**CENTRAL BANK OF NIGERIA COMMUNIQUÉ NO 119 OF THE MONETARY POLICY COMMITTEE MEETING OF JULY 23 AND 24, 2018, WITH PERSONAL STATEMENTS OF MEMBERS**

## 1.0 Background

The Monetary Policy Committee (MPC) held its 262nd meeting on Monday, 23rd and Tuesday, 24th July, 2018 amid fragile improvements in global growth and the domestic economic recovery. The Committee reviewed developments in the global and domestic economic and financial environments, as well as the outlook for the rest of the year. The MPC also assessed the risks to price stability, credit growth, employment creation and financial system stability, in the short-to-medium term. Ten (10) members of the Committee were in attendance.

### Global Economic Developments

Global growth momentum remained promising despite rising trade tensions, uncertainties in BREXIT negotiations and scepticism over North Korea's commitment to the denuclearise the Korean Peninsula. Global growth was projected at 3.9 per cent in 2018, compared with 3.7 per cent in 2017, largely driven by the recovery in oil prices, rising asset prices and long term yield on major financial markets as well as a rebound in investment, manufacturing output and trade.

In the Advanced Economies, growth was projected at 2.4 per cent in 2018, the same as in 2017. The growth was expected to be driven majorly by fiscal stimulus in the United States coupled with accommodative financial conditions. In the Emerging Markets and Developing Economies output growth was projected at 4.9 per cent in 2018, up from 4.7 per cent in 2017, due largely to sustained recovery in global commodity prices (particularly crude oil); rebound in investment, manufacturing and trade as well as the strengthening of domestic consumption.

The downside risks to global output growth remains the build-up in financial vulnerabilities; rising costs of borrowing in the Emerging Markets and Developing Economies; fragile corporate balance sheets; escalating trade protectionism, uncertainties around the BREXIT negotiations; heightened geopolitical tensions; and fiscal sustainability concerns.

Global inflation was projected at 3.2 per cent in 2018, driven by rising energy prices, and currency depreciations in some emerging market and developing economies. In the advanced economies, inflation was projected to increase to 2.2 per cent in 2018, up from 1.7 per cent in 2017, as a result of increases in the cost of transport, housing, energy and food. Similarly, inflation in the emerging markets and developing economies is projected to rise from 4.0 per cent in 2017 to 4.4 per cent in 2018, due to currency depreciations and rising energy prices. The Committee believes that global inflation is likely to remain subdued over the medium term relative to long term trends despite subsisting monetary accommodation in some advanced economies.

**Domestic Output Developments**

Economic recovery was sustained with a positive outlook over the medium-term, anchored on oil price recovery, fiscal spending and stability in the foreign exchange market. Data from the National Bureau of Statistics (NBS) showed that real Gross Domestic Product (GDP) grew by 1.95 per cent in the first quarter of 2018, compared with 2.11 per cent and a contraction of 0.91 per cent in the preceding and corresponding quarters of 2017, respectively. The oil sector, which contributed 1.26 per cent in Q1 2018, compared with 0.76 per cent during Q4 2017 was the major source of the growth. The Purchasing Managers Indices (PMI) for manufacturing, and non-manufacturing activities rose for the fifteenth and fourteenth consecutive months to 57.0 and 57.5 index points, respectively, in June 2018. The Committee noted the positive impact of the sustained improvement in foreign exchange supply on the performance of manufacturing and other key sectors of the economy. The Committee welcomed the positive economic growth, but observed that the recovery was still fragile and called for the speedy implementation of the 2018 Federal Government Budget and the Economic Recovery and Growth Plan (ERGP) to strengthen output growth in the Nigerian economy.

## Developments in Money and Prices

The Committee observed that Narrow money (M1), contracted by 4.25 per cent, annualised to -8.49 per cent, relative to the provisional benchmark of 8.04 per cent. Broad money supply (M2), however, grew by 2.79 per cent in June 2018, annualised to 5.58 per cent, compared with the provisional growth benchmark of 10.84 per cent for fiscal 2018. The increase in M2 was mainly driven by Net Foreign Assets (NFA), which grew by 18.15 per cent in June 2018, annualised to 36.30 per cent, compared with the provisional benchmark of 18.15 per cent for 2018. The development reflected improvements in foreign receipts arising from favourable crude oil prices. On the other hand, Net Domestic Credit (NDC) contracted by 1.40 per cent, annualized to -2.80 per cent, compared with the provisional benchmark of 12.45 per cent. The development was driven largely by the decrease in net credit to government, which contracted by 9.74 per cent in June 2018, annualised to -19.48 per cent against the provisional benchmark of 54.97 per cent. Credit to the private sector similarly contracted by 0.04 per cent, annualised to -0.08 per cent in June 2018, in contrast to the provisional annual benchmark of 5.64 per cent.

A revised and seasonally adjusted money supply aggregate, however, showed an uptick. The new aggregate (M3), which is still being finalised by the Bank, appears to comprehensively capture the liquidity in and outside the banking system, compared with the existing M2. More details about the impact of M3 on macroeconomic variables would be reviewed at future MPC meetings.

Headline inflation (year-on-year) trended downwards for the seventeenth consecutive month to 11.23 per cent in June 2018 from 11.61 per cent in May 2018. Food and Core inflation also fell to 12.98 and 10.40 per cent, from 13.45 and 10.71 per cent, respectively, over the same period. The Committee, however, noted the rise in the month-on-month inflation rate, to 1.24 per cent in June, from 1.09 per cent in May 2018. Food inflation (month-on-month) also increased from 1.33 per cent in May to 1.57 per cent in June 2018, representing an increase of 0.24 percentage point. During the same period, core inflation (month-on-month) also rose by 0.05 percentage point, from 0.98 per cent in May to 1.03 per cent, in June 2018. In view of the trend in rising month-on-month inflation rate, amid the slowly declining year-on-year headline inflation, indications were that inflationary pressures are rebuilding in the domestic economy.

The review of developments in the money market revealed that the average inter-bank call rate fell to 5.0 per cent in June 2018, from 25.43 per cent in May 2018, while the average Open Buy Back (OBB) rate decreased from 18.37 per cent in May 2018 to 10.84 per cent in June 2018. The trend in market rates and the net liquidity position reflected the impact of the auction of Open Market Operations (OMO) bills, foreign exchange interventions, FAAC allocations to various levels of government, as well as the servicing of maturing CBN Bills.

External reserves stood at US$47.2 billion on July 23, 2018. The Committee was optimistic and expected further increases in the level of external reserves in the near term, citing the favourable crude oil prices. The Committee, therefore, advised the Bank to sustain its current efforts to maintain investor confidence and ensure accretion to external reserves. The MPC also called on the Federal Government to continue to build fiscal buffers against possible oil price shocks in the future. Noting that the rise in the monthly distribution of revenues at the FAAC portend the danger of the absence of reserve buffers to absorb shocks in the future.

The All-Share Index (ASI) increased marginally by 0.09 per cent to 38,278.55 on June 29, 2018, from 38,243.19 at end-December 2017. Market Capitalisation (MC) also increased by 1.89 per cent to N13.87 trillion on June 29, 2018, from N13.61 trillion at end-December 2017. However, ASI and MC fell by 7.24 per cent, respectively, on June 29, 2018 compared with the level at end-April 2018, due majorly to profit taking activities of investors, and the effect of monetary policy normalization in the United States. The Committee noted with satisfaction, the relative stability in the foreign exchange market and high level of activities, particularly, at the Investors' and Exporters' (I&E) window.

The Committee noted the commencement of the currency swap deal with the People's Bank of China (PBoC) and observed that the availability of Renminbi currency to Nigerian investors would ease pressure in the foreign exchange market. The MPC called for speedy implementation of the framework of the currency swap and urged the Bank to carry out sensitization programme for the public.

**2.0. The Overall Outlook and Risks to the Domestic Economy**

The forecasts of key macroeconomic indicators point to positive economic growth in the second half of 2018. The expectation is premised on the implementation of the 2018 budget, sustained stability in the foreign exchange market, as well as increase in crude oil production and prices. The MPC, cautioned that the downside risks to the growth outlook include: continuing delay in the implementation of the 2018 budget; worsening farmer-herdsmen conflicts in some parts of the country; continued non-payment of workers' salaries and pensions in some states; rising sovereign debt, as well as uncertainties surrounding the direction of trade, including the external demand for Nigeria's oil.

Inflation forecast for the near term points to further moderation in price level in the short term. However, the downside risks to inflation include: the impact of excess liquidity that could arise from the implementation of the approved N9.12 trillion 2018 FGN budget; pre-election spending; anticipated review of salaries and wages; security challenges; and monthly FAAC injections. Although these could boost aggregate demand, it would equally exert upward pressure on domestic prices for the rest of the year. The Committee, therefore, called for a co-ordinated fiscal, monetary and exchange rate policies to stem the upward build-up in price pressures.

