**CENTRAL BANK OF NIGERIA COMMUNIQUÉ NO 118 OF THE MONETARY POLICY COMMITTEE MEETING OF MAY 21 AND 22, 2018, WITH PERSONAL STATEMENTS OF MEMBERS**

## Background

The Monetary Policy Committee (MPC) met on the 21st and 22nd of May, 2018 against the backdrop of optimistic global growth outlook and sustained recovery in the domestic economy. The Committee examined the performance, risks, vulnerabilities in the global and domestic economies up to May 2018, and the outlook for the rest of the year. In attendance were nine members of the Committee.

## Global Economic Developments

The momentum of global economic activities remained broadly sustained, with outcomes likely to be shaped by emerging geo-political issues including: easing geo-political tensions on the Korean Peninsula; reduced trade tensions between China and the United States; United States withdrawal from the 2015 Iranian Nuclear Deal; easy financing conditions in the Euro Area, the UK and Japan; as well as difficulties associated with the Brexit negotiations. Accordingly, global output is projected to grow at 3.9 per cent in 2018, up from

3.8 per cent in 2017. Growth in the advanced economies is projected to strengthen to 2.5 per cent in 2018 from 2.3 per cent in 2017 premised on improved investments and consumption spending. Similarly, output growth in the emerging markets and developing economies (EMDEs) is projected to rise marginally at 4.9 per cent in 2018 reflecting improvements from 4.8 per cent in 2017, led by oil exporters, such as Russia, Brazil, and Nigeria. The Committee noted that despite these optimistic developments, the downside risks to global growth include: the geo-political tensions in the Middle-East; lingering uncertainties from BREXIT negotiations; and growing trend towards trade protectionism.

Inflation in the advanced economies is projected to rise by 2.0 per cent and would remain subdued relative to the long term trend. In the emerging markets and developing economies, price developments could surge by 4.6 per cent in 2018. The International Monetary Fund (IMF) forecasts that inflation may rise modestly over the medium to long-term, due to rising asset prices and long-term yields in the major financial markets.

**Domestic Output Developments**

The Committee noted improvements in the domestic economy, attributable to the steady decline in inflation, rebound in oil prices and increase in production level, as well as the continued stability in the foreign exchange market. According to data from the National Bureau of Statistics (NBS), real Gross Domestic Product (GDP) for Q4 2017 was revised upwards from 1.92 per cent to 2.11 per cent, while a growth of 1.95 per cent was recorded in the first quarter of 2018, up from a contraction of 0.91 per cent in the corresponding period of 2017. The development was due to growth in the oil and non-oil sectors by 14.77 and 0.76 per cent, respectively. The Monetary Policy Committee also noted the sustained positive outlook based on the Manufacturing, and Non-manufacturing Purchasing Managers' Indices (PMI), which rose for thirteenth and twelfth consecutive months to 56.9 and 57.5 index points, respectively, in April 2018. The Committee welcomed this development but believes that growth remains largely fragile and could benefit from further reforms and stimulus. In this regard, the MPC urged the various levels of government to accelerate the settlement of contractor debt and salary arrears as well as facilitate the quick implementation of the 2018 Federal Government budget.

**Developments in Money and Prices**

The Committee noted that broad money supply (M2) grew by 2.16 per cent in April 2018 from 1.26 per cent in March 2018, annualised to 6.48 per cent. This was in contrast to the provisional growth benchmark of 10.48 per cent for 2018. The performance of M2 was mainly driven by the growth in Net Domestic Credit (NDC) of 6.24 per cent (annualised to 18.72%), owing largely to net credit to government, which grew by 46.13 per cent (annualised to 138.39%) against the provisional benchmark of 54.97 per cent. Credit to the private sector, however, contracted by 0.16 per cent (annualised to -0.47%) in April 2018, in contrast to the provisional annual benchmark of 5.64 per cent. Net Foreign Assets (NFA) grew by 7.38 per cent in April 2018, annualized to 22.13

per cent, compared with the provisional benchmark of 18.15 per cent. Narrow money (M1), however, contracted by 3.31 per cent (annualised to -9.94%), compared with the provisional benchmark of 8.04 per cent.

Inflationary pressures continued to moderate with headline inflation (year-on-year) declining for the fifteenth consecutive month to 12.48 per cent in April 2018 from 13.34 per cent in March 2018. Food and Core inflation also decelerated to 14.80 and 10.92 per cent from 16.08 and 11.18 per cent, respectively, during the same period.

The average inter-bank call rate decreased to 3.34 per cent in April 2018 from 9.49 per cent in December 2017. Similarly, the average Open Buy Back (OBB) rate fell to 2.96 per cent in April 2018 from 8.46 per cent in December 2017. The movement in the net liquidity position and interest rates reflected the combined effects of Open Market Operations (OMO) auctions, foreign exchange interventions and statutory allocation to state and local governments.

The Committee welcomed the sustained improvement in the level of external reserves, which stood at US$47.79 billion on May 18, 2018, compared with US$46.73 billion at the end of March 2018. The Committee urged the Bank to sustain this momentum and continue to boost investor confidence in the economy. The Committee also welcomed the continued rise in the price of crude and called on the Federal Government to seize the opportunity to build fiscal buffers against future oil price shocks.

The All-Share Index (ASI) decreased by 6.6 per cent from 43,330.54 on February 28, 2018 to 40,472.45 on May 18, 2018, owing largely to profit taking activities of investors, and capital reversals in response to monetary policy normalization in some advanced economies particularly, the United States. Similarly, Market Capitalization (MC) fell by 5.7 per cent from N15.55 trillion on February 28, 2018 to N14.66 trillion on May 18, 2018. The Committee noted the need to maintain remunerative domestic rates to stem the trend towards huge capital outflow.

The MPC welcomed the continued stability in the foreign exchange market, promoted by improved dollar liquidity in the market due to the high level of activity at the Investors' and Exporters' (I&E) window, that is equally driving rates towards convergence at all segments of the market. Total foreign exchange inflow through the economy from January to March 2018 stood at US$24.719 billion, of which funding from the CBN was US$8.81 billion or 28.5 per cent, while autonomous sources accounted for the larger balance of US$15.91 billion or 71.5 per cent of the total. In addition, the Committee welcomed the US$2.5 billion or RMB 15 billion Currency Swap between the Central Bank of Nigeria (CBN) and the People's Bank of China (PBoC). This swap, the Committee noted, will ease pressure in the foreign exchange market by the reduction in reliance on a third currency for trade settlement between Nigeria and China. They further noted that this swap arrangement could be the basis for an expanded and mutually beneficial economic relationship between Nigeria and China.

**2.0. The Overall Outlook and Risks**

The macroeconomic environment that propelled the economy's exit from recession has remained positive and is likely to continue in the near-term. The expectation was premised on speedy implementation of the 2018 budget, improved security, continued stability in the foreign exchange market as well as increase in crude oil production and prices. The Committee noted the downside risks to the outlook to include: the late approval and implementation of the 2018 budget; farmers-herdsmen conflict; weak demand and consumer spending associated with outstanding salaries and contractor debt; and the growing level of sovereign debt.

The outlook for inflation indicates continued moderation in the price level, even though the risks include huge liquidity injections that is expected to arise from the implementation of the proposed N9.12 trillion 2018 FGN budget; expenditure towards the 2019 elections; monthly FAAC injections, approval and implementation of the proposed new national minimum wage, possibly finance by a supplementary budget. These could impact aggregate demand and put pressure on domestic prices in the remaining months of 2018 and may dampen the gains already made by the Bank in stabilizing prices.

