



CENTRAL BANK OF NIGERIA COMMUNIQUÉ NO 111 OF THE MONETARY POLICY COMMITTEE MEETING OF 23RD AND 24TH JANUARY 2017.

1.0. Background

The Monetary Policy Committee held its first statutory meeting of fiscal 2017 on 23rd and 24th January, 2017 against the backdrop of increased uncertainty arising from political and economic developments around the world. Over the last few weeks the pillars of the old order - free trade, multilateralism and globalization have come under intense pressure, and seemingly giving way to an era of enlightened national interest in the conduct of international economic relations. On the domestic front, the economy remains in recession and inflation pressures have yet to recede. Both external and domestic conditions have blended to significantly complicate the policy environment.

In attendance at the meeting were all 10 members of the Committee. The Committee reviewed the global and domestic economic and financial environments in 2016 and the outlook for the short to medium term in 2017.

External Developments

The uncertainty in the external environment persisted owing to a combination of recent political and economic developments. The key issues include: Brexit, the rising wave of populist and anti-globalization sentiments anchored by emerging bilateralism, divergent monetary policy stance of the advanced central banks and disorderly commodity price movements. With global output growth improving sluggishly, the outlook for 2017 remains unchanged owing to persisting uncertainties in commodity prices and volatility in the financial markets as well as slowing demand in the advanced economies and the emerging markets.

The MPC welcomed the modest increase in oil prices following the last OPEC decision to cut output and noted the increase in the policy rate of the US Federal Reserve Bank in December 2016 and the potential implications of that decision for international interest rates and capital flows. While noting the materiality of the output cut on oil prices, the Committee cautioned that the effect could rapidly wane, given the likelihood of a supply glut from non-OPEC members, low level of global economic activity and weak growth. Emerging markets and developing economies, in particular, have continued to confront strong headwinds such as low commodity prices, rising inflation, currency instability, intractable low aggregate demand and subdued capital flows.

Overall, the Committee noted that whereas improved commodity prices may provide modest tailwinds for resource-dependent economies in 2017, the medium-term outlook continues to be muffled by stagnation and uncertainty in the prospects for global trade, subdued investment and heightened policy uncertainty, especially in some major economies. Nevertheless, the IMF estimates that these constraints would decline; paving way for mild improvements in economic growth from 3.1 per cent in 2016 to 3.4 per cent in 2017.

Global inflation commenced a moderate but steady rise on the backdrop of improvements in oil prices and currency depreciation in several emerging markets. However, amongst the major advanced economies, only the U.S Fed has commenced policy tightening¹ while the Bank of Japan (BOJ), the Bank of England and the European Central Bank, all retained their accommodative policy stance at their most recent meetings.

¹ The Federal Reserve raised its benchmark Federal Fund rate by 25 basis points in December 2016, to a range of 0.50 to 0.75 per cent, and also provided indication of rate hikes in 2017

Domestic Output Developments

Data released by the National Bureau of Statistics (NBS) in November 2016 showed that the economy contracted further by 2.24 per cent in Q3 2016, having slipped into recession following another contraction in output in Q2, 2016. Although the overall contraction in Q3 was greater than was observed in Q1 and Q2, the non-oil sector grew by 0.03 per cent in Q3, driven mainly by agriculture, which grew by 4.54 per cent. The Committee is of the view that the key undercurrents i.e. scarcity of foreign exchange, low fiscal activity, high energy prices and the accumulation of salary arrears - cannot be directly ameliorated by monetary policy actions. The Committee hopes that the recent increase in oil prices would be complemented by production gains to provide the needed tailwinds to sustainable economic activity. In that regard, the Committee commends the commitment of the fiscal authorities to step up efforts to fill the aggregate demand gap through a speedy resolution of the domestic indebtedness of the federal government to states and local contractors. The Committee believes that doing so will aid the effort towards economic recovery.

Developments in Money and Prices

The committee noted that money supply (M2) grew by 19.02 per cent in 2016, being 8.0 percentage points higher than its programmed limit. It underscored the necessity of keeping the economy adequately lubricated in the face of declining output. Growth in Net Domestic Credit (NDC) was 24.79 per cent at end-December 2016, being 17.94 per cent above its provisional benchmark for 2016. Likewise growth in net credit to government, at 58.84 per cent, surpassed its programmed target of 47.4 per cent. In effect, all the major monetary aggregates exceeded their programmed provisional benchmarks for fiscal 2016.

Headline inflation (year-on-year) continued to rise, creeping up in December 2016 to 18.55 per cent from 18.48 per cent in November, and 18.33 per cent in October, thus sustaining the upward momentum since January 2016. The increase in headline inflation in December 2016 was driven by increase in the food component, which inched up from 17.19 per cent in November to 17.39 per cent in December. Core inflation, on the other hand, moderated slightly to 18.05 per cent in December 2016 from 18.24 per cent in November.

The Committee observed the increases in the month-on-month inflation rate in November and December, in contrast to successive declines between June and September 2016. It noted that the

structural factors driving the sustained pressure on consumer prices, such as the high cost of power and energy, transport, production factors, as well as rising prices of imports are yet to abate. Nonetheless, the Committee estimates that the current policy stance and other measures directed at improving food production would combine with base effect to usher-in some moderation in consumer prices in the short to medium term.

Money market interest rates fluctuated in tandem with the level of liquidity in the banking system. Thus, average inter-bank call rate, which stood at 15.34 per cent on 21st November 2016, closed at 9.90 per cent on December 30, 2016. Between these periods, the interbank call rate averaged 13.59 per cent. The average interbank call rate however, fell to 3.00 per cent on December 9, 2016, due to an increase in net banking sector liquidity to N495.48 billion on December 8, 2016, following the payment of statutory revenue to states and local governments as well as maturity of CBN bills during the period.

The Committee welcomed improvements in the equities segment of the capital market as the All-Share Index (ASI) rose by 2.84 per cent from 25,499.00 on November 21, 2016, to 26,223.54 on January 20, 2016. Similarly, Market Capitalization (MC) increased by 2.5 per cent from N8.80 trillion to 9.02 trillion during the same period. Relative to end-December 2016, the capital market indices, however, fell by

2.04 and 2.05 per cent, respectively, reflecting the challenges confronting the economy.

Total foreign exchange inflows through the CBN increased significantly by 82.45 per cent in December 2016 owing mainly to the increase in oil prices. Total outflows, however, spiked during the same period. The Committee noted 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

The medium term outlook based on available data and forecast of key economic variables indicate a more resilient economy in 2017. Growth is expected to turn positive in fiscal 2017, as prior policy lags converge and the fiscal space becomes more accommodative. In addition, the agricultural sector is expected to play a bigger role in driving growth, given the expansion of the Anchor Borrower Program, as well as other developmental initiatives of the Government. Likewise, the prospects for moderation of price developments appear to be strengthening on the heels of positive developments in the food sub-sector.

The Committee identified the downside risks to this outlook to include the possibility of a slower-than-expected rate of global economic

activity, fluctuating oil prices and production shut-ins due to vandalism of oil installations.

3.0. Summary of Considerations

The Committee re-assessed the headwinds which confronted the economy in 2016 and the opportunities for recovery in 2017. In particular, the MPC evaluated the implications of the rising wave of nationalistic ideologues across the West, the re-evaluation of trade agreements and the possibility of rapid monetary policy normalization in the United States, with adverse consequences for other countries, including Nigeria. The uncertainties underpinning the implementation of Brexit and the apparent retreat from globalisation and free trade were also important points of reflection.

In recognition of the seemingly inevitable structural shift in the global economy, the Committee reiterated the need to be more inward looking and hasten efforts towards economic diversification to support the domestic economy and improve life for the Nigerian people. Consequently, members acknowledged the imperative of sectoral policies and greater coordination of monetary and fiscal policy.

Conscious of the prevailing market sentiments in favour of a rate cut, the Committee reasoned that most of its decisions in 2016 were

informed by the need to address the delicate balance between price stability and growth. Noting that the pressures on consumer prices were yet to abate and even as the economy continued to be in recession despite the intervention support by the Central Bank, the Committee stressed that it was not oblivious of the full ramifications of the economic challenges facing the country.

