CENTRAL BANK OF NIGERIA COMMUNIQUE NO. 121 OF THE MONETARY POLICY COMMITTEE MEETING OF WEDNESDAY 21ST AND THURSDAY 22ND NOVEMBER, 2018

Background

The Monetary Policy Committee (MPC) met on the 21st and 22nd of November, 2018, amidst a resurgence of global inflationary pressures, increased fragilities in the global financial markets, weakening crude oil prices, continuous capital flow reversal and moderate currency depreciations, especially in the emerging markets as well as a strengthening US dollar and subdued global economic growth outlook. The Committee appraised recent developments in the global and domestic macroeconomic and financial environments, as well as the economic outlook for the first half of 2019. In attendance were eleven (11) members of the Committee.

Global Economic Developments

The Committee noted the contraction in global output, underpinned largely by escalating trade tensions resulting in widespread uncertainty and waning investor confidence. Consequently, global growth in 2018 has been downgraded to 3.7 per cent from the earlier projection of 3.9 per cent. Growth softened in major advanced economies in the third quarter of 2018. In the

Emerging Markets and Developing Economies (EMDEs), growth remained divergent, reflecting a combination of country-specific factors.

Thus, growth in the advanced economies is expected to remain at 2.4 per cent in 2018, supported by strong output growth in the US projected at 2.9 per cent. The U.S. expansionary fiscal stance, strong wage growth and continued inflow of capital into U.S. dollar denominated assets, are expected to provide the impetus for growth. In the United Kingdom, growth remained weak, hampered by uncertainties around Brexit negotiations. Growth in the Euro Area, projected at 2.0 per cent, appears to be subdued by low domestic aggregate demand amidst relatively high unemployment and reduced global trade. In the Emerging Markets and Developing Economies, growth was revised downwards to 4.7 per cent from the earlier projection of 4.9 per cent, largely in anticipation of a slowdown in China as the country is confronted with an adverse external trade environment.

Overall, the downside risks to global economic activity remained: elevated financial fragilities and policy uncertainties, the gradual erosion of rule-based multilateral trading system, tighter financial conditions with latent disruptive portfolio adjustments, increased capital flow reversals with potentials for heightened exchange rate depreciation and some volatility, fiscal fragilities and increased debt burden, geo-political tensions and increasingly depressed aggregate demand in some countries. These factors will continue to shape developments for the rest of 2018 and into 2019.

The MPC also noted that monetary policy in most advanced economies, particularly the US, continued on a path of normalisation in view of strong wage growth and declining unemployment. The Bank of England hiked its policy rate in August 2018, while the European Central Bank (ECB) has given guidance to terminate its asset purchase programme in December 2018. The Committee was concerned that these developments will in the medium term, accentuate capital flow reversals from emerging and developing economies, including Nigeria.

Domestic Output Developments

The Committee noted the positive outlook for output growth, evidenced by the Manufacturing and Non-manufacturing Purchasing Managers Indexes (PMI), which stood at 56.8 and 57.0 index points, respectively, in October 2018, indicating expansion for the 19th and 18th consecutive months. This was attributed to the stability in the foreign exchange market, implementation of the 2018 capital budget and the on-going intervention of the Central Bank of Nigeria (CBN) in the real sector of the economy. However, the recent incidence of flooding across the country and the impact of herdsmen attack on farming communities could affect output growth for the rest of the year.

Overall, the Committee believes that, even though output recovery remains fragile, the effective implementation of the 2018 capital budget, relative improvements in power supply, progress with counter-insurgency in the North-East and sustained intervention by the CBN in the real sector, will improve the investment climate and reduce unemployment. Consequently, the MPC reaffirmed its support for all initiatives designed to stimulate domestic output growth.

Developments in Money and Prices

The Committee noted that broad money (M2) grew by 6.52 per cent in October 2018 over its level at the end-December 2017; and annualised to a growth rate of 7.82 per cent, which was below the provisional benchmark of 10.48 per cent for 2018. The growth in M2 was largely due to the significant growth in Net Foreign Assets (NFA) which grew by 20.71 per cent in October 2018, annualised to 24.85 per cent which is above the 2018 provisional growth benchmark of 14.50 per cent. Credit to Government and Net Domestic Credit (NDC) expanded by 7.43 and 2.71 per cent, annualized to 8.92 and 3.26 per cent, respectively; but below the annual benchmark of 13.10 and 17.40 per cent, respectively. Credit to the private sector grossly underperformed as it grew by 1.94 per cent, annualised to 2.33 per cent, below the 2018 benchmark of 12.40 per cent. The underperformance of the monetary aggregates was of concern to the MPC, which urged the CBN to ensure improved credit delivery to the small and medium scale industries, particularly to the unbanked urban and rural populations.

The Committee noted the benign performance of inflation, as headline inflation (year-on-year) decreased to 11.26 per cent in October 2018 from 11.28 per cent in September 2018 after two consecutive months of marginal increases. The drop in headline inflation was driven by food inflation, which moderated to 13.28 per cent in October from 13.31 per cent in September 2018. Core inflation, however, inched up marginally to 9.9 per cent in October 2018 from 9.8 per cent in the previous month. On a month-on-month basis, headline and food inflation also moderated to 0.74 and 0.82 per cent in October from 0.84 and 1.0 per cent in September 2018, respectively, while core inflation increased from 0.64 per cent in September 2018 to 0.80 per cent in October 2018.

The Committee noted that the moderation in inflation was largely seasonally driven and was therefore, unsustainable as prices were expected to pick towards the end of the year. However, the MPC observed that the near-term upside risks to inflation remained; the disruption to agricultural production and distribution arising from flooding, insurgency in the North-East, herdsmen-farmer crisis, high cost of energy, anticipated spending in the run-up to Christmas festivities and campaign-related spending towards the upcoming 2019 general elections. Accordingly, the Committee enjoined the appropriate authorities to continue to address these challenges and to sustain the implementation of the

2018 budget and the Economic Recovery and Growth Plan of the Federal Government to ameliorate the supply side constraints.

Money market interest rates oscillated throughout the review period, reflecting fluctuations in banking system liquidity. Inter-bank call and Open Buy Back (OBB) rates, which stood at 16.00 and 17.08 per cent, respectively, on September 26, 2018, declined moderately to 14.00 and 16.31 per cent, respectively, on October 24, 2018. On average, interbank call and OBB rates rose from 8.68 and 7.64 per cent in September 2018 to 14.18 and 13.93 per cent, respectively, in October 2018, closing at 10.00 and 9.72 per cent, respectively, on November 21, 2018. The developments in net liquidity position and flows which culminated in higher market rates reflected the impact of higher risk perception in the market, withdrawals from the banking system for monthly statutory disbursements to states and local governments; OMO sales and foreign exchange interventions.

The average naira exchange rate remained relatively stable and converging at both the Bureau-de-Change (BDC) and the Investors' and Exporters' (I&E) window segments of the foreign exchange market during the review period. The exchange rate at the I&E window opened at N364.00/US$ and closed at N363.90/US$ with a daily average of N363.87/US$ between September 26 and November 16, 2018. At the BDC segment, the exchange rate opened at N360.00/US$ and closed at N361.85/US$, with a daily average of N360.98/US$, over the same period. The relative stability in the foreign exchange market, the MPC noted, was attributable to the sustained policies of the Bank to increase the supply of foreign exchange from autonomous sources. Gross official reserves decreased from US$42.60 billion at end-September, 2018 to US$41.53 billion on 16th November, 2018.

The Committee noted the bearish trend in the equities segment of the capital market during the review period. Thus, All-Share Index (ASI) decreased by 8.70 per cent from 34,848.45 on August 31, 2018 to 32,058.28 on November 16, 2018.

Similarly, Market Capitalization (MC) decreased by 8.72 per cent from N12.72 trillion to N11.70 trillion during the same period. Relative to the end-December 2017, the indices decreased by 19.29 and 16.32 per cent, respectively. These developments largely reflect the sustained profit taking activities by portfolio investors as foreign yields become increasingly more attractive abroad. The MPC, however, believes that this trend will reverse in the medium term given the current efforts at further improving investor confidence and the relative stability in the Investors and Exporters (I&E) window of the foreign exchange market.

The Overall Outlook and Risks

Forecasts of key macroeconomic variables indicate a positive outlook for the economy in Q4 of 2018. The Committee expects that the effective implementation of the Economic Recovery and Growth Plan (ERGP) and the 2018 budget, improvements in the security challenges, enhanced flow of credit to the real sector and stability in the foreign exchange market will redirect the economy on a path of inclusive and sustainable growth. Increased production in the oil and the non-oil sectors are also expected to drive output growth in the medium term. The Committee, however, acknowledged the downside risks to this outlook to include: reduced portfolio inflows, weak of fiscal buffers, low domestic credit, and sluggish aggregate demand.

The inflation outlook suggests continued but moderate inflationary pressure to the end of 2018, based largely on increased consumer spending for the Christmas festivities, election-related expenditure and increased pace of implementation of the 2018 Federal government budget. Improvements in the security, increased harvests as well as a stable exchange rate are expected to moderate the rise in inflation.

Overall, the outlook for the economy remains positive with a growth projection of 1.75 per cent in 2018.

Committee's Considerations

The Committee assessed the macroeconomic environment in 2018 and noted the modest stability thus far achieved in domestic prices, output growth and the financial system. The Committee noted that the economy was on the right path but some key sectors continued to experience significant challenges. The MPC, however, expressed concern about the tepid growth expectations and growing uncertainty in the global financial markets arising from the poor reception of the Brexit deal by British politicians, continuing trade war between the US and her major trading partners, as well as the commencement of US sanctions on Iran.

The Committee believed that although the domestic economy was recovering modestly from recession, however, the recovery was tepid and efforts should be stepped up to strengthen aggregate output and demand. In this regard, the Committee urged the CBN to deepen and broaden access to finance to high employment elastic sectors with particular emphasis on small and medium scale enterprises. The Committee called on the CBN to extend the success recorded under the Anchor Borrowers Programme to other items including fish and palm oil, etc. by introducing more stringent measures to curb access to foreign exchange for products that can be produced within Nigeria.