The Committee observed that rates in the foreign exchange market have remained relatively stable in near term, supported by continued intervention in the market by the Bank, sustained increase in the price of crude oil in the international market, as well as positive developments in the external sector.

### 3.0. The Considerations of the Committee

The MPC noted with satisfaction the fourth consecutive quarters of growth in real GDP and the positive growth outlook in the domestic economy. This is shown by the sustained improvement in the Manufacturing and Non-manufacturing Purchasing Managers' indices in the second quarter of the year. The MPC commended the approval of 2018 Federal Government budget and called for an accelerated implementation to further support the fragile growth recovery. The Committee also called for sustained implementation of the Economic Recovery and Growth Plan (ERGP) to further stimulate output growth. The Committee was, however, concerned about the liquidity impact of the 2018 expansionary fiscal budget and increasing FAAC distribution, arising from rising prices of crude oil as well as the build-up in election related spending.

Notwithstanding, the positive direction of the outlook, the MPC reviewed the effects of the sustained monetary policy normalization in the US with implications for capital flow reversals, exchange rate and domestic price pressures, as well as other challenges to growth during the second half of 2018.

The Committee took note of the sustained moderation in inflationary pressures, especially headline inflation, as well as stability in the foreign exchange market, but expressed concern on the threat posed by incessant herdsmen-farmers crisis in some key food producing states and the negative impact on food supply chains which would continue to exert upward pressure on food prices. The Committee, therefore, called on the Bank to continue to build on the progress already made to sustain the moderation in inflation.

The MPC also observed with satisfaction high level of activities in the Investors' and Exporters' (I&E) window of the foreign exchange market which continued to supply liquidity in foreign exchange market, narrow exchange rate premium, and reduce speculative activities in the market.

The MPC noted the continued improvements in the performance of deposit money banks and expressed optimism that the moderation in the levels of non-performing loans in the industry would continue. The Committee, therefore, called on the Federal Government to accelerate the settlement of outstanding contractor debts and also encourage the Bank to ensure strict compliance prudential guidelines.

In discussing the economic report presented to the members, it was observed that as the prices of crude oil rose in 2017 and 2018, the monthly allocation to various levels of government also increased, suggesting that the Federal Government may not be saving adequately for the future. The Committee, therefore, advised the fiscal authority to build-up buffers, especially now that the price of crude oil is relatively high.

**4.0. The Committee's Decisions**

Informed by the developments in the global and domestic economic and financial environments, the Committee painstakingly reviewed the policy options available. In particular, the Committee considered the sustained positive growth in real GDP over the last quarter, stability in the foreign exchange market and high level of accretion to the external reserves.

The MPC deliberated on the rise in food inflation, impact of the expected liquidity from expansionary 2018 FGN budget and rising FAAC disbursement in the second half of the year along with the build-up in pre-election year spending. The Committee strongly considered the option of tightening believing that tightening would curtail the threat of a rise in inflation, even as the injection from the fiscal authorities would still provide the economy with substantial liquidity. Notwithstanding the deceleration in headline inflation, the current double digit inflation rate remains above the Bank's 6-9 per cent target range. In addition, the Committee was of the view that tightening would help stem the tide of capital flow reversals in the face of sustained monetary policy normalization in the US. This, the Committee believed would rein-in inflationary pressure and moderate inflation rate to single digit, increase real interest rate, build investor confidence with attendant positive impact on capital inflows and further stabilize the country's exchange rate.

On the contrary, the Committee was of the view that raising interest rate at this time would weaken consumption and raise the cost of borrowing to investors in the domestic economy. In addition, the policy would trigger the re-pricing of financial assets by deposit money banks, thus further constrict credit to the real sector, and that would promote non-inclusive growth.

In considering the option of loosening, the Committee assessed the potential effects of stimulating aggregate demand through lower cost of capital. This could stimulate consumption and aggregate demand. The Committee, however, considered its potential relevance, taking into account the expected liquidity injections from the 2018 budget, increased FAAC disbursements and election related spending ahead of the 2019 general elections. If these crystalize, it would exacerbate inflationary and exchange rate pressures as well as return the real interest rate into negative trajectory. Moreover, lowering the policy rate may not translate to an automatic reduction in market rates due to poor transmission mechanism owing to structural rigidities. The Committee was also of the view that loosening could reverse the gains already made on reduced importation which has strengthened the current account balance. It would also lower banks risk appetite and possible rise in NPLs which could negatively impact on the banking industry stability.

In the discussion for a hold, it was noted that risks to the macroeconomic and financial environment appears fairly balanced with improvements in output growth and inflation. Holding policy at the current stance would support growth and further moderate inflation. The Committee, however, noted the preference of the public for loosening, concerns that the MPC had held the MPR at 14 per cent since July 2016 and also considering the dynamic nature of the market, the MPR may have lost its signalling effect to the market. The argument in favour of maintaining the current policy stance is to monitor the magnitude of the liquidity impact of the fiscal injections and election-related expenditure ahead of the 2019 general elections.

Overall, the MPC was of the opinion that, while it is difficult to encourage job creation in an environment with deficit infrastructure, the Committee believes that the Bank should continue to encourage deposit money banks (DMBs) to increase the flow of credit to the real economy to consolidate economic recovery. In this regard, the Committee believed that a heterodox approach to reform the market in order to strengthen the flow of credit would be appropriate at this time. Consequently, credit constrained businesses, particularly the large corporations are encouraged to issue commercial paper to meet their credit needs and the Central Bank of Nigeria may, if need be, buy those instruments to complement the efforts of the DMBs. In addition, as a way of incentivise deposit money banks to increase lending to the manufacturing and agriculture sectors, a differentiated dynamic cash reserves requirement (CRR) regime would be implemented, to direct cheap long term bank credit at 9 per cent, with a minimum tenor of seven (7) years and two (2) years moratorium to employment elastic sectors of the Nigerian economy. Details of this framework are being worked out by the Banking

Supervision, Monetary Policy and Research Departments of the Bank and would be released soon.

In consideration of the foregoing, therefore, the Committee decided by a vote of Seven (7) members to retain the Monetary Policy Rate (MPR) at 14.00 per cent alongside all other policy parameters. Two (2) members, however, voted to increase the MPR by 50 basis points, while one (1) member voted to increase the MPR by 25 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

24th July, 2018

## PERSONAL STATEMENTS BY THE MONETARY POLICY COMMITTEE MEMBERS

### 1. ADAMU, EDWARD LAMETEK

Very much like the two previous meetings (April and May) the July 2018 meeting of the Monetary Policy Committee (MPC) held against the backdrop of improvements in key (domestic) economic and financial system indicators relative to 2017. On the global front, geopolitical tensions and trade issues have remained, even as the outlook for global output growth continues to be largely positive. However, the outlook for domestic economic conditions going into 2019 is laden with uncertainties around liquidity and capital flows, among others.

As I evaluated the available data and forecasts, I noted especially, the fragile nature of the gains in the current macroeconomic and financial outcomes. This essentially strengthened my persuasion on the need for more reforms in the country's fiscal and financial systems to deal with persistent liquidity threats and ensure better credit intermediation, respectively. Whereas measures by the Bank continue to be relevant stop gap, those alone would not permanently solve the fundamental structural impediments to lasting economic stability. Infrastructure continues to be a key imperative towards easing some of the constraints on credit delivery and growth in the economy.

Mindful of the extant threats to the relative stability seen year-to-date, which I will further explain, I figured that monetary policy needed to continue in the restrictive mode. The pace of deceleration in year-on-year inflation continued to slow in June 2018. Meanwhile, the month-on-month indices did not only rise but did so much faster than observed during the previous month. Specifically, the headline index rose by 1.64 per cent; core index rose by 1.03 per cent and food index increased by 1.57 per cent, from 1.09, 0.98 and 1.33 per cent respectively in May. A critical element of the disinflation effort of the Committee has been price expectation management. The restrictive stance of policy has, to a large extent, helped to lock-in inflation expectation and should be preserved in the face of the threat posed by the likely liquidity injections in the rest of the year.

While demand management remains a useful approach to curbing price pressures in the short-term, it necessarily cannot be depended upon alone to achieve long-term stability. Ultimately, supply constraints will have to be removed or substantially ameliorated to ensure enduring price stability. This is the case with not only consumer prices but also the exchange rate. And so, in considering policy options for managing the risks to inflation and the naira exchange rate, I saw (as always) the need to factor-in economic growth and employment concerns. In the absence of firm real GDP data for Q2, 2018, indications from the Purchasing Managers' Indices (PMIs) came quite handy. Both manufacturing and non-manufacturing PMIs, at 57.0 and 57.5, respectively for June, showed some prospects of output expansion, which should be sustained and possibly strengthened in the interest of jobs and poverty reduction.

On the financial side, the numbers suggest that markets are reacting as expected to relevant developments. Bond yields and interest rates are declining albeit slowly, partly reflecting the deceleration in inflation and market sentiment. Likewise, money market interest rates (interbank, prime and maximum lending rates) all moderated in June reflecting in part easing monetary conditions. Slowing portfolio inflows (and rising outflows) on the heels of policy normalization in the advanced economies, strengthening US dollar and election-related anxieties continue to engender a bearish stranglehold on equities. The inherent risk in all of these is the possibility of overreaction which can and should be mitigated by sustained confidence building actions by market regulators.