Staff forecasts, given the anticipated liquidity injections into the economy, indicates upward trending pressure on domestic prices from the second half of fiscal 2018. Consequently, the Committee advocates an orderly injection of the anticipated liquidity by the fiscal authorities to prevent a negative shock to prices that would derail the positive but fragile recovery so far achieved.

Given the CBN's interventions, the current level of oil prices and developments in the global economy, we expect rates to remain stable in the foreign exchange market in the near-term. However, the bearish signs in the capital market associated with profit taking activities of investors, call for a careful calibration of policy so as to moderate the trend of capital outflows in an era of monetary policy normalization in the United States. This is given that there are already indications of severe attacks on the foreign exchange markets of some emerging economies.

Nevertheless, there is significant high level of uncertainties that could arise from the fiscal operations of government in the near term. Amongst these are: when the implementation of the 2017 budget will end; dwindling revenue projections; as well as the possibilities of full implementation of the 2018 Federal budget. Consequently, we expect a likely bunching of government spending in view of the late passage of the budget and government's commitment to honour prior obligations. This could pose a serious challenge to the Bank's price stability mandate.

Revenue is expected to increase in view of the favourable prices of crude oil and improvements in non-oil revenue, particularly taxes. In addition, production levels have also increased in recent times and this is expected to be maintained. However, the implications of a China-US trade deal on China's oil imports from Nigeria remain unclear, especially as the US has included energy imports on the list of items for negotiation with China.

**3.0. The Considerations of the Committee**

The Committee expressed satisfaction on the positive outlook in the domestic economic environment as the real GDP grew for the fourth consecutive quarter by the first quarter of 2018 and the positive trend in the Manufacturing and Non-manufacturing Purchasing Managers' Indices in the first quarter of 2018. It noted the continued deceleration in headline inflation as well as stability in the foreign exchange market and therefore, called on the Bank to sustain the momentum in order to further subdue inflation and ensure growth. The Committee expressed satisfaction with the level of activities in the Investors' and Exporters' (I&E) window of the foreign exchange market.

The Committee further noted the overall upward growth momentum of the economy with key activity sectors returning positive growth. Despite the improving macroeconomic environment, the Committee noted that disruptions to the supply chains in major food producing states of the country remains a concern as food prices remained sticky downwards. It also noted the potential adverse effect of the rising global inflation on domestic prices and therefore, urged the Government not to relent on curtailing the security challenges to advance controlling inflation to its historical path.

Members of the Committee were satisfied with the progress made with the implementation of the Economic Recovery and Growth Plan, but were concerned on the effect of delay in the passage of the 2018 Appropriation could derail the programme and urged the Federal Government to sustain its implementation to further accelerate the economic recovery thus far achieved. The Committee urged the Government to set the machinery for the effective implementation of the 2018 budget to further stimulate the economy. It also encouraged the Government to sustain current efforts at boosting tax revenue generation notwithstanding the increase in crude oil and other commodity prices. The MPC, however, noted the potential effects of expansionary fiscal budget of 2018 and the liquidity impact of rising FAAC distribution, following increase in the prices of crude oil as well as the build up in election related spending towards the 2019 general elections.

The Committee took note of the improved performance of deposit money banks and observed that the relatively high levels of non-performing loans in the industry was moderating and urged Government to promptly settle outstanding contractor arrears as earlier promised. The Committee commended the effort of the Bank in achieving the positive outlook for the industry and advice the Bank to intensify efforts to further improve banking sector soundness. It called on the Bank to sustain its monitoring apparatus to ensure compliance with existing prudential regulations and early detection and management of emerging vulnerabilities. Also, it similarly encouraged the Bank not to relent in ensuring that liquidity continues to flow from the banking sector to the real sector to further strengthen economic recovery and employment generation.

**4.0. The Committee's Decisions**

The Committee critically evaluated the policy options in terms of developments in the international and domestic environments, noting in particular progress made in stimulating output growth, including stability in the foreign exchange market increase in the level of foreign exchange reserves, and sustained deceleration in the rate of inflation.

The Committee considered the forecast of high liquidity injection in the second half of 2018, upward pressure on prices, driven largely by substantial expansionary fiscal policy, which will arise from the late passage of the 2018 appropriation bill, outstanding balance from the 2017 budget and the pre-election expenditures. Thus, tightening would ensure the mop-up of excess liquidity. Mindful that despite the moderation in inflation, the current inflation rate is still above targeted single digit and that real interest rate only turned positive in the review period. The objective of the policy stance therefore, would be to accelerate a reduction in the inflation rate to single digit to promote economic stability, boost investor confidence, and promote foreign capital flows with complementary impact on exchange rate stability.

Conversely, the Committee believes that raising interest rate would, however, depress consumption and increase the cost of borrowing to the real sector. Moreover, such policy would make deposit money banks to re-price their assets.

In reviewing the choice of loosening, the Committee evaluated the potential impact of stimulating aggregate demand through lower cost of credit. Nevertheless, the Committee deliberated on the effectiveness of the choice at a time when liquidity injection had been forecast to rise tangentially in the second half of the year. The outcome therefore, would most likely exacerbate inflationary pressure, cause higher pressure on the exchange rate as demand for forex increases and return real rate into negative territory as nominal interest rate fall lower than the inflation rate. Owing to the poor transmission mechanism as a result of structural rigidities, the reduction in the MPR may not necessarily transmit to lowering market lending rate on account of the high cost of doing business. The Committee further noted that loosening could worsen the current account balance through increase in importation, margin lending, lowering of risk evaluation in accessing loans which will drive up loans and likely increase in NPLs with potential negative consequence on the stability of the banking industry. The cost of liquidity management would also rise considerably.

The Committee, while arguing for a hold, observed that the downside risk to growth and upside risk to inflation appears balanced as growth is improving while inflation is moderating. Maintaining the current policy stance would sustain gradual improvements in both indices. It was noted that there is need to see how all the components of GDP would evolve in the second quarter of 2018 in order to gain greater clarity on the direction of monetary policy. In summary, the predominant argument for a hold at this time is to await more clarity on the evolution of key indicators i.e. the passage and implementation of the budget, economic activities, and traction in fiscal policy in 2018.

Overall, the Committee was convinced that the economy needed a new impetus of increased lending by the banking system and would work with the Bank to adopt innovative ways to encourage the deposit money banks (DMBs) to adopt innovative ways to accelerate credit growth, including a reduction in the policy rate when conditions for such a decision arise. The MPC noted that at single digit inflation and higher reserve levels, the risks associated with a policy rate reduction under conditions of wavering foreign capital inflows and an unstable oil market, including other severe uncertainties, could be better managed to deliver macroeconomic stability in Nigeria. In consideration of the foregoing, therefore, the Committee decided by a vote of 8 members to retain the Monetary Policy Rate (MPR) at 14.0 per cent alongside all other policy parameters. One (1) member, however, voted to increase the MPR by 50 basis points.

Consequently, the MPC voted to retain the:

(i) MPR at 14.0 per cent;

(ii) CRR at 22.5 per cent;

(iii) Liquidity Ratio at 30.0 per cent; and

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

Thank you for listening.

Godwin I. Emefiele

Governor, Central Bank of Nigeria

22nd May, 2018

## 1. ADAMU, EDWARD LAMETEK

The May 2018 Monetary Policy Committee (MPC) meeting held against the backdrop of continued relative improvement of the global and domestic economic conditions. In spite of geopolitical tensions and trade issues, the outlook for global output growth remains positive. This outlook is essentially powered by widespread financial accommodation, investment recovery in advanced economies and improved commodity prices and export demand in emerging markets and developing economies (EMDEs). Beyond 2018, particularly first-half of 2019, global economic activity is expected to remain fairly robust on account of favourable market sentiments, loose financial conditions and expansive fiscal actions in advanced economies, particularly the United States. In the domestic economy, output recovery has remained firmly on track and inflation continues to trend downwards. Both developments are linked to, and greatly influenced by the sustained relative stability in the naira exchange rate.