The MPC was concerned that the current situation was not amenable to simplistic analyses and quick fixes such as have found expression and increased attention at different fora and the media. The domestic economic challenges which include a chronically import dependent consumption culture, lack of competitiveness of many sectors of the economy and yawning infrastructural gap, have combined with an unfavorable external environment to complicate the macroeconomic policy environment. The Monetary Authority had on many occasions, and to the extent feasible, taken extraordinary steps to support other policies as well as compensate for aspects of structural gaps in the economy even at the expense of its core mandate.

The Committee specifically noted the positive contribution of agriculture to GDP in the third quarter, mostly attributable to the Bank's interventions in the sector. The Committee hopes that given the thrust of the 2017 budget and accompanying sectoral policies, output growth should resume in the short to medium term. The MPC, therefore, lends its voice to efforts for an early finalization of the 2017

Federal Budget by the authorities concerned, and the resolve to pursue a non-oil driven economy, as these will go a long way in stimulating aggregate demand and restoring confidence in the economy. The Committee also urged the authorities to seriously consider using the Public Private Partnership (PPP) model in its infrastructure development programme as a means of cushioning any possible shocks to budgeted revenue.

The Committee further noted that Inflationary pressures would begin to subside as non-oil output recovers and the naira exchange rate stabilizes. Until then, it stressed, a rate cut would worsen the inflationary conditions and undermine the current outlook for stability in the foreign exchange market. The Committee also feels that doing so would further aggravate demand pressures while undermining existing income levels in the face of the already expansionary monetary policy and increasing inflationary pressure which will make the economy unattractive for foreign and domestic investment. Given these limitations, the Committee was reluctant to lower the policy rate on this occasion but remained committed to doing so when the conditions permit.

From a financial stability standpoint, the Committee noted the possible impact of the inclement macroeconomic environment on banking sector resilience. The MPC urged the Management of the Bank to engage industry operators to discuss likely issues of asset quality, credit concentration and high foreign exchange exposures.

Given the growth in money supply arising from unconventional monetary policy operations of the Bank and implications for price and exchange rate developments, the Committee is committed to moderating growth in narrow money in the 2017 fiscal year in line with the Bank's monetary growth benchmarks.

4.0. The Committee's Decisions

The Committee, in consideration of the headwinds in the domestic economy and the uncertainties in the global environment, decided by a unanimous vote to retain the MPR at 14.0 per cent alongside all other policy parameters. In summary, the MPC decided to:

1. Retain the MPR at 14 per cent;
2. Retain the CRR at 22.5 per cent;
3. Retain the Liquidity Ratio at 30.00 per cent; and
4. 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

24th January, 2017

PERSONAL STATEMENT BY THE MONETARY POLICY COMMITTEE MEMBERS.

1.0 ADELABU, ADEBAYO

To properly navigate the prevailing turbulent macroeconomic environment, I think it would be in order to, first of all, undertake a wholesale assessment of issues, as well as measures adopted, particularly in the preceding year given that this is the first meeting in 2017. Fiscal 2016 ended on a less than satisfactory note for key macroeconomic indicators. Inflation veered off the single digit track right from the first quarter and remained not only in double digit but equally maintained a consistent upward trend throughout the whole year. For the first time in about three decades, real output recorded consistent contraction in the last three quarters while the financial markets experienced greater turbulence particularly in the foreign exchange markets. In terms of policy reaction, MPR was increased twice while the CRR was increased once in the course of the year to send a strong signal in respect of the Committee's hawkish stance on inflation. The Committee, however, did not have much latitude to lend help to the softness in output due to the inflationary pressure even though much of the problems are structural in nature.

Against the perspective of rising inflationary pressure, it may be adjudged expedient to consider upward adjustment in the policy rate, but I am still of the view that there is no need for such measure.

My position is informed, among others, by the fact that due to increasing globalization of financial markets, Monetary Condition Index (MCI) in a particular economy does not depend solely on the short term interest rate set by the monetary authority. It is now increasingly being recognized that the long term rates correlate across countries more than short term rates. In essence, with the commencement of monetary tightening by the US Federal Reserves, the rate on long term US bond would increase, which would invariably generate a spillover on the pricing of domestic bonds in emerging market economies, such as Nigeria. This correlation, is indicative that domestic monetary condition might be tighter than the current level of MPR suggests. Evidence shows that the long term lending rates in the domestic economy has been trending upward continuously despite the fact that the last upward adjustment in the policy rate was in July 2016.

The greatest headwind to the monetary authority was the condition in the foreign exchange market, which emboldened the Committee to jettison the managed float exchange rate for a flexible exchange rate model in the course of the year. Despite the adoption of the new model, the challenge is still lingering. The Bank has managed to stabilize the interbank exchange rate at about #305/US\$, but the development at the parallel market is not reflective of such stability as depreciation in that segment of the market continues unabated, widening the margin between the two markets to an

unprecedented height of about 50 percent. The trend should not continue for obvious reasons. Firstly, the exchange rate at the BDC's market is used most of the times by economic agents to quote all transactions, even when it is obvious that the BDC supply a small proportion of total foreign exchange in the economy. Second, the widening margin between the markets undermines confidence and tends to increase speculation. Given the high pass through of exchange rate to domestic price level, the low level of confidence would continue to pose upside risk to inflation development. For example, inflation dynamics in 2016 was principally driven by upward adjustment in fuel and electricity prices as well as the sharp depreciation of domestic currency. Between November and December 2016, the component of inflation that experienced considerable uptick was food inflation, which on the other hand was underpinned by imported food component. The point of interest here is that although headline inflation increased on year-on-year basis, it decelerated on month-on-month basis, but imported food inflation increased on both yearly and monthly bases. This dynamics clearly suggests that the effect of the legacy factors like the adjustment in fuel and energy prices are waning while the force at play seems to be the falling price of domestic currency. As such, it could be reasonably inferred that inflation trajectory in 2017 would take bearing from developments in the foreign exchange market but of worrisome dimension is that the current wide margin between

the two forex markets could engender inflation momentum which would be very difficult to contain.

The challenge in the forex markets may be further aggravated by the evolving realities in the global political economy. Since the outcome of the historic referendum that culminated in Brexit in mid-2016, the global political economy has started undergoing a new kind of architecture as it is envisaged that similar referendum may be in the offing in leading European nations of Italy, France, and Germany. The unfolding configuration in the global political economy is further reinforced by the evolving direction of the new administration in the US. Although details of the foreign trade and economic policies of the new administration are yet to be unveiled, it could be clearly gleaned from the inaugural speech of the US President that the world is entering into a new economic order, in which nationalism and protectionism would take precedence over liberal order and globalization. Emerging economies such as Nigeria may be hard hit as the negative impact on the external sector would not only be felt on the current account of the balance of payment but the capital account would equally be affected through remittances. As a result, the recent modest increase in the external reserves on account of the rally in the price of crude oil should be taken with guarded optimism. In essence, a key consideration at this period is the need to manage developments in the foreign exchange markets, particularly in narrowing the margin

in rates between the interbank and the BDC markets. Towards the latter part of last year, some elements of force were applied in compelling the operators to transact within a specific margin but the benefit of hindsight has revealed the relative weakness of such a strategy. In my view, the ongoing challenge may not require a new policy measures from this Committee, but some kinds of administrative measures which could engender confidence in the foreign exchange market. Such measures may include deepening of the market, as well as improving market liquidity.