The MPC welcomed the moderation in inflation in October, reflecting declining food prices. The Committee believes that given the negative output gap, the proposed increase in the national minimum wage would stimulate output growth due to prolonged weak aggregate demand arising from salary arrears and contractor debt. Consequently, its impact on the aggregate price level would be largely muted, given that the monetary aggregates have largely underperformed in fiscal 2018. In addition, the prevailing stability in the foreign exchange market would continue to moderate pressures on the domestic price level.

The MPC noted the improvements in the financial stability indicators, including non-performing loans, capital adequacy and liquidity ratios of the Deposit Money Banks (DMBs). It urged the Bank to sustain its surveillance over the Banking industry by taking prompt corrective measures to further improve stability in the system. The Committee also called on the fiscal authorities to build significant buffers to strengthen the efficacy of monetary policy.

Overall, the MPC considered the options to loosen, hold or tighten. The Committee continues to hold the view that although loosening would encourage the flow of credit to the real sector, help in reduction of the aggregate cost of credit and spur business spending and investment, thereby reinforcing the CBN's support for output growth and economic recovery, it, however, believed that doing so will reverse more rapidly, the gains of price and exchange rate stability achieved so far given the liquidity impact that would entail. The ensuing liquidity will exert pressure on the exchange rate in the light of increased capital flow reversals arising from monetary policy normalization by the US Fed. This would further depress the capital market.

As for tightening, The MPC hold the view that, while tightening will strengthen the stability of the foreign exchange market because of its dampening effect on the demand for foreign exchange, it was however convinced that this would simultaneously dampen investment growth, widen the output gap, depress aggregate demand and weaken output growth.

The MPC recognizes the fact that it had held the policy rate and other policy parameters constant over the last several meetings. The Committee underscores that by holding its policy position constant, it has confidence in the various policies and administrative measures deployed by the Bank which have resulted in the moderation in domestic price levels and stability in the foreign exchange rate. Thus, a hold position is an expression of confidence in the policy regime, given the gradual improvements in both output growth and price stability. On this premise, the downside risks to growth and upside risks to inflation appears contained.

The Committee's Decision

In light of the above, the MPC decided by a vote of all eleven (11) members present to HOLD.

In summary, the MPC voted to:

1. Retain the MPR at 14 per cent;
2. Retain the asymmetric corridor of +200/-500 basis points around the MPR;
3. Retain the CRR at 22.5 per cent; and
4. Retain the Liquidity Ratio at 30 per cent.

Thank you.

Godwin I. Emefiele

Governor, Central Bank of Nigeria

22nd November, 2018

PERSONAL STATEMENTS BY THE MONETARY POLICY COMMITTEE MEMBERS

1. ADAMU, EDWARD LAMETEK

After two consecutive mild increases, headline inflation slowed, albeit weakly, in October 2018, reflecting a slight moderation in food inflation. The decline in food inflation more than compensated for the marginal increase in core inflation to produce the observed decline in the headline inflation. Notwithstanding the decline, the underlying threats to consumer price stability have remained active, giving fillip to a hazy medium-term outlook for inflation. The sources of this outlook include uncertainties around the path of fiscal policy and liquidity on the domestic front; and risks to external reserves accretion and exchange rate, coming from the global economic environment.

Owing mainly to developments like monetary policy normalization in the advanced economies, trade disputes and softening commodity prices, local currencies and capital markets in emerging markets and developing economies (EMDEs) have come under intense pressure in recent months. Although the naira has fared better than most (other) currencies, the capital market has not been as resilient. In the first ten (10) months of 2018, the NSE All-Share Index (ASI) declined by about 15 per cent, a direct consequence of increased outflow of capital. Those conditions in the global economy spilling vulnerabilities are not likely to give way; instead, they could intensify going into 2019. This is reflected in the downward revision in October 2018 of the global output growth projection for 2018 and 2019 from 3.9 to 3.7 per cent by the IMF. The Organisation for Economic Cooperation and Development (OECD) is less optimistic about 2019 with its current global growth projection of 3.5 per cent.

Juxtaposing the signals from the global environment with the country-specific vulnerabilities and the outlook for key economic concerns (further elaborated below) leads me to the conclusion that the risks to price stability and economic growth have remained balanced. I, therefore, voted at the November 2018 meeting of the Monetary Policy committee (MPC) to hold all policy parameters.

First, it is important to note that at 11.26 percent, we cannot assume that inflation pressures have fully receded. The outlook does not offer any such assurance. On the contrary, the expected increase in private spending due to year-end festivities and the forthcoming general elections combining with the more aggressive implementation of the capital side of the FGN budget for 2018 as well as payment in-part of the debt owed to contractors by Government could rapidly expand domestic liquidity. Though marginal, the increase in core inflation in October, being the first since November 2017, leaves no one in doubt about what could happen in the short- to medium-term if proactive steps are not taken to rein-in domestic liquidity.

The challenge for economic policy on the side of economic activity is not by any means lighter. In Q2 2018, the growth (recovery) momentum slowed as oil output contracted and importantly, contribution from agriculture slowed. The economy appears to be risking a low-growth trap which must be averted. Meanwhile, the fiscal levers needed to mitigate this risk do not seem to be readily available. Given the already high public debt, low revenue and buffers as well as rising yields, the scope for using fiscal policy to sufficiently push growth is narrowing. In effect, monetary policy could continue to be overburdened.

Among others, improving domestic credit continues to be a key imperative towards growing the economy and creating jobs. In addition to the real sector interventions by the Bank, the current state of economic activity demands a marked improvement in commercial bank credit to shore up private investment. A resilient banking system is needed to ensure this. And so, it is heartwarming that key financial soundness indicators (FSIs) of the banking industry improved in October 2018 - industry capital adequacy rose, while Non-Performing Loans (NPLs) moderated, amongst others. Sustaining these improvements remains a key imperative for policy and partly argues for a non-hawkish approach to monetary policy at this time even though inflation remains a concern.

Given the weak growth outlook, financial system fragilities and inflation, some kind of policy trade-off is inevitable. However, in doing so, I recognize the primacy of the price stability mandate of the Bank; as such, the decision to hold which implies sustaining the current fairly tight stance of policy is, in my view, consistent with the need to strike a balance between the competing imperatives of keeping inflation in check, while not hurting growth and employment prospects. It is important to emphasize that the Bank has all along relied on sterilization actions using open market operations (OMO) and FX interventions which explains in part the relative exchange rate stability and the remarkable slowing of inflation from over 15 percent in 2017 to about 11 per cent in October 2018. I believe that the sterilization actions of the Bank are effective and should be sustained.

As I have observed previously, monetary policy cannot mitigate all of the current risks to economic stability. It can only complement sector policies and mostly crucially, fiscal policy. Given the indications coming from oil prices especially and the potential ramifications of a prolonged low crude prices for the entire economy, all macroeconomic policy levers will need to be engaged at this time to forestall a low growth trap. In voting for a hold, I have factored its various implications including, quite importantly, continuation of monetary sterilization and other administrative measures and innovations like the real sector interventions and the provision of access to part of the cash reserves requirement (CRR) for targeted credit to specific sectors of the economy by deposit money banks (DMBs).

2. ADENIKINJU, ADEOLA FESTUS

Background

The fundamental factors driving the international and domestic economies as presented in the Staff Reports at the November MPC Meeting did not show significant departure from the last meeting of the MPC in September. Nevertheless, some positive developments were clearly discernible that assuage some of the concerns that influenced the direction of my decision at the September meeting.

In particular, the report on the banking system stability shows some improvements across major financial soundness indicators, like the capital adequacy ratio, liquidity ratio, returns on equity and assets as well as the non-performing loans (NPLs) ratios. This is an indication that the measures taken by the Bank have started to yield some positive results. I am also pleased about additional measures being considered by the Bank to ensure the continuous soundness of the banking and financial sector. This is critical to address the incidence of NPLs, improve credit flow to the economy and perhaps more importantly, boost confidence of the banking public on the overall soundness of the financial sector. The Bank cannot afford to shift its attention away from effective monitoring of the operations and conduct of the banking sector.

In the medium to long term, the performance of the banking system is tied to growth of the economy and fiscal sector performance. Higher economic growth will boost domestic economic activities, and reduce incidence of debt default. The latter outcome would also be achieved if governments at all levels pay contractors' debts, as well as improvement in credit administration by the banking sector.

The report on the performance of the SMEs and micro-finance institutions is quite encouraging. The Bank must find creative ways to boost credit to SMEs to support their employment generation capacity, productivity and economic growth. The capacity of the SMEs to transform the economy is quite high and they deserve all the support they can get in order to overcome their current constraints, especially access to timely and affordable credit.

The Economic Report sounded a more ominous signs for the country going forward. Global economic growth is facing significant headwinds with potential negative effects on the Nigerian economy. The downward revision of global economic growth for 2018 to 3.7 from 3.9 per cent by the IMF may affect demand for oil and threaten global oil price. In fact, oil prices seem to have settled at lower levels in recent weeks, and current projections against the background in the oil market fundamentals may not support a quick return to its previous high levels. The continuous uncertainty around the BREXIT, the unresolved America-China trade tensions, US sanctions on Iran, the high volatilities in global financial markets, the rise of inflation in the US from 2.3 per cent in September 2018 to 2.5 per cent in October 2018, means the Federal Reserve monetary rates normalization would be sustained, continuous capital flow reversals in several emerging and frontier countries, the buffeting of the foreign exchange markets in several emerging countries, are all creating uncertainties around the global economy. Nigeria is not immune from these developments. Some of the effects are already showing in the economy as seen in stock market prices, the reduction in the level of foreign reserves and slower rate of foreign reserves accretion, and weak fiscal performance, Hence, domestic policy response must be proactive to mitigate their effects on the economy.