Owing mainly to the recovery in the broader economy and corrective actions by the CBN, key banking industry indicators maintained the path of recovery in June as the non-performing loans (NPLs) ratio moderated and the capital adequacy ratio (CAR) rose mildly. Other financial soundness indicators (FSIs) including return on equity (ROE) and return on asset (ROA) also suggested growing industry resilience. However, these improvements are yet to translate to the much needed real intermediation. This is quite concerning because financial stability isn't an end in itself; it must lead to improved services to the critical sectors of the economy, to be meaningful. It is in this light that the Committee committed at the July meeting to another initiative directed at promoting private sector credit. While that is expected to soothe the situation in the short-term, a long-term solution would be one that comprehensively addresses the risk concerns and apprehensions of DMBs with non-prime borrowers in particular. On their part, industry managers need to grow banks' resilience to shocks as well as their capacity to function by stepping up deposit mobilization and capitalization.

In my statement following the May 2018 meeting, I stressed the need for buffers on both fiscal and monetary sides. I belief that this continues to be important for overall stability, particularly in view of the rather hazy outlook for global economic and financial conditions. Though much higher compared to 2017, crude oil prices appear to be softening already (with OPEC basket averaging $73.2 and $70.9 in June and July respectively from $74.1 in May). Rising yields in the US and strengthening dollar could continue to pressure reserves and currencies in emerging markets and developing economies (EMDEs). These risks and others highlighted earlier lead me to the same conclusion as in my last statement, which is that we need a cautious approach to monetary policy at this time.

Overall, I could see the balance of risks tilting against price stability particularly when due consideration is accorded external threats and the domestic liquidity risk. However, given that most interest rates are currently positive in real terms; routine monetary sterilization should be sufficient to keep the stance of monetary policy tight without any new adjustments to the primary policy levers at this point. As such I voted to retain all the monetary policy parameters at the levels before the July 2018 meeting. 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

### Introduction

The staff presentations at the July meeting of the MPC provided robust information about the current and medium term outlook of the global and domestic economies as well medium outlook for the Nigerian economy.

A lot of the developments reported at the last May MPC meeting maintain their trajectories. However, a few others signal impending effects on the course of existing monetary policies in Nigeria, if there is no time-path reversal.

### Development in International and Domestic Economies

The global and domestic economies broadly remain on the positive trajectories since the May meeting of the MPC. Global output growth remains robust as the US economy and others continue to pose strong positive growth. Global commodity prices, including oil, maintain northward trajectory. There is widespread disinflation in most emerging countries. The labour market is also looking upbeat in the world's largest economy. However, the volatilities in capital market remain in emerging countries' market.

However, a number of cloud continues to hang on the global economy: the trade war between the two largest economies – the US and China continue, global cooperation among OECD partners seem threatened, global tensions have not abated much as US proceeds with the withdrawal from Iran nuclear deal, the rising value of dollar and worries about inflation growth in the US and the UK, will continue to exert pressures on portfolio investment and foreign reserves in emerging markets as interest rates go north. Nigeria remains one of the few countries that have been exempted from significant currency depreciations largely due to the significant exchange reserves to protect the Naira. Uncertainty on the Brexit negotiation increases uncertainty on global economy.

In the domestic economy, a number of good news continue to be recorded: foreign reserves accretion continues, annual output is projected to grow by about 2.3 per cent at the end of the year, disinflation path continues year on year, Purchasers' Manufacturers index (PMI) climbs slightly. Staff presentation shows a slight drop on quarterly unemployment rate.

Domestic deposit banks continue to record improved performance. NPLs continue its downward trend. Deposit and asset values of the banks continue to grow, however, credit growth to the private sector was negative. This is unacceptable in the face of huge unemployment and relatively low capacity utilization in the industrial sector. Bank operational costs remain unacceptably high. This continues to keep lending rates unacceptably high, which may affect the efficacy of simple reduction in the MPR. Lending rates seems asymmetric to MPR changes under the current economic situation. The low appetite for risky investment and flight to safer fixed income assets is a source of concern to unlocking credit to the economy.

I support the MPC decision for the CBN to explore unconventional way of unlocking credit to the private sector by exploring smart use of monetary instruments and other methods.

However, the fiscal positions continue to be a source of major concern. High deficit in the 2018 budget remains a source of concern. We are just not building buffers in a period of high oil prices, we are also not living within our means. Components of government revenues continue to underperform while non-capital expenditure remains fairly sticky downwards in the first quarter of 2018.

The inflationary pressures seem to be building up given the month on month increase in headline inflation rate. There is a genuine anxiety about liquidity surfeit in a pre-election year, with anticipated high election spending, as political parties fail to keep to election spending guidelines, late passage of the 2018 appropriation bill, the supplementary bill submitted to the National Assembly, and the tensions between the executive and the legislature. I am concerned about the low efficiency of the government capital expenditure, which could provide a boost to the real sector, the rising fuel subsidy claims by the NNPC, the emergent of inflation pressure, the proposed increase in minimum wage, the uncertain fate of the PIB, the underperforming of the power sector and rising debt service component of the 2018 budget.

**Decision**

My vote has been influenced by need to watch if the recorded month on month increase in inflation rate is a signpost for emergence of excess liquidity in the economy or a transient occurrence. I will keenly watch for this in the next meeting of the MPC as it is important to ensure the MPC success so far to sustain the primary mandate of the CBN to maintain price and exchange rate stability is not reversed. I prefer to wait a little longer while hoping that current efforts to enhance private access to affordable credit to support non-oil growth and increase job creation by the MSME, keeps inflation pressure under lid.

Hence I cast my vote to maintain existing policy stance:

i. **Keep MPR at 14%**
ii. **maintain CRR at 22.5%**
iii. **Maintain existing asymmetric corridor around the MPR**

## 3. AHMAD, AISHAH

Half way into the year, the path of growth and other macro-economic indices are more evident, but the effect of the emerging global and domestic economic landscape still bears uncertainty.

**Global growth forecasts threatened?**

Whilst the IMF and World Bank retain their global growth projections for 2019 at 3.9% and 3.1% respectively, increasing trade and geopolitical tensions challenges this optimism. Brexit negotiations are yet to breakthrough, geopolitical risk of a trade war has begun to manifest as China, Mexico, Canada all contemplate retaliatory trade tariffs in response to US trade policy and the US has decided to exit the Iran nuclear deal and impose broad sanctions on Iran. These are only a few examples of the potential uncertainties and headwinds for growth; given that China and the US contribute an estimated 53% of global GDP; we may yet see adverse effects on global output.

This global picture expectedly has implications for domestic fiscal, monetary policy and growth prospects. As long-established global trade arrangements unravel, Nigeria must realign its trade policy seeking bilateral agreements that ensure its relevance in the post trade-war world order. Sanctions on Iran may raise oil prices, which is positive for Nigeria in the short term; enhancing the ability to fund the budget and build fiscal buffers. Over the long term however, shale oil investment and the reduction of fossil fuel dependence by major economies (e.g. China) may mean that crude oil as a significant revenue earner for Nigeria may diminish. This calls for urgency to diversify the economy away from oil, by re-invigorating local industry to replace imports and fuel growth.

**Domestic growth indicators appear positive**; While the GDP growth numbers for the second quarter are still expected, the Purchasers Managers Index (PMI) – a leading indicator for GDP, suggests expansion in economic activities with 57.0 points recorded in June 2018, an improvement over the 56.5 points in May 2018. Despite this positive trajectory, a stronger, more resilient and inclusive growth is desirable in view of the currently high population growth, unemployment rate and weak per capita income.

**Stability and improved convergence in the exchange rate reflects the importance of Nigeria's external reserves** buffer which has grown substantially over the last two years and currently stands at N47.6billion as at July 18th 2018. Accretion to reserves has been driven mainly by the sustained recovery in crude oil prices, innovative exchange rate policies of the Central Bank of Nigeria (CBN) across various segments and export expansion / import substitution initiatives. These have given the CBN greater flexibility in managing the exchange rate.

For instance, BDC rates appreciated to N360.5/$US (June 29) from N362.4/$US in November 2017, whilst the premium between the interbank and BDC rates narrowed to 17.9% from 18.48%, over the same period, indicating increasing rate convergence due to sustained supply of Foreign exchange (FX) by CBN and its commitment to promoting stability, liquidity and transparency in the FX market. FX flows through the economy from CBN and autonomous sources also improved; reports from Bank staff indicate FX from non-oil exports increased by 22% from January to April 2017 compared with same period in 2018, and overall funds inflow into the FX market grew by 18% over the same period.