On the issue of softening level of output, apart from the fact that the larger part of the slump is from the structural component of output which monetary policy could rarely influence, I equally have considerable reservation as regards the efficacy of lax monetary policy stance to address the slump in the cyclical component of output under the prevailing macroeconomic condition. For one, given the rising level of NPLs in the banking sector, it is doubtful if the sector would be willing to grow its credit exposure at this period as credit conditions are being tightened with much efforts placed on recovery. For quite another, empirical results have relatively affirmed the asymmetric response of credit to monetary policy stance in developing economies like ours. In other words, a tight monetary policy stance would automatically restraint credit growth but loosening of monetary stance does not guarantee automatic growth in credit particularly to the private sector. In our peculiar

regime, the SDF window of the Bank may become the preferred investment destination. Still on the challenge confronting output recovery, it is a welcome development that the FG is recognizing the need for an expansionary fiscal stance as signaled by the proposed 2017 appropriation Bill. My concern however, is on some of the underlying assumptions in the 2017/19 MTEF recently passed by the National Assembly. It appears to me that the benchmark price on crude oil adopted in MTEF is hinged on the fragile evidence of recent rally in the oil price. Recent historical trend (past 2 years) does not lend much support to the adopted benchmark. For a stable macroeconomic environment that would be less vulnerable to shocks in the global environment, some degree of conservatism should underpin revenue projections. The rationale is not just to minimize unanticipated fiscal deficit but there is also a strong need to rebuild the fiscal buffer, which has been completely depleted. In this regards, I would throw my weight for the retention of the US\$42/b benchmark proposed by the Executive. Still on the proposed response of the fiscal authority to current recession, the MTEF for 2017-19 is expected to be financed by borrowing of about N2.3 trillion from both external and domestic sources. Domestic borrowing is estimated at N1.253 trillion, thus increase in the MPR would not only increase the cost of financing the budget but would also increase the appetite of banking sector for government risk free assets at the

expense of credit to the private sector which is currently sub-optimal in performance.

From the perspective of issues highlighted therefore, the balance of risk suggests that the current level of the MPR remains unchanged. Given that the banking system liquidity is not much of a threat at this period, there is equally no serious need to change the level of the CRR. Consequently, I vote for the retention of all the current measures of monetary policy.

2.0 ALADE, SARAH O.

This first MPC of 2017 is coming at a period of increased uncertainty in the global economy, as domestic and external conditions weigh heavily on the domestic economic environment. While the January, 2017 World Economic Outlook (WEO) is projecting a pick-up in global growth in 2017 and 2018, especially in emerging market and developing economies, this projection will depend hugely on the policy stance of the new U.S. administration and its global ramifications. On the domestic front, the economy remains in recession, and inflationary pressure remain elevated although it is starting to trend downwards. These uncertainties coupled with domestic vulnerabilities is complicating monetary policy environment in Nigeria. Under these conditions monetary policy must remain steady to overcome challenges in the domestic economy.

The global growth is improving but uncertainty remains. Economic activity in both advanced economies and Emerging and Developing Economies (EMDEs) is forecast to accelerate in 2017–18, with global growth projected to be 3.4 percent and 3.6 percent, respectively, unchanged from the October 2016 WEO forecasts. Advanced economies are now projected to grow by 1.9 percent in 2017 and 2.0 percent in 2018. However, this forecast is particularly

uncertain in light of potential changes in the policy stance of the United States under the new administration. Growth projections for 2017 have also been revised upward for Germany, Japan, Spain, and the United Kingdom, mostly on account of a stronger-than-expected performance during the latter part of 2016 but revised downwards for Italy and Korea. These coupled with the rising wave of populist and anti-globalization sentiments and divergent monetary policy stance of the central banks in advanced economies will have impact on the Nigerian economy.

Gross Domestic Product (GDP) growth continues on a negative path:

Output growth in the third quarter of 2016 continued on a steep decline as previous two quarters of the year. Third quarter GDP growth contracted by -2.24 percent compared to a -2.06 and -0.36 percent recorded in the second and first quarters respectively. The effect of energy shortages, high electricity tariffs, fuel price hikes, scarcity of foreign exchange and depressed consumer demand continued to dampen growth throughout the year. The negative growth in GDP under normal circumstances would have necessitated a reduction in monetary policy rate, however recognizing that the conditions which precipitated the current economic downturn were not sensitive to monetary policy interventions and rising inflation and the reversal of capital flows requires that the stance of monetary policy remains tight. The

challenge for the committee as in 2016 is how to address growth concerns without escalating inflationary pressures. Furthermore, the medium term outlook based on available data and forecast of key economic variables indicate a more resilient economy in 2017. Growth is expected to turn positive in fiscal 2017, as prior policy lags converge and the fiscal space become more accommodative. Efforts to spur economic growth will therefore require the cooperation and collaboration of monetary and fiscal policy and delicate balancing of both global events and domestic risks.

Inflationary pressure continued unabated and ended the year at upper double digit. Headline inflation ended 2016 at 18.55 per cent in December from 18.48 per cent in November, and 18.33 per cent in October, thus sustaining the upward momentum since January 2016. Core inflation, on the other hand, moderated slightly to 18.05 per cent in December 2016 from 18.24 per cent in November, while food inflation increased to 17.19 per cent from 17.39 between November and December 2016.

Inflationary pressure is being driven partially by excess liquidity in the system. All monetary aggregates grew in 2016 above targeted levels. Money supply (M2) grew by 19.02 per cent in 2016, an 8.0 percentage points higher than its programmed limit of 11.02 percent. This is as a result the many CBN intervention intended to keep the economy adequately lubricated in the face of declining

output and dry up credit to the private sector. Growth in Net Domestic Credit (NDC) stood at 24.79 per cent at end- December 2016, being 17.94 per cent above its provisional benchmark for 2016. In addition, growth in net credit to government, stood at 58.84 per cent, surpassing its programmed target of 47.4 per cent. The increase in monetary aggregates is helping to push inflationary pressures up. It is therefore important to reduce liquidity injection by rolling back some of the intervention programs and refocus monetary policy on price stability by lowering inflation. In addition Increasing inflationary pressures will continue to pose problem in the months ahead since the structural factors driving the sustained pressure on consumer prices, such as the high cost of power and energy, transport, production factors, as well as rising prices of imports are yet to abate. Therefore, the committee must keep a close eye on inflation to avoid it overshooting and further eroding purchasing power of the poor.

The drying up of capital inflow and the existence of multiple exchange rates requires further reform in the interbank foreign exchange market to allow for transparency and price discovery in line with the policies released in June 2016. This will attract the much needed capital into the economy and liquidity into the market.

Therefore, in an effort to maintain the delicate balance of price stability and economic growth, at this time, I support the retention of

the current stance of monetary policy. I vote for no change in Monetary Policy Rate at 14 percent, retain Private Sector Cash Reserve Requirement (CRR) at 22.5 percent, and retain Liquidity Ratio at 30 percent to address both growth and macroeconomic concerns.

3.0 BALAMI, DAHIRU HASSAN

Despite downside risks to global economic activities such as low commodity prices, increased financial market vulnerabilities and China's Rebalancing and the spill-over effects to key economies, growth in 2017 is expected to be more prosperous at 3.4 percent than 2016 which stands at 3.1 percent. In addition, the global economy will be faced with uncertainties in 2017 due to policies to be expected from President Trump of the USA, which may have negative consequences on the Nigerian economy. At the domestic level, the contents of the Federal Government Annual Budget, MTEF and to a large extent, the Recovery Reform Plan are on the table. The annual budget was formulated on the basis of several assumptions such as crude oil output production of 2.2 mbd, crude oil prices of \$45.0 pb, exchange rate of #305.00 per dollar, inflation rate of 15.3 percent and a growth rate of 3.5 percent. Government has put this budget in order to help drive the economy out of the current recession and subsequently, to the path of growth. The critical question is the role of the monetary policy in assisting the economy achieve its growth target set by the government. The CBN has to identify and analyse the current challenges of the economy such as recession, shrinking level of growth in the economy, high level of unemployment, rising inflation, pressure on the exchange rate, particularly in the parallel market and infrastructural decay as

well as increasing poverty and raising level of misery index. The domestic economy is also faced with high interest rates thereby denying the real sector of the economy access to credit.

However, addressing the above challenges, the CBN should to a greater extent work within the mandate establishing it. A review of the performance of the economy in 2016 has shown that revenue side of the budget collapsed because of several developments, like falling oil production and lower crude oil prices in the early days of 2016, before stabilising around \$55 per barrel. Militancy in the Niger Delta, and vandalism leading to reduction in the performance of the Nigerian oil sector. With the above scenario, the CBN is expected to do things differently if it is to expect different results. To halt the economy from shrinking, the CBN should do the following:

- Make sure that where it is unable to reduce or lower interest rates because of the current structural rigidity in the economy facing the DMB's, it should continue to expand its development objectives within a planned framework such as the Anchor Borrower's Programme at single digit interest rate. This can be extended to SMEs.