However, on the flipside, the economy continues to show some resilience, and imbue confidence from foreign investors. The success recorded with the euro bond issue to fund capital projects if effectively used would improve state of infrastructure and boost private sector GDP, the Purchasing Manager’s Index continues to rise for the 19th consecutive months, the negative output gap shows that there is some slack in the economy that can absorb expected demand shocks such as national minimum wage increase and increased electoral spending. GDP growth in the second quarter remains positive at 1.50 per cent, compared with 1.95 per cent in the first quarter. However, the GDP growth rate is far below the level anticipated in the ERGP. It is also not strong enough to cut poverty and unemployment rates. The contraction of the industrial sector in the second quarter, is a source of concern given industrial sector's potential for direct, indirect and induced employment and income multipliers.

Data released by the National Bureau of Statistics showed that inflation moderated slightly between September and October 2018. Headline inflation declined marginally from 11.28 per cent in September to 11.26 per cent in October, due to decrease in food & non-alcoholic beverages and transport components. Similarly, food inflation reduced from 13.31 per cent in September to 13.28 per cent in October. However, core inflation rose from 9.84 to 9.88 per cent between September and October, 2018 respectively. Monetary aggregates like M1 and M2 continue to grow at annualized rates lower than their provisional benchmarks. The significant difference between average lending and deposit rates is not showing sign of narrowing. This is indicative of lack of competition in the banking sector as well as high operational costs by the banks. Reducing the operations costs through infrastructural sharing wherever possible, and other deliberate efforts by the banks will go a long way to reduce the lending deposit gaps, which is one of the highest in Africa. The high retail lending rates is shutting out SMEs from credit and contributes to the current levels of NPLs in a slow growing economy.

I still have strong concern about the fiscal side of the economy. The relatively under performance of non-oil revenue, the high costs of governance, the slow and overlapping budget operations, high budget deficits, the increasing share of foreign debts in total debt stocks, the share of budget allocated to debt servicing, the high infrastructural deficit that impairs competitiveness and productivities of the economy, lack of fiscal buffers, the uncertain state of the Petroleum Industry Governance Bill (PIGB), the long run impacts of fuel subsidy, the poor power sector performance that unnecessarily increases operational costs of firms and households, have to be addressed urgently as they impact on the long term trend of the economy.

Decision

While a number of economic and political uncertainties continue to weigh on my mind at both international and domestic economic levels: the low economic growth rate, the declining foreign reserves, slow credit growth, low tax/gdp ratio, the continuous high fiscal dependence on oil, the high lending-deposit interest rate gap, the volatility in the stock market, uncertainty in the release of the capital budget, the uncertain state of the global economy, the fluidity of the global oil market, the uncertainty surrounding the 2019 election, the continuous outflow of portfolio investment, etc, are some of the major issues that will weigh on the economy. I am partially mollified by the efforts being taken by the Bank and by the government to address some of these issues and mitigate their impacts on the economy. For instance, the decision of the government to allocate the euro loans exclusively to fund capital budget, as well as decision to avoid the labour industrial crisis, are steps in the right direction.

Second, the negative output gap shows that there are some buffers to accommodate the final decision on the national minimum wage and expected electoral expenses in the run up to the 2019 elections.

Finally, the inflation rate has moderated since the last meeting. The upbeat in the performance of the SMEs, and large number of the micro-finance banks, and some of the Bank's non-conventional measures to stimulate the economy have been encouraging, and yielding some desired results. The positive trend in key indicators of the banking and financial sectors performance has also raised positive expectations about the economy. The Bank must continue to be proactive and monitor the performance of these non-conventional measures, which at best is temporary in my view in order to move the economy into the path of sustainable growth. The fiscal side must play its role in balancing the economy to ensure that the Bank returns to its primary roles of monetary and exchange rate stability.

It is on the basis of the above that I cast my vote to:

- **i. Maintain the MPR at 14.0 Per cent**
- **ii. maintain CRR at 22.5 Per cent**
- **iii. Maintain existing asymmetric corridor around the MPR**

3. AHMAD, AISHAH N.

Introduction

At this last MPC meeting of the year, it is vital to reflect on economic developments thus far and how well we have achieved our monetary and price stability remit in the face of rising risks. The Committee has remained vigilant, forward looking and braced to weather the storms; which, thankfully, have been generally slow to manifest.

Global economic activities in 2018 commenced on a broadly optimistic note. The strong headwinds which confronted the global economy in 2017 moderated, giving way to prospects for stronger growth in 2018. Halfway into the year, however, downside risks to global growth became more evident- faster pace of the US policy normalization, a developing global trade war, rising public debts and increasing financial vulnerabilities, emerging markets' capital reversals and volatile crude oil prices. These developments resulted - as anticipated in my July personal statement - in tempered optimism and a downward review of global growth projections by the International Monetary Fund (IMF) to 3.7 percent from its earlier projection of 3.9 percent.

These emerging risks had mixed impact on emerging market economies ranging from currency depreciations to slowing growth and rising price levels. The Central Bank's sustained tight monetary policy stance, and other initiatives aimed at stabilizing the exchange rate and maintaining confidence of foreign investors, which have been widely commended, tempered the effect of these shocks. In addition, tailwinds, most significantly, high crude oil prices, averaging about US$70p/b for most of the year, also helped strengthen prospects for fiscal consolidation and build strong external reserve buffers.

As a result, exchange rate remained relatively stable with improved convergence across all market segments. For instance, it recorded a daily average of ₦363.87/US$ between September 26 and November 16, 2018 at the Investors' and Exporters' (I&E) window and averaged ₦360.98/US$ at the Bureau De Change (BDC) segment over the same period.

Maintaining exchange rate stability has not been without cost. External reserves have slowly depleted over the last six months in the face of portfolio flow reversals in response to US policy normalization and rising geopolitical uncertainties. However, the Bank's interventions and use of heterodox policy measures to attract and retain foreign exchange inflows and deepen the market, have ensured that Nigeria remained a relatively competitive investment destination, continuing to attract new portfolio investors.

Tight monetary policy stance coupled with stability in exchange rate helped to moderate inflation; headline inflation which had risen to 18.72 percent in January 2017, declined to 11.26 percent as at October 2018. Although economic activity lost some momentum in Q2 2018, recording 1.50 percent growth compared with Q1 numbers at 1.95 percent, GDP growth remains on a positive trajectory, projected to average about 1.90 percent in 2018 according to the IMF.

It is quite gratifying that key prudential ratios (capital adequacy, liquidity and non-performing loans) and other performance indicators in the banking system have improved compared with earlier in the year and the August 2018 position. Of particular interest is the recent growth in credit to the private sector (August 2018; 0.81 percent and October 2018; 1.94 percent) following months of contraction. These are indications that, among other measures, the CBN's efforts at enhancing access to finance for employment elastic sectors are yielding fruit. For this reason, I support the Bank's continued interventions in the real sector to ensure continued growth in credit to, and output of, key sectors like Agriculture and Manufacturing. A critical headwind to watch, however, is the recent downward trend in oil prices. Given portfolio concentrations in oil and gas, this will require banks to build robust capital buffers to remain resilient to any shocks. On the whole, the imminent settlement of Federal government contractual obligations to the private sector and relatively positive domestic GDP growth prospects is expected to further strengthen asset quality, solvency ratios and sustain financial system stability.

As we approach 2019, new downside risks are emerging as existing risks continue to intensify. Slowing global demand and growth projections, volatile oil prices, and sustained monetary policy normalization in the US, have implications for exchange rate stability and by extension, price and monetary stability. In addition, the upcoming general elections and unintended but largely contractionary fiscal environment due to the delays in passing the 2018 budget, also have implications for sustained economic recovery and growth.

It is safe to say that, based on data from NBS, which shows moderated headline inflation (year-on-year) in October 2018 compared to the previous month, **there seems to be no significant near term threat of rising prices.** Even in the face of the planned minimum wage increase, it appears that its inflationary effects may be largely benign given existing low aggregate demand.

As we brace ourselves for a tough year ahead, it is imperative to consolidate on the price stability gains on the monetary side by stimulating stronger and more resilient GDP growth. This calls for a policy stance that achieves price stability conducive to economic growth and it is my considered view that the current policy rate is appropriately placed to achieve this objective.

Therefore, I vote to retain the current tight monetary policy stance, by keeping MPR at 14%; Cash Reserve Ratio at 22.5%; Liquidity Ratio at 30% and Asymmetric corridor at +200 and -500 basis points around the MPR.

4. ASOGWA, ROBERT CHIKWENDU

Background:

The domestic macroeconomic outlook preceding the November 2018 MPC meeting showed signs of improvement eventhough surrounded by rising downside risks and vulnerabilities. The 2018 third quarter GDP figures were yet to be released at the meeting time, but there are general indications of economic strengthening. The downsides risks are generally the same as identified in the last meeting, including the turbulent oil prices, spending pressure in the run-up to the 2019 elections and volatility in capital flows especially the portfolio instruments. At the international level, elevated periods of policy uncertainty persist with economic growth slowing down in several advanced economies by the third quarter of 2018 and with possibilities of even further downslide as trade tensions escalate and global financial vulnerabilities increase. Monetary policy decision at this November meeting should therefore avoid any attempts to derail the domestic recovery efforts whilst maintaining a consistent response to the evolving international economic scenario.

Fragile and Uncertain International Economic Outlook:

The global economy remains fragile and world growth forecasts for 2018 and the early parts of 2019 present evidence of some underlying challenges in several key economies. There have been repeated downgrades of growth forecasts in the past six months which suggests that the risks and headwinds facing most of the advanced economies as well as emerging markets and developing economies (EMDEs) may just be structural in nature. With global growth in 2018 downgraded to 3.7 per cent from an earlier projection of 3.9 per cent and against the backdrop of current uncertainties stalling global trade, growth momentum may further be weakened in 2019.

CBN staff report show that output growth disappointed in many strong economies since the trade tensions heightened and energy prices somewhat soared. In the US, the Euro Area, China and India growth deteriorated in the third quarter of 2018, but there were marginal growth upticks in Japan and UK in the second quarter of 2018. In Sub-Sahara Africa, growth remained under pressure in both commodity and non-commodity exporting countries. While growth in the second quarter of 2018 slowed in Kenya, it was flat in Ghana while it remained in the negative territory in South Africa as the recession continued.