Although recent foreign investor exits have put pressure on the reserves, the CBN has been able to retain confidence of global investors by maintaining the supply of investment outlets and intervening to support market liquidity where required to facilitate seamless exits for international investors who are so inclined. This willingness to defend the naira stability has gone a long way to enhance market confidence and retain net positive FX flows which have remained largely positive over the first half of 2018.

**The stability of the naira, amidst improving domestic production and tight monetary policy stance has helped moderate inflation trends.** Recently released data by the National Bureau of Statistics shows a further decline in headline inflation to 11.23% in June 2018 from 11.61% in May 2018. Core and food inflation also declined to 10.39% and 12.98% in June 2018 from 10.71% and 13.45% respectively in the preceding month. However, month-on-month headline inflation and its major components increased for the third consecutive month since April, 2018 – signaling waning base effects and possible expression of the anticipated inflationary shocks of huge fiscal liquidity injections and early election spendings. Whilst these shocks are yet to fully manifest, movements in monetary aggregates suggest a higher level of liquidity than previously captured which threaten the price stability remit.

**Monetary developments point to warning signs of expanding money supply**. Certain monetary aggregates indicate a higher than desired expansion in money supply which has implications for inflation in the short term. Net Foreign Assets annualized, grew by 36.3% in June 2018 against the provisional benchmark of 18.15% for 2018. Bank staff are currently examining the propriety of expanding the definition of monetary aggregates to capture the full effect of monetary flows in the aggregate measures. Despite the expansion in aggregate money supply, credit to the real economy remains weak, underscoring the need to further stimulate bank lending, coupled with sustained interventions by the CBN in growth enhancing sectors.

**Whilst credit expansions lags, improvement in financial condition metrics for the banking system is gratifying;** the Banking stability report shows improvement in capital adequacy ratios from 11.43% in February 2018 to 12.08% in June 2018 and declining non-performing loan ratios from 16.21% to 12.45% over the same period, reflecting the gradual positive impact of economic recovery on the banking sector. Although the maximum and prime lending rates declined marginally, new credit to the private sector also declined and interest rates remained higher than ideal levels required to stimulate new investment. Review of industry profitability indicates tightening margins; with lower interest earned - as yields on government securities moderate - and higher interest expense - as industry liabilities grow. For instance, Interest margin to total operating income has declined on average since December 2017. Hopefully, the quest to retain margins will help refocus banks' to increase lending to the real sector. As part of the CBN's efforts to expand access to credit and reduce interest rates to critical real sectors, two key policy initiatives were considered; encouraging the issuance of commercial papers and implementing a dynamic Cash Reserve Ratio (CRR).

**It is welcome news that the 2018 Appropriation bill has been signed by the President.** Fiscal spending from the budgeted N9.1 trillion for 2018 fiscal year should help expand economic activities, through improved household income and capital expenditure. However, the recent reduction in Nigerian oil production, if unchecked, may impact earnings and increase the likelihood of a higher deficit which also threatens ability to build fiscal buffers. More importantly, expected large liquidity injections over the second half of the year, has inflationary tendencies which should be curbed through cautious monetary policy decisions, to forestall reversing the disinflation gains recorded so far.

**Policy Decision**

The foregoing developments justify retaining the tight policy stance adopted over the last few MPC cycles to rein in negative price developments. This has now become even more critical in the face of disappearing inflation base effects and signs of significant growth in monetary aggregates.

Understandably, there is concern for substantially raising the MPR to achieve the price stability remit, viz-a-viz the potential stifling effect of this tightening stance on economic growth. However, a marginal increase in the MPR, supported by heterodox policy interventions designed to increase credit to critical export-stimulating and employment-generating sectors, should help achieve the ultimate objective; price stability conducive to economic growth.

Thus, I vote to raise the MPR by 25 basis points to 14.25% and retain the 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

**Introduction:**

The July 2018 meeting held at a time of mixed signals on the key triggers of monetary policy rates including inflation (current levels and forecasts), output (current level and potential estimates) and official interest rate changes abroad. In parallel with these triggers are uncertainties in the international economic outlook relating to the escalating trade conflicts, the unresolved tensions in the Middle East and the Korea Peninsula, while at the domestic economic outlook there are still uncertainties with external reserve movements and some financial market conditions. As such, even with rising local market expectations of a possible downward slide in monetary policy rates, these emerging developments would rather require a cautious approach to policy decisions at this July MPC meeting.

**International Economic Outlook**

The ongoing monetary policy normalization in the United States and the possibility of further adjustments is increasing uncertainty in the financial markets across the globe. In March, the US Federal reserve raised the policy rates by 25 basis points to 1.5-1.75 percent, while in June, the rates were further raised to a range of 1.75-2.00 percent. This is believed to have triggered a series of foreign portfolio outflow from several countries including Nigeria, South Africa, Egypt and Ghana. With the Bank of England signalling a rate hike in July/August 2018 and with projections of another hike in 2018 by the US Federal Reserve, monetary policy stance in Nigeria at this time must be cautious reflecting a balance between the magnitude and timing of monetary policy adjustments amongst these developed countries (especially USA and UK) while maintaining a balance between the domestic economic forecasts especially inflation and output projections. Interestingly, while India and Indonesia raised policy rates between May and June 2018, most other countries including Japan, Brazil, China, South Africa, Egypt and Kenya retained policy rates between May and June 2018.

Contrary to GDP growth forecasts for 2018, CBN staff report show that real GDP growth rates for the first quarter in 2018 retracted in several countries including US, the Euro Area, UK, China and South Africa when compared to the fourth quarter of 2017. An upturn in the global growth is however expected in the second and third quarters of 2018 given the favourable investment climate, robust consumer spending and supportive fiscal policies expected in many developed economies and the expected surge in prices of several commodities. This is expected to happen despite the growing trade conflicts. This can be a source of increased uncertainty regarding the pace of expected monetary policy adjustments in the developed economies in the event of a planned growth acceleration.

Similar to the 2018 first quarter trend of global output, there were signs of inflationary trends across major economies. CBN staff report show that the US inflation rose to 2.9% in June from 2.8% in May, while in the Euro area, it rose to 2.0% in June 2018 from 1.9% in May 2018. There were also moderate inflationary increases in China, Egypt, South Africa, Ghana and Kenya in June as compared to May, but unchanged in UK and Japan within the same period. As inflation deviates from the target in many of these developed economies, the process of monetary policy adjustment may probably continue especially in the immediate period.

Global stock market volatility remains a key concern given its effect on financial market liquidity especially for developing and emerging economies. With the exception of the stock markets in North America (US, Canada and Mexico), most other stock markets in Africa, Asia and South America witnessed declines between April and July 2018. Despite this rise in volatility, market sentiments and expectations remain largely positive as equity and bond flows to emerging and developing economies are expected to bounce back in the shortest possible period but this optimism is favourable only with a relatively tight monetary policy stance.

## Domestic Economic Outlook:

Short term prospects of the domestic economy generally show some improvements especially for inflation and output trend, but there are mixed signals for the external reserves as well as other financial market indicators.

The trend decline (year on year) for both headline and core inflation continued in June 2018. Headline inflation dropped from 12.48 in April to 11.61 in May and further to 11.23 in June while core inflation also dropped from 10.92% in April to 10.71 on May and further down to 10.39% in June. While CBN staff forecast suggest a continued deceleration of inflation rates up to November, the sluggish and sticky decline since May 2018 sends signals of more vigilance. The anticipation of possible future inflationary pressures in the last quarter of 2018 arising from both the expected election spending and the 2018 budget injections will require a cautious monetary policy stance at this time.

The domestic GDP remains robust eventhough the 2018 quarter 2 estimates are yet unpublished at time of the July 2018 MPC meeting. Real GDP grew by 1.95% in the first quarter which is slightly lower than the revised 2017 fourth quarter growth of 2.11%. It is expected that the growth momentum will be maintained in the second quarter especially given the uptick in the June Purchasing Managers Index (PMI). The Manufacturing PMI grew at a faster rate in June when compared to the earlier months and indicating a consistent expansion in the Manufacturing sector for a fifteenth consecutive month. Similarly, the increase in June also indicating an expansion for a fourteenth consecutive month. These points to positive sentiments on growth prospects and realization of business expectations as well as general improvements in the economy.

In contrast to the growth and inflation trajectory, there have been mixed performance and some uncertainties in the external sector and financial market indicators. For instance, recent mild volatility in the external reserve position has seen it rising up to US$47.5billion by mid May 2018 but dropping to $US46.91 in early June and increased somewhat after. This development has been attributed to the sudden capital outflows initiated by mainly non-residents. A similar volatility has been persistent in the last few months in the capital market with almost daily swings in both the All-Share Index and total Market Capitalizations. For instance, the Market Capitalization which stood at 14.9 trillion Naira in end of April 2018 had dropped to 13.26 by July.