At the May 2018 meeting of the MPC, I voted to retain all the policy parameters based on my assessment of developments since the current cyclical upswing began, and the challenges I see in the short- to medium-term. My main considerations are outlined in the rest of the statement.

Although current global economic conditions appear to portend a favourable short-term outlook for oil prices, we have learned from experience that upswings in crude prices unwind, most times, sooner than forecasts suggest. There is no doubt, the recent rally in prices has had a positive impact on external reserves accretion and boosted the economy's resilience and investor confidence. Partly as a consequence, inflows, especially of portfolio investment improved. However, by their nature, such inflows are susceptible to sudden reversals; this reality needs to be factored into policy considerations and actions today. In effect, we need to build buffers on both fiscal and monetary sides in preparation for a possible downturn. In the same vein, regulatory buffers are needed to strengthen the capacity of banks to withstand a shock, should there be one.

In the domestic economy, recovery remains firmly on course with real GDP growth of 1.95 per cent in Q1, 2018. As shown by the latest data from the National Bureau of Statistics (NBS), the growth momentum appears to be broad-based – both oil and non-oil outputs grew in real terms during the quarter. The outlook appears even stronger, on the assumption that inflation continues to trend downwards, the exchange rate of the naira remains stable and supply of foreign exchange for needed imports remain unconstrained. We equally cannot discount the role of the CBN's interventions in the growth poles as well as government's investments in infrastructure.

Headline inflation continued to decelerate in April 2018. Year-on-year, the headline inflation index rose by 12.48 per cent compared to 13.34 per cent in March. Food and core indices similarly rose by 14.80 and 10.92 per cent, respectively in April 2018, compared with 16.08 and 11.18 per cent, respectively in March. However, on month-on-month basis, both food and core inflation rose in April. In fact core inflation rose consistently from January to April. Importantly, at 12.48 per cent, the year-on-year headline inflation is still considerably higher than the policy reference range of 6.0 – 9.0 per cent. While not downplaying the marked deceleration since February 2017, it is to be noted that further moderation is needed, just as a reversal of the trend in the month-on-month core and food price changes remains an imperative for macroeconomic stability. Economic growth and financial stability could benefit tremendously from much lower levels of inflation.

Currently, the outlook for inflation in the rest of the year appears largely uncertain owing to the likely surge in domestic liquidity arising mainly from expected fiscal injections and election-related spending. At about N9.0 trillion, the 2018 Appropriation passed by the National Assembly promises to be highly expansionary. This is particularly so as a sizable portion of the budget, as is, would have to be deficit-financed. In addition, the payment of contractor debts, which is quite desirable from the standpoint of growth and financial stability, and the prospects of a new minimum wage down the road, somewhat further complicate the outlook for domestic liquidity. When these likely fiscal injections are taken into account, the outlook for inflation that emerges becomes scarier.

The Naira exchange rate continues to be an important influence on consumer prices and output recovery. Stability in the naira exchange rate has been sustained through appropriate policies and reforms of the exchange rate market aimed at improving the supply of foreign exchange and reduction of speculative and frivolous demands. Consequently, Nigeria's stock of external reserves continues to grow on account of reduced imports, increased petrodollar inflows owing to more favorable oil prices and uninterrupted crude production, and increased autonomous inflows through the Investors' and Exporters' foreign exchange (I&E) window.

Though measured, there have been some improvements in the banking system. Deteriorations in financial soundness indicators have been halted, and in some cases reversed. For example, industry return on asset (ROA) and return on earnings (ROE) rose quite significantly to 21.57 and 2.14 per cent, respectively, in April, from 11.78 and 1.28 in February 2018. Likewise, the non-performing loans (NPLs) ratio moderated slightly in April. These positive developments are broadly connected to the improvement in the macroeconomic conditions including stable exchange rate and declining inflation. Interestingly, banking system stability is required for proper financial intermediation (including credit flow to the real sector) which is needed to support recovery in output. The feedback causation between the banking system and the real economy has to be carefully managed always and especially so during this (recovery) phase of the economy's business cycle.

Therefore, from a financial stability standpoint, inflation threats or risks to the naira exchange rate stability are to be mitigated upfront in order to sustain and deepen the resilience of the industry. In my view, the expected surge in liquidity and likely retrenchment in inflows on account of some external developments appear to be the most potent threats to domestic economic and financial stability in the short- to medium-term. In addressing these risks, policy coordination is key. While public spending is needed to re-invigorate economic growth, care must be taken to ensure that its essence is not defeated by unintended consequences. Proper coordination of monetary and fiscal policies reduces uncertainty, thereby allowing for optimal deployment of instruments.

Like I stated in my April 2018 Statement, these threats call for a forward-looking and cautious approach to monetary policy. I see clearly the need for a tight monetary policy stance at this time to rein-in adverse price expectations. I equally see the need to continue to give economic growth some space to thrive, which leaves me rather hesitant to opt for further tightening. Nevertheless, in voting to hold, I am persuaded that the current stance of policy is adequate to sustain the trends in major indicators towards their desired levels.

Overall, I voted to retain all the policy parameters at their current levels. That is:

- MPR at 14.0 per cent;
- CRR at 22.5 per cent;
- Liquidity Ratio at 30.0 per cent; and
- Asymmetric corridor at +200 and -500 basis points around the MPR

## 2. ADENIKINJU, ADEOLA FESTUS

In the meeting of the MPC in April, I voted for a hold of all the existing parameters of monetary policy. In the May Meeting, while there have been some changes in both domestic and global economies, based on Staff Presentations, on the probability of balance given the current and future probabilities of occurrences of events, I am fully persuaded to retain my last voting pattern which is to continue with existing monetary policy rate and other monetary parameters.

### International Developments

The global economy in a broad sense continues to post positive developments in many areas. Global output growth based on the IMF World Economic Outlook remains generally robust across the regional groupings. Global inflation remains subdued, although noticeable pressures are building up across advanced economies and emerging markets and developing economies, with sub-Saharan African economies as the only exception. Volatility in major stocks markets remain amidst uncertainties in global economic and political directions. USA and China reached tentative trade agreements to forestall possible trade war. Oil prices remain high, partly due to rising global economic growth as well as regional tensions and anticipated tightening of the global oil market supply with American planned sanctions on Iran. All of which may keep the price of oil in current bullish position.

However, there are headwinds in the global economy that should be of concern to Nigeria. First the terms of agreements between China and USA requires the former to substantially increase its imports of American goods, especially, energy and agriculture, which may impact on Nigeria's oil export market. Second, there is the expectation that Saudi Arabia and other countries with spare capacity may expand oil production to make up for the potential loss of supply from Iran and Venezuela. Third, the current quota arrangements put in place between OPEC, Russia and some Non-OPEC countries to control oil supply may be relaxed leading to higher global oil supply. The rising interest rate in America may lure portfolio investors away from emerging economies, especially Nigeria in a pre-election year. Staff presentations already show some reverse capital movements. Nigeria stock market has suffered a hit since the beginning of the year. In my view, the global economy remains uncertain, the prospects of trade wars remains real, the tendency towards unilateral rather than multilateral trade policies may moderate global economic growth rate. There is also in my view, an upper limit to which oil prices will trend.