Although the sentiments for possible growth have remained strong despite the recent heightening of trade disputes, emerging data suggests that the challenges remain unresolved. Recent Purchasing Managers Index in key advanced economies such as China, the Euro Area, Japan and USA still show softer growth for the export market. In Germany, manufacturing orders have fallen by about 4 percent on a monthly basis since June 2018.

Policy interest rates for many global economies remained unchanged between September and November 2018 due to rising uncertainty and the lack-lustre economic growth. The USA, UK, Euro Area, Brazil and India all retained policy rates at the September 2018 levels. In China, policy rates have remained the same since late 2017 as the rebalancing towards more domestically-oriented sectors continues in the country. Although monetary policy tightening in the USA appeared to have slowed after the third policy rate increase in September 2018, expectations of more surprises by the Federal Reserve have continued to generate financial market disruptions with capital flows triggering currency depreciations in many emerging and developing economies. CBN staff report show that the US dollar appreciated against many international currencies. In Europe, the British pound, euro and the Russian rubble all depreciated against the US dollar eventhough they look broadly unchanged in real effective terms.

Similarly, the currencies of China, India, Canada, Mexico, Nigeria, South Africa and Kenya all depreciated against the US dollars.

Higher oil prices lifted headline inflation moderately in many emerging market and developing economies over the past few months. While there were mild declines in headline inflation in the US, UK and Japan, there were marginal upticks in the Euro area, Brazil, Egypt, China. In many of these countries, core inflation (excluding all food and energy items) actually declined. For instance, core inflation declined in Brazil, Mexico, Russia suggesting lower pass through effects from higher oil prices and exchange rate depreciations.

Recovery Signs on the Domestic Economic Front.

The Nigeria 2018 third quarter GDP is expected to be released by mid – December but there are already signs of slight improvement. In the second quarter of 2018, output lowered to 1.50 per cent from the first quarter level of 1.95 per cent which was considered temporary. The manufacturing PMI in November 2018 was 57.9 index points which is an expansion and also grew faster than the Index in October which stood at 56.8 index points and that of September at 56.2 index points. The November PMI also shows that 13 of the 14 manufacturing sub-sectors recorded increases in production levels. The composite PMI for the non-manufacturing sector in November 2018 at 58.4 index points also grew faster than the 57.0 points recorded in October and the 56.5 points in September 2018. The high PMI reading in November signals that the economic growth moderation witnessed in the second quarter of 2018 may have been abated and private sector growth is actually picking up.

The October 2018 Inflation Report also shows some encouraging signs as well. The year-on-year headline Inflation which had increased marginally for two consecutive months from 11.14 per cent in July to 11.23 per cent in August and further to 11.28 per cent in September declined marginally to 11.26 per cent in October. The month-on month decline has been consistent for some time, from 1.13 and 1.05 per cent in July and August, respectively, to 0.84 and 0.74 per cent in September and October, respectively. Similarly, the food inflation (year on year) which had increased from 12.85 per cent in July to 13.16 per cent in August and further to 13.31 per cent in September, declined to 13.28 per cent in October 2018, while on a month by month basis, food inflation declined from 1.42 per cent in August to 1.00 per cent in September and further down to 0.82 per cent in October 2018.

The marginal declines in both headline inflation and food inflation (year-on-year and month-on-month) shows that agricultural prices may have moderated slightly very recently and the earlier concerns raised at the September 2018 MPC meeting about the cost push nature of the July and August Inflation arising mainly from scarcity of farm produce seems to have abated.

On the financial soundness indicators, there are encouraging signs as reported in the November MPC meeting which is attributed partly to the current regulatory efforts at reducing the volume of Non-performing loans. CBN staff report show that the NPL ratio which has risen to 14.70 per cent in August 2018 had declined to 14.05 per cent in October which signals improvement even though it is still above the allowed prudential maximum thus requiring comprehensive NPL reduction strategies from the banks and the regulators. In addition, the modest improvement in the Capital Adequacy Ratio (CAR) and the Profitability Indicators (ROE and ROA) in October as compared to August shows that the financial sector weaknesses which was a key concern at the last MPC meeting of September are partly being halted.

Mounting Vulnerabilities:

Capital inflows have declined consistently especially since 2018, while outflows have more than doubled during this same period, thus making external financing more challenging in Nigeria. There have been sharp declines in inflows especially for portfolio investments and FDI. Between July and September 2018, foreign portfolio investors withdrew more than N94. 4 billion Naira from the Nigerian Stock market alone. These movements have been attributed to the monetary policy normalization process in some advanced economies which has seen interest rates in places like the USA increased for three times in 2018. Besides, the usual investors fear about the 2019 general elections may have also been a contributing factor.

Given that monetary policy forecasts for 2019 in many advanced economies suggests policy rate increases, the capital flow position in Nigeria may possibly worsen in the near future. For instance, the US Federal Funds rate is expected to reach 3.5 per cent by end of 2019, while the prevailing zero rates in the Euro Areas is expected to move a bit higher by mid-2019.

Furthermore, the return of frequent volatility in the oil market is already putting pressure on commodity exporting countries like Nigeria. Oil prices which had reached a high of $79. 4 per barrel in October 2018 (which is the highest level since November 2014) from $77.2 per barrel in September 2018 had suddenly dropped to $62.60 in late November. There are still expectations that prices may drop further in the early months of 2019.

This fall in oil prices contributed to a weakening of the external reserve positon which declined from $47.15 billion in June 2018 to $40.61 billion in October. Generally, weaker reserve positons mean less room for the monetary authorities to respond to foreign currency pressures which is a threat to the relative stability in Nigeria's foreign exchange market. While the CBN's current approach has helped maintain stability in the market for several months, a continued decline of international oil prices in the current context of limited domestic fiscal buffers will certainly distort the foreign exchange stability which the country enjoys now.

In addition, the recurring issue of pressure on government finances because of the depressed oil revenue and the consequent widening of fiscal deficits is now an over flogged phenomenon. The debt levels (external and domestic) are currently deemed unsustainable and only recently, the country returned to the international bond market with new Eurobond issuance while there are also plans for the second SUKUK bonds at the domestic market in December 2018. The prospects of tighter monetary policy can however be counterproductive at this time as it may expose the country to higher borrowing costs and heavy debt servicing schedule. An outright fiscal tightening may not be the best panacea for now given its limiting role on the growth momentum, but increasing domestic revenue to GDP ratio while re-orienting the composition of expenditures will be key to reducing the fiscal deficits.

While the trend of financial soundness indicators (Non-performing loans ratio, the Capital Adequacy ratio and profitability) look positive and improved in November as compared to the statistics presented in the MPC September meeting, the volatility and frequent swings in these core indicators are all signs of unresolved financial sector weaknesses. For instance, the non-performing loans ratio although decreased in October, remains high and heavily concentrated in the key sectors which contribute more than two thirds of the country's national revenues. With many of these firms relying more on bank financing rather than market financing, a surprise tightening of monetary policy could further expose these vulnerabilities thus derailing the recovery process. Identifying the primary obstacles to the non-performing loans resolution will be critical for a complete balance sheet clean-up which will structurally address the financial sector weaknesses in Nigeria.

Decision:

At this time of heightened uncertainties at the international economic levels, and with domestic output growth improving moderately amidst lowering inflation levels, a further tightening of monetary policy may not be warranted. On the other hand, lowering of policy rates will in itself be counterproductive. I am therefore disposed to keeping the policy parameters as they are. This cautionary approach will prevent the economy from overheating while we monitor developments in the near-term.

I will thus vote to:

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

5. BALAMI, DAHIRU HASSAN

At the Global Level

Globally, the major development that have implications on the Nigerian economy during the 2018 include the following: tension and uncertainty associated with Brexit deal, U.S - China trade wars, U.S sanctions on Iran, volatility of oil market price, deepening crisis in Venezuela and concerns over Italy's 2019 budget etc. These events slowed down the momentum of global economic activities and are of concern to the Nigerian economy and its trading partners such as U.S, Euro Area, China, Japan, South Africa, Kenya etc. In terms of prices, the global inflation has been projected to rise to 3.2 percent in 2018 as against 3.1 percent in 2017. In the commodity market, price of the following commodities such as gold and agriculture products have risen. These have implications on global output growth, estimated at 3.7percent in 2018 against 3.9 percent as earlier projected.

At the Domestic level

Generally, the outlook of the Nigerian economy in 2018 is positive, but the growth of the domestic output is still low. The output gap is about 1.50 percent as against population growth rate of 2.62 percent. The actual output is below potential productive output, which means a significant improvement in output supply will tame inflation. The critical question is how can we stimulate output growth in the economy? Domestic output growth can be stimulated by deploying more credit to the real sector of the economy. This can be achieved through the use of unconventional monetary policies to assist the fiscal side of the economy and making sure credit create value chains across board.

Although, inflation rate moderated in October 2018, there is need for further moderation, because there is a possibility of an uptick in inflation in the economy in 2019. It should be noted that inflation in Nigeria to some extent is largely structurally driven rather than monetary. Therefore, the structural factors need to be addressed so that money supply in the economy would drive growth in real sector of the economy (agricultural sector, manufacturing sector and SMEs Inflation can be reined in by correcting the shortcomings of the exchange rate regime. In attacking addressing, open market operation (OMO) is a good instrument to continue to be employed by the Bank taking into consideration the level of liquidity in the system.

The growth in money supply and liquidity in from banking sector have not been very effective because of a number of interventions and under performance to the bench mark is not driving the needed monumental growth in the economy. However, there is some improvement in the performance of the banking sector, as indicated by various indices such as the capital adequacy ratio (CAR), non-performing loans (NPLs), liquidity ratio, return on asset (ROA) and return on equity (ROE). With regard to the high NPLs of the deposit money banks (DBMs), action needs to be expedited to recover loans from the oil and gas sub-sector of the economy, which accounts for the larger share of the NPLs. Though the NPLs deteriorated largely because of low economic activity affected the ability of the sectors to create value adding production lines.

