CENTRAL BANK OF NIGERIA COMMUNIQUÉ NO. 126 OF THE MONETARY POLICY COMMITTEE MEETING OF THURSDAY 19th AND FRIDAY 20th SEPTEMBER 2019

The Monetary Policy Committee (MPC) met on the 19th and 20th of September 2019, in the light of softening global growth and weaker-than-anticipated domestic output recovery. The Committee evaluated developments in the global and domestic economies and examined the outlook for the rest of the year. It noted the build-up of vulnerabilities in major Advanced Economies and its spill-over to the Emerging Markets and Developing Economies (EMDEs). Nine (9) out of the eleven (11) members of the Committee were present at the meeting.

Global Economic Developments

Output growth across major advanced economies remained subdued, confronted by legacy headwinds, including the subsisting trade war between the US and China, regional hostilities in the Middle-East, rising debt levels, growing uncertainties around BREXIT and increasing political tensions between the US and Iran, including fragilities in the financial markets. In the EMDEs, output growth remained broadly mixed with some economies performing stronger than others.

Consequently, the International Monetary Fund (IMF) revised its projected global growth forecast to 3.2 per cent in 2019 from 3.6 per cent.

Price developments continued to soften across the major advanced and EMDEs as aggregate demand continually weaken, resulting in softening monetary policy by major central banks to address downward trending prices and to strengthen aggregate demand.

Domestic Economic Developments

Data from the National Bureau of Statistics (NBS) showed that real Gross Domestic Product (GDP) grew by 1.94 per cent in the second quarter of 2019, compared with 2.10 and 1.50 per cent in the preceding and corresponding quarters, respectively. This mediocre growth, we believe, is consistent with global trends of dampening output growth and was driven mainly by the oil sector, which grew by 5.15 per cent while the non-oil sector grew by 1.64 per cent. At 57.7 and 58.0 index points, the Manufacturing and Non-Manufacturing Purchasing Managers' Indices (PMI) grew moderately for the 30th and 29th consecutive months, respectively, in September 2019. Staff projections indicate that real GDP in Q3 and Q4 2019 would average 2.11 and 2.34 per cent, respectively, driven primarily by the non-oil sector. This optimism in growth prospects is anchored on the new momentum of rising credit to the private sector. However, the headwinds to the growth prospects remain high unemployment, rising public debt and heightening insecurity across the country.

The Committee noted the continued moderation in headline inflation (year-on-year) to 11.02 per cent in August 2019 from 11.08 per cent in July 2019, driven by decline in the food and core components to 13.17 and 8.68 per cent in August 2019 from 13.39 and 8.80 per cent in July 2019, respectively. The development in the food and core components of inflation was partly due to improved agricultural production in the current harvest season, supported by the Bank's sustained intervention in the agricultural sector as well as the continued stability in the foreign exchange market. The Committee, however, noted the upward pressure imposed on prices due to rising insecurity in the food producing areas of the country, increased liquidity injection from FAAC disbursements and late budget cycles. It also highlighted the imperative to address the economy's infrastructural deficits, such as power supply, upgrade of transport and production infrastructure as a means of reducing cost-push inflation.

The Committee observed that broad money supply (M3) grew by 5.65 per cent in August 2019, compared with the level at end-December 2018, annualized to 8.48 per cent, but remaining below the 2019 indicative benchmark of 16.08 per cent. The growth was largely driven by the increase in Net Domestic Credit (NDC), which grew by 24.36 per cent in August 2019 from the level at end-December 2018. The growth in NDC was accounted for by the significant increase in credit to Government, which grew by 94.33 per cent while credit to the private sector grew by 9.36 per cent in August 2019. The Committee urged the Management of the Bank to explore new initiatives to further improve lending to the private sector, while calling on Government to adopt other ways of funding its operations outside the banking sector.

In the review period, money market rates oscillated within the standing facilities corridor due to prevailing liquidity conditions in the banking system. The monthly weighted average Inter-bank Call and Open Buyback (OBB) rates increased to 8.00 and 13.37 per cent in August 2019 from 6.52 and 11.01 per cent in July 2019, respectively.

The Committee observed the continued bearish trend in the equities market, while noting the increased activity in the sovereign bonds market, reflecting global trends and investor preference for fixed income securities. In the light of this development, the All-Share Index (ASI) declined by 11.62 per cent to 27,779.00 index points on September 13, 2019, from 31,430.50 index points at end-December 2018. Market Capitalization (MC), however, grew by 15.37 per cent to N13.62 trillion on September 13, 2019, from N11.72 trillion at end-December 2018. This increase in market capitalisation was attributed to the listing of 2.75 billion ordinary shares by Airtel Africa in July 2019.

The MPC noted the improved performance and resilience of the banking sector, evidenced by the continued moderation in the ratio of Non-Performing Loans (NPLs) from 11.2 to 9.4 per cent in

May and August 2019, respectively. While noting that this was still above the prudential benchmark of 5.0 per cent, the Committee called on the Management of the Bank to drive this ratio below the prudential benchmark.