Banking sector soundness indicators improved considerably by end of June 2018 based on CBN Staff report. There were improvements in the capital adequacy ratio, the non-preforming loans ratio as well as the profitably indicators (return on assets and return on equity). For instance, the capital adequacy ratio which was 11.95% by April had increased to 12.08 in June while the non-performing loan ratio which is a measure of the Industry's asset quality had reduced to 12,45% in June from the previous level of 14.15% in April 2018. Surprisingly, the trend in total deposits and total assets declined marginally between May and June 2018, but there was an increase in new credit which raised the overall total credit between May and June. In addition, the spread between maximum lending rates and the consolidated deposit rates narrowed in June when compared to the earlier months.

**Downside Risks to the Outlook:**

Despite the positive momentum in the inflation rates, growth rates as well as key banking soundness indicators, there are still significant downside risks with potential to reverse any expected impact of the monetary policy stance at this MPC meeting. These include the rising levels of debt, volatility of commodity prices, capital flows. In addition, the increasing utilization of the CBN Standing Lending Facility by deposit money banks and the continued reluctance of banks to lend to the desired sectors of the economy pose substantial threats to the monetary policy stance.

In my previous personal statements, I have mentioned the threat of rising public debt in the midst of declining government revenue. Provisional fiscal data up to June 2018 show that the total fiscal revenues still fall below the target thus paving way for further accumulation of both domestic and possibly external debt. As I rightly mentioned in my last personal statement, once these debts are not backed by highly productive assets, it can pose serous financial risk which portends future danger for the entire economy.

The oil price

**Decision:**

Given the collection of uncertainties at this July 2018 meeting of the Monetary Policy Committee, especially relating to possible domestic inflationary threats and swings in the international monetary adjustments, I am personally disposed to a ‘wait and see approach’ and will therefore 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%

## 5. BALAMI, DAHIRU HASSAN

### INFLATION

The mandate of the CBN is primarily to control money supply to achieve price and exchange rate stability. It also supervises and regulates the financial institutions to promote economic growth and full employment. At the global level, inflation is projected to rise from 3.1% in 2017 to 3.2% in 2018. The rising level of price is due to increasing energy price (crude oil) and currency depreciation in developing and emerging markets. As the oil price continues to increase upward, inflation picked up moderately in some countries and marginally above the long term trend in some advanced economies. However, core inflation has become weak in many economies while it appears to have bottomed out in the developing market. The domestic inflation in Nigeria had decelerated for the 17th consecutive month although still in double digits, which is still higher than the CBN expectations of 6-9 %. Headline inflation, year-on-year, declined from 11.61% in May to 11.23% in June 2018 due to relative stability in the foreign exchange market, development activities of the central bank and restrained fiscal activities. The drivers of price pressure such as high cost of transportation; high energy costs; insurgency in the North-East; herdsmen and farmers clashes and other security issues however remains structural.

### CREDIT AND GROWTH

Domestic credit is important in stimulating real output in the economy when properly managed. A number of studies have shown that credit granger causes output and non-oil exports have positive relationship with credit. Credit is also positively related to capital inflows and imports. It should be noted that bank credit is closely related to opening of the economy to capital inflows and international trade. Growth on the other hand is the capacity to raise national incomes or level of production of goods and services in an economy over a period of time usually one year. The distribution of credit in June 2017/18 shows that oil and gas (30.4%), manufacturing (12.9%), government (9.55%) and then general commerce (7.37%), general (6.17%) and finance and insurance (5.31%), are the major sectors with credit concentration. It is evident that some of the sectors with the largest concentration of credit have low employment generation. Therefore it should be of concern why credit to real sectors of the economy such as agriculture, mining, quarrying, and real estate remain relatively low. Though available data however shows increase in credit to Arts, Entertainment and Recreation (34.45%), mining and quarrying (24.02%) and other sectors such as finances and insurance (18.94%), water supply sewage, waste management (16.46%) is high compared to other sectors such as Construction (2.75%), Power and Energy (4.16%), Education (4.45%), and Real estate activities (7.78%) including manufacturing (9.3%). Despite the aforementioned percentage increase in manufacturing, construction and real estate are not encouraging. Therefore there is need to channel more credit to the real sector given its contribution to GDP and employment.

The low level of private sector credit might be due to high non-performing loans. High interest rate on loans also discourages the private sector from borrowing. The challenge of credit to the private sector is not only with high interest rate but with lack of adequate collaterals. Greater proportion of stakeholders in the economy do not have collaterals. Hence, the need to introduce movable asset register to enable DMBs clients have collaterals which would enable small scale borrowers to have access to credits.

Many economic agents called for a reduction in MPR which is seen as the anchor rate. This rate which is determined by the MPC does not work as expected in Nigeria. When the MPR rises, the Deposit Money Banks (DMBs) raise their rates too, but whenever the CBN lowers its rate, the DMBs will not lower their rate because of the need to maximise their earnings. As a result, the CBN has adopted a number of unconventional monetary policies to encourage access to credit to the real sectors of the economy through the adoption of the following strategies;

i. Anchor Borrowers Scheme
ii. Small, Medium Scale Enterprises Fund etc.
iii. Encouraging Company to Issue Commercial Papers to the Private Sector
iv. Creation of Movable Asset Register platform

The government lowered the treasury bills rate from 18% to 10.5%. This has made the treasury bills less attractive to the DMBs and encourages them to extend more credit to the private sector by reducing their lending rate to single digit because of increase in their liquidity holdings.

In my opinion the Anchor Borrowers Scheme should be modified by slashing the interest rate from 9% to 5%. The 5% interest rate should be shared between the CBN (3%) and DMBs (2%) participating on the programs to promote accessibility to credit and growth in the economy.

Credit expanded to the private sector of the economy will positively impact on those operating in the real sector of the economy such as agriculture, industry and manufacturing, as well as mining and quarrying. This will play an important role in stimulating growth in the economy specifically in employment generation sectors. The current rate of growth in the economy is positive, but below the domestic desired growth rate of 5% or 6%, given the rate of population growth rate of about 2.5%.

**POLICY ISSUE**

The marginal improvement in growth rate, inflation, CAR, NPLs, liquidity ratio of the banking sector and the relative stability in the foreign exchange market calls for a hold on the monetary policy stance. This is so because further tightening would reduce output and dampen growth. On the other hand, loosening would not be on the menu because it is likely to cause inflation and destabilize the foreign exchange market and encourage outflow of both FDIs and FPI which the economy is in dire need of. I therefore vote to retain.

i. MPR at 14%
ii. CRR at 22.56%
iii. Higher ratio at 30%
iv. The asymmetric corridor at +200/-500 basis point.

## 6. ISA-DUTSE, MAHMOUD

### A. EXTERNAL ECONOMIC CONDITIONS

The world economy is projected to grow by 3.9% in 2018, up from 3.8% in 2017. This growth is expected to broadly benefit the Nigerian economy through improved demand for commodities that Nigeria exports, mainly oil. The growth in global economic activity however is being threatened by a number of emerging factors including trade sanctions being imposed by the US and retaliation by the countries targeted. Security concerns, geopolitical tensions, conflicts and political uncertainty in several areas and regions have also had a dampening effect on investment flows and have contributed to sharp exchange rate movements and increase in risk premia in financial markets.

The continued normalization of interest rates particularly in the US is strengthening the US dollar against other currencies and contributing towards a reduction in capital flows to emerging markets and developing countries. Some countries have started to witness a reversal of the capital flows that had occurred earlier on before commencement of monetary policy normalization.

### B. DOMESTIC ECONOMIC CONDITIONS

The Nigeria economy has recorded growth in real terms over the last 4 quarters. The rate of growth increased from 0.72% in Q2 2017 to 1.17% in Q3 2017 and 2.11% in Q4 2017. The growth rate however decelerated slightly to 1.95% in Q1 2018, underscoring the fragility in the growth process. The level of growth is also weak when compared to the growth rate in the global economy and the population growth rate in Nigeria of more than 3%. All hands must therefore be on deck to accelerate the rate of growth to a much higher level to enable us achieve the targets set in the Economic Recovery & Growth Plan.

The banking system has continued to harbour excessive liquidity, with an industry liquidity ratio of 46% as at 30th June, 2018 compared to the minimum prudential requirement of 30%. Industry data and complaints from real sector operators indicate weak lending by the banks, especially to the non-oil sector directly contributing to the weak economic recovery.

The liquidity overhang in the system is likely to worsen in the immediate future on account of 2018 budget execution, election spending and the new minimum wage proposals if approved. The recent gains in the fight against inflation are thus vulnerable to a reversal. Inflationary pressures are actually building up already as data indicate a deceleration in the rate of decrease in year–on–year inflation and actual increase in the month–on–month inflation figures for June 2018.

**c) VOTING DECISION:**

Given the above scenario of excess liquidity, inflationary pressures and attendant pressure on the foreign exchange rate, it is tempting to raise interest rates now to help counter these debilitating forces. However, raising rates now could choke off the nascent growth in the economy by raising the cost of borrowing, decreasing access to credit and depressing aggregate demand. In the face of this massive risk, our continuing vulnerability to external shocks and elevated levels of uncertainty in our domestic and external environments, I voted for maintaining the current policy stance:

- MPR should remain at 14% p.a.
- The asymmetric corridor around the policy rate (-500,+200 basis points) should be maintained.
- Liquidity ratio should remain at 30% p.a.
- CRR should remain at 22.5% p.a.