Challenges at the Domestic Level

i. Foreign Exchange Market

There is threat to exchange rate stability due to the pressure on external reserves as well as increase in capital outflow. It should be noted that capital outflows are accelerated due to lack of instruments for foreigners to invest in. Price stability is better achieved if we can prevent exchange rate volatility through proper management of external reserves. The exchange rate market is largely affected by the volatility of the oil price and the level of domestic production.

Capital outflow can be reduced by creating more attractive instruments at the capital while decline in reserve can be stemmed with significant diversification of the economy through increasing production of commodities such as palm oil, fish and oil and gas export.

Also of importance is the drive to increase SMEs access to finance as well as other sectors that have employment generation potentials. The continuation of the anchor borrowers programme (ABP), discriminate cash reserve requirement and effective performance of the Investors and Exporters window introduced in April 2017 would go a long way to achieve diversification of the economy.

ii. Performance of the Banking Sector

The financial soundness indicators in terms of Capital Adequacy Ratio (CAR), Non-Performing Loans (NPLs), Liquidity Ratio, Return on Equity (ROE) and Return on Assets (ROA) have improved over the levels at the last MPC. The improvement in the capital adequacy ratio is due to regulatory actions of the CBN. It should be noted that NPLs have also shown slight improvement. Currently, the economy does not have problem with liquidity. Without the outlier banks, Nigerian banks can favourably compare with its pears.

iii Low Level of Credit to the Real Sector of the Economy

The ratio of credit to gross domestic product (GDP) is low. Credit to other sectors of the economy, particularly when Deposit Money Banks (DMBs) are not willing to do so is weak, therefore, we can encourage the establishment of more micro-finance banks and strengthen the existing ones so as to improve access to credit to poor. However, this may result into conflict of interest to the CBN.

iv. Cyber Security

Another challenge observed at this meeting is related to cyber security, a frame-work therefore need to be deployed to deal with cyber security to reduce the level of cybercrime through the creation of security operation centres. Trained ethical hackers can be employed by banks while information must be shared among peers to protect the industry. As we approach 2019, it is expected that MPC should identify the variables affecting the economy, formulate appropriate polices as well as the strategy for their implementation, monitoring and evaluation within the CBN's statutory mandate.

Policy Choice

On the basis of the above analysis, I voted for a hold on earlier MPC decisions which have resulted in dampening inflation pressures both on year-on-year as well as month-on-month basis. It has also promoted exchange rate stability and positive growth. Loosening may give a wrong signal to the public. On the other hand, tightening will stifle growth. MPC decisions in the past have been complimented by the clarity of reasoning and the direction we are heading, for example convergence in the foreign exchange market has been achieved.

I therefore vote to retain the following:

i. Retain the MPR at 14.00 percent,

ii. Retain the CRR at 22.50 percent,

iii. Retain the liquidity ratio at 30.00 percent, and

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

6. ISA-DUTSE, MAHMOUD

A. INTRODUCTION

The world economy continues to grapple with several key issues that engender under-performance, such as, the US-China trade war, US sanctions on Iran, the lingering BREXIT deal, tightening financial conditions in major advanced economies, geo-political concerns and political tensions. These developments have resulted in mounting policy uncertainties, disruption in global trade flows, currency depreciations and huge capital outflows from vulnerable emerging/developing economies. On the domestic front, there is a plethora of risks that threaten the attainment of desirable economic outcomes.

B. EXTERNAL ECONOMIC CONDITIONS

The un-abating headwinds to economic activities necessitated the downgrading of the global growth forecast by 0.2 percentage point from the earlier 3.9 per cent for 2018 to 3.7 per cent. In broad terms, the slowdown in global output has potential negative implications for oil exporting countries like Nigeria as weaker demand for oil will translate into reduced oil revenue. Already, crude oil prices have started softening following rising supply and dimmer prospects for demand. This is against the background of US sanctions on Iran which did not result in the expected oil price gains as waivers were granted to some countries to continue importing Iranian oil. Thus, Nigeria must brace up to avoid diminution of foreign reserves.

A major development in the world economy that has impacted negatively on Nigeria and some other emerging/developing economies is the continued tightening of monetary policy in advanced economies. Apart from the US Fed and the Bank of England (BoE) who are pushing forward with their guidance on monetary policy normalization, the on-going monetary accommodation in the Euro Area may come to a halt by December 2018 with the expectation that policy rate will begin an upward trajectory. However, recent growth data shows a slowdown in the US economy as real GDP growth fell to 3.5 per cent in Q3 2018 from 4.2 per cent in the previous quarter on account of declining consumption, investment and government spending. Growth in the Euro Area also decelerated in Q3 2018. These developments imply a reduction in the forces contributing to capital outflows from Nigeria.

C. DOMESTIC ECONOMIC CONDITIONS

The current statistics indicate that real GDP growth rate stood at 1.5 per cent in Q2 2018 as compared with 1.9 per cent in the previous quarter. In the absence of GDP data for Q3 2018, the Purchasing Manager's Index (PMI), provides a rough approximation of economic performance. The PMI for both manufacturing and non-manufacturing sectors in October 2018 portrays consistent expansion for the 19^{th} and 18^{th} consecutive months, respectively. The implication is that the economy is unlikely to slide into recession in the near term, even though, growth outlook remains weak. Moreover, downside risks such as the late passage and implementation of the 2018 budget, security challenges, 2019 election spending, inadequate real sector financing and multiplicity of structural problems may affect growth outcomes. Thus, it becomes imperative to take cognizance of output growth in any policy framework to curtail pervasive high level of unemployment.

Headline inflation (year-on-year) declined marginally in October 2018 to 11.26 per cent from 11.28 per cent in the previous month. On a month-on-month basis, headline inflation also decelerated to 0.74 per cent from 0.84 per cent in the review period. Further month-on-month analysis indicates that while food inflation fell from 1.0 to 0.82 per cent, core inflation rose from 0.64 to 0.80 per cent between September and October 2018. Although overall, prices moderated, the rise in the core inflation component is a source of concern. Moreover, inflation uptick may occur when the new minimum wage takes effect in line with historical experience. This is against the backdrop of reserve money exceeding the Q4 2018 provisional quarterly benchmark – a reflection of increased money supply and warning against inflationary pressures in the medium term.

Monetary conditions in the domestic economy witnessed some improvement as maximum and prime lending rates moderated in October 2018 but remained high. Private sector credit grew by a paltry 1.94 per cent and fell below the benchmark of 12.40 per cent. Any rate hike at this time will further stifle credit extensions to the real sector. Capital market indices have continued to deteriorate on account of several factors including gradual tightening of financial conditions in advanced economies and the rising price of gold in the international market. These developments have negative implications for the accretion of foreign reserves, naira-dollar exchange rate stability and price stability. Therefore, monetary policy should be targeted at guiding market sentiments in a favourable direction.

Given that a strong banking system is a necessary condition for sustained economic growth, it is encouraging to observe noticeable improvements in key banking stability indicators such as capital adequacy ratio, non performing loans and profitability ratios during the review period. Of note is the point that the increasing resilience of the banking system is occurring within the ambit of an appropriate monetary policy mix, which should be sustained.

C. VOTING DECISION

Taking into account the downside risks to growth and possible inflationary pressures in the short to medium term, I voted for maintenance of the current policy stance.

- MPR should remain at 14.0% per annum
- The asymmetric corridor at +200/-500 basis points
- Retain liquidity ratio at 30.0% per annum
- Maintain the CRR at 22.5% per annum

7. NNANNA, OKWU JOSEPH

Growth was lower than projected, reflecting weak aggregate demand on account of weak purchasing power and lagged implementation of the capital budget. Available data showed that Real GDP growth declined to 1.50 per cent in the second quarter relative to 1.95 per cent in the first quarter of 2018 (NBS, 2018). The change was attributed to the tepid growth in the non-oil and oil sectors. Specifically, construction, services and agriculture sectors grew by 7.66, 4.19 and 1.19 per cent, respectively. The oil sector fell by 3.95 per cent during the period, in contrast to a growth rate of 14.77 per cent in the first quarter. Key PMI indicators showed that manufacturing and non-manufacturing PMI stood at 56.2 and 56.5 index points in September, respectively, indicating a gradual momentum in the sector.

Inflationary pressures moderated due to positive supply shocks associated with improved post-harvest food supplies. Headline inflation declined marginally in October to 11.26 per cent compared with 11.28 per cent in the previous month. Similarly, food inflation fell to 13.28 per cent at end-October 2018, from 13.31 per cent in the preceding month. However, core inflation rose slightly by 0.1 percentage point to 9.9 per cent relative to 9.8 per cent recorded at end-September 2018. On month-on-month basis, headline and food inflation moderated, while core inflation, increased marginally in the month of October, due, mainly, to cost-push factors. Upside risks to the inflation outlook in the near-term remain the anticipated 2019 election spending, high energy cost, protracted herder-farmer problem and the poor transport infrastructure. Given the current out-put gap, I do not expect the implementation of the expected general wage increase to trigger inflation in the near term.

Despite the growth in the monetary aggregates, it was however, insufficient to significantly trigger demand-pull concerns. Relative to the level at end-December 2017, broad money supply (M2) grew by 4.71 per cent at end-

September 2018, annualised to 6.28 per cent. Money market rates reflected liquidity conditions in the banking system, indicating the relative effectiveness of CBN liquidity management strategy. The monthly average inter-bank call and OBB rates were 14.07 and 14.05 per cent, respectively for October 2018, vis-à-vis the monetary policy rate of 14.0 per cent.

Despite significant pressure from non-performing loans (NPLs), systemically important top-five banks in the banking industry, which account for over 50.0 per cent of total banking sector assets, reveal soundness of the financial system. Broad rebalancing of the industry is expected to be sustained, consistent with the pace of economic recovery, supported by: continuous improvement in oil prices and production volume; and sustained regulatory oversight. Overall, credit to the core private sector has leveraged on the emerging positive sentiments, and the lull in government borrowing, to increase by 2.20 per cent in September 2018 and 2.93 per cent annualized. Net credit to the government contracted by 6.25 per cent in September 2018 over the level at end-December 2017, representing an annualized decline of 8.34 per cent.