**Domestic Developments**

The domestic economic fundamentals remain largely positive and encouraging. According to the data released by the NBS, First quarter 2018 GDP grew by 1.95 compared to -0.91 % in same period in 2017, although a slight decline from the $4^{th}$ quarter of 2017. Growth is driven by agriculture, mining and quarrying, manufacturing, transportation and insurance and financial and insurance. Foreign reserves continue to climb up although rate of accretion declined between the last and current MPC meeting. The declining accretion in my view is a reflection of a number of factors, first, reluctance of some portfolio investors to roll over their investment in the economy and actually exiting the economy, second, the existing contractual arrangements in the oil sector in favour of Production Sharing Contract (PSC) as against the Joint Venture (JV) agreements will continue to reduce government take as more oil production comes from offshore and through the PSC. Hence, government may have to negotiate an improved fiscal regime in the petroleum sector. Third, I am also concerned that the rising fuel products imports and the under recovery will continue to impact negatively on the fiscal position of the country.

Moreover, domestic inflation continues to trend downwards. All measures of inflation, Headline, Core and Food inflation declined broadly compared to the last MPC meeting. Inflation fell from 13.34% in March 2018 to 12.48% in April 2018. The trending of inflation towards the growth consistent inflation level for Nigeria estimated by the Bank is good news. However, the rate of decline in food inflation remains fairly sticky at 14.80%. A major factor in my view is the present security situation in the main food producing regions of the country, as well as imported food inflation which actually rose from 16.08% in March 2018 to 16.17% in April 2018. . This is another issue for government to urgently address. We must reduce our dependence on imported food items by boosting local food production and addressing all the immediate challenges impacting on food supply response.

The exchange rate markets remain stable, with small appreciation in the value of the naira. The Bank must ensure convergence of the markets as soon as practicable to allow for more transparency in the markets as well as provide confidence to market operators.

The balance sheet of the banking sector has also improved relative to the last MPC meeting. However, it is clear that banks are more eager to strengthen their balance sheet than commit to new credits. The continuous preference of banks for relatively safer fixed income assets rather than direct lending to the real sector of the economy remains a critical challenge to current policy stance. Simply tinkering with the MPR at this current state of the banking sector may not simply translate into more credit for the economy unless there is a way to creatively 'de-risk' the targeted real sectors of the economy. In general the banking system witnessed growth in aggregate deposits in the first quarter of 2018, however, there was no corresponding increase in credit. This implies that more liquidity in the system may not mean more credit as is widely believed in the short term. The high operating expenses in the banking system need to be carefully addressed to reduce the high cost environment which in my view impacts more on lending rates than even the MPR.

The stock market continues to soften in spite of the relatively good performance reported by many quoted companies. This suggests profit taking and capital outflow especially by portfolio investors. This is a critical warning signal to me of the possible trend in the coming months as elections uncertainty sets in.

I am also concerned that the 2018 appropriation bill has been increased by the National Assembly from N8.612 trillion submitted by the executive to over N9.120 trillion. Although the President has not assented to the bill, however, I am not only concerned by the overly high optimistic revenue expectations, the fact that the country is currently operating the 2017 budget, which will be overlaid by the 2018 budget when it becomes operational, the expected liquidity surfeit in a year that is both a pre-general election year, party primary elections, and when two critical state elections will be conducted, persuade me that it is better to defend the current gains from existing tight monetary policy stance, which is good for the economy in the medium term than to lower policy rate. We must send strong signal to the economy of the CBN commitment to monetary and exchange rate stability, which will allow economic agents to make rational decisions. The current foreign reserves though remains high however may suffer significant loss from expected reversal of capital outflow if investors outlook turned negative.

As I watch for the right opportunity for gradual relaxation of monetary policy from existing stance in order to contribute to growth and reduce current high unemployment rate, the many uncertainties in the global and the local economies in the next few months weigh heavily in my mind as to their impacts on inflation expectations and capital outflow. I prefer to hedge my bet in favour of sustaining current monetary and exchange rate stability than take a sharp leap into the unknown with potential negative outcome. As we go further into the year, the fiscal behaviour of the government and the management of the electoral process will show whether previous spending patterns in previous elections will likely change.

I continue to support a creative way to encourage credit creation and reward banks that actively lend to the real sector of the economy rather than take positions in safer havens in fixed interest security.

Hence I vote to maintain existing policy stance:

1. Keep MPR at 14 per cent
2. Maintain CRR at 22.5 per cent

Keep asymmetry corridor at +200 to -500 basis points around the MPR.

**3. AHMAD, AISHAH**

**Introduction**

The May 2018 MPC meeting held against the backdrop of gradual economic recovery given four consecutive quarters of positive GDP growth, coupled with steady decline in inflation, stable exchange rate and a positive outlook for the Nigerian economy in 2018.

Whilst macroeconomic fundamentals were headed in the right direction, inflation was still above its long run target and there are global and domestic headwinds which appear increasingly within sight. These developments were key considerations for policy decisions at the May MPC.

**Domestic GDP growth continues to strengthen**, at 1.95% in the first quarter (Q1) of 2018, much higher than a contraction of -0.52% in Q1 of 2017. Though the Q1 2018 figure is slightly lower than previous quarter GDP growth of 2.12%, continued optimism of a positive outlook for the rest of the quarters is not misplaced given 11 months consecutive increase in the Purchasers Managers Index (PMI), and a positive output forecast by the IMF of 2.1% for 2018. Global growth prospects also remained strong, even in the face of potential negative effects of increased trade protectionism on global growth and inflation.

**Headline inflation declined for the 15th consecutive month** to 12.34% in April from 13.34% in March 2018 according to recently released data from the National Bureau of Statistics. This has been driven by relative stability in the exchange rate whilst food and core inflation at 10.9% and 14.80% respectively, in April 2018, also continue to moderate. Potential risks to the positive trend for inflation include the ongoing implementation of the 2017 budget, substantial implementation of the 2018 Federal budget within a limited time frame; and the 2019 election season, which have historically had some inflationary impact.

**External sector indices retained their positive trajectory** given relative stability in the exchange rate and further accretion to foreign reserves, albeit at a slower pace. Rising crude oil prices - from US$69/b in March 2018 to US78/b in May 2018 and committed interventions by the CBN have been largely responsible for exchange rate stability even as we must brace ourselves for this resilience to be tested. In view of the continued increases in interest rates by the US Federal Reserve, a reversal in foreign portfolio investment may occur, as has been the case in a number of emerging markets. This could immediately put pressure on the exchange rate, a situation that would be better managed with healthy fiscal buffers and a more diversified source of foreign exchange over the long term.

**Policy rate hikes in the US** and other advanced economies increase the likelihood of these reversals. Yields on the US 10 year treasury notes crossed the 3% mark in April 2018 for the first time in four years, whilst further monetary policy rate hikes are expected through 2018. These higher rates in the US, coupled with reducing supply of Nigerian sovereign debt instruments (as the fiscal authorities restructure the debt stock) amidst slightly declining yields, have led to mild foreign portfolio flow reversals which are bad for exchange rate stability particularly in the short term.  Thus far, the CBN has been successful in meeting foreign exchange demand and defending the Naira via its reserves. However, it is expected that the reserves will take a further hit should portfolio investors react to global yields rising much further.

The recent US$2.5 billion currency swap deal between the CBN and People's Bank of China in addition to the CBN's other initiatives, is expected to help reduce the pressure on the exchange rate in this respect. Also, the continued rise in crude oil prices presents an opportunity to strengthen our fiscal buffers in view of the inherent volatilities in commodity prices and external sector vicissitudes.

**The economic recovery is slow to reflect on the financial system**; as banking sector Non-Performing Loans (NPLs) concentrated in a few sectors, remain a bit higher than we would like; whilst credit to the private sector contracted by 0.16 per cent in April 2018, compared to the provisional annual growth benchmark of 5.64 per cent. Bank lending rates also remained significantly high – all indicative that the banking industry requires more impetus to substantially reflect the benefits of the ongoing recovery. Thus, the monetary authority must work with the relevant financial institutions to entrench innovative measures to safely increase credit to the real sector. In addition and as a matter of urgency, prompt settlement of outstanding contractor arrears as earlier promised by the Federal Government will significantly moderate asset quality pressures and further improve resilience of the financial system.