- It should work towards reducing the raising level of inflation rate currently at 18.55 downward. This could be achieved partly by reducing and monitoring the level of the release of M1 in to the economy, raising the level of productivity and output. This is so

because inflation represents rising cost that reduces the competitiveness of the economy. There should be the introduction of maximum retail price in the market by adopting the Indian case. In 2017 the CBN should advice Government to raise their IGR rather than bail out.

-It should educate the public to understand the components of interest rate which includes three critical elements such as risks, administrative charges and Profits margin. Interest rate has been high because of the Structural problems in the economy affecting DMB's such as Infrastructural deficit, energy, security, fraud and robbery etc. Primarily, low interest rate promote business investment, however, no Central Bank reduces interest rates if inflation is ravaging and growth is stagnant. It should be noted that current data does not support the reduction of interest rates in the economy. The role of government of not settling the contractors particularly, those that have been financed by DMB's is also a major problem constraining the banks from advancing further credit and the rising level of NPLs .

-The CBN should strengthen its Banking and Supervisory role in the financial sector to see that DMB's reduce their NPLs to an acceptable or manageable level so that their capital base is not threatened.

The CBN should also push more for the cashless system to be expedited to facilitate easier transaction by reducing the cash carrying habit.

Primarily for any Central Bank to be effective it has to take certain decisions, even if unfavourable to some economic agents in order to protect the economy and to drive its growth and price stability objectives. The way forward for the Monetary authorities is to review the important monetary Policy events of 2016. To assess what lessons have been learnt from the review, and make clear statement and strategy on how the Bank intends to move the economy forward, particularly in issues relating to rising the level of liquidity in the economy, inflation targeting, shrinking of the economy, anchors expectation and the level of confidence in the economy, so as to attract both domestic and foreign investors.

On the basis of current challenges in the economy and the earlier policies put in place by the CBN in July, September and affirmed in November 2016, I vote to hold to enable earlier policies work through. Hence

-Retain MPR at 14 percent.

-Retain CRR at 22.5 percent.

-Retain liquidity ratio at 30 percent.

-Retain the symmetric window at +200/-500 point around the MPR.

4.0 BARAU, SULEIMAN

Background

The performance of key macroeconomic indicators like inflation, real output growth and nominal exchange rate is still outside the comfort zone but I would like to opt for a hold on all measures of monetary policy at this meeting. As pointed out in my last statement, I believe that the subsisting measures are reasonably sufficient to mitigate the risks from both the global and domestic environments. The current outcomes are partly due to the drag in the transmission mechanism and the fact that we are already reaching the limit of monetary policy.

It is however, equally important to note that a number of risk factors particularly in the global environment have not been accurately calibrated because it has been fairly difficult to dimension them. Consequently, one tends to run a high risk of time inconsistency in policy by putting measures in place to mitigate such risks. These issues include the likely direction of US foreign and economic policies under the new administration and the pace at which both Brexit and monetary policy tightening by the US Federal Reserve (the Fed) would proceed.

Pressure Points

Global Environment

The recovery in the global economy is beginning to firm up on the heel of significant improvement in the US, the continuous upward trajectory in the Euro zone as well as the massive fiscal stimulus in Japan which is propelling that economy out of recession. The IMF has projected global growth at 3.4 per cent for 2017, up from estimated 3.1 per cent for 2016. This development, under normal circumstances, should convey hope to emerging and developing economies from the viewpoint of anticipated improvement in export demand. In my opinion, however, such optimism should be taken with caution in the light of three principal risk factors. The first one is the direction of the US economic and foreign policies under the new administration. The inaugural speech of the new President clearly suggests a restrictive trade and economic policies with potential for considerable negative spillover across world economies, most especially emerging and developing economies. Under that condition, global growth may falter and it would not be much of a surprise if the current projection on global growth is revised downward in due course.

Secondly, the Fed increased its policy rate by 0.25 percent at its December meeting in a process which most analysts believed to be the commencement of gradual tightening. Given that inflation has

been inching towards the threshold of 2 percent since the beginning of the second half of 2016, the delay in the commencement of the tightening regime could probably have been informed by the need to wait for the direction of policy of the new government. In light of the fact that the policy stance of the new administration is becoming clearer and tending towards expansionary fiscal stance, it should be expected that the pace of monetary tightening by the Fed could proceed much faster than anticipated with implication for further strengthening of the US dollar against emerging countries' currencies.

A key consideration is the development in the oil market. It is a pleasant development that crude oil price witnessed an improvement in the second half of 2016 with an average price of US\$53/barrel for the period. This has partially impacted positively on the level of our external reserves as net inflows between August and December 2016 was positive. For me however, the sustainability of the new rally in oil price is still much a subject of contention. It is worth noting in this context that the entire 2016 average price was about US\$44/pb, about 20 per cent lower than the second half average. The critical driver of the uptick in price in the second half of last year was the negotiation and eventual agreement by the OPEC to cut production with effect from January 2017. It is however expected that the US, most especially in light of the direction of economic policies under the new regime, would respond to the cut

in oil output in the latter half of 2017 and this may invariably constrain the continuous upward pressure in the price of crude oil.

Domestic Environment:

A number of key challenges confronting the domestic economy in the last couple of months are still lingering. Some of the major pressure points are as follows:

While monetary policy appears restrictive, it is in reality accommodative as demonstrated by growth in both broad and reserve money. This remained a key challenge in policy formulation and the efficacy of implementation. The above fact should ideally commend an upward adjustment of the policy rate in order to signal further tightening. However this fact has to be tampered by the reality that growth during this period of recession, also remains a consideration. These considerations made a compelling case for me to recommend a hold in policy for now.

There remain substantial pressure points coming from the fiscal side. While accretion to reserves, have improved as a result of calming of militant activities and the increase in oil price due to OPEC driven production cuts, they are still below optimal levels. Government revenues are also far below budgets deficits as percentage of GDP have understandingly widened to 4.6% of GDP though admittedly, the levels of capital expenditure provisions have also increased. Key concern remains the growing percentage of debt service to total

revenues. A lot of work therefore remains in the area of revenue generation and fiscal consolidation.

The Margin between the Interbank and the BDCs Exchange Rates:

The margin between the interbank and the BDCs' exchange rates was about 35 per cent in the third quarter of 2016 while it is currently estimated at about 50 percent. This shows that the margin is not just high but it is equally widening, depicting serious malfunctioning of the markets that needs to be addressed inspite of current efforts in this direction.

Threat to Inflation: Inflation at 18.55 percent at end-December 2016 has veered off the set target for the Bank and obviously raise the issue of credibility for monetary policy which would ultimately make the recovery process difficult. The major challenge to inflation is that the drivers are from both core and food components. For example, headline inflation increased from 17.85 to 18.55 percent between September and December 2016 while core and food increased from 17.67 and 16.62 to 18.05 and 17.39 per cent respectively. The food inflation is not only driven by imported food but farm produce contributed significantly to the uptick. The issue therefore is that while monetary policy measure could be used to address the issue on the core component, the challenge on food component, particularly the imported component could still pose substantial threat to inflation in 2017.

Banking Stability Concern: The banking sector has been severely hit by the ongoing headwinds of slump in the oil price as well as the falling value of the domestic currency. The immediate impact of the headwinds include deterioration in the balance sheet of households and firms with far reaching consequence on the quality of assets of the banking system. The NPLs of the banking system has shown considerable rise since 2015 and the evolving trend does not suggest that the adjustment in the balance sheet of economic agents has ended.

Way Forward

Need to Build Confidence in the Forex Market: The adoption of flexible exchange rate model in the latter half of last year was a remarkable step towards enhancing monetary autonomy and perhaps in making adjustment to the dynamics in macroeconomy more direct and less costly. This notwithstanding, exchange rate flexibility has its challenges particularly in less developed financial system such as ours. One of the critical issues is the *modus operandi* of transition from managed float to a flexible rate model. Experiences in over half of the countries that have changed from fixed or managed float to flexible model reveals that the transition process is always marked with lack of orderliness as evidenced by the current wide margin between the interbank and the BDCs' rates. Some of the key components of the transition strategy in those climes where the transition has been successful include measures

that could enhance confidence in the market. As such, the Bank should continue to fine tune the flexible exchange rate model with confidence enhancing measures like a deep and highly liquid forex market, robust policy guiding the Bank's intervention in the forex market, and a good model for assessing and controlling the vulnerability of the public and private sector to exchange rate risk, among others.