Lingering monetary policy normalisation in some advanced economies and the uncertainty in the domestic environment has continued to weigh in negatively on the financial markets, leading to a sell-off of highly capitalised stocks. Consequently, equities market indicators were negative in the review period. The All-Share Index (ASI) decreased by 6.84 per cent from 34.848.45 on August 31, 2018 to 32.466.27 on October 31, 2018. Similarly, Market Capitalization (MC) decreased by 6.84 per cent from N12.72 trillion on August 31, 2018 to N11.85 trillion on October 31, 2018. A reversal of the bearish trend is, however, expected in the medium term all things being equal.

I hold the view, that, expectation of expansionary fiscal policy in the near-term driven by the desire to address the infrastructure deficit, and satisfy labour union wage demands remain a concern to macroeconomic stability, but should help

the already fragile growth if the expenditure is well targeted. As it is evident, the Federal government fiscal deficit has continued to widen and concomitantly, the debt burden is on the rise, narrowing the fiscal space for the implementation of growth related programmes. The government can build fiscal buffer through the privatisation of some inefficiently managed national assets, particularly, the refineries and elimination of subsidy in PMS consumption.

In the foreign exchange market, I note the effectiveness of the current flexible exchange rate policy regime, the emergent organic convergence and exchange rate stability. Consistent with the improved FX liquidity and a healthy external reserve buffers, the external sector prospect remains positive. The current account surplus observed in recent times will be sustained on account of recovery in oil prices and high export revenues. The exchange rate at the I&E window, which recorded a weighted average of ₦362.38/US$ at end-August 2018, was ₦363.93/US$ in October 2018. The naira exchange rate at the retail SMIS window and the BDC segment remained at an average of ₦330.00/US$ and ₦359.0/US$, respectively. These rates are relatively aligned with the relative purchasing power parity rates of the naira.

Against the backdrop of continued stability in the key macroeconomic fundamentals and concerns about emerging fiscal surprises, and palpable political risks, I vote to keep all the policy metrics at their contemporaneous levels.

8. OBADAN, MIKE IDIAH

Introduction

In the globalized world, increased trade and capital flows is a major feature. However, policy making in individual countries has also become globalized in the sense that policy directions in such countries have become responsive to developments in global commodity and financial markets. Also, the policies of international financial institutions and leading countries in the advanced world are also important drivers of policies in the emerging and developing countries (EADCs). Consequently, this personal statement on the monetary policy direction in Nigeria is informed by key developments in the global economy and the domestic economy.

Global developments and implications for the Nigerian Economy

World trade has continued to witness uncertainties as a result of the trade policy actions of the United States government and unstable global growth trends. The United States' trade war with China and other major trading partners, reflecting the imposition of tariffs and counter-tariffs against each other, has produced uncertainty as to the full effect on the volume of trade and global output. One of the reasons for downgrading global growth for 2018 from the 3.9 percent earlier projected to 3.7 percent is the persisting trade war between China and its major trading partners in Europe and North America. The continued use of trade policies in the United States is one of the growth-mitigating factors. Amid the tariff war, China's economy has further weakened with growth slowing to 1.6 percent in the third quarter from 1.7 percent in the second quarter of 2018. This, amid its current re-balancing programme could affect its trade with Nigeria. However, the Currency Swap agreement may ameliorate the situation and it should therefore be sustained.

Weak global growth is not good for the sale of Nigeria's major commodity export – crude oil. To worsen matters current developments in the oil market are not cheering. The price of Bonny light crude which stood at US$ 79.03 per barrel on September 14, 2018 dropped to US$ 67.02 per barrel on November 5. The price further dropped to US$ 62.6 per barrel on November 20 due to rising supply and a weaker demand for crude oil. Although US' sanctions against Iran went into effect on November 5, 2018, the government has, however, granted sanction waivers to eight countries to continue importing Iranian oil over a period of six months, thereby easing fears of impending shortages that could shore up the price of oil. Besides, Saudi Arabia has signaled its readiness to cover any production shortfalls that may arise from US' sanctions on Iran. In addition, the increasing investment in shale oil production by the US remains a significant threat to future oil price increases. Even though OPEC / non-OPEC countries plan to extend oil cooperation agreement which will allow OPEC intervention in the market to address market uncertainties from January, 2019, the regime of much higher oil prices may not be feasible in the foreseeable period. This poses a notable threat to the Nigerian economy whose performance depends delicately on robust prices in the global oil market. If the market for oil continues to show weakness, Nigeria's growth performance is at risk while the gains in external reserves accumulation, exchange rate and macroeconomic stability will be threatened. The policy implication relates to the advice that has been given to the government time and time again: use oil resources to diversify the economy and build fiscal buffers in periods of high oil prices. It is regrettable that state governments have continued to reject suggestions to save out of high oil earnings. They insist on all monies available being shared at Federation Account Allocation meetings.

Monetary policy stances in the advanced countries have important implications for international capital flows. Nigeria has been experiencing the negative consequences of the current monetary policy directions in the US and Europe.

For example, the continued monetary policy normalization, entailing hikes in the policy rate, has contributed significantly to capital flows reversal in Nigeria, and consequently bleeding the nation's external reserves, weakening the stock market, and threatening exchange rate stability, among others. So far in 2018, the United States has hiked its benchmark policy rate three times to the range of 2.0 – 2.25 percent. There is the likelihood of at least one more rate hike during the rest of the year. In the Euro area, monetary accommodation has continued at a reduced rate while the European Central Bank plans to end its bond-buying programme and raise interest rates in 2019. These monetary actions of the advanced countries coupled with weak crude oil market prospects threaten the stability of the Nigerian economy. They suggest prudent management of available foreign exchange resources, effective diversification of the economy to increase non-oil export earnings, and aggressive domestic revenue mobilization.

Basis of Opinion on Monetary Policy Direction

Against the backdrop of the above developments in the global economy, my opinion is informed by various specific developments in the Nigerian economy, especially since the last Monetary Policy Committee Meeting. Although the economy has continued to face many risks / challenges to macroeconomic stability, there have been some positive developments. These and some of the challenges inform my opinion on the direction of monetary policy in the next few months.

Domestic output. This needs to be strengthened with the support of monetary policy. Although pleasantly, the domestic economy had exited recession since the second quarter of 2017, the growth achieved remains weak and fragile. From Q2 2017 to Q2 2018, the economic growth rate averaged 1.49 percent. In the second quarter of 2018, the GDP grew by 1.5 percent compared to 1.95 percent in the first quarter, representing a decline of 0.45 percent. Although agriculture was one of the three major drivers of growth during the period, its contribution to growth at 0.27 percent showed highly reduced significance in relation to previous quarters. The sector thus needs to be further stimulated beyond what the Central Bank of Nigeria (CBN) is currently doing. Overall, aggregate output has remained below its potential for quite some time and the outlook for growth will remain fragile unless greater efforts go into stimulating the production sectors with various forms of fiscal and monetary support. There is thus need to ensure that more credit is directed to the real sector of the economy. Further monetary policy tightening will not advance this goal. But for the stagflation in the country which has made policy choices difficult, the normal policy response to low growth and high unemployment would be monetary accommodation.

Moderating rate of inflation. There is some good news on the inflation front. After two months of successive uptick in inflation, inflationary pressures eased in October. Year-on-year headline inflation reduced marginally from 11.28 percent in September to 11.26 percent in October. Year-on-year and month-on-month headline inflation reflected declines. The prices of four items including Food and Non-alcoholic beverages declined while all the other items have their prices unchanged. Food inflation declined from 13.31 percent in September to 13.28 percent in October while imported food inflation declined from 15.66 to 15.57 percent during the same period. Imported food inflation declined perhaps due to the relative stability of the exchange rate. However, core inflation inched up to 9.88 percent in October from 9.84 percent in September due largely to increases in the prices of processed food, transport, communication, education, among others.

For some time now, inflation has largely been structurally driven rather than monetary. Hence, the threats to inflation control in the short-term are poor transportation infrastructure, high cost of energy, especially diesel, recurring incidence of herdsmen/farmers' clashes, and anticipated election spending. Implementation of the new minimum wage may take some time while its impact on inflation may not be substantial when implemented. A sustainable solution is required for the herdsmen attacks on farmers and farmlands which have negatively impacted agricultural output.

Money supply growth and banking system liquidity. Although the banking system witnessed a surge in liquidity surfeit from September to October, 2018, due to fiscal injections from central revenue sharing, Value Added Tax (VAT), sustained foreign exchange purchases by the Central Bank and maturing Nigerian Treasury Bills and Open Market Operations (OMO) Bills, the effects of the injections were moderated by the sale of CBN bills at the OMO auctions, provisioning for and settlement of foreign exchange purchases and auctioning of FGN Bonds as well as Nigerian Treasury Bills.

Importantly, broad money and other money aggregates underperformed during the period; they remained below the benchmarks. For example, the annualized growth of M1 is -0.49 percent compared to the 2018 benchmark of 7.3 percent. Similarly, M2's annualized growth is 7.82 percent compared to the benchmark of 10.48 percent. Generally, as the Monetary Policy Department has observed, money supply remains weak to drive growth momentum in the economy. Risky investment environment is one factor that undermines the flow of credit to the real economy. Enhanced credit to the real sector, especially the small and medium enterprises, is thus imperative.

Encouraging news from the financial system. Generally, there is improvement in most financial indicators due to the high oil prices, action of the National Assembly to ensure payment of government debt, and effectiveness of CBN's corrective measures including enforcement of prudential regulations since the last MPC meeting. Of note here are improvements in the capital adequacy ratio, reduction in number of banks that failed the minimum liquidity ratio test from five a year ago to one as at October, 2018, reduction in the number of banks that recorded unaudited losses to three between January and October 2018 from five in the corresponding period in 2017. The non-performing loans (NPLs) ratio improved, albeit, marginally. Since it is still far above the prudential maximum, special attention would need to be paid to loan recovery from the oil and gas sector which accounts for 30 percent of aggregate credit and about 45.0 percent of NPLs. Importantly, there is need to sustain implementation of the CBN's corrective measures/actions that contributed to the improved financial soundness indicators.