**The fiscal rebalancing going forward is commendable**; whilst the growing total sovereign debt stock must be prudently managed, efforts at restructuring domestic versus foreign debt stock are applauded, especially as it portends to reduce debt service costs, reverse crowding out in domestic debt markets, and improve the fiscal financial condition. Low fiscal buffers, delays with passing the 2018 budget (including the supplementary budget), unspent balance of 2017 budget and 2019 election activities are imminent headwinds mentioned earlier. Granted, some spending will stimulate growth; but, excess spending beyond the economy's absorptive capacity has potential negative consequences, particularly with respect to inflation.

**Policy Decision**

The positive trajectory of key economic variables such as growth, inflation and exchange rates is gratifying. However, we must keep our eyes on further threats to these gains, either in the form of a potential US-China Trade War, inflationary fiscal shocks, or flow reversals from actions by the US Fed. Although a further tightening of the monetary policy stance is not out of place at this time, an increase in the policy rate is not absolutely necessary to maintain this vigilance. Thus, in view of the above, I vote to maintain the MPR at 14%; Cash Reserve Ratio at 22.5%; Liquidity Ratio at 30% and Asymmetric corridor at -500 and +200 basis points around the MPR.

**4. ASOGWA, ROBERT CHIKWENDU**

**Decision:**

At this May 2018 meeting of the Monetary Policy Committee, I vote to hold all parameters as they are.

- Retain the MPR at 14.0 percent
- Retain the CRR at 22.5%
- Retain the Asymmetric Corridor at +200/-500 basis points and
- Retain Liquidity Ratio at 30.0%

My decision follows careful considerations of the domestic and international economic outlooks as well as emerging risks to these outlooks all of which warrant that monetary policy rate should remain unchanged for now. On the domestic outlook, the key issues are the current levels and expectations of inflation, the current levels and forecasts of GDP as well as the domestic exchange rate trend. On the international outlook, the official interest rate changes in some countries abroad, the growth forecasts as well as the inflationary trend are the issues of note. There are also emerging downside risks of the outlook especially at the domestic front including the mixed performance of banking sector indicators and the increasing public debt levels, both with strong potentials of reversing any remarkable gains of the current monetary policy stance.

**Domestic Economic Outlook:**

First, the trend decline in headline and core inflation continued with headline inflation decreasing from 14.33% in February 2018 to 13.34% in March 2018 and further to 12.48% in April 2018 while core inflation lowered to 10.92% in April 2018 from the 11.18% level in March 2018. This decline which resulted in positive real interest rates for the first time in several months would ordinarily provide some space for monetary policy easing. Given that the medium term risks to the inflation outlook is broadly tilted to the upside, with increasing inflation expectation arising from expected elections spending and the massive 2018 budget injections to the economy also expected in the latter parts of the year, a decision to maintain the monetary policy rate while monitoring developments in the near-term is most appropriate.

Second, GDP growth momentum has been maintained in the first quarter of 2018 following exit from recession. Provisional GDP estimates for 2018 first quarter from the National Bureau of Statistics indicate that the economy grew by 1.95% which is good eventhough slightly lower than the revised 2017 fourth quarter GDP growth at 2.11%. Of particular interest is the solid non-oil growth especially the manufacturing sector which picked up massively in the first quarter of 2018 recording a 3.39 percent growth, compared with 0.14 in the fourth quarter of 2017. This uptick in output is supported by the CBN computed manufacturing and non-manufacturing Purchasing Managers Index (PMI). In April 2018, the manufacturing and non-manufacturing PMIs stood at 56.9 and 57.5 index points respectively which indicate expansion in the economy and for the 13$^{th}$ and 12$^{th}$ consecutive months respectively. These are positive signs showing that confidence remains high and pointing to positive expectations on growth prospects and realization of business expectations which are not necessarily predicated on an expansionary monetary policy.

A third factor is the significant external reserves build up which continues to provide additional buffers to the domestic currency market. With the external reserves rising to US$47.50 billion by mid May 2018 from US$39.35 billion at end of December 2017, the Naira has remained relatively stable against the dollar even though some temporary demand pressures were noticed in the later part of May 2018. Clearly this relative stability in the Naira reflects the net foreign exchange flows in the economy which has remained positive because of the improvements in the macroeconomic fundamentals, the improved current account position and the existing monetary policy regime.

**International Economic Outlook:**

There has been a continued divergence in the magnitude of monetary policy rate adjustments among key developed economies. In March 2018, the United States Federal Reserve raised policy rates by 25 basis points to 1.5-1.75 % raising its expectations for two further hikes in 2018 while the Bank of England has signaled a possible further rate hike in 2018 citing inflation concerns. By contrast, the European Central Bank and Japan are expected to keep policy rates at the current historical zero and near zero levels in the near term. While a few large commodity exporters like Argentina, Brazil, Russia, and South Africa have lowered interest rates in early 2018, several other countries especially in East and South Asia such as Korea, Malaysia and Pakistan have actually raised policy rates in 2018. A cautious monetary policy approach remains appropriate for Nigeria at this period given the weakened domestic currency in the mist of the external uncertainties as this will help to avoid any possible reverse flow of capital which can be in vast amounts.

Global output had a rebound in 2017 at 3.8% when compared to 3.2% in 2016 and this trend is expected to be sustained in 2018 eventhough first quarter real GDP growth rates in several countries retracted similar to that of Nigeria. CBN Staff report show that in the US, real GDP slowed to 2.3% in the first quarter of 2018 as compared to the 2.9% growth witnessed in quarter 4 of 2017. In the

Euro Area, real GDP also slowed to 0.4% in quarter one of 2018 from 0.7% in quarter 4 of 2017. Similar 2018 quarter 1 GDP slowdown was recorded in the UK and in China as compared to the fourth quarter of 2017. An uptick in growth is however expected in many of developed and developing counties in the remaining quarters of 2018 on the strength of accelerating wage growth, favourable investment conditions, pickup in global trade and the recovery of commodity prices despite the risks of trade policy disputes. The expected improvements in global growth in 2018 mean more uncertainty in the monetary policy adjustment. The US has already lifted its projections to possibly three interest rate hikes in 2019.

Inflationary pressures remain contained across many developed and developing countries despite the modest rise in global commodity prices. CBN Staff Report show that similar to Nigeria, inflation also moderated in the Euro Area, UK, China, Japan, South Africa, Ghana and Kenya. There was however a marginal rise in inflation in the US to 2.5% in April 2018 from 2.4% in March 2018. With further moderation in global inflation expected in the remaining months of 2018, the choice of monetary policy rate in Nigeria will be key to ensuring that domestic inflation does not persistently outpace the global inflation.

**Emerging Risks to the Outlook:**

Similar to the observation in my personal statement at the last MPC meeting, while inflation, output, interest rate and exchange rates at both the domestic and international levels may be key focus areas in shaping the monetary policy decision at this time, there are significant downside risks with the potential to reverse any expected maximum impact of the monetary policy decision at this meeting. I would like to highlight at least two of these risks, just as I did in my last personal statement.

Mixed Performance of Banking Sector Indicators and the Stock Market.