Outlook

The persistence of policy uncertainties, financial vulnerabilities and rising geo-political tensions continued to cloud the medium-term outlook. This is evidenced by the sustained weakening of global growth across regions, amplified by the persisting trade tensions between the US and its major trading partners, rising corporate and public debt levels.

On the domestic economy, output growth in 2019 is expected to peak at 2.1 per cent (IMF), 2.2 per cent (World Bank) and 2.27 per cent (CBN). These forecasts remain underpinned by expectations of favourable oil prices which would lead to higher external reserves, stable exchange rate, moderate inflationary pressure as government increases capital expenditure, including enhanced flow of credit to the private sector to stimulate investment, sustained CBN interventions in the real sector, effective implementation of the Economic Recovery Growth Plan (ERGP), build-up of fiscal buffers, as well as improved security in the country.

Committee's Considerations

The Committee noted the decline in output growth in the second quarter of 2019, partly attributable to the delay in implementation of the 2019 budget. It however, observed that this was an improvement over the corresponding quarter of 2018. In addition, it noted the broad slowdown across key economies and the response of major central banks to revise their policy rates downwards.

On price developments, the Committee commended the progressive moderation in consumer prices and urged the Bank to sustain its intervention in the real sector of the economy to reduce the output gap.

The MPC noted the improvements in the financial soundness indicators and urged the Management of the Bank to sustain its regulatory surveillance to ensure continued financial system stability. The Committee, particularly noted the growth in the size of industry loans from N15.4 trillion in June to N16.23 trillion in September 2019. On the recent directives to deposit money banks to increase their Loan-to-Deposit Ratio (LDR), the Committee underscored the need to grow consumer, mortgage and corporate credit to drive aggregate demand and ensure a reduction in unemployment and increase in output growth. Consequently, the Committee urged the Management of the Bank to fast-track the development of the credit scoring system, to promote increased intermediation. In addition, the Committee commended the introduction of the Global Standing Instruction (GSI) initiative aimed at de-risking credit in the industry by committing bank customers to repay their loans to banks. The MPC further noted the increased supply of micro credit to key Micro Small and Medium Enterprises (MSMEs) and efforts through the Nigeria Incentive-Based Risk Sharing System for Agricultural Lending (NIRSAL) Microfinance Bank to extend the reach of its credit facilities across the country. The MPC however, observed that the growth in credit to the private sector remained significantly low, relative to the absorptive capacity of the economy.

The MPC further underscored the linkage between high unemployment and heightened insecurity, emphasizing the critical need for urgent steps towards more jobs and wealth creation in the country. As an interim solution, the Committee called on Government at all levels to ratchet up public works programmes aimed at easing the threat of rising unemployment in the country. This, the Committee argued, would be achieved through efficiency in public spending. The MPC also noted the Government's current drive to increase Value Added Tax (VAT), adding that this will improve fiscal revenue to support expenditure and reduce the budget deficit as well as Government borrowing when implemented. The Committee, however, noted that this was too little to close the gap in Government finances. Consequently, the MPC called on the Government to, as a matter of urgency, adopt what it termed a BIG BANG approach towards building fiscal buffers by purposefully freeing-up redundant public assets through an efficient, effective and transparent privatization process. This would raise significant revenue for Government and resuscitate the redundant assets to generate employment and contribute effectively to national economic growth. The MPC noted the unstable oil prices, its implications on accretion to external reserves and its persistent call on the Government to build fiscal buffers. Consequently, the Committee called on the National Assembly to exercise restraint from increasing the oil price budget benchmark to avoid budgetary overruns at the implementation stage of the budget. Projections from the oil futures market, indicate that oil prices will remain tight around the budget oil price benchmark in the medium term.

The Committee's Decision

In its considerations regarding the policy options to adopt, the MPC as usual, felt compelled to review the options of whether to tighten, hold or loosen.

The Committee noted the positive moderation in inflation, though slowly from 11.08 per cent in July to 11.02 per cent in August 2019. Given that this was still above the target range of 6-9 per cent, and considering the pressure on reserve accretion caused by the relatively weak crude oil price, the MPC felt the imperative to tighten. On the contrary, the Committee was of the view that doing so in the midst of a fragile growth outlook would increase the cost of credit, and further contract investment and constrain output growth.

On loosening, the Committee felt that this would result in increased system liquidity and hence, heighten inflationary tendencies in the economy. In particular, the MPC was of the view that loosening would drive growth in consumer credit but without a corresponding adjustment in real sector output. The Committee was also convinced that increased liquidity and interest rate moderation would result in exchange rate pressures as money supply rises.

As regards the option to hold, the MPC opined that the option requires a clear understanding of the quantum and timing of liquidity injections into the economy, before deciding on possible adjustments to the stance of monetary policy. The Committee was also of the opinion that retaining the current position of policy offers pathways to appraising the effects of the suit of heterodox monetary policy to encourage credit delivery to the real sector, especially in the light of the subsisting implementation of the Loan-to-Deposit Ratio policy.