Government's fiscal operations. The government's fiscal operations have continued to impact liquidity management and make it difficult. The fiscal operations have resulted in widening fiscal deficit and concurrently increasing debt level and debt service payments. From January to September, 2018 a cumulative deficit of N2,491.21 billion was recorded arising from revenue underperformance and high cost of governance. The high debt level is influenced by an increase in deficit financing through bond issuing, and high interest rates that fuel the high cost of debt servicing. What seems to be obvious is that fiscal policy has been lagging in the effective performance of its roles, especially in the area of domestic revenue mobilization, thus making the designing of monetary policy more difficult. It is thus important that fiscal policy should play its complementary role. If the fiscal authorities intensify revenue mobilization as they are currently attempting to do, and effectively build fiscal buffers, then the Central Bank's use of non-conventional monetary policy tools would not be overburdened.

Policy rates in other climes. Across the globe, inflation picked up moderately in some countries as oil prices moved up over the last few months. In several emerging markets and developing economies, inflation showed signs of moving in the upward direction. Yet, most of the countries maintained the policy rate because of concerns relating to growth and employment. In the case of Nigeria, the need to strengthen growth and reduce unemployment should be factored into any decision on the monetary policy rate. Achieving robust and inclusive growth is crucial at this point in time when various reports suggest a worsening of the incidence of poverty. Making monetary policy tighter and, in particular, raising the policy rate will not help growth and employment. It will increase the cost of borrowing both for firms and government, especially against the backdrop of widening government fiscal deficit, debt accumulation and rising debt service.

In light of the foregoing, especially the observed downturn of inflation and its structural nature, the behavior of policy rates in some other countries, underperformance of monetary aggregates, and need to strengthen output growth, I vote to maintain the monetary policy instruments at their current levels: MPR, 14.0%; CRR, 22.5% and Liquidity Ratio, 30.0%.

9. SANUSI, ALIYU RAFINDADI

1. Decision:

My decision to vote for a hold on all the policy parameters, today, was informed by the balance of risks to both inflation and output recovery occasioned by the increased uncertainties in the global and domestic economic environments. For instance, a number of global economic events have significant consequences on the evolution of both domestic output, inflation and exchange rate stability in the medium term. These events include the commencement of the US economic sanctions on Iran; the economic consequences of the dynamics of the diplomatic relations between the US and Saudi Arabia; the normalization of monetary policy in the advanced economies; the Chinese-US trade war; and the likely outcomes of the Brexit negotiations. Domestic economic developments, including the delays in the much expected fiscal injections, election spending, implementation of the minimum wage increase, have implications on output and inflation in the near term. My analysis of the available data, staff forecasts and estimates suggest that sustaining the decline in inflation and positive growth in output require a cautionary approach to policy. I, therefore, voted to maintain the current monetary policy stance, which is tight enough to support further disinflation, without hurting the positive output growth.

2. Background and Justification

2.1. Global Economic Developments

The global economy is shrouded in policy uncertainties with ambiguous consequences on domestic inflation and output. The expected rise in oil prices may not crystalise because of the relaxation of the US secondary sanctions on the buyers of Iranian oil, as well as the unfolding uncertainties around the BREXIT

negotiations. These have important implications for Nigeria's output and price stability.

Developments, following the commencement of the US sanctions on Iran, suggest that the oil prices may not rise, and the demand for Nigeria's oil may not increase as earlier anticipated. This is because of the partial suspension of the sanctions earlier imposed by the US on buyers of Iranian oil such as India, China, Italy, and Japan. Investment in the US Shale gas has been increasing, thereby raising US oil production from 10.9 million barrels per day in July 2018 to an average of 11.475 million barrels per day in September 2018. Although OPEC and allied producers may cut output, Saudi Arabia, which had earlier indicated its readiness to cover any shortfalls arising from the US Sanctions on Iran, has been facing pressure from the US to sustain its supply levels. Despite the uncertainty, indications from the crude oil futures market show that the market expects crude prices to fall in 2019. The futures price for crude deliveries in April 2019, which was quoted at US$ 75 per barrel on 3rd October, 2018, has dropped to US$ 53.82 per barrel on 20th November, 2018. The likely consequences of these developments on the domestic economy are also uncertain. Should the oil market slump, for instance, the possible adverse effect on foreign exchange earnings is lower reserve accretion and, if exchange rate stability is adversely affected, higher inflationary pressure. However, the adverse effects of the slump on government oil revenue may affect the implementation of the ERGP, reduce the expected fiscal injections and, therefore, through aggregate demand, have moderating effect on inflation and output. Despite the agreement reached between the EU and UK's Prime Minister for the continuation of Customs Union after the 29th March, 2019 when the UK finally leaves the EU, there are political uncertainties because the House of Commons has to vote on the agreement in December 2018. There are also some uncertainties around the magnitude of effects of the continued policy normalisation in the US on the impending capital flow reversals. For instance, the decline in US inflation from the peak of 2.9% in July, 2018 to 2.7% in August and further to 2.3% in September has reduced the likelihood of the US Feds going ahead with its forward guidance of more rate hikes before the end of 2018. The possible halt to further Feds rate hikes, coupled with the effects of uncertainties surrounding BREXIT may have moderating effects on capital reversals from Emerging Market Economies. These uncertainties, in my opinion, call for a cautionary approach to policy.

2.2. Domestic Economic Developments

While available data indicate that headline inflation has declined in October 2018 and output growth has continued to be positive, domestic economic conditions and staff forecasts suggest that there are threats of inflation in the medium term, while output recovery is weak.

Data suggest that the dis-inflationary process that started since January 2017 has resumed after a two-month interruption in August and September 2018. Both the Year-on-Year and Month-on-Month measures have moderated in October 2018. The Year-on-Year headline inflation has declined to 11.26 per cent in October 2018 from 11.28 percent in the previous month. The decline is due to the moderation in the prices of food & non-alcoholic beverages; Housing, Water, Electricity, Gas & Other fuels; and Transport. The Month-on-Month headline inflation declined from 0.84 percent in September 2018 to 0.74 percent in October 2018 due to the decline in Food Inflation from 1.0 percent in September 2018 to 0.82 per cent in October 2018. Core Inflation, however, increased year-on-year from 9.84 per cent in September 2018 to 9.88 per cent in October 2018.

Domestic output grew at a lower rate of 1.5 per cent in the second quarter of 2018 compared with 1.95 per cent growth in the first quarter. The increase was driven by the activities in the non-oil sector, which grew by 2.05 per cent. The oil sector contracted by 3.95 per cent during the quarter. The Industrial Production Index (IPI) rose by 0.6 per cent in Q3 2018 relative to the preceding quarter. Manufacturing activities also marginally increased in the third quarter of 2018 by 0.1 per cent relative to the preceding quarter. There are also indications of marginal improvement (of 0.2%) in manufacturing capacity utilization during the third quarter. The Purchasing Managers Index (PMI) indicates expansion of manufacturing and non-manufacturing activities in the month of October 2018, supported by stability in the foreign exchange market. Although the outlook for output recovery is fragile, staff estimates suggest that given the negative output gap, the anticipated fiscal injections, election-related spending and the implementation of the agreed minimum wage are expected to boost effective demand further.

Monetary aggregate, measured by M2, grew at an annualized rate of 7.82 per cent in October 2018, which was below its programmed target of 10.48 per cent. Credit flows to the private sector remained weak but were marginally higher in September 2018 at an annualized growth rate of 2.33 per cent compared with the 1.12 per cent achieved in August 2018. Naira continues to remain stable in the foreign exchange market, trading at an average rate of US$360.25 at the BDC segment, and US$ 363.93 at the Investors & Exporters' window. This stability was achieved through the various policies of CBN, including the implementation of the Bilateral Currency Swap Agreement with China. The banking sector remained stable, with the marginally improved NPL ratio expected to further improve.

3. The basis for My Policy Choice

The basis for my vote to maintain the status quo in today's meeting is the uncertainty in the direction of the possible effects of the global and domestic economic developments on the evolution of inflation and output, and exchange rate stability. With fragile output recovery, therefore, further tightening would raise the cost of credit and reduce investment thereby further weakening the recovery process. Loosening the policy stance would reverse the gains achieved in price and endanger exchange rate stability. Loosening may not lead to lower lending rate. I, therefore, choose to retain the current policy stance, under which most of the price and output gains were achieved.

Consequently, I voted to:

- Retain the MPR at 14.00 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. SHONUBI, FOLASHODUN A.

Global Economic Developments

Despite the steadiness in the expansion of the global economy in the last two years, downside risks have heightened over the last two quarters. The October 2018 edition of the World Economic Outlook projected growth at 3.7 per cent in 2018, from 3.9 per cent in April, on account of the potential effects of disputes in trade relationships among some of the world major economies, tighter global financial conditions and other country-specific factors. Recent rapid fall in the international crude oil price, due to lesser than expected scope and toughness of the sanctions on Iran, again exposed the vulnerability of oil-dependent economies. These developments portends pertinent implications for monetary policy in emerging and developing economies, including Nigeria.

Trends in Domestic Output and Inflation

Subsisting data from the National Bureau of Statistics (NBS) indicate that growth in national output, at 1.5 per cent in 2018Q2 was below the projected level. Though the non-oil sector was the major driver, lower than expected growth in targeted sectors of agriculture, manufacturing and solid minerals is a major concern for policy. The October 2018 composite Purchasing Managers' Index (PMI) for manufacturing and non-manufacturing sectors showed some general expansion, however, contraction in critical enabler sub-sectors of electricity, transportation and warehousing may limit future growth. Overall, growth remained weak and fragile, highlighting the need for further growth enhancing measures.

Against the uptick in inflation in the last two months, latest data from the NBS showed waning inflationary pressure, as headline inflation fell, both on month-on-month and year-on-year bases, to 11.26 per cent in October. This further underscores the continued efficacy of the suit of measures by the Bank, including retaining a generally non-expansionary monetary policy stance and deployment of other complementing tools, like open market operations to ensure optimal liquidity, as well as, the use of unconventional monetary policy measures.