If the liquidity situation and external conditions worsen in the coming months, we should raise rates and use other instruments as well to reduce the negative impact on inflation and exchange rates. Between now and the next MPC meeting, we should just rely on open-market operations to manage the level of liquidity in the system.

## 7. NNANNA, OKWU JOSEPH

**Buoyed by growing external reserves, improving fiscal buffer and driven by high oil price, the growth trajectory will continue to be positive and stable over the coming quarters.** Available data showed that Real GDP grew by 1.95 per cent in the first quarter of 2018, compared to 2.11 per cent and a contraction of 0.91 per cent in the preceding and corresponding quarters of 2017, respectively (NBS, 2018). The oil sector was the major driver of growth during the period; it contributed 1.26 per cent, compared to 0.76 per cent and a contraction of 1.56 per cent in the previous and corresponding quarters of 2017, respectively. The manufacturing subsector contributed 0.33 per cent to real GDP growth while construction and trade contracted by 0.06 and 0.46 per cent, respectively. Growth in Agriculture slowed to 3.0 per cent in the first quarter of 2018 compared to 4.23 and 3.39 per cent in the previous and corresponding quarters of 2017, due to seasonal factor. Key PMI indicators point to improvement in the economy. Specifically, manufacturing and non-manufacturing PMIs stood at 57.0 and 57.5 index points in June 2018, indicating expansion for the fifteenth and fourteenth consecutive months, respectively. However, growth remains weaker than expected, consequently, persistent high rate of unemployment – especially, amongst the youth remains a challenge.

**Though inflation has moderated downward owing to stable exchange rate, month-on-month data shows evidence of incipient inflationary pressures.** Headline inflation declined to 11.23 per cent in June 2018 from 11.61 per cent recorded in the previous month. Food inflation fell, modestly to 12.98 per cent at end-June 2018, from 13.45 per cent in the preceding month. Similarly, core inflation decreased to 10.40 per cent relative to 10.71 per cent recorded at end-May 2018. The different metrics of inflation, on a month-on-month, basis, however increased marginally in the month of June, due, mainly, to increase in price of staple foods; and price of fuel and lubricants, respectively. The anticipated deficit financing of 2018 FGN budget and 2019 election spending including review of salaries and wages in September 2018 constitute upside risks to inflation in the near-term.

**Despite the growth in the monetary aggregates and improved liquidity conditions in the banking system, contraction in credit to the private sector has continued to linger.** Broad money (M2) grew by 2.79 per cent at end-June 2018, and 5.58 per cent on annualized basis, compared to the growth of 4.86 per cent recorded at end-May 2018. Money market rates reflected liquidity conditions in the banking system indicating the effects of OMO auctions, foreign exchange interventions, FAAC distributions to states and local governments, and maturing CBN Bills. The monthly average inter-bank call and OBB rates for June 2018 were 16.32 per cent and 12.26 per cent, respectively.

Commercial banks risk aversion has become very worrisome hence, de-risking of lending to the SMEs and MSME subsectors should now be considered a paramount policy priority in the near term. Claims on the core private sector contracted by 0.04 per cent, annualised to a decline of 0.08 per cent at end-June 2018. Similarly, net claims on the Federal Government fell by 9.74 per cent in June 2018, representing a decline of 19.48 per cent on annualized basis. Against this backdrop, heterodox policy approach remains a viable option towards encouraging banks to embrace lending to the real sector. Accordingly, I endorse the introduction of a differentiated strategy in the management of the CRR and the issuance of commercial papers by corporates in the real sectors.

The banking industry continues to grapple with a high ratio of non-performing loans (NPLs). While the recovery in oil price offers hope to the banking industry, this may not likely impact on lending and asset quality in the near term. Consequently, the combination of rising oil price, settlement of federal government contractual obligations to the private sector creditors including stronger economic growth may reduce NPLs, improve asset quality and sustain financial system stability.

**Bearish sentiment due to sustained investor profit-taking activities and protracted monetary policy normalisation in some advanced economies weighed in negatively on the financial markets.** Consequently, the All-Share Index (ASI) decreased by 7.24 per cent from 41.268.01 on April 30, 2018 to 38,278.55 on June 29, 2018. Similarly, Market Capitalization (MC) fell by 7.24 per cent from N14.95 trillion on April 30, 2018 to N13.87 trillion on June 29, 2018. A reversal in the bearish trend is however expected in the medium term, based on continued improvements in key macroeconomic fundamentals.

**The potential expansionary fiscal policy in the domestic economy in the near term remain a concern to macroeconomic stability.** I therefore hope that for greater efficiency in government expenditure and better focused and targeted on capex and infrastructure spending; rather than on recurrent and overhead.

**The flexible exchange rate regime combined with the organic convergence observed in the foreign exchange market will continue to support a healthy balance of payments condition.** 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 I&E window exchange rate which closed at N361.08 on June 29, 2018, recorded a weighted average of ₦360.86/US$ as at end-June 2018. The naira exchange rate at the retail SMIS window and the BDC segment remained unchanged respectively, at an average of ₦330.00/US$ and ₦360.50/US$..

Against the backdrop of continued stability in the key macroeconomic indicators and concerns about emerging fiscal surprises, 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 strengthen domestic and foreign investors' confidence.

## 8. OBADAN, MIKE IDI

The Nigerian economy has remained a noticeable part of the global economy through trade and financial relationships. This implies that the country must continue to take cognizance of international economic developments/disturbances and their prospects in its domestic policy initiatives. Such developments in the last few months include:

- Uncertainties surrounding the status of North Korea's de-nuclearisation programme notwithstanding the talks held between the United States (US) and North Korea on June 12, 2018. There are skepticisms over North Korea's commitment to complete denuclearization of the Korean Peninsula.
- Uncertainties and tensions surrounding the United Kingdom's BREXIT negotiations. There have been pressures for a second BREXIT while some Ministers have resigned from the conservative government because of policy disagreements.
- Following the US' cancellation of the Iranian nuclear deal, there are indications that the US is considering imposition of sanctions on Iran. A restriction on Iran's oil exports is likely to unsettle the relative calm seen recently in the oil market and trigger an oil price hike which could strengthen Nigeria's economic recovery but could also increase its cost of importation of refined petroleum products.
- Nationalistic and protective trade stance of the US. In recent months, the United States government has been flexing muscle with the international community, especially with the European Union, China, Canada, Mexico, etc, over trade matters. It has already imposed tariffs on steel, aluminum and other imports from these countries. Some of the countries, for example, China and Canada, have reacted by imposing their own tariffs on imports from the U.S. Others are contemplating their own retaliatory tariffs on imports from the U.S. The tariffs create uncertainties around global trade and could have ripple effects throughout the global economy.

The implications of the above can be pervasive. For example, if the tariffs and counter tariffs result in a tariff/trade war, they could escalate to such an extent that everyone loses (the countries involved, producers, consumers, etc) through reduction in global output and trade, high product prices facing consumers and consequently loss in consumer welfare. Also, any threat of resumption of tensions in the Korean Peninsula and the deadlocked trade talks between China and the U.S could undermine the global growth which is projected to witness improvement from 3.8 per cent in 2017 to 3.9 per cent in 2018. Besides, the movement towards monetary policy normalization by the US Federal Reserve Bank could undermine growth. Yet, improved growth is good for living standards and poverty reduction.

**Global Output, Oil output and Prices**

Global growth has seen continuous improvement since 2016 from 3.2 percent in that year to 3.7 percent in 2017 and a projected 3.9 percent in 2018. However, global economic activity could be undermined by escalating trade actions by the U.S and retaliatory measures by its major trading partners; tighter financial conditions with potentials for disruptive portfolio adjustments; sharp exchange rate movements; reduction in capital inflows to emerging markets having weak fundamentals and in relation to the present financial conditions in the US.

One commodity of significant interest to Nigeria is crude oil. OPEC's total crude oil production averaged 32.33 mb/d in June 2018 while non-OPEC output averaged 56.88 mb/d in Q2 2018. Both reflected increases over the previous period. Similarly, global demand for oil grew by 0.38 mb/d driven by strong demand from the United States, China and Europe – the world's largest energy consumers.

Certain developments in the global supply/demand for oil situation could have negative implications for Nigeria's oil exports and earnings. One of these is the growing high levels of investment and production in shale oil in the US which may likely have long term implications for oil prices. Secondly, is the recent admission of the Republic of Congo as a member of OPEC. Its target of 350,000 barrels per day could make it to become the third largest producer in sub-Saharan Africa. Thirdly, the Chinese government has deployed a new industrial policy, targeted at eradicating all machines that depend on fossil fuels between 2022 and 2024. This is a major threat to Nigeria's continued dependence on crude oil revenue as other countries, especially in the European Union are already working in the same direction. This poses a major threat to the Nigerian economy, which makes it imperative for the country to improve other sources of revenue to the economy.