In view of the foregoing, the Committee decided by a unanimous vote to retain the Monetary Policy Rate (MPR) at 13.5 per cent and to hold all other policy parameters constant.

In summary, the MPC voted to:

I. Retain the MPR at 13.5 per cent;

II. Retain the asymmetric corridor of +200/-500 basis points around the MPR;

III. Retain the CRR at 22.5 per cent; and

IV. Retain the Liquidity Ratio at 30 per cent.

Thank you.

Godwin I. Emefiele

Governor, Central Bank of Nigeria

20th September, 2019

PERSONAL STATEMENTS BY THE MONETARY POLICY COMMITTEE MEMBERS

Decision

1. AHMAD, AISHAH N.

At the September 2019, Monetary Policy Committee (MPC) meetings I voted to maintain the current stance of monetary policy; retaining the MPR at 13.5 per cent; CRR at 22.5 per cent; liquidity ratio at 30.0 per cent and the asymmetric corridor at +200/–500 basis points. My decision to hold, like all other members, reflects the importance of balancing the price and monetary stability remit of the Committee with the pursuit of stronger growth. Rising global headwinds, policy uncertainty and persistent domestic vulnerabilities were other key considerations for my decision.

External threats persist as the spill over from US policies continue to weigh on global economic outlook

The recent attack on Saudi Arabia's crude oil processing facility and the attendant geopolitical tensions, increased the uncertainties plaguing the global business and economic environment. Following the attack, crude oil prices witnessed significant volatilities, with Brent crude rising by 14 per cent immediately after the attack and plunging thereafter by 6 per cent. It appears that there is no end in sight to oil price volatilities and consequently, exchange rate and fiscal pressures for oil producing economies; reinforcing the urgency for domestic revenue diversification.

The Saudi attack was the latest salvo in a global economic environment fraught with signs of slowdown in the US, trade wars and geopolitical tensions. In response, central banks in developed economies are fully in accommodative monetary policy mode, **with the Fed cutting the funds rate for the second time this year and the European Central Bank announcing new quantitative easing measures.** Whilst the Fed's rate cut seems like good news for emerging markets, the overall spill over effects of policy decisions by the US underscores growing concerns about rising US hegemony in the international financial and monetary system.

A key consideration for Nigeria has been the potential effects of these external developments on our investment competitiveness, reserves position and exchange rate stability. Despite the slight decline in external reserves, its current level (US$42.5b as at 16th September 2019) is sufficient to ward off these threats in the medium term while more sustainable economic reforms are being explored.

Nonetheless, the sluggish domestic output expansion amidst low fiscal stimulus requires urgent, timely and targeted action. Growth numbers for Q2 2019 recently released by the National Bureau of Statistics at 1.94 per cent is again lower than desired. More worrisome is the decline in the non-oil GDP sector growth which is a key marker for job creation and a more diversified economy. This fragile growth partly reflects the effect of delayed implementation of the 2019 federal budget, which has denied the economy timely and much required stimulus. Monetary aggregates reported by

Bank staff further reflect a constricted liquidity position as broad money supply (M3) slowed to 5.65 per cent in August 2019, compared with a growth of 6.97 per cent in July 2019 and far below its benchmark of 16.08 per cent.

Tight monetary conditions have somewhat helped keep inflation moderated with headline inflation (Y-o-Y) at 11.02 per cent in August 2019 moderating for the 3rd consecutive month since June 2019. The food and core indices also slowed in August 2019, (M-o-M), suggesting a downward price trend in the near term. While this trajectory is welcomed, the pace is slow, and the rates remain outside the preferred 6–9 per cent band; reinforcing the need to ensure that the path of disinflation is not reversed.

Whilst price stability is fairly on track, stimulating growth remains of urgent importance, particularly through extension of credit to the private sector. Bank staff reports clearly indicate marked progress with the LDR Policy, introduced in July which prescribed minimum loan to deposit ratios for Banks over a three-month period. Gross credit **grew 5 per cent on average** (N15.44trn at end June 2019 to N16.23trn on September 13, 2019); the highest figure in 19 months, **without compromising asset quality (industry NPLs remained flat at 9.4 per cent).** Significant portions of the new credit were channelled into key sectors like manufacturing, retail and commerce and agriculture. This brightens the prospects for output expansion, creating much needed growth momentum for the rest of the year.

2. ASOGWA, ROBERT CHIKWENDU

Background:

Since the last MPC meeting, the near-term domestic macroeconomic data have remained broadly unchanged and the downside risks to growth are also similar to the levels in July 2019. There are also evidence that new Central Bank's regulatory directives such as 'minimum loan to deposit ratio (LDR)' are gradually yielding the desired results and have been complemented by the stimulus to some selected growth-enhancing sectors of the economy. The perceived optimism of an improved output growth in the final half of 2019 however appears to have diminished probably because of the weakening manufacturing sector and the persistent agricultural farmers challenge. The relatively strong household consumption may be the moderating factor to output growth on the domestic front. There have however been key changes in the global macroeconomic data since the last MPC meeting as the trade war between China and US intensified, thus weakening the outlook for global growth, while policy rates have been loosened in several economies.