The banking industry on aggregate has remained strong with increases in profitability, liquidity, total assets and total deposits especially between February 2018 and April 2018. During this period also, the Banks' Capital Adequacy Ratio (CAR) increased while the non- performing loans ratio which from CBN staff report had increased to about 16.21% in February 2018 declined to 14.15% in April 2018. While these financial soundness indicators recorded some improvements since the last MPC meeting, the rise in average daily request of deposit money banks from the Standing Lending Facility (SLF) window despite the fact that interbank call and OBB rates in April 2018 declined drastically to 3.34% and 2.96% respectively from 15.16% and 12.69% in March 2018 remains a concern. As I also noted in my personal statement at the last MPC meeting, these are all early warning signs of future threats to stability in the banking industry and as such, any significant reduction of MPR at this time could even further weaken the solvency position of these deposit money banks.

Of greater concern is the size of banking sector credit to the private sector which is now declining and even at poorer levels when compared to the situation at the last MPC meeting. CBN Staff report show that the industry gross credit recorded a 3.63% decrease in April 2018 and the lowest total ever since

January 2017 and this happened despite the reported increases in total industry deposits. The earlier expectation that with economic recession over in 2017 and with recovery signs, credit to the private sector will pick up in the early parts of 2018 is yet to happen. Since a reduction in the monetary policy rate may not likely result in any increases in private sector credit, non-interest rate based strategies for stimulating private sector credit will be required at this time. This can be achieved through targeted indirect policy instruments which will surely be worthwhile in the immediate period and can be complemented by other short term measures as the current CBN development financing support to few critical sectors.

On the Stock Market, the high weekly volatility of the All Share Index and the Market Capitalization since 2018 as compared to 2017 acts as a reminder that vulnerabilities still exist in the Nigerian financial market. Even when monetary policy rates have remained unchanged for a long period, sudden capital injections and withdrawals in the stock market shows the sector is still exposed to little movements in risk aversion.

High and Rising levels of Debt:

Similar to the concern I raised in my personal statement at the last MPC meeting, the threat of rising public debt in the midst of declining government revenues remains potent. With continued decline of oil and non-oil revenue, government has desperately relied on domestic and external borrowing to finance the increasing budget expenditure targets. With the addition of FGN Savings Bond and FGN Sukuk to the expanding FGN Bonds and FGN Savings

Bond, the stock of domestic debt increased significantly between June 2017 and December 2017. The same scenario happened with external debt which had increased significantly partly due to additional Eurobonds sale. While government has regularly defended the elevated debt levels citing the debt-to-GDP ratio which is still at internationally accepted levels, it is clear that public debt not backed by productive assets can pose serious financial risk and will always be a potential danger to the economy in the near future.

**5. BALAMI, DAHIRU HASSAN**

Although it was the second meeting of the Monetary Policy Committee (MPC) in 2018, it was clear that the Nigerian economy had made some progress, though not all the trends in the macroeconomic variables have been positive. Inflation continued to trend downwards from 13.34% in March 2018 to 12.48% in April 2018, as monetary policy tightening was sustained. Economic growth was also reported at 1.95% in the first quarter of 2018. It therefore, shows that the current growth rate remains fragile. The major growth drivers of the economy in the first quarter of 2018 include transport and storage (due to the non-disruption in fuel supply); mining and quarrying; crude oil and gas; agriculture; the financial sector, as well as the manufacturing sub-sector, which picked up substantially. Therefore, a lot was still required for Nigeria's growth to move above 5%.

The critical question now is how do we stimulate growth in the economy? This cannot be achieved without a trade-off because the growth policy would be counter-productive if its leads to inflation. In addition, the extent of Nigeria's mono-export and import dependence poses a threat to the economy, whenever there is an external shock. There is also the importance of signalling to provide clarity when the CBN adjust its economic policies in relation to growth, inflation, and exchange rate. An effective policy should be directed at achieving low inflation and stable exchange rate.

From the outlook in the second half of 2018, inflation is threatened by election related expenditure and also from the outflow of capital which the economy seriously needs. The normalization in the US also shows that there is likely to be a pressure that could arise from the external sector and result in the depletion of our reserves (capital flight). In the domestic economy, adverse shocks from electioneering campaigns expenditure; injections from 2017 budget which is still being implemented as well as from the 2018 budget which is yet to be passed but is likely to be ready by June/July 2018 are also sources of reversal of the downward trend in inflation.

We must therefore adopt unconventional monetary policy strategies to promote growth. For example, in the month of April 2018, the public sector did not crowd out the private sector, the NTB rate went down to 10% (90 day), from 18%. The CBN followed up by bringing down the OMO rate, even though it became counter-productive. If fiscal policy is pumping liquidity into the economy, the CBN has to sell dollar in the market to mop-up. In the last three weeks of April 2018, more than US$500 million was sold. This happened for two reasons: (1) the lack of instrument of high interest rate for foreign investors (2) outflow of funds to the US encouraged by rising interest rate. It should be noted that within Africa, the emerging economies such as South Africa, Ghana and Egypt are also likely destinations for investable funds.

**Developments in the Banking Sector**

The lending rates by banks remain high and credit to the real sector continue to be low. The DMBs should be further encouraged to take advantage of the derisking on lending provided by the CBN to grow credit in the economy. Banks should also be encouraged to improve their roles in the economy through the provision of a secondary market for buying DMBs bad loans to clear their balance sheets.

**Fiscal Side**

There are so many unknowns on the fiscal side, particularly on when the implementation of the 2017 budget would cease and when the 2018 appropriation would be approved and implemented. However, the indication is that there would be high injection from campaign expenditure as 2019 election approaches. Also, many contractors are likely to get 40% to 70% payment of their contracts if 2018 budget is approved and this may be inflationary. The danger with the fiscal side is the absence of a fiscal buffer to cushion the effect of a sudden outflow of capital. Although interest rates had remained high and there is a need to lower the rates and service the external debt.

The CBN, therefore, must sustain the sale of OMO bills to maintain tightening and promote capital inflow into the economy. With projections that the economy would be awashed with liquidity, fiscal and monetary cooperation at this time is critical to maintaining macroeconomic stability. It is more expedient with the bearish performance of the capital market in the month of April, as investors gradually divest to foreign markets offering higher yields.

**China - US Negotiations at the Global Level:** The China - US negotiations at the global level has implications for the Nigerian economy. It is likely that China would sacrifice imports from other countries such as Nigeria's oil in the ongoing arrangement. The Federal Government's capacity to fund the 2018 budget would therefore be constrained.

**Policy Choice**

On the choice of policy options, I believe that raising the CRR could suffocate industries and the banking sector. Ordinarily, one would go for policy tightening as available data and information showed that loosening can worsen the inflationary pressure arising from liquidity surfeit (FAC, IGR, and Borrowing). The possibility of destabilising the foreign exchange market which had been stable for some time is also high. Since the beginning of 2018, however, it is my opinion that the current tightening stance with the MPR at 14% and CRR at 22.5% are adequate. Again at this point in time, the fiscal injection should provide the much needed liquidity in the economy. On the basis of this I vote to hold which implies retaining:

i. MPR at 14%;
ii. CRR at 22.5%;
iii. LR at 30%;
iv. Asymmetric corridor +200 /- 500 basis point around the MPR.

**6. NNANNA, OKWU JOSEPH**

**Enhanced external reserves and fiscal buffers, combined with rising crude oil production and high oil prices will continue to fuel Nigeria's economic recovery over the coming quarters.** Key PMI indicators point to improvement in the economy. Specifically, manufacturing and non-manufacturing PMIs stood at 56.9 and 57.5 index points in April 2018, indicating expansion for the thirteenth and twelfth consecutive months, respectively. Nevertheless, the fragile growth so far recorded is not inclusive as the rate of unemployment – especially amongst the youth remains unacceptably high. Employment level in the manufacturing and non-manufacturing sectors stood at 55 and 55.3 points, respectively, at end-April 2018. This indicated growth for the twelfth consecutive month in both sectors.