Monetary and Credit Developments

Despite the generally non-expansionary stance of monetary policy, broad money supply (M_2) grew by 6.52 per cent at end-October 2018, annualised to 7.82 per cent, below the 10.48 per cent benchmark growth for fiscal 2018. The growth in monetary aggregates did not, however, translate to the domestic economy, as credit to the private sector grew marginally by 1.94 per cent, annualised to 2.33 per cent, below the benchmark growth of 12.40 per cent. Net Foreign Assets (NFA), grew significantly by 20.71 per cent, annualised to 24.85 per cent, above the 2018 target growth of 14.50 per cent.

On the average, money market rates in October 2018 were above the levels in September 2018 and remained around the monetary policy rate, reflecting the liquidity condition and risk perceptions in the market. Though the maximum and prime lending rates fell in October 2018, they remained high. The consolidated demand, savings and term deposit rates also fell, relative to their levels in September 2018. The spread between maximum lending and average deposit rates, however, widened, signifying high borrowing cost for economic agents, while low savings rate constitute a disincentive to savings.

Financial System Stability Concerns

The key prudential ratios in the banking sector showed improvement in the health and soundness of the institutions, as well as, the overall banking industry. Banks' capital and liquidity ratios remained above the regulatory minimum, reflecting mainly the positive impact of some of the measures implemented by the Bank. Asset quality also improved, as the non-performing loans (NPLS) ratio fell below the level in September 2018, though it remained above the regulatory maximum. Sustained surveillance and intensified prudential monitoring, including decisive regulatory actions will further strengthen the resilience of the industry.

External Sector Vulnerabilities

Overall balance of payment surplus in the second quarter of 2018, supported by increased non-oil export earnings, portends positivity in the external sector. Despite the slight depreciation at the Investors' and Exporters' window, due to demand pressure, the average exchange rate appreciated at the BDC segment of the foreign exchange market, with the relative stability holding in the market, as rates convergence intensifies. Initial worry about gradual outflow of foreign capital is waning, as developed economies are expected to reduce the speed of normalisation to address recent slowdown in their economies. Besides, inflow from the recent sixth Eurobond offering by Nigeria is expected to further enhance foreign exchange reserves and improve external sector viability.

Overall Considerations and Decision

Though, high possibility of market correction of the recent fall in oil prices in the very near term dampens the need for urgent actions, the trend re-emphasises the imperative for aggressive build-up of fiscal buffers to easily accommodate the effects of any sudden and significant decline in the international crude oil price.

On financial system stability, strong prospects of fiscal measures to facilitate settlement of outstanding contractual obligations and debts to businesses, especially in the oil and gas sector is expected to further improve the banking system conditions. Also, build-up in the positive outcome of the various unconventional monetary policy measures by the Bank in the real sector will improve businesses and enhance their capacity to defray obligations to the banking system. More importantly, considering the drag on credit flow and waning willingness of banks to offer credit, measures to drastically reduce bad assets in banks will enhance their health, strengthen resilience of the industry and promote intermediation.

The recent decline in inflation and possibility of further decline in food prices as harvest intensifies, aided by the aggressive intervention programmes of the Bank in the agricultural sector has reduced the likelihood of increased inflationary pressure in the very near-term. Moreover, supported by anecdotal indication of historically weak relationship between wage increase and inflation in Nigeria, the proposed increase in the national minimum wage is expected to have muted impact on inflation, owing to the prolonged weak aggregate demand and negative output gap. Thus, while the receding inflationary pressure provides the Bank with some respite on price stability, the weak and fragile growth underscores the urgent need for the intensification of growth enhancing measures.

Given the aforementioned, I believe that while the Central Bank cannot lose sight of the primary mandate to achieve price stability, it must keep maintaining the delicate balance of ensuring low and stable inflation conducive to growth. Evidently, the present monetary policy regime has produced generally positive outcomes, in terms of waning pressure on domestic prices and sustained exchange rate stability, while engendering investor confidence and steady net inflow of foreign investments. It is, therefore, imperative that maintaining this regime will allow more time for the effects and benefits to fully mature into greater economic prosperity.

In this regard, I recommend that the Bank intensifies implementation of its ongoing intervention programmes and new initiatives in the real sector to sustain the impact of the positive outcomes on the macroeconomy. I also propose a more aggressive implementation of the differentiated CRR scheme, through improved turn-around-time for application processing and increased advocacy.

I therefore vote to retain:

- MPR at 14.0 per cent;
- The asymmetric corridor of +200/-500 basis points around the MPR
- Cash Reserve Ratio (CRR) at 22.5 per cent; and
- Liquidity Ratio at 30.0 per cent.

11. EMEFIELE, GODWIN I.

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

Short-term growth outlook of the Nigerian economy, though positive, indicates diminished momentum amidst rising downside risks, persistent vulnerabilities, and depressed demand. Yet, inflationary pressures are projected to slowly levitate within the short-term as the country enters into an election year. Concerns around rising yields and protectionism in some advanced economies have combined to cause disruptive portfolio adjustments. Thus, growth prospects in many emerging markets economies have weakened with heightened fragilities, imbalances and vulnerabilities in their financial markets. This is pushing global interest rates upward and (alongside rising trade tensions) is debilitating global demand.

Global growth projection for both 2018 and 2019 have, therefore, been marked down by 0.2 percentage point to the 2017 level of 3.7 percent; and is expected to remain uneven across countries. While the pace of the US economy remains strong, growth in the Euro area, the UK and Japan are projected to decelerate. Among emerging markets, China is expected to further slowdown just as growth prospects for Brazil, Argentina, and Turkey declined. Though recoveries are ongoing, short-term growth outlook in sub-Saharan Africa remain generally subdued. Global inflation is projected to rise both in advance economies and in emerging markets and developing economies thus reinforcing the prospects of further tightening of global monetary conditions.

For the domestic economy, short-term outlook remains positive but significantly fragile due to weak effective demand. Compared to the pre-recession average of about 6.0 percent, 2018 growth is projected at nearly 1.8 percent. The subdued but positive outlook is underlain by oil price trends, continued stability in the foreign exchange market, sustained non-conventional development financing by the CBN, expected implementation of the 2018 capital budget, as well as the likely aggregate demand boost from elections related spending.

There is also a foreseeable knock-on effect on domestic prices, with short-term outlook suggesting a slight build-up of inflationary pressure by mid-2019. Regardless, year-on-year outcome for October 2018 headline inflation showed a marginal decline of 0.02 percentage point to 11.26 percent relative to the preceding month. The observed decline largely reflected the 0.03 percentage point decline in food inflation to 13.28 percent even as core inflation rose by 0.1 percentage point to 9.9 percent. This pattern was also discerned in month-over-month estimates as core inflation ascended slightly while other definitions fell, thus indicating substantial seasonal undercurrents.

Analyses of liquidity conditions in October 2018 showed an annualised contraction of 0.5 percent in M1 along with a subpar expansion of 7.8 percent (annualised) in M2. Breakdown of net domestic credit indicate an annualised expansion of 8.9 percent in government credits vis-à-vis 2.3 percent growth in private sector credit (PSC). I note that whilst the expansion in PSC is welcomed, it remained significantly below the 2018 target of 5.6 percent. Reflecting the risk aversion of banks in the face of high NPLs, the underperformance of PSC continues to undermine domestic investment, household demand, and aggregate productivity. Consequently, I reiterate the need to innovatively de-risk PSC in order to brighten its risk perception, strengthen financial system soundness, accelerate economic diversification, and ensure strong and inclusive growth.

In my consideration, I note the continued stability at the foreign exchange market and discernible convergence of rates at the BDC and I&E segments during the review period. I note also that the prevailing macroeconomic stability and short-term prospects remain cautious due to multifaceted global and domestic risks. On the global scene, the rising yields in the US and the concomitant capital flow reversals threaten our FX reserves, exchange rate, and inflation. This is further exacerbated by the anticipated fiscal and political spending over the next few months and its prospective impact on inflations expectations. While the cyclical recovery of Nigerian economy is still fragile, it is important that inflation expectations are adequately anchored. As oil prices begin to soften, the expected cushion from oil receipts for FX reserves and exchange rate looks to be weakening. It is critically important to ensure that we protect the economy from oil related volatilities. At this time, given the rising inflation expectations and likely exchange market pressures, the postulated policy response is to tighten our stance further so as to stabilise domestic prices. The dilemma arises from the trade-off between inflation and output. A rate hike could impinge on the already weak domestic demand and further enfeeble our recovery. Short-term outlook indicate tepid growth forecasts in the next few quarters and underscores the need to urgently stimulate demand and domestic productivity, and grow the economy. Nonetheless, loosening is not an option as it would undermine price stability and potentially disrupt foreign exchange markets. As I have always mentioned, I am generally inclined towards a cautious, practical, and well-balanced decision that promotes price stability, while being mindful of output and unemployment considerations.

I continue to recognize and emphasize the need to strengthen aggregate demand and bolster domestic factor productivity. In-house analysis shows that our potential output is depressed, pulling long-term aggregate demand with it. In the face of underperforming private sector credit by DMBs, I maintain my determination for forceful financial stimulus for high-impact and productive real sector activities especially in agriculture, manufacturing, and MSMEs. The recently announced programme of a strategic release of portions of banks'

CRR for real sector lending is a step in the right direction. This will stimulate productivity in qualifying high-impact sectors while helping to diversify economic growth. I am of the opinion that the aggregate supply boost from this policy would considerably moderate inflation trajectory. Since the key mandate of the CBN remains price, monetary and exchange rate stability, I am committed to driving inflation to single-digit levels and building sufficient reserves buffers to defend the naira.

I recognize that the relative stability enjoyed by the Nigerian economy reflects the combined and individual potency of our past policy decisions. Overall, I am of the view that the current levels of key policy parameters are sufficiently tight. An adjustment at this time could significantly disrupt on-going permeation of past decisions. The current level of real policy rate remains appropriate to balance the objectives of exchange rate stability, price stability and output stabilization without introducing disruptive policy shocks. Therefore, I vote to:

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

GODWIN I. EMEFIELE, CON
Governor
November 2018