Ultimately any measure in successful migration to full flexibility must address swings and direction of the BDC/parallel market rates given the impact of these markets on sentiments in the interbank market. If distortions that are created by the systemic/structural liquidity as well as illicit flows, as well as sustained dollarization are addressed, then the pressure and emerging rates in the BDC/parallel markets will be moderated, and the normal rational activities of arbitrageurs will close the gap between the official/parallel markets and nominal exchange rate will come closer to the real effective exchange rate and the real economy will ultimately not be shortchanged. To embark on full flexibility in an atmosphere of pervasive distortion, warped sentiments, faulty fundamentals due to oil production and price challenges will not necessarily bring the so called confidence in the market and will also negatively affect the real economy probably beyond the current scenario.

Partnership with Credible Financial and Development Institutions: The 2017 budget proposal shows the determination of the Federal

Government to address the recent slump in economic activities as the budget signals an expansionary fiscal stance. One major area that requires critical assessment, however, is the ability of Government to source the loans required to bridge the resource gap. The MTEF/FSP for 2017-2019, provides for total borrowing of N2.32 trillion in which domestic and foreign borrowings amount to N1.253 trillion and N1.067 trillion, respectively. In as much as external borrowing is ideal due to huge financing costs at the moment, it may be quite challenging to obtain such a huge amount from global financial institutions at a concessionary rate without the endorsement of credible organizations like the International Monetary Fund (IMF). It is in this regard that I would suggest we seek as an option the endorsement of global financial institutions in respect of the domestic macroeconomic policy such that the Federal Government may access facilities in the global financial markets at concessionary terms, provided that our overriding national interest is not compromised.

Robust Peace Framework in the Niger Delta Area: As pointed out above, the 2017-2019 MTEF/FSP is predicated on oil output of 2.2 million barrel per day (mbpd), when actual production in the last two years hovered around 1.65 mbpd. It is commendable that in passing the MTEF/FSP document into law, the National Assembly, at least identified this risk factor and therefore recommended the need for a robust peace framework in the Niger Delta area with a view to

actualizing the revenue projections. The country's ability to quickly exit the current recession and elicit price and exchange rate stability must be premised on good fortunes coming from the oil sector via good oil price and high but stable production and exports.

Accelerated Passage of the 2017 Appropriation Bill: Theoretical evidence right from the evolution of Keynes theory as well as practical evidence has shown the potency of fiscal instruments in addressing recession. On this basis, I would like to commend the accelerated passage of the MTEF/FSP document. In recognition of this issue, it is of utmost importance that similar urgency be extended to the 2017 Appropriation Bill as this would facilitate easy planning, monitoring as well as avoid the bunching of expenditure in the latter part of the year, which could be counter-productive.

Strengthening of Macro Prudential Regulation in the Banking System: The banking system has had a fair share of the challenge from the imbalances in the macroeconomy. The adoption of a more flexible exchange rate in particular, has created adverse condition on the balance sheet of firms including both financial and non-financial corporates. One of the major challenges in the banking system is a gradual build up in the level of NPLs which could trigger systemic crisis if not timely nipped in the bud. Given that the imbalances are due to vulnerability to exchange rate risk, macro prudential measures that could target currency mismatch and policies that

target types of funding that are susceptible to global liquidity condition should be explored.

Decision

In the light of current market developments, easing of policy does not appear to be a wise prescription at the moment. Further tightening may also affect the modest efforts at economic recovery negatively. Therefore in due recognition of the foregoing and arguments earlier canvassed in my personal statement after the last MPC, I'm convinced that the rational thing to do is to hold policy prescriptions at current levels.

I therefore vote to HOLD.

5.0 GARBA, ABDUL-GANIYU

Context

In my last personal statement I emphasized the need to take stock of the monetary policy and outcomes of the year 2016. I believe that we could gain insights into how successful the MPC had been in 2016 and that this will help us think clearer about the strategic and policy options for 2017 in the light of the global outlook that may be dominated by the crystallization of “Brexit effects” and “Trump-win effects”.

The mandates of the MPC since 2007 are legally given and non-discretionary: (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 right stock taking is obviously one that is guided by the mandate of the CBN.

Of the three elements of a sound policy analysis - a sound framework, credible data and credible analysis – arguably the least controversial is the data. The data relevant to the mandate of the MPC are inflation, exchange rate, interest rate, GDP, employment, fiscal and external balances and structures.

The headline, food and core inflation rates were 9.55%, 10.59% and 8.73% respectively for December 2015. The respective rates for December 2016 were 18.55%, 17.79% and 18.55%. These imply that December 2016 headline index, food index and core index were respectively, 1.94, 1.68 and 2.1 times their respective levels in December 2015. Put another way, headline inflation index almost doubled in 2016, food inflation index rose by almost 70% in 2016 while core inflation index more than doubled in 2016. Clearly, one could not rightly conclude that the MPC achieved its primary mandate in 2016. Inflation eroded the value of the Naira and hurt citizens on fixed incomes and the majority who are on less than \$1 a day. It is well established that inflation has the widest possible impacts on the population compared to unemployment and low growth. The budget effects of such high inflation as witnessed in 2016 tend to repress demand and cause involuntary accumulation of inventories that may hurt investment, real growth and employment. It is thus not surprising that the GDP figures are not only negative in the first three quarters of 2016, the economy declined at a growing rate. Also, the unemployment rate was also increasing. Fiscal operations was characterized by revenue shortfalls, rising public deficit, debt stock and debt service.

The high inflation could also adversely affect international value of the Naira. Official data indicate that the exchange rate spread between the Interbank and BDC per 1 US\$ was an average ₦3.33 or

2.4% in 2010:01-2014:10. After the devaluation of November 2014, the spread rose to an average of 6.2% in 2014:11-2015:02 (when the RDAS window was closed). Between the **closure of the RDAS window** and the **"flexibility policy"** in June 2016, the spread rose to an average of ₦60.5 (30.7%)! In the **"flexibility policy"** period to December 2016, the spread averaged ₦117 (40.2%)! Indeed the spread for December was ₦150 or 49.2%! Given that spread is an indicator of pricing and allocation inefficiencies, it follows that the extant exchange rate allocation mechanisms have significant inefficiencies. Such inefficiencies adversely affect the current account balance and capital inflows which remained negative. The economic risks of such inefficiencies are a great dis-incentive to trade and capital inflows.

As the spread has risen, so has the depreciation of the currency. In the first five months of 2016, the Naira lost 30% of its US\$ purchasing power in the BDC market. After the "flexibility policy" it lost a further 35% of its purchasing power. Thus, in 2016 relative to its purchasing power in December 2015, the Naira lost 76% of its purchasing power in the BDC segment. In the Interbank segment, the yearly loss of purchasing power was 30.5%. From both market analysis and macroeconomic analysis, the Nigerian foreign exchange market and policy at best needs urgent re-design to make it more efficient in pricing and allocation to ensure stem the loss of value of the Naira.

In 2016, the MPC raised the MPR twice in March (1%) and May (2%). Yet, money supply (M1) rose by 34.4% an increase of about ₦2.95 trillion. This increase came after a 37.1% growth (about ₦2.32 trillion) in fiscal year 2015. Such growth in money supply is not compatible with increase in interest rates. The classic quantity theory of money ($M = \kappa P$) indicates clearly that the inflation in 2015 and 2016 were caused mainly by growth in money supply. A decline in transaction activities meant that price must rise more than proportionately to the rise in money supply.

The growth in money supply is arguably, partly the cause of the loss of the international purchasing power of the Naira. If this is true, there is no economic justification for raising MPR: it can neither reduce the inflation rate nor stabilize the international value of the Naira. High inflation expectations, widening exchange rate spreads and sharply declining value of the Naira are strong dis-incentives to real investments and financial inflows. The premiums required to bring in “tapeworm flows” is simply too disruptive to be a viable policy option.