The Monetary Policy decision at this September meeting will thus reflect the balance of evidence on these underlying domestic macroeconomic conditions and the shifting expectations about the nature and potential timing of future adjustments in policy rates by major economies. As such, an appropriate monetary policy response now is to take cautious steps while greater clarity emerges in future on the uncertainties in the global economic outlook as well as the likely path of domestic growth and inflation.

The Domestic Context:

The domestic economy remains under considerable pressure (perhaps not as worse as in the first and second quarters of 2019). While there are expectations that the 2019 third quarter GDP will be stronger than the levels in the early two quarters, the divergent signals from the weakening Manufacturing PMI amidst a relatively strong household consumption leaves a mixed picture. The slow and dragging growth of Manufacturing MPI based on CBN staff survey show that the pace of expansion has indeed decelerated since January 2019 while on the demand side, the final household consumption has continued to be the main source of expected growth. The softening manufacturing sector expansion despite the recent modest increases in credit by deposit money banks to the core private sector is rather worrisome but may also depict a possible link to the global factors as manufacturers worldwide are facing similar headwinds.

Inflation continues to moderate but sluggish and sticky on the downside. Even though Headline rates dropped from 11.22 percent in June 2019 to 11.08 percent in July 2019 and further to 11.02 percent in August 2019, it is hard to discern any pattern since May 2018 when it first dropped to 11.61 percent from 12.48 percent in April 2018. While there are hopes that inflation may move closer to the Central Bank single digit target soon, it appears still constrained by structural and other macroeconomic factors. On the external indicators, some considerable pressures still exist as the conditions of external reserves and current account balance seems to have worsened in between the MPC meetings. CBN staff report show that gross external reserves as at end of August 2019 declined by 4.7 percent when compared to the levels at end July and there are expectations of additional declines by the fourth quarter of 2019. There are however fears that this declining trend in external reserves may affect exchange rate stability in the near future.

The huge concerns expressed in the last MPC meeting about the increases in total public debt remain unabated. Based on the Bond Issuance Calendar of the Debt Management Office (DMO), there were three additional FGN Bond Auctions in July, August and September to raise money to part-finance the 2019 Federal Budget while additional Issuance of Eurobond is expected in the late part of 2019 or early 2020. As the threat of debt vulnerability continues, a coordinated domestic revenue expansion with simultaneous fiscal prudence as suggested in the last MPC meeting still remain the key to addressing the weak fiscal position of the economy.

Between last MPC meetings, key credit risk and bank performance indicators remained largely stable. CBN staff report show that capital adequacy ratio as at August 2019 stood at 15.8 percent (against a regulatory minimum requirement of 10-15 percent). The non-performing loan ratio reduced from 11.0 percent in April to 9.4 percent in June and maintained the same level in August 2019 and this decline has progressed apparently since August 2018. The key profitability indicators (ROE and ROA) have also remained stable between the last MPC meeting and now, reaching 24.3 percent and 2.3 percent respectively as at August 2019. Interestingly, the total bank credit which had reduced in June 2019 recorded modest increases in July and August 2019 and partly attributed to the modest declines in the prime lending rate as well as new CBN directives on minimum loan to deposit ratio.

The Global Economic Outlook:

Similar to the situation in the previous 2019 MPC meetings, the global economy has continued to falter with trade and manufacturing further weakening amidst rising economic uncertainty triggered mainly by the prolonged trade tensions between China and the USA. Major economies across all regions have suffered GDP contractions in second quarter of 2019. There were 2019Q2 output decelerations in the Euro Area (especially Germany and Italy). The US economy also slowed in 2019 Q2 compared to the Q1 levels even though it grew by 2.0 percent. The UK economy shrank by 0.2 percent in Q2 2019, its worst performance since 2012 amid broad based weakness including the uncertainties arising from Brexit controversy. The output slowdown also affected some emerging markets and developing economies in East Asia and the Pacific, including China. These growth challenges led to lower commodity prices and weaker demand for Africa's commodity exports thus invoking some turbulence in the currency market of several African countries. Even though there have been predictions of a modest rebound in global output in the last quarter of 2019, the recent re-escalation of trade conflict between China and US in August is already fuelling greater uncertainty about the direction of global output in the coming months.

In response to this slack in output growth and the perverse uncertainties, major Central Banks have continued to loosen monetary policy rates with signals of more accommodation stances in future amidst moderating inflation levels. The US in mid-September cut the benchmark rate by 25 basis points, which was the second interest rate cut in over a decade after the first one in July 2019. By early September, the European Central Bank lowered its deposit rate by 10 basis points to -0.5 percent from -0.4 percent and restarted its quantitative buying programme thus providing additional easing credit to banks. Prior to this MPC meeting, several other emerging markets had also reduced policy rates. For instance, in Indonesia, the policy rate was cut by 50 basis points in July while the Reserve Bank of India, the Central Banks of Egypt and New Zealand all eased rates in August, and the Central Banks in Turkey and Thailand followed by lowering rates in early September.