**Contractionary monetary policy is yielding the expected results.** Inflationary pressures have remained subdued owing to stable exchange rate and the positive effect of development financing in the agricultural sector. Headline inflation declined to 12.48 per cent in April 2018 from 13.34 and 17.24 per cent recorded in the previous month and corresponding month of 2017, respectively. Food inflation decreased, modestly to 14.80 per cent at end-April 2018, from 16.08 per cent in the preceding month. The month-on-month headline and core inflation, however increased marginally in the month of April, due, mainly, to increase in price of staple foods; and price of fuel and lubricants, respectively

**Growth in the monetary aggregates and the relative stability in the financial system continue to produce positive sentiments and yield in the financial markets.** Broad money (M2) grew by 2.16%, at end-April 2018, compared with the growth of 1.26%, and in contrast to a decline of 7.7% growth recorded at end-March 2018 and corresponding year, respectively. Overall, M2 grew by 6.48% on annualized basis.

Commercial banks aversion to lending to the real sector continues as claims on the core private sector declined by 1.9% at end-April 2018. Conversely, net claims on the Federal Government grew by 46.1%, compared with 6.98% and 8.1% growth at end-March 2018, and corresponding year, respectively. De-risking lending to the growth promoting private sectors remains a viable option towards encouraging banks intermediation.

The banking industry continues to grapple with low profitability and a high ratio of non-performing loans (NPLs) weighing on any recovery in credit growth. The industry is still reeling from the impact of the collapse in oil prices between 2014 and 2016. The oil sector which accounted for about 7.2% of Nigeria's real GDP in Q4 2017, and accounted for a major channels of credit demand and foreign currency revenue is yet to fully recover. While the recovery in oil prices offers hope to the banking industry, this may not likely impact on lending and asset quality in the next few months. Consequently, the combination of rising oil prices, settlement of federal government contractual obligations to the private sector creditors including stronger economic growth may reduce NPLs, improve asset quality and sustain financial stability.

**Despite subdued positive sentiment due to improved macroeconomic conditions and the optimism for improvement in the expected GDP numbers in the first quarter of 2018, market correction which began in February 2018, has continued in the review period.** Aggregate volume and value of traded securities in April 2018 were 8.5 billion shares and N106.1 billion, respectively, in 92,807 deals, compared with 10.2 billion shares and N136.2 billion in 103,258 deals in March 2018. However, as at May 14, 2018 aggregate volume and value of traded securities were 2.7 billion shares and N44.1 billion, respectively, in 39,220 deals. The NSE All-Share index was 40,677.61 as at May 14, 2018, compared with 41,268.01 at end-April 2018. Aggregate market capitalisation (bonds and equities) was N24.9 trillion, as at May 14, 2018, compared with N25.1 trillion, at end-April 2018. Market capitalisation of listed equities was N14.7 trillion, as at May 14, 2018, compared with N14.9 trillion at end-April 2018 and constituted 59.0 per cent of the aggregate market capitalisation, while listed bonds and the ETF accounted for the balance.

**The outlook for global growth in 2018 remains positive.** While there are obvious signs that growth in many advanced markets is gradually attaining its peak levels suggesting a lull in expansion in economic activity, growth in the US, Eurozone and Japan is on the uptick. Also, recovery in the emerging market is gathering momentum. Although geopolitical tensions and financial market disruptions represent downside risks to global growth - overall, global economic expansion is expected to remain positive. The expected stronger dollar, coupled with higher Treasury yields highlights the potential for capital reversal. Geopolitical tensions and fear of protectionism remain the major downside risks to global economic growth.

**We envisage an expansionary fiscal policy in the domestic economy in the near term following the increase in FY 2018 Budget by the National Assembly. Together with the electioneering campaigns, the threat to macroeconomic stability must be taken very seriously by the monetary authority. And the urge to avoid the adoption of time inconsistent policy must be resisted.** Overall, any positive trickle-down effect of government spending can be undermined by higher borrowing cost and unproductive public sector spending. The delayed passage and implementation in the 2018 budget affirms substantial uptick in spending in the latter months of 2018 and unbudgeted election spending is likely to upset domestic price stability.

**Given the flexible exchange rate regime which is in place, the balance of payments will remain healthy.** The current account surplus observed in recent times will be sustained on account of recovery in oil prices, high export revenues and import substitution. The average exchange rate at the I&E window as at May 14, 2018 was ₦360.86/US$, representing a depreciation of some 0.2 per cent from end-April 2018. As at May 14, 2018, the naira exchange rate at the retail SMIS window and the BDC segment remained unchanged respectively at ₦330.00/US$ and ₦362.00/US$ as at May 14, 2018 from end-April 2018.

In my opinion, the greatest threat to macroeconomic and price stability in the near term is the apparent expansionary fiscal program with its attendant election related spending.

Against this backdrop, I vote to raise the MPR by 50 basis points and to hold the other policy metrics. This is to signal the need to anchor inflation expectations and maintain positive interest rates to encourage inflow of portfolio and direct foreign investments.

**7. SANUSI, ALIYU RAFINDADI**

**1 Decision:**

At toady's meeting, I voted to keep the current monetary policy stance. This decision was based on my interpretation of the available data as well as my analysis of the implications of key anticipated domestic and global economic developments on the evolution of domestic inflation and output. In the medium term, domestic economic and political developments, such as election spending and aggressive implementation of federal government budget, are expected to significantly inject liquidity into the economy, which boost output but may reverse gains made in the current disinflation process.

Global developments, such as the improving long term yield in the US and UK as well as the expected domestic political activities also have potentially important implications for exchange rate stability. Given the combination of these domestic and global developments, monetary policy should continue to be tight in order to sustain the current disinflation gains without hurting output growth.

## 2 Background and Justification

### 2.1 Global Economic Development

***The projected increase in asset prices and long-term yields in major financial markets have implications for capital flows, exchange rate stability and, therefore, domestic inflation.*** World output, which grew by 3.8 per cent in 2017, is anticipated to raise by 3.9 per cent in 2018. This is hinged on expected improvements in aggregate demand led by recovering commodity prices, rising asset prices and long-term yield in major financial markets as well as rebound in global investment, manufacturing output and trade. Although global inflation remains subdued, pressures are rebuilding as a result of rising energy prices and moderate currency depreciations in some emerging economies. Global inflation is expected to rise to 3.2 per cent in 2018, further justifying the continued monetary policy normalization in advanced markets. A possible implication of these developments is reduction in capital flows into emerging markets and developing economies, including Nigeria, as a sizeable amount of capital is retained in the advanced economies.

### 2.2 Domestic Economic Development

***Domestic economic outlook appears positive for output growth, but threatening to the current disinflation process.*** Available data shows that output grew by 1.95 per cent during the first quarter of 2018 compared to -0.93 percent in the first quarter of 2017. Output growth, which started since the third quarter of 2017 was therefore sustained during the first quarter of 2018, and is expected to further rise in 2018. Data on purchasing manager's index (PMI) suggests that domestic production activities have continued to rise in April, 2018. Forecasts by the IMF and World Bank suggest that output will grow by 2.1 per cent and 2.5 per cent, respectively, in 2018.

Headline inflation continued to moderate as it declined (year-on-year) from 14.33 per cent in February, 2018 to 12.48 per cent in April, 2018. This is attributable to fall in food and non-alcoholic beverages as well as the relative stability of the foreign exchange market. Available staff forecasts show that inflation would return the single digit mark in October, 2018. Both core and food inflation rates have also moderated. Core inflation has declined from 11.71 per cent in February, 2018 to 10.92 per cent in April, 2018 mainly due to improvements in the supply of petroleum products. It is forecasted to reach single digit in June, 2018. Food inflation has also declined from 17.59 per cent in February, 2018 to 14.8 per cent in March, 2018 due to decline in the prices of processed food.