Oil price has shown consistent upward trend for the various categories (OPEC basket, Bonny Light, UK Brent, West Texas Intermediate) since 2016. For example, the price of Bonny light on July 11, 2018, stood at US$78.83 per barrel compared with a previous peak of US$78.06 per barrel on May 14, 2018 and commencement price of US$67.02 per barrel on January 2, 2018.

The sharp improvement in the price of Bonny Light largely reflects the continued impact of the Organization of Petroleum Exporting Countries (OPEC) production freeze and likely U.S. sanctions on Iranian oil. The recent cancellation of the U.S–Iranian nuclear deal could shoot up oil prices well above US$85.00 per barrel in the coming months as the U.S is set to restore sanctions on Iranian exports.

The rising oil prices of crude oil is good news to Nigeria considering its heavy dependence on oil earnings for domestic revenue and foreign exchange. Indeed, the rising oil prices has fed into the economic recovery of the country, promoted stability in the exchange rate and moderated the price levels with the inflation rate decreasing from 12.48 per cent in April 2018 to 11.23 per cent in June 2018. However, on the flip side, considering the heavy dependence of the country on imported petroleum products, the rising prices of crude oil will result in increased prices of petroleum products imported into the country with implications for the inflation rate. This underscores the need for Nigeria to develop domestic refining capacity and minimize importation of refined products.

And given the known instability/volatility of the crude oil market, the country must learn from its past mistakes, save part of the earnings and prudently deploy oil resources to diversify the economy as a basis for sustainable sources of foreign earnings. In other words, there is now a huge opportunity for Nigeria to build critical fiscal buffers and invest extensively in public infrastructure to improve the investment climate and improve welfare.

**Domestic Developments**

Although Nigeria has exited recession, for four quarters: Q2 2017 to Q1 2018, the growth rates achieved averaged only 1.50 percent which is very low compared to the rate of growth of population of about 3.0 percent and very much below the economy's potentials. The outlook for growth remains fragile, as the recurring incidence of herdsmen attack on farmers, would affect agricultural output and increase prices. Other militating factors include the expected liquidity challenge from late passage and implementation of the 2018 budget, election spending, likely wage increase and the lingering challenges of critical infrastructure necessary for job creation and economic growth.

Inflationary pressure in the economy continued to moderate such that all measures of inflation (headline, core and food) decreased further in June, 2018. The headline inflation declined to 11.23 percent, thus sustaining the downward trajectory that began in 2017. The downward trend in domestic prices reflects the Bank's tight monetary policy stance coupled with the impact of significant reforms in the foreign exchange market.

However, inflation at 11.23 per cent in June 2018, is still high and worrisome. It is above the single-digit benchmark (range of 6 – 9%). Apart from monetary factors, structural factors, including poor transport infrastructure, high cost of energy, insurgency and insecurity in the North East; increasing cases of herdsmen/farmers clash; anticipated 2019 election spending and review in salaries and wages in September 2018, will constitute an upside risk to inflation in the short to near-term.

On monetary development, relative to the level at end-December 2017, broad money supply (M2) grew by 4.86 per cent in May 2018, which annualises to a growth of 11.68 per cent. The growth of 11.68 per cent in money supply was above the provisional benchmark of 10.84 per cent. Consequently, increase in money supply amid the need for the deficit financing of 2018 FGN budget, anticipated 2019 election spending and review of salaries and wages in September 2018, will constitute an upside risk to inflation in the short to near-term.

Financial market conditions showed a steady liquidity level during the period November 20, 2017 to June 30, 2018. The liquidity boost in the system was as a result of accretion through injections namely, Statutory Revenue Allocation (SRA), Value Added Tax (VAT), sustained foreign exchange purchases by the Central Bank of Nigeria and maturing NTBs and CBN bills.

The interbank naira exchange rates has been relatively stable. This relative stability of the exchange rate was largely due to the various reforms measures implemented by the CBN to deepen the market, and curb speculative practices. And net foreign exchange flows have been positive since January 2018, except in the month of May 2018, invariably, due to improved oil market conditions. However, retail lending rates of DMBs have remained high, and the interest rate spreads are very wide and this has implications for savings and the flow of credit to the economy. This is an issue which the monetary authority needs to address.

The financial system remains sound based on various measures of financial soundness. The few cases of high non-performing loans in the portfolios of a few DMBs have negative consequences on the banks' earnings and capital. However, the problem is being addressed by the CBN with corrective actions to prevent spill over to other institutions or adverse impact on financial system stability. And to enhance stability and soundness of the banking industry, the

CBN should continue to ensure that the banks: embark on aggressive debt recovery drives; realize collaterals of non-performing credits as well as get the insurance companies to settle claims relating to insured debts; strengthen risk management practices; and strictly enforce the CBN restrictions on payment of dividends by banks with high NPLs.

Monetary financing of fiscal deficits remains a source of inflationary pressures in the economy. The 2018 budget projects a deficit of N1.95trn or 21.4 per cent which would be financed by borrowing from both international and the domestic sources. Considering the impact of continued borrowing on the public debt stock which has been growing in a highly worrisome manner, it is important for the government to seize the opportunity of the present regime of high oil prices to reduce the rate of borrowing from both domestic and foreign sources. A part of the excess of oil price beyond the benchmark should be saved while the other is used to reduce budget deficit.

**Opinion on Monetary Policy Stance**

A review of developments in the global economy and domestic economy reveals that the nation's macroeconomic management has resulted in improvement in a number of indicators: growth, inflation, oil prices, external reserves, etc. Nevertheless, the following suggest the need for close monitoring of developments and hence avoiding a recourse to a destabilizing monetary policy adjustment:

i. Although the inflation rate has been decelerating, it has, in recent months, been doing so at a slow pace, perhaps because the impact of the triple policy shock of 2016 on inflation has waned considerably and monetary factors have resumed prominence. The inflation rate has remained considerably above the Central Bank's tolerance range of 6-9 per cent. Considering the background of stagflation which prevailed until the first quarter of 2017, monetary policy remains the key tool for tackling inflation while fiscal policy directly targets improved growth;

ii. Fiscal disciple has yet to be entrenched. Government's fiscal operations will continue to impact liquidity and, hence inflationary pressures. The Bank itself has not relented on its justifiable intervention with unconventional monetary policy actions aimed at complementing fiscal policy in achieving economic recovery. So, there is need not to lose guard on inflation control;

iii. In the next six months, a number of factors could accentuate inflationary pressures: late commencement of capital budget implementation due to late passage of the budget; anticipated 2019 election spending through putting pressure on the foreign exchange market, and upward review of salaries and wages in September 2018.

iv. Effect of the continued normalization of US monetary policy, reflected in U.S Federal Reserve Bank increasing its policy rate by 0.25 per cent in March 2018, and further hiking it by 25 basis points in June 2018. This has had the implication of attracting capital flows to the U.S from the emerging market economies including Nigeria. Nigeria has already started experiencing capital flow reversals.

v. The rising oil prices in the world market is good for Nigeria's economy in terms of domestic revenue and foreign exchange. But because of the country's heavy dependence on importation of refined petroleum products, the prices of market-determined petroleum products, e.g, diesel, have already increased with implications for cost of production and consumer prices.

The foregoing could impact inflation in an upward direction, perhaps, suggesting a tighter monetary policy stance. But the recovery of the economy definitely needs to be sustained/strengthened through incentivizing the real sectors of the economy, hence, a less restrictive monetary policy stance would be suggestive. However, there is need to strike a balance. To this end, I vote that the macroeconomic trends should be watched for some time while the monetary policy instruments should be retained at their current levels: MPR – 14%; CRR – 22.5%; Liquidity ratio – 30%. At the same time, the

CBN should implement non-conventional monetary policy measures aimed at enhancing access of priority sectors including small and medium enterprises to credit at single digit interest rates.

## 9. SANUSI, ALIYU RAFINDADI

### 1 Decision:

In the previous meeting, my vote for a hold on all the policy parameters was premised on the need to sustain the on-going disinflationary process, exchange stability and the positive output recovery. In today's meeting, I vote to further tighten the monetary policy stance by raising the MPR by 50 basis points. My decision to further tighten is informed by the need for an urgent policy action to rein in the inflationary pressures that have, according to the latest data and staff forecasts, started to build up. My interpretation of the available data suggests that the disinflationary trend is at the risk of reversal, as inflation forecasts show a significantly flattened projection into the last quarter of the year. Besides, the realised and expected monetary conditions, as measured by developments in the broad monetary aggregates, may not be tight enough to sustain the disinflation process in the medium-term. Given that the key downside risks to the disinflationary process noted in the previous MPC meeting continue to be relevant in the medium-term, an optimal forward-looking monetary policy, in my opinion, requires a further tightening.