There are however some advanced and emerging countries who perhaps have kept rates unchanged appearing to adopt a wait-and-see approach. The Central Bank of China are yet to lower policy rates but have cut the required reserve ratio for banks for the third time in 2019, thus enabling them to boost the volume of their lending. The Bank of Japan at its July 2019 meeting also kept its monetary policy rate unchanged.

The recent widespread easing of monetary policy may have somewhat affected the financial markets. Bond yields declined across these economies with market expectations of more accommodative policies. While some emerging market, and developing economies benefited from this global decline in yields, others seem to have suffered from capital outflows. For instance, while there have been capital re-flows to Egypt, in contrast, Argentina has since July suffered significant capital outflows forcing it to impose capital controls by late August because of the rapid loss of foreign currency reserves. For Nigeria, evidence of capital re-flows is not yet clear, but there are projections that capital flows will probably increase positively if the current stance of monetary loosening in major economies continues while there are corresponding improvements in the domestic socio-economic factors.

My Decision:

There is strong argument that the two successive interest rate cuts in the US and the easing stance in other major economies provides a welcome breathing space for Nigeria and indeed other developing and emerging economies to reduce their own policy interest rates as well. The uncertainties about the future stance of monetary policy may however require a wait and see approach on MPC decisions about the key policy rates for now. This seems appropriate especially given that the current CBN easing stimulus to key sectors look somewhat effective. Besides, the emerging signs of willingness to resolve the US-China trade conflict might lead a possible reversal of the yield curve sooner than anticipated.

The 3rd quarter domestic output figures are not yet out but there are huge expectations of mild recovery as compared to the second quarter figures. As such, other supportive macro policies will be key to sustaining output growth in the near future.

My opinion therefore, is that policy parameters should remain largely unchanged at this September 2019 MPC meeting. I will thus vote to:

- Retain the MPR at 13.5 %
- Retain the CRR at 22.5%
- Retain the Asymmetric Corridor at +200/-500 basis points
- Retain the Liquidity Ratio at 30.0%

3. BALAMI, DAHIRU HASSAN

GLOBAL ECONOMIC AND FINANCIAL ENVIRONMENT

Output Growth

The global output growth in the Developed, and Emerging Market Economies (EMEs) have remained weak due to persistent uncertainties across the globe occasioned by the trade war between United States of America (US) and its major trading partners including Europe and China; conflict in the Persian Gulf Crisis; trade dispute between Japan and South Korea, prolonged and unresolved BREXIT; and increasing tension in Hong Kong.

In addition, the volatility in the oil price and changes in its demand and supply on account of increasing geographical tension which was further heightened by the attack on oil facilities in Saudi Arabia. All these contributed to the down grading of global growth to 3.2% for 2019 by the International Monetary Fund (IMF) from earlier 3.6%

Amongst several advance economies, output group had remained sluggish as automobile industry weaken in Europe, the German economy slowed by to depressed manufacturing, equally, there was low output in France, Italy and Turkey. Output however remained modest in Japan. To promote growth, the European Central Bank (ECB) resorted to new Quantitative Easing (QE) measures to buy 20 billion Euro bonds every month starting in November 2019. There major factors therefore driving down global growth includes:

Trade

Global trade weakened to 2.7% in 2019 from 4.1% in 2018 due to persisting trade tensions and uncertainties at the global level, the lowest since the Global Financial Crisis (GFC). Global trade continued to fall in Q2 2019, but is expected to improve in 2020. The sharp drop in trade volume is expected to weaken global output growth shown by the downward trending global Purchase Managers Index (PMI) in August 2019.

Financial Market

The uncertainties in the Global financial markets were deepened by pronouncement of new tariffs against China and Europe by the US, as well as additional sanctions against Iran. Certain economic and political developments such as growing threats to central banks independence including the US Federal Reserve, the Reserve Bank of India, Central Bank of Turkey and the criticism of the governing council of European Central Bank (ECB) as well as sanctions on the Central Bank Iran and its sovereign wealth by President Trump of US.

Inflation

As reflected in my last Personal Statement, inflation remained below 2% in most advanced countries including the US and Euro Area except in the UK where it inched up to 2.1% in July 2019 from 2.0% in June 2019. In the emerging markets economies however, due to structural challenges and aggregate demand dynamics, inflation was mixed. In South Africa inflation was 4.09%, in Egypt inflation fell from 8.7% in July to 7.5% in August, but inched up Ghana from 9.1% in July to 9.4% in August 2019.

The developments in the global economy may have significant implications for the Nigerian economy due to its trade relationship with China, the United Kingdom and the US. Threat of further appreciation of US dollar against the naira should be carefully monitored to ensure that adequate preparations were made against any foreign exchange shock. It is advisable therefore, to build buffers for the same purpose. A positive outcome of the global uncertainties is a possibility of capital flows to emerging economies including Nigeria, if the security situation and investment climate improve.