External sector developments are positive, with the exchange rates remaining generally stable and external reserves rising from US$46.699 billion as at March 22, 2018 to US$47.5billion as at May 16, 2018. Although the net foreign exchange flow through the economy has remained positive, there are still some vulnerabilities.

Political developments are likely to shape domestic fiscal outlook for the rest of the year. As the 2019 general elections approach, significant injection of liquidity from the fiscal authorities is expected through aggressive implementation of the unspent part of the 2017 appropriation, as well as implementation of a significant portion of the 2018 proposed 9.12 trillion Naira. In addition, the political activities that will start in the next few months would also inject significant amount of liquidity into the system. While these injections are expected to boost output, they could knock inflation out of its current trajectory. In addition, these liquidity injections could have adverse effects on foreign exchange stability as the excess liquidity seeps into the foreign exchange market.

## 3 Basis for My Policy Choice

My interpretation of the key global developments, dominated by the possibility of rising asset prices and long-term yields in major financial markets, raised my concern for the possibility of reduced capital flows to emerging economies, including Nigeria. These concerns are further raised by the prospects of increased political risks associated with pre-election years. Capital flows have significant implications on exchange rate stability and, consequently, inflation. Optimal monetary policy choice should, therefore, not seek to further reduce the domestic yields by loosening. Monetary policy should, hence, remain tight to keep domestic yields attractive.

Domestic factors, especially the anticipated aggressive implementation of the unspent part of the 2017 budget and a good chunk of the proposed 2018 budget, as well as the rise in spending by politicians, would significantly boost aggregate demand in the short to medium term. In addition, some of the injected liquidity will seep into the foreign exchange market to raise pressure on the exchange rate. This suggests that loosening the monetary policy stance now will not only be pro-cyclical, but will also be inconsistent with the overriding objective of monetary policy.

On the one hand, although inflation has continued to moderate, it remains above the single-digit target and is threatened by the anticipated global and domestic developments identified above. On the other hand, although the positive output growth remains fragile, the anticipated domestic liquidity injections will boost aggregate demand and output in the medium term. Consequently, I am of the view that the current policy stance is tight enough to balance the objective of price stability, exchange rate stability and output stabilization. I therefore vote to:

- Retain the MPR at 14.0 per cent;
- Retain the CRR at 22.5 per cent;

- Retain the asymmetric corridor at +200/–500 basis points; and
- Retain liquidity ratio at 30.0 per cent.

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

My considerations at today's meeting were largely driven by the need to ensure long-run price stability —guided by short-term outlook and expectations. Though realised inflation is declining, analysis suggests a probable rise in inflation expectations due to potential future shocks to the domestic economy. Over the next seven months, huge fiscal injections and electioneering spending are projected to considerably impact on systemic liquidity, aggregate demand, inflation and exchange rate in the domestic economy. Besides, the recent tightening stance of the US Fed, if not sufficiently mitigated, has significant implications for price and exchange rate stability in Nigeria. My immediate predisposition is for further tightening of domestic policy stance to rein in expected inflation and ensure FX market stability. However, given the continued permeation of previous policy tightening and the improvements in key macroeconomic variables, it is prudent at this time to avoid policy impulses.

The recovery of the global macroeconomy continued to strengthen with better-than-expected outcomes in 2017 and brightening short-term outlook. Reflecting a broad-based upswing, the IMF's global growth projection rose to 3.9 percent in 2018 from 3.8 percent in 2017 —with advanced economies at 2.5 percent and emerging market and developing economies at 4.9 percent from 2.3 and 4.8 percent, respectively. Growth in sub-Saharan Africa is also projected to rise in 2018 by 0.6 percentage points to 3.4 percent. The global growth impetus is largely attributable to supportive financial conditions and rising aggregate demand.

Macroeconomic conditions in the domestic economy also continued to improve, although potential downside risks threaten short-term prospects. Real GDP growth rate stood at nearly 2.0 percent in 2018q1 from 2.1 percent in 2017q4. A breakdown of this figure indicates that the oil sector contributed 1.4 percent to the 2018q1 outcome while the non-oil sector added the balance of about 0.6 percent. Further decomposition shows that the agriculture sector contributed 0.7 percent to overall growth, industries accounted for 1.6 percent while the services sector supplied -0.3 percent. With improving conditions in the international oil market and the expected surge in fiscal *cum* elections related spending, short-term growth outlook remains somewhat modest. Given that Nigeria's GDP growth rate is typically lowest in quarter one, there is prospect for better outcomes in the remaining three quarters of 2018. To reinforce the cyclical rebound of the economy, prudent and well-balanced macroeconomic policies are essential.

The pace of disinflation steadied as headline inflation fell further to 12.5 percent in April 2018 from 13.3 percent in March. Similar declines were recorded for core and food inflation from 11.2 and 16.1 percent, respectively, to 10.9 and 14.8 percent over the same period. While the trend of disinflation is encouraging, I note that the level of inflation is still significantly outside the Bank's tolerance range. The observed moderation in inflationary pressure is, however, threatened by waning base-effects and the liquidity injections anticipated in the second-half of the year. It is therefore imperative to ensure that the path of disinflation is not reversed.

Analysis of monetary developments indicates a 9.9 percent annualised contraction of narrow money supply (M1) in April 2018 in contrast to the targeted expansion of 8.0 percent. Broad money supply (M2), however, grew at an annualised rate 6.5 percent vis-à-vis the 10.5 percent benchmark. The expansion in M2 was fundamentally driven by the 138.4 percent annualised growth of net claims on government, which outstripped the programmed target of 54.9 percent for the year. I note with disappointment the continued sombre outcome of private sector credit with an annualised contraction of 0.5 percent as against a programmed expansion of 5.6 percent. The lacklustre growth of private sector credit reflects the risk aversion of banks especially given the higher NPLs recorded during the last recession. I note that supply of credit to the private sector is primarily determined by risk perception while interest rates merely affect its demand. Hence, it is important to ensure that private sector lending is sufficiently de-risked so as to accelerate economic diversification and ensure inclusive growth. Thus, the CBN will continue to develop initiatives to optimally channel vital credits to pivotal sectors of the economy.

On the whole, I note the continuing improvement in macroeconomic conditions. I also note the potential shocks that could undermine the near-term prospects. Specifically, I note that (i) the cyclical recovery of real GDP is still fragile, (ii) inflation is declining but it remains high and outside acceptable band – with probable risk of upturn in the short-term, (iii) the relative stability in the exchange rate and the external reserves accumulation are satisfactory. However, the current budget outlay of over N9trillion which is expected to be rapidly implemented in the last half of the year, the anticipated huge elections spending, and the on-going interest rate hike by the US Fed threaten the favourable macroeconomic in the short-term if these risks are not adequately hedged.

While concurrence of exchange rate stability, low inflation and low interest is desirable, it is not feasible at this time given the structural realities of our economy. While I remain resolute on the imperatives of a stable equilibrium hinged on price stability, I re-emphasise my certitude for cautious policy decisions. For a few analysts, the observed moderation in inflation rate provides justification for policy ease. However, the prevailing realities especially the double-digit inflation and elevated short-term inflation expectations do not support this. To maintain stability in the FX market and curb inflation expectations, my original standpoint was for further tightening of monetary conditions. However, this could inadvertently introduce impulsive policy shocks. I am of the opinion that the prevailing level of real policy interest rate is appropriate to balance the objectives of exchange rate stability, price stability and output stabilisation. I also believe that the effect of past policies changes is still permeating the system. Consequently, in order to mitigate against potential near-term risks while avoiding disruptive policy shocks, I vote to:

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

**GODWIN I. EMEFIELE, CON**

Governor

May 2018