accounting, I remain worried about whether we have a truly comprehensive picture of the situation.

For the avoidance of doubt, I am clear in my mind that monetary policy must address inflation, whilst fiscal policy must be deployed to create incentives for private sector deployment of investment capital. Rising cost, which increasing prices represent, amongst others undermines our national economic competitiveness thus exporting jobs abroad. Furthermore, rising prices hit the poorest segments of our society hardest. This cannot be a recipe from creating socio-economic conditions wherein our citizens can thrive and national cohesion achieved.

We can argue that monetary policy has reached its limits only because it has been wrongly deployed. Perhaps it is time for a thorough-going review of policy frameworks.

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

With rising populism in many countries – especially in the aftermath of categorical votes for Brexit in the UK and Donald Trump in the US, and the impending polls in Germany, France and Italy – the reverberations of the global political landscape restrained economic outcomes in 2016 and undermined the modest recovery previously projected for 2017. Consequently, vis-à-vis the 3.2 percent recorded in 2015, global growths for 2016 and 2017 may fall short of the 3.1 and 3.4 percent forecasted by the IMF. This reflected the increased uncertainty heralded by the populist votes and the continued fragilities in both advanced and developing countries. Among advanced countries, the US economy has so far strengthened in 2016 while performances in the Euro area, the UK and Japan remained colourless. The slowdown of the Chinese economy and the cowed outcomes in key emerging markets also provided a bidirectional drag on global economy performance.

Still to recover from the recent oil price shock, the Nigerian economy is braced for further global shocks in 2017 as results of the populist votes are implemented in the US and UK. Consequently, the expected recovery of the Nigerian economy may be delayed as the recession elongates. So far in 2016, the domestic economy has experienced three consecutive quarters of contraction. Data from the NBS indicates that GDP growth fell to -2.24 percent in quarter 3 from -2.06 percent in quarter 2. Though oil and manufacturing GDP continued to contract, the positive growth of non-oil GDP in the third quarter is salutary and could signal the turning point towards recovery. This is particularly remarkable as the economy sustains its efforts to disentangle from oil dependence and diversify completely. More encouraging is the 4.54 percent growth in agriculture GDP which could signal the imminent moderation in food inflation in the near term.

At 17.9 and 18.3 percent in September and October 2016 vis-à-vis 17.6 percent in August, inflation rate maintained its upward trend throughout the year from a single-digit rate of 9.6 percent in January. This continued to reflect the rise in both the food and the core components of inflation which, respectively, rose to 17.1 and 18.1 percent in October from 16.6 and 17.7 percent in September. During the same period, the month-on-month headline rate also rose, *albeit* marginally, from 0.81 to 0.83 percent. The rising inflationary trend is predominantly underlain by lingering pass-through from exchange rate and high energy prices. It is my expectation that as the base-effects taper out and the impact of recent policy adjustments permeates the system, inflation rate will begin to moderate by the first quarter of 2017.

Analyses of liquidity conditions indicate monetary expansion as annualised growth rate of broad money supply increased to 14.0 percent in September from 12.1 percent in August relative to a target of 10.9 percent. This was driven by growing domestic credits as both private and public sector credits, at annualised rates of 27.6 and 39.4 percent, expanded beyond their respective benchmarks of 13.4 and 13.3 percent. Correspondingly, money market rates eased during the review period as average interbank call rate fell from 25.0 percent between July and August to 11.7 percent between 11 October and 17 November 2016. I reiterate the importance of channelling credits to MSMEs, the agriculture sector and other productive real sector ventures in the economy. It is imperative that efforts continue to be directed, at this time, to labour-intensive sectors that can boost employment, stimulate domestic demand and engender import substitution. I believe that the reduced exchange market pressure therefrom would generally lessen uncertainty in the economy, especially as the naira-dollar exchange rate stabilised around ₦305.00/US$ in September and October 2016.

Though the poor economic performance which emerged in 2016Q1 lingered into 2016Q3, there is potential for an early recovery in 2017 if the much needed structural, trade and social policies are undertaken. Throughout 2016 we have seen economic contractions, rising inflation, rising unemployment, persistent exchange market pressure, and growing non-performing loans. These reflected the enduring effects of the lower oil prices transmitted through foreign exchange scarcity and constricted fiscal space. I note that the weakened domestic demand which continued in quarter three is directly linked to the accumulated payment arrears for public sector workers and contractors. This is gleaned from the steady decline in household consumption, a significant component of our aggregate demand. Furthermore, the effect of the domestic energy price shocks, in electricity and fuel, which occurred earlier in the year continued to ripple through the system affecting not only productivity but also inflation rate.

I note that regardless of further economic contraction in 2016Q3, the positive growth in non-oil GDP, especially in agriculture GDP are upbeat for the overall recovery of the economy. Nonetheless, this may be wishful thoughts if definite structural policies that are required to rectify the deep-seated aggregate supply deficiencies and improve productivity are not put in place. I note again that monetary policy alone cannot lift the economy out of the present predicaments. While we will continue to fine-tune instruments within our remit, we require other economic policymakers to be proactive and strategic.

Near-term prospects of the economy suggest a cautious outlook for growth in the first half of 2017, especially as Brexit negotiations begin and Donald Trump is inaugurated. Nonetheless, it may be untimely and counterproductive, at this time, to undertake a pre-emptive rate cut. The latent economic benefit of lowering policy rate at this time is non-positive, given that even a dramatic cut in rate is not enough to guarantee a positive growth while inflation rate will concurrently skyrocket. However, a hike may also not guarantee substantial fall in inflation given the prominence of structural factors in the inflation dynamics. Besides, even at the current rates, we have observed a rise in the systemic liquidity which is adequate to support the growth process. I am of the view that an impulsive adjustment of policy may be detrimental and sub-optimal. It is pertinent to allow the effects of past policy decisions to fully percolate the system in order to avert the dual problems of time inconsistency and indeterminacy.

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