The phenomenal rise in headline, food and core indexes in 2016 is proof-positive that the loss of domestic and international purchasing power of the Naira is caused mainly by growth in M1! Clearly, the rise in CRR in March by 2.5% did not counter the growth in M1. Like the rise in MPR in 2016, it was an ineffective tool in restraining the declining domestic and international value of the Naira.

In 2017, the anomalous relations between M1 and MPR and between M1 and CRR must be corrected. MPR should not rise when M1 is growing so fast and vice versa. Neither should CRR be raised when M1 is driven to rise so fast. It is conventional wisdom that the demand for money and interest rates are inversely related hence, a rise in money supply should cause the interest rate to fall and vice versa. A rise in CRR signals tightening while growth in M1 signals accommodative monetary policy. To grow M1 and raise CRR at the same time is conflicting and inconsistent. Therefore, policy consistency demands that tightening of prices be supported by tightening of quantities while loosening of prices be supported by a loosening of quantities. Where a mix of tightening of prices and loosening of quantities are designed and implemented, the consequences as the data has clearly demonstrated would be high inflation, rapid exchange rate depreciations and exchange rate spreads that transfer wealth and undercut real activities, real GDP growth and employment.

Outlook for 2017

Year 2017 will be very challenging for macroeconomic management globally and for global markets because of heightened uncertainties due mainly to political and associated economic risks. The new Trump administration has signaled an “intimidate and beggar my neighbor” strategy that may unsettle

global trade, commodity prices and financial markets and prices and financial flows. The elections in France and Germany may also throw up surprises like “Brexit” and “Trump-win”. Staff Report also highlights uncertainties about the price of crude oil, slowdown in both advanced and emerging economies as key headwinds.

The domestic outlook indicated by the fiscal deficit, the structure of expenditure, revenue shortfalls, high levels of public debts and the crowding-out effects of public debt service and public borrowing on private sector investments and current account deficits make for a difficult 2017. The challenges of sourcing credit within and outside the Nigerian economy may exert pressures on the growth in money supply. Yet, as 2015 and 2016 clearly show, it would be damaging for the credibility of monetary and fiscal policy to allow M1 match the growth of previous years. It would significantly damage the purchasing power of the Naira domestically and internationally and destabilize the economy. There is also, the challenge of twin deficits (fiscal and current account) and ensuring financial system stability to contend with.

It is important in 2017 therefore, to rein-in growth in money supply to ensure that monetary policy is credible. It is also important to ensure that in 2017 the foreign exchange allocation mechanisms are designed to eliminate the spreads that is destroying the international and domestic purchasing power of the Naira. The framers of the CBN Act, 2007 were right in making safeguarding the international

value of the Naira a key mandate of the Central Bank. The last two years have shown how important safeguarding the international value of the Naira is to macroeconomic stability as well as to financial system stability. Clearly therefore, **capping the growth of money supply and eliminating price and allocative efficiencies of the extant foreign exchange mechanisms are critical to the success of monetary policy in 2017 and indeed; to the overall health of the economy.**

Unresolved Issues

I shall keep reiterating a number of longer term issues which remain unresolved: (a) the lack of forward looking medium to long term strategic macroeconomic management framework for Nigeria as the context for policy analysis and choice; (b) the conversion of **rent havens** in both the real and financial sectors to efficiency and effectiveness centres; (c) the shift from a **present hedonistic orientation** to a longer term perspective; and (d) eliminating the **strategic vacuums** for policy analysis and choice. The extent to which these issues are appropriately addressed in the economic recovery programme being drawn remains to be seen.

Decision

I vote to hold. As in November 2016 MPC, I considered voting for reducing the monetary policy rate for the purpose of policy credibility and consistency. However, I became convinced to align

myself with a consensus position to cap the growth in M1 in 2017 as the better option in the short term. A cap on money supply may resolve the primary source of the monetary policy credibility problem of the last seven years – excess high powered liquidity. This rules-based option is compatible with the rules-based fiscal policy envisaged in the Fiscal Responsibility Act of 2007. I am convinced that a cap on the growth of money supply would free monetary policy to be more effective and (a) limit the costly mop-ups that generate excessive rise in interest rates; (b) reduce the pressures on the domestic and international value of the Naira and (c) minimize the negative effects of loss of international value of the Naira on domestic activities and financial system stability.

6.0 NNANNA, OKWU JOSEPH

Global macroeconomic developments were fragile throughout 2016 as growth was revised downwards from 3.2 percent to 3.1 percent. In 2017, a marginal improvement to 3.4 percent is envisaged. The push factors are mixed; the uncertainty surrounding the Brexit, the populist and protectionist tendencies of President Trump, characterize the downside risks, while the slight pickup in commodity prices and prospects for growth in emerging and frontier markets are the upsides to recovery in 2017. Overall, the asymmetric growth in advanced economies is likely to remain subdued, while growth in emerging and frontier markets are expected to rebound after five years of consecutive decline.

At the domestic front, macroeconomic trends are mixed, but worrisome; as the recession persists amid rising price levels, widening twin deficits and declining productivity. According to the National Bureau of Statistics, GDP contracted by -2.06 percent in Q2 and -2.24 in Q3 respectively. And is expected to further decline in Q4 of 2016; driven largely by weak aggregate demand, infrastructure deficits and sustained pressure on the Naira Exchange rates. These developments further underpin the point that monetary policy needs urgent support from fiscal and structural policy initiatives without which progress in reversing current recession will be prolonged and tortuous.

Monetary policy in the quarter was expansionary, arising from the quasi-fiscal operations of the Central Bank and exacerbated by the widening fiscal operations of the government. However, it is noteworthy that the CBN's targeted interventions in the real sector have produced salutary outcome in the agricultural sector, especially, the noted increase in rice production.

The need for closer monetary and fiscal policy coordination cannot be overemphasized. 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 quantum of the non-performing loans in the banking system reduced.

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.

7.0 SALAMI, ADEDOYIN

At the end of this meeting, I voted with colleagues to maintain the status-quo with respect to all monetary policy parameters – Monetary Policy Rate (MPR), Cash Reserve Ratio (CRR), and Interest Rate Corridor.

In terms of the data releases which shaped the run-up to this first meeting of the year, Aggregate Inflation, at 18.5percent for December 2016, rose for the 14th consecutive month. The average for 2016 was thus 15.7percent which compares unfavourably with 9percent the previous year. Whilst Core Inflation marginally declined to 18.05percent at year-end, Food prices, at 17.39percent, continued to rise.

The increase in liquidity which I had noted in my Statement after the Meeting in November continued to rise sharply. Data for December showed M1 rose between November and December 2016 by 10percent! On a year-on-year basis, the increase was 34percent. Narrow Money stock had thus increased 72percent since October 2015.

The Banking Sector Stability Presentation by Bank Staff showed NPL Ratio, at 12.8percent, remaining well above the regulatory maximum. The trends in credit allocation show sharp concentration with 4 sectors – Oil & Gas, Manufacturing, Governments and Power –

accounting for 85percent of the increase in credit over the past 12months.

Ahead of this meeting, there was a lot of noise around the Central Bank of Nigeria (CBN) Purchasing Managers' Index (PMI) which was reported to have increased to 52.0 in December 2016 – thus suggesting 'green shoots' of output recovery from recession. A closer inspection of the PMI shows that whilst manufacturing PMI had indeed risen as reported, the Non-Manufacturing PMI remained below the threshold of 50.0. In other words, tis perhaps too early to see the 'green shoots' of recovery.

Notwithstanding the reduction in the value of oil export revenue from US\$42.4bn in 2015 to US\$28.045bn in Nov 2016, the FOREX Reserves showed a slight decline from US\$28.28bn to US\$26.99 in the same period. The various measures to manage FOREX are doubtless responsible for the 'healthy' state of the Reserves! Unsurprisingly, the premium between Official and BDC rates for the Naira had worsened from N61.3 at the end of 2015 to N150.04 a year later!!