THE DOMESTIC ECONOMY AND FINANCIAL ENVIRONMENT

Output Growth

Data from the National Bureau of Statistics (NBS) showed that Real Gross Domestic Product (RGDP) moderated to 1.94% in Q2 2019 compared with 2.10% and 3.8% in the preceding quarter and Q2 2018. The headwinds affecting the growth included: shocks in the global oil price, declining manufacturing performance, low Purchase Managers Index (PMI), low domestic credit to the private sector though moderating, and weak aggregate demand. Others were poor infrastructural facilities challenge, increasing insecurity in the North-East and other parts of the country. Again, the level of unemployment rate remains high.

Staff forecast of the Central Bank of Nigeria (CBN) for crude oil price showed it would remain above the budget benchmark, while growth was projected at 2.7% in 2019. It should be noted that the oil and gas sector, is the prime driver of growth in Nigeria, and oil grew by 5.15% in Q2 2019. The moderate growth for Q2 recorded was driven by information and communication technology (ICT); agriculture; quarrying and mining; transportation; and services. The services sub-sector was the highest driver of growth in Q1 2019 at 38.35%.

The major risks and vulnerabilities to Nigeria were security challenges, slow economic growth, low government revenue, and, growing Federal and state government debts.

Financial Sector

The Nigerian banking sector is resilient as presented by data on the Capital Adequacy Ratio (CAR), NPLs, Liquidity Ratio (LR), and Return on Equity (ROE) and Return on Assets (ROA). The resilience of the banking industry in Nigeria is not unconnected with the effectiveness and efficient regulation and monitoring efforts of the CBN policies.

Credit default was on the decline with moderating Non-Performing Loans (NPLs), concentration of credit by sector, and exchange rate risks arising from banking industry exposure to foreign assets and liabilities, and cyber-risks were headwinds of the sector.

With the performance recorded by the financial sector in August 2019, the CBN therefore, should continue to monitor closely the working of such financial institutions for early corrective measures to enhance the stability of the financial system. The moderation of the NPLs at 9.4% is evidence that CBN monetary policy is effective. Although, NPLs was moderating, more efforts are needed to reduce the NPLs further.

Policy Choice

The policy decisions are informed by crucial economic and financial developments in the global and domestic environments. It should be noted that a lot of policies are being implemented by the CBN. These include among others, policies on growing credit to the real sector of the economy, financial inclusion, cashless policy, and stamp duty. The CBN and autonomous sources of foreign exchange interventions should be continued to stabilize the foreign exchange market.

The MPC proposed a "big bang" approach to intensify the privatisation to free redundant assets as to raise revenue for government and build fiscal buffers, as well as support increase in Value Added Tax (VAT) to raise revenue for Government to reduce fiscal deficits. The border closure is also a step in the right direction because of impact of the policy on the economy. On job creation, Government is advised to employ "public works" as an effective means of reducing unemployment and raising income in the economy.

Taking into consideration the Q2 growth rate at 1.9%, improvement in financial sector indicators and inflation at 11.02% in August 2019, I vote to hold because tightening will further slowdown growth, while loosening will be inflationary.

I therefore vote to:

i. Retain MPR at 13.5%;
ii. Retain CRR at 22.5 %;
iii. Retain liquidity ratio at 30%, and;
iv. Retain the asymmetric corridor of +200 to -500 basis point around the MPR.

4. NNANNA, OKWU JOSEPH

Growth remains muted amidst bumpy road to economic recovery while the longstanding problems of high unemployment and infrastructure deficit persist. Data from the National Bureau of Statistics (NBS) reveal slower than anticipated growth in real GDP at 1.9 per cent in Q2 2019, up from 1.5 per cent in the corresponding period of 2018 but down from 2.1% in Q1 2019. The oil sector grew by 5.2 per cent in Q2 2019 compared with -1.5% in Q1 2019, while non-oil sector growth fell from 2.5 per cent in Q1 2019 to 1.6% in Q2 2019. Non-oil growth was supported by continued strengthening in information and communication sector, which grew by 9.0 per cent in Q2 2019. Agriculture, mining and quarrying, transportation and storage and other services also recorded moderate growth rates. Indices of manufacturing (PMI) and non-manufacturing (PMI) stood at 57.9 and 58.8 index points in August 2019 respectively, reflecting continued improvements in the manufacturing and non-manufacturing sectors.

Inflation is decelerating but remained outside the target corridor of 6-9%. Headline inflation decreased marginally to 11.02 in August 2019 from 11.08 per cent in July 2019. Its component, food inflation remains elevated but declined to 13.17 per cent in August 2019 from 13.39 per cent in July 2019, while core inflation declined slightly to 8.68 per cent in August 2019 from 8.80 per cent in July 2019.