### 2 Background and Justification

### 2.1 Global Economic Developments

***The global economic developments and outlook, especially the sustained monetary policy normalisation in the US, continue to have significant implications for exchange rate stability, capital flows, asset prices and consequently domestic inflation in the medium-term.***

In line with the well-expected monetary policy normalisation, the US Federal Reserve has increased its policy rate by a further 25 basis points, in June 2018. On account of strong output and labour market developments occasioned by the strong consumer spending, the Fed continued to express concerns about the build-up of inflationary pressure in the medium term. These developments imply that, as yields continue to rise in the US, capital flows from the Emerging Markets and Developing countries to the US are likely to rise, with its attendant implications for their exchange rate and price stability. Available data indicate that these flows into the US economy have started to rise,

### 2.2 Domestic Economic Developments

***Available data suggest that, although the expected and realised domestic economic conditions remain favourable for output, expected and realised conditions are threatening to the on-going disinflation process.***

Output growth remained positive, at 1.95 per cent, during the first quarter of 2018, driven by the oil sector, manufacturing, construction, trade and agriculture. The outlook for growth in the medium term remains positive, anchored on expected higher oil production, increased fiscal spending and foreign exchange stability. Available data on the Purchasing Managers Index (PMI) shows that, in June 2018, manufacturing and non-manufacturing activities have risen for the fifteenth consecutive months.

The inflation data released by NBS today shows that the Year-on-Year headline inflation has continued to decline, for the seventeenth consecutive time, from 11.61 per cent in May 2018 to 11.23 per cent in June 2018. The reduction in the headline inflation in June is at a somewhat slower rate (of about 3.3%) relative to that achieved in April (of about 7%). Although the Month-on-Month changes may not, in general, be reliable indicators of the future direction of prices, the reported acceleration in the Month-on Month headline inflation from 0.83 per cent in April to 1.09 per cent in May and 1.24 per cent in June, indicate the need for a cautious approach. This concern is reinforced by the latest Staff Forecasts, which show that, although inflation will continue to decline Year-on-Year, it is likely to reach the lowest of double-digit in December 2018. The sluggishness of the expected decline in headline inflation is due mainly to the expected oscillations in Food Inflation as the effects of Farmer-Herdsmen conflicts materialise. Core inflation is, however, forecasted to continue to decline, deriving the headline inflation in the medium term.

In the monetary sector, available preliminary data appears to suggest that liquidity in the economy may not have been adequately captured by the current broad definition of money (M2). A newly constructed seasonally adjusted broader definition (M3), which better captures liquidity outside the banking system, appears to suggest that monetary expansion may have been more significant than the 5.58 per cent indicated by the current M2.

### 3 The Basis for My Policy Choice

The primary consideration that informed my decision to vote for tightening is the need to sustain the on-going disinflation in the medium term. The data available suggest that, although the realised headline inflation has declined and is forecasted to continue to moderate, the risks of reversal in the medium-term, as noted in the upward trend in the month-on-month measure, are significant. A forward-looking monetary policy, therefore, should act now to curtail the threats to the on-going disinflation by waning the inflationary pressures that are building up. Besides, by keeping real interest rate positive, tightening will help reduce the risk of capital flows reversal in response to US policy normalisation.

The anticipated fiscal stimulus expected from the implementation of the approved 2018 budget, along with the expected rise in spending by politicians in the second half of the year partly alleviate the concern for possible reversal of the fragile output recovery. These would significantly boost aggregate demand in short- to medium-term. Also, the Central Bank's effort at encouraging banks to expand credit to the employment-elastic real sector would directly help boost output.

Consequently, to further tighten voted to:

- Raise the MPR by 50 basis points to 14.5 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.

## 10. EMEFIELE, GODWIN I.

## GOVERNOR OF THE CENTRAL BANK OF NIGERIA AND CHAIRMAN, MONETARY POLICY COMMITTEE

Congruent with CBN's mandate, it is essential to underscore the ramifications of inflation expectations for long-run price stability; especially on the backdrop of near-term outlook. Given the uncertainties that typically pervade a macroeconomy, failure to deal with rising inflation expectations would unreservedly lead to actualisation. Accordingly, my considerations today are guided by the need to ensure long-run price and monetary stability amidst rising inflation expectations. As policymakers, our collective desire is to achieve low unemployment rate, low interest rate, low inflation rate, and stable exchange rate. Concurrent achievement of this is, however, infeasible due to immanent trade-offs.

Available data indicate that unemployment rate remains discomfortingly high. With sustained decline in headline inflation –to 11.2 percent in June 2018– real cost of capital is rising, amidst exchange rate stability. Persistent macroeconomic imbalances and vulnerabilities could be exacerbated, in the near-term, by the anticipated electioneering and fiscal injections. This concern is amplified by probable capital flow reversals due to rising yield in the US.

With growth projections of 3.9 percent in 2018 and 2019 vis-à-vis 3.7 percent in 2017, short-term global outlook brightened, although risks and fragilities persist. This expansion is uneven, showing upward momentum in the US but downward revisions in the EU, the UK and Japan. Growth is projected to strengthen in emerging markets and developing countries in the short-term, *albeit* unevenly. Whilst outlook in some oil exporters are improving, exchange market pressures are intensifying in a number of economies. In sub-Saharan Africa, growth is projected to quicken in the short-term; reflecting upward momenta in Nigeria and South Africa. Global impetus is, however, susceptible to worsening financial markets and exchange rate fragilities among emerging markets and developing economies, heightened trade and geopolitical tensions, and recondite BREXIT negotiations.

Short-term growth prospects in the domestic economy continued to strengthen even amidst noticeable downside risk. Staff estimates projects 2018 real GDP growth at 2.2 percent from 0.8 percent in 2017. Quarterly analyses indicate a marginal rise from 2.1 percent in 2017q4 to 2.0 percent in 2018q1; 1.4 percent of which is due to the oil sector and 0.6 percent to non-oil sector. Sectoral disaggregation of q1 growth shows that 0.7 percent derives from agriculture sector, 1.6 percent from industries, and 0.3 percent contraction of the services sector. Near-term projections suggest that quarterly growth will increase steadily to 2.5 percent by 2018q4, driven by rising oil prices, continued exchange rate stability, and possible aggregate demand effect of the expected fiscal and elections spending. The prevalent high unemployment rate and the potential exchange market pressure —due to yield induced capital reversals— imply that this growth outlook is fragile. Hence, to sustain the cyclical rebound of the economy, prudent and well-balanced macroeconomic policies remain imperative.

Data from the National Bureau of Statistics shows that the asymptotic rate of disinflation, though observed for seventeen consecutive months, is flattening. Juxtaposed with in-house projections, however, the emergent trend suggests an imminent uptick in inflation in the near-term, if not sufficiently mitigated. According to the NBS, headline inflation declined by 0.4 percentage points to 11.2 percent in June 2018, reflecting the declines in both food and core components. While the observed trend of disinflation is heartening, inflation is still outside the Bank's tolerance range. I note with concern that the benign base-effect is waning while inflation expectations, due to anticipated liquidity injections, are mounting. Consistent with the price stability mandate of the CBN, it is pertinent to sustain the pace of disinflation.

Relatedly, data for June 2018 indicates some expansion in money stock. Analysis of liquidity conditions shows that although narrow money supply (M1) contracted, broad money supply (M2) grew at an annualised rate of 5.6 percent vis-à-vis the 10.8 percent benchmark. The expansion in M2 reflected the 36.3 percent annualised growth of net foreign assets. This contrasts the parallel declines in net claims on government and private sectors credit. I note that the poor supply of credits to private sector continue to reflect the risk aversion of banks in the face of high NPLs. The private sector, therefore, needs to be sufficiently de-risked in order enhance its risk standing, accelerate economic diversification and ensure inclusive growth.

Methodical assessments of recent macroeconomic outcomes and outlook call for careful balancing of policies in order to achieve the most optimal results. I note that the sustainable rebound of the Nigerian economy could be derailed in the near-term if imminent shocks are misjudged. Crucially, I note once again that (i) the cyclical recovery of Nigerian economy is still fragile, (ii) structural and market vulnerabilities persist, (iii) inflation is declining but still outside acceptable band —with probable risk of upturn in the short-term, (iv) the relative stability in the exchange rate and the level of external reserves are satisfactory —although rising yields in the US is concerning, (v) the expected budgetary injection and elections spending could disproportionately expand aggregate demand. These underscore the need to sufficiently provision the adverse impulses on price and exchange rate stability in the short-term.

As a central bank, inflation remains our predominant objective, with exchange rate stability clearly within sight. I am committed to driving inflation to single-digit levels and building sufficient foreign reserves buffers to defend the naira. Again, I note that whereas concurrent exchange rate stability, low inflation and low interest are desirable, this is impracticable at this time. Inflation upswing is imminent if we failed to act. My immediate predisposition, thus, is to further tighten domestic policy stance in order to rein in expected inflation and ensure FX market stability. Nonetheless, I continue to re-emphasise the need for cautious policy decisions. 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 without introducing disruptive policy shocks. With continued permeation of previous policy tightening, the observed improvements in key macroeconomic variables, and while being mindful of potential near-term risks, 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

July 2018