Taken together, the available indicators show an economic environment little changed from our meeting in November – in other words, a very difficult environment. The loss of confidence was further illustrated by the ratings downgrade awarded by Fitch – Nigeria was downgraded to B+ with a negative outlook. The

principal concern being focussed on access to Forex. As the Fitch Statement noted -

“Access to foreign exchange will remain severely restricted until the Central Bank of Nigeria can establish the credibility of the interbank foreign-exchange market and bring down the spread between the official rate and the parallel market rates”

Rumbling in the background to this meeting were the consideration of the Federal Government (FG) 2017 Appropriation Bill by the National Assembly and the on-going efforts to articulate and publish an Economic Recovery and Growth Plan (ERGP). Both Fiscal Side documents will doubtless shape the direction of Monetary Policy.

Having argued in my Statement at the end of the previous meeting in November that Monetary Policy had become internally inconsistent by sharply raising both liquidity and interest rates, I had a choice to make between insisting on policy credibility and waiting for the clarity around the fiscal side policies. While insistence on Policy credibility would have required I vote for a formal easing of policy by reducing in the Monetary Policy Rate (MPR), waiting for clarity around fiscal side measures would dictate voting to hold.

While in the end, I voted to hold, I am clear that going forward policy credibility and internal consistency will be major considerations in determining my support for policy proposals. In my

view it is now imperative that we restore credibility of the Central Bank of Nigeria.

8.0 UCHE, CHIBUIKE U

During periods of economic recession, there is always the temptation to loosen monetary policy in order to engender economic growth. While this may be a useful strategy under certain circumstances, I am convinced that adopting such a strategy in Nigeria at the present time will be counterproductive. This is so because of a number of reasons. These include the fact that inflation, which is currently in double digit territory, is still rising. Loosening the current monetary policy stance will only add fodder to this unfortunate scenario. This is at least in part because it will help to further put pressure on the exchange rate of the Naira. Our inability to reduce our dependence of foreign goods or to diversify the income base of our economy away from oil rents makes this outcome inevitable.

At another level, fixation of MPC on inflation at the present time will put pressure on us to further tighten the current monetary policy stance. The argument that MPC should focus solely on price stability (inflation) is very popular in some circles within MPC. Some have also argued that raising MPR will also help to attract the much needed foreign investments into our economy. This will, among others, help to curtail the pressure on the Naira exchange rate. It is my view that adopting the above strategy, in the context of our current peculiar circumstances, will also be an error. In fact, it may even help to drive our fragile economy further into recession.

Whatever we do, it is important for all of us to appreciate the fact that price stability cannot be an end in itself. Rather, its main essence is to help promote economic growth and development. The above point is important especially given the fact that tightening monetary policy at the present time will further endanger the health of the Nigerian banking system. With the banking industry NPL ratio already in double digit territory, it would be an error for MPC to take any action that will contribute to the further deterioration of banking system stability in Nigeria. The impact of such an action on local businesses, which are already struggling, will also be negative.

As I have argued above and in previous meetings, the idea of raising MPR simply to attract foreign investments is both unhelpful and dangerous. Economic history teaches us that such a strategy can only attract economic speculators whose main objective will be to exploit the unstable exchange rate of the local currency to their advantage. Under no circumstance should such short term speculative portfolio investors be encouraged to flourish at the detriment of our economy. Whatever reliefs they bring can only be temporary. The idea of capital account liberalization clearly makes no sense in a mono product oil rent economy like ours.

From the above, it is clear that there is a limit to what monetary policy alone can do to help salvage our country's ailing economy. Other stakeholders have to play their own part for any meaningful progress to be made towards diversifying and revamping our ailing economy. It is as a consequence of the above that I believe that the time has come for the management of the CBN to begin to robustly resist the ever increasing pressure (and temptation) to intervene in diverse sectors of our economy. Under the current mono product oil rent scenario, where national expenditure has far outpaced national revenue, there is a limit to what the CBN can do to help. Ignoring such constraints will- paraphrasing Jack Fisher- simply turn the CBN into a “machine for inflation.”

At another level, I will also urge the management of CBN to rethink its current foreign exchange policy with the aim of curtailing the number of exchange rates that currently exist for the Naira. At the very least, this will help enhance the confidence of both internal and external economic players in our economy. Equally important is the fact that this will also help reduce the arbitrage opportunities such scenarios create. The existence of such arbitrage opportunities has the potential to sabotage the integrity of our entire financial system. Curtailing such arbitrage leaks will also enhance the revenue available to Government to pursue its developmental programmes.

The fiscal authorities also have their role to play. They should specifically focus on adopting policies that engender economic growth. The logical first step in this direction will be to rethink the current Government expenditure template. Allocating the bulk of the national budget to recurrent expenditure makes little sense. This is even more so especially given the dearth of basic infrastructure across the country. The idea that the concentration of Government expenditure on recurrent items can be sustained by borrowing should be discouraged.

Based on the above analysis of our current very difficult economic circumstances, I have come to the careful conclusion that the least destructive policy action MPC can take at the present time is to do nothing.

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.

9.0 YAHAYA, SHEHU

I vote to maintain the current monetary policy stance. I provide below the reasons for my position.

The International Context

2016 has generally been a year of slow growth or stagnation in much of the world economy. The end of the year however witnessed a fairly strong recovery in the US, a better than expected performance in the UK, some cautious optimism emerging in Russia, Japan and even Brazil. Economic re-structuring in China has not significantly slowed economic growth there, and India is still managing to maintain its high growth rate. Dragged by Nigeria, GDP growth rate in Sub-Saharan Africa has dipped significantly during the year, despite the creditable performance of Ghana and Cote D'Ivoire.

While many commodity prices remained depressed, the price of crude oil recovered towards the end of the year, buoyed by OPEC and non-OPEC quota agreements. Global prices remained low, even though there was the beginning of an uptick in the UK, Europe and particularly the US.

The prospects for 2017 are uncertain. In particular, elections in some of the major European countries at a time of economic stagnation may combine with the approach of the new government in the US to heighten the risks of economic nationalism. This will pose a number

of challenges to policy making in developing economies. The apparently imminent normalization of interest rates in the US, starting from the raising of the Federal Funds rate in December 2016, will also require a careful consideration of its implications for capital flows for the EU area as well as for emerging and developing markets: will the rock bottom interest rates in Europe and Japan serve to ameliorate the outflow of capital from emerging markets to the US or will the uncertainties in these economies prove to be too much of a disincentive?

The Domestic Economy

2016 Q4 GDP figures are not yet out. However, the expectation is that growth rates would be negative, even if hopefully better than Q3. Supporting economic recovery and re-generation therefore remains a top priority for the national economy. There have been some substantial efforts made to boost agricultural output for some key commodities. Infrastructure is also being given a boost. Oil output has improved due to efforts to douse militancy in the Niger delta. Moreover crude oil prices have improved to about US\$53-55 per barrel towards the end of the year. Combined with the progress being made to restore peace and security in the North east, there is a reasonable expectation of gradual economic recovery, considering that many of the current efforts will only affect growth rates with a lag period and need to be better coordinated and sustained in order to have a medium term impact.

Price levels are still going up, as both headline, food and core inflation have risen in November. Headline and food inflation have also risen in December 2016, but core inflation has somewhat subsided in December due to declining prices of processed food, clothing and transport. Housing, water, gas and other fuels prices are still rising. Headline inflation for December is 18.55% up from 18.48% in November 2016. Month on month increase between November and December 2016 is down to 0.28% (based on annual data). It appears that the exchange rate effect is still the major driving force behind the rising price levels, although the effect appears to be diminishing a bit. Monetary factors may also have contributed as both M1 and M2 have risen substantially in the course of the year. M1 growth rate more than doubled between August and September 2016 and again more than doubled between October and December. M2 growth rate has also been rising throughout the year and particularly between November and December. This may complicate the task of combating inflationary pressures in the first quarter of 2017.

One of the most significant increases experienced is with respect to external reserves, which have climbed to US\$27 billion by end of December 2016 (and further to \$28.89 billion by the third week of January 2017) as compared to slightly over \$25 billion in the third week of November 2016. This is the highest achieved since 2015 and is mainly attributable to loans, FDI and portfolio investments. It is hoped that increased earnings from the sale of crude oil in the short

term and some capital flows in the medium term will continue to increase the size of the reserves. However, while the inter-bank exchange rate of the Naira remained steady at 305 Naira to the US dollar, the value of the Naira has depreciated at the BDC. Hopefully this is a short term phenomenon and the rising level of reserves will begin to exert a calming effect on the foreign exchange market.