Financial conditions have remained tepid, and credit to the private sector remains largely below target. Broad money (M3) slowed to

5.65 per cent in August 2019, compared with a growth of 6.97 per cent in July 2019, reflecting largely, the claims on federal government and discounted OMO bills. The annualized growth rate of M3 is 8.48%, which is below the benchmark of 16.08 per cent. Credit to private sector increased to 9.36 per cent in August 2019 from 6.97 per cent in July 2019. Core private sector credit also increased to 10.55 per cent in August 2019 from 7.55 per cent in July 2019. Interest Rates in all Segments of the money market fluctuated in line with the level of liquidity in the money market. The weighted average OBB rate was 15.89 per cent on July 24, 2019 and closed at 8.52 per cent on August 30, 2019, while the weighted average inter-bank call rate opened and closed at 9.00 per cent on July 31, 2019 and August 08, 2019, respectively. Weak aggregate demand and manufacturing production, coupled with socio-political tensions continued to weigh down on Nigeria's stock market. The All-Share Index (ASI) decreased by 8.15 per cent from 29, 966.87 on June 28, 2019 to 27,525.81 on August 30, 2019. Market Capitalization (MC) rose by 1.40 per cent from 13.21trillion on June 28, 2019 to 13.39trillion on August 30, 2019.

External buffers (reserves) are more than adequate to finance Nigeria’s import needs in the medium-to-long term but fiscal buffers remain inadequate to finance capital expenditure. Gross external reserves as at August 30, 2019 stood at US$41.999 billion. The lower than expected revenue collection is responsible for the fiscal deficit, which exceeded the budget benchmark. Clearly, we need a "BIG Bang" approach, (not incrementalism) to strengthen the weak fiscal buffer.

Global economic development during the period has been relatively favorable though with simmering geopolitical tensions and trade wars.

Domestically, the financial system, is stable and resilient but the need to diversify the production base and improve the infrastructure cannot be overstated.

Overall, the macro economy is at a cross road and the economy may witness a twin deficit. Monetary policy has been overburdened and its limitations have become evident, as seen in the neutrality of the Monetary Policy rate. The critical pressure points that policy should address in the near term include; job creation through the implementation of a robust public works programme, encompassing infrastructure improvement and strengthening of key institutions.

In view of these developments, I vote to hold on all the policy metrics constant.

5. OBADAN, MIKE IDIAH

Uncertainties and tensions have continued to permeate the global economy with serious implications for global growth and trade, and macroeconomic stability of individual economies.

1. RELEVANT DEVELOPMENTS IN THE GLOBAL ECONOMY

Key among these are the unrelenting uncertainties and tensions. The uncertainties emanate from various sources, among which are the following:

- The US-China trade war has lingered on with the accompanying tensions. Until recently, both countries had escalated threats of new and proposed sanctions against each other. This unending trade tension between the US and its trading partners, especially China and Europe, has had the effect of prolonging the cyclical slowdown of the global economy. The contemplation of exchange rate depreciation by China as one of its policy responses has been interpreted by the US as an act of war by China.

- Inconclusiveness of BREXIT and the growing uncertainties surrounding it. The uncertainties have contributed to a broad depression of output growth across the United Kingdom and the European Union (EU), as businesses hold back investments towards the proposed October 31, 2019 exit date. Even this date now has uncertainty surrounding it.

- Uncertainty in global financial markets. The major global financial markets have continued to experience volatility against the backdrop of pronouncements of new tariffs against China and Europe as well as economic sanctions against Iran indicating the likelihood of weakening asset prices. The uncertainties have led to falling bond yields as market participants price-in downward policy rates and falling inflation expectations.

- High volatility in oil prices due to increasing geopolitical tensions and changes in demand for and supply of oil. OPEC Reference Basket monthly average crude oil price declined by 9.02 percent from US$ 64.71 per barrel in July 2019 to US$ 59.69 per barrel in August. Oil futures prices are on a gradual decline for the foreseeable future. Indeed, the price of oil is expected to hover around the US$ mid-50s for the foreseeable future due to significant uncertainties clouding both the demand and supply sides of the market. Possible disruption to oil prices include the following: US strategy to depress prices in the oil market through increased supply of shale oil; trade stand-off between China and the US; US - Iran political tension; growing tension in the Middle East; Crisis in Venezuela; and increased global competition from new oil production centres in Africa and Argentina.

2. IMPACT/IMPLICATIONS OF THE GLOBAL DEVELOPMENTS

Key among these are the weakening economic growth rates in both the advanced and Emerging Market and Developing Economies (EMDEs), weakening global trade and the growing concerns about recession in 2020 in regions that are critical to global growth.

Global growth has continued to soften since the second half of 2018 as various factors continue to play-out including the on-going trade tensions and increased economic uncertainty. Global growth is projected to slow to 3.2 percent in 2019 from 3.6 percent in 2018. In the advanced economies, output growth has been modest and in some cases, heading towards a recession, In the US, there are indications of a broad slowdown as recent employment numbers fell below forecasts and is expected to continue in this direction into 2020. In the European Union, the recession in the German manufacturing industry has been deepening with the Purchasing Managers Index recording the lowest level in the last seven years. Overall growth is projected to slow to 1.3 percent in 2019 from 1.8 percent in 2018. In the United Kingdom, output contracted by 0.2 percent (quarter-on-quarter) in Quarter 2 (Q2) 2019 from 0.5 percent in Quarter 1(Q1) 2019. In the EMDEs, growth in output has also remained subdued with the earlier forecasts for growth in 2019 and 2020 downgraded in light of strong headwinds which continue to derail projections. Growth in these economies was projected to slow moderately to 4.1 percent in 2019 from 4.5 percent in 2018.