With respect to the fiscal operations of the government, both revenue and expenditure were substantially under-achieved in the period January- October 2016, both in comparison to 2015 and the budget. As of that period, the budget deficit was 1.65% of GDP. It is necessary to make additional efforts to increase expenditure, particularly capital spending, in order to help revive economic growth. The additional challenge is to do it in a way that does not generate an inflationary spiral.

The banking system is working to weather the storm of recession. Capital adequacy, liquidity, Return on Equity, Return on Assets and earnings are lower than for 2015 and NPLs much higher. However, there seems to be the beginnings of a recovery on CAR and ROE in December 2016 as compared to October, and NPLs are marginally better. Also, lending has slightly picked up in Q4.

Conclusion and Recommendations

The key priorities in this first quarter of 2017 are to re-generate growth, create jobs at a much faster rate and lower prices. Growing the GDP must come primarily from fiscal policy, within the context of a coherent growth strategy. For the CBN, reducing the inflationary pressure must involve the effective management of the exchange rate to ensure stability and predictability. This is also necessary to enable banking system stability. Sharp rises in money supply must also be addressed.

At the moment, it is necessary to maintain the current monetary stance, in order to avoid putting additional constraints to growth and further burdening the financial system. Credible management of the exchange rate should also be re-assuring to domestic and international investors, which should strengthen the positive trend in the build-up of external reserves. In the next weeks, the monetary policy approach can be refined to dovetail with the national budget and the Economic Recovery and Growth Program.

In view of the foregoing, I vote to maintain the MPR, the MPR corridor, CRR and liquidity ratio at their current levels.

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

For many economies, 2016 was a very challenging year especially as outturns intermittently struggled around the baseline and global growth performance was less than envisaged. The rising spate of populism, protectionism and de-globalisation evident in some key developed countries is heightening global uncertainties and worsening the vulnerabilities of many emerging markets and developing countries. Regardless of the ramifications of the mutating political economy, short-term forecasts of global economic activities at the outset of 2017 are optimistic. In its January 2017 edition of the World Economic Outlook (WEO), the IMF projects that global growth will rise from 3.1 percent in 2016 to 3.4 percent in 2017 and 3.6 percent in 2018. This is, however, expected to be unevenly distributed across countries. For instance, while growth is expected to strengthen in the advanced economies, especially as the US economy grows from 1.6 percent in 2016 to 2.3 and 2.5 percent in 2017 and 2018, respectively, the Chinese economy is projected to slowdown from 6.7 percent in 2016 to 6.5 and 6.0 percent over the period. Growth in sub-Saharan Africa, driven largely by the envisaged rebound of the Nigerian economy, is projected to accelerate from 1.6 percent in 2016 to 2.8 and 3.7 percent in 2017 and 2018, respectively.

Following the modest recovery of oil prices witnessed in 2016 and the savoury prospects for the near-term, the Nigerian economy is designated to exit recession during 2017. Output growth is projected by the IMF to rise to 0.8 percent in 2017 and 2.3 percent in 2018. While this outlook is heartening, I note the need to be cautiously optimistic and pre-emptive of the probable global shockwaves heralded by the political stance of the new US administration and the likely impasse in the Brexit negotiations. The year 2016 was particularly challenging for the Nigerian economy as most economic indicators went southwards and exchange market pressures persisted. Economic activity during the year was distinctly lacklustre. Thus, given a third quarter growth rate of -2.2 percent, and an average growth rate of -1.6 percent in the first three quarters of 2016, we expect the 2016 growth rate to lie between -1.0 and -1.8 percent. As in my earlier statements, I reiterate that the overriding causes of the recession include 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). These factors are largely structural and exogenous to monetary policy. The rebound of non-oil GDP in the third quarter of 2016 is pleasing and somewhat indicative of a strengthening domestic economy as Nigeria strives to diversify and disentangle from oil dependence. More remarkable is

the 4.54 percent growth in agriculture GDP which could signal the imminent moderation in food inflation in the near-term.

Available data on domestic prices showed inflation ascending to double-digits in 2016. From a single-digit rate of 9.6 percent in January 2016, inflation rose persistently to 18.6 percent by December 2016. The observed rise was largely driven by core inflation which more than doubled from 8.8 percent in January to 18.1 percent in December 2016 while food inflation rose from 10.6 percent to 17.4 percent over the same period. With the rising inflationary pressure, it behoves us to tighten the stance of monetary policy, although the concurrent contraction of the economy presents a considerable challenge to the MPC at this time. I note that the current inflation dynamics is propelled by structural factors, especially the exchange rate pass-through and high energy prices. I am of the view that, barring further shocks, the extant policy actions of the MPC, aided by base-effects, could see inflation moderate by early 2017.

Data on monetary, credit and financial conditions indicated that broad money supply grew by 19.0 percent in 2016, significantly surpassing the programmed target of 10.9 percent. This growth reflected the effort to provide liquidity to strategic aspects of the economy in the face of the present contractions. Monetary expansion was underlain by the growth in net domestic credit

(which grew by 24.8 percent), especially as credit to government, growing by 58.8 percent, overshot its benchmark target. Accordingly, movement in money market rates reflected the liquidity condition in the system. Average interbank call rate fell from 15.3 percent as at 21 November 2016 to 9.9 percent by 30 December 2016.

It is important to note that this monetary expansion will be pointless and unproductive for the economy if the underlying credit is not properly directed to MSMEs, the agriculture sector and other productive real sector activities. I therefore underscore the various efforts of the CBN in this regard, as our development finance interventions have targeted these critical sectors to promote growth and employment while conserving foreign exchange through import substitution. In the foreign exchange market, the interbank rate stabilised around ₦305.00/US\$ between September and December 2016. External reserves began a propitiously noticeable upturn during this period, rising from US\$23.8 billion in September 2016 to US\$27.0 billion in December.

On the whole, I note that the effects of the exogenous shocks, which hit the Nigerian economy in 2014 continued to reverberate throughout 2016, as weak oil price and fragile global demand exposed the structural inadequacies of the domestic economy. Consequently, economic performance for 2016 was dire. The

contraction which began in the first quarter is expected to remain throughout the year. With rates climbing persistently to double digits during the year, the poor inflationary outcome is also concerning. Other macroeconomic indicators, including the exchange rate and non-performing loans of commercial banks reflect the harsh undercurrents in the economy. The reduced FAAC allocations due to low oil revenue, directly depressed domestic demand as the inability of some State governments to pay workers' salaries lingers. I note that the singular cause of these economic challenges is the structural lop-sidedness which unsustainably ties the entire functioning of the Nigerian economy to the availability of foreign exchange. I am certain that if real domestic productivity is bolstered and the unwarranted dependence on imported goods is corrected, the economy will be adequately impervious to global shocks.

With respect to decisions at this MPC, I am not unaware of the widespread clamour to ease monetary policy stance and, by fiat, reduce the interest rates of commercial banks to an artificially low level. While I am sympathetic to this call, I reiterate the dilemma of policymaking at this time when inflation is rising and our potential output is falling. I note that no central bank in the world can unilaterally grow potential output. As I observed previously, Nigeria needs well-coordinated fiscal, structural, trade and social policies to reverse the growth trend of recent times. Given the price stability mandate of the CBN, easing the monetary stance at this time will

be perilously counterproductive as inflation could gallop to uncontrollable levels. Besides, the clamour to administratively lower banks' interest rates is impracticable. Given the current level of the risk-free interest rate, inflation and banks' costs for individually providing their own amenities, an artificially lowered interest rate is rather quixotic. The rates are fundamentally driven by the same structural problems that are pervading the general economy. It is imperative that critical infrastructural spending are undertaken to support domestic production and bolster demand.

Overall, I note that the effects of the past policy decisions are still permeating the system. Together with the dilemma of policymaking, given the concurrence of inflation and output contraction, this suggests the need to maintain *status quo* so as not to introduce destabilising policy shocks. I am of the view that the balance of risks for an impulsive policy adjustment is, at this time, adverse and sub-optimal.

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