The very challenging global economy is not only impacting on global output growth but also on global trade which has continued to weaken arising from the persisting high trade tensions and uncertainties. Trade has declined significantly in 2019 with adverse impact on global growth. In this direction, world trade volume worsened to -0.7 percent in Q2 2019 from -0.3 percent in Q1 2019. As for the combatants in the trade war, the US and China, trade volume between them has continued to fall as they await the resumption of trade talks in October 2019. Overall, projected global trade volumes for 2019 and 2020 are expected to be considerably lower than those of 2018.

The above developments have conditioned the policy directions in world countries, especially the advanced countries. The prospects of their economies sliding into recession in 2020 has jolted them to respond with implementation of policy measures aimed at preventing recession and/or stimulating growth and employment. One of the policy responses is the turn-around in monetary policy normalization and then softening of monetary policy in the Advanced and EMDEs. The general trend is towards monetary accommodation by both advanced and EMDEs. This is reflected in the directions of the policy rates and quantitative monetary measures. In the Central Bank of Nigeria's survey of 14 central banks, 7 of them lowered their rates while the others held rates constant with some introducing other operational measures of accommodation.

For example, the US Federal Reserve Bank (Fed) changed course by switching from an aggressive pace of monetary normalisation entailing raising the policy rate to accommodation by lowering the policy rates – by 25 basis points in July 2019 and another 25 basis points in September 2019 to now have 1.75 – 2.00 percent. President Donald Trump, in adding a political dimension, has insisted that the rate cuts are not deep enough. The prospect of another rate cut before the end of the year is there. The concern is the need to avert a recession in an election year 2020. In Europe, the European Central Bank (ECB) retained the policy rate at the zero-lower bound – at the September meeting – and adjusted the overnight rate deeper into the negative territory by 10 basis points to -0.5 percent, all with a view to averting recession. It has also introduced new quantitative easing measures to take effect from November 2019 at a pace of 20 billion euros monthly. And following the broad trends towards monetary accommodation, EMDEs' central banks, for example, Egypt, Brazil, India and South Africa, also lowered their rates by 125, 50, 25 and 25 basis points, respectively. The aims are inter-related – growth concerns, easing sharp rise in unemployment, prevailing uncertainties in the global economy, etc. Thus, the general monetary policy direction in most countries, especially the advanced countries, is towards accommodation. In light of this, Nigeria may be able to attract increased capital inflows if macroeconomic policy conditions are right and structural and security issues are effectively addressed. The macroeconomic conditions include the monetary policy stance.

3. DOMESTIC DEVELOPMENTS

The above global developments, their implications and policy responses along with key domestic developments inform my monetary policy opinion stated below. The developments are: growth trend, external reserve position, and international capital inflows flows position.

Nigeria's economic growth rate has remained weak and fragile reflecting a weak recovery path from recession. The most recent data from the National Bureau of Statistics show a moderation of the real GDP growth rate to 1.94 percent in the second quarter of 2019 compared to 2.1 percent in Q1 of 2019 and 1.5 percent in Q2 2018. Thus year-on-year, from Q2 2018 to Q2 2019, growth actually increased by 0.44 percent. Nevertheless, the second quarter 2019 growth shows fragility, is below the projected rate while the economy continues to operate below the potential as indicated by a negative output gap of about 5 percent. If the CBN staffs' projected growth rate of 2.27 percent or the IMF's rate of 2.1 percent is to be realised or exceeded, then the economy needs to be further stimulated with monetary accommodation measures complementing fiscal measures.

In recent months, external reserves have trended downwards, declining from US$43.971 billion as at July 31, 2019 to US$ 41.79 billion as at September 16, 2019 or by US$ 2.181 billion or 4.9 percent – reflecting weakening oil prices and CBN interventions in the foreign exchange market to ensure exchange rate and price stability. Although this stock of reserves could finance over 9 months of imports of goods and services at end July 2019, there is need to watch this level considering that the reserves stock at the end of June 2019 could finance over 12 months imports. More importantly, the level of reserves has implications for capital inflows and outflows. A weakened net capital inflows position, due to weakening oil prices and external reserves position is helpful to exchange rate stability or the easing of monetary policy stance. This thus suggests the need to avoid monetary policy responses that could worsen the capital flows position and, hence external reserves and exchange rate stability.

As was noted above, the global oil market has been very volatile. The price of the crude oil of interest to Nigeria –Bonny Light – has witnessed unfavourable developments in recent months. As at September 16, 2019, the price of Bonny Light crude stood at US$ 60.00 per barrel compared to US$ 68.27 per barrel on July 16, 2019. Both are however improvements over the price of US$ 45.41 per barrel on January 1, 2019. But the futures market indicates oil futures price hovering around US$ mid-50s per barrel. This is not good news at all for Nigeria. It has adverse implications for the country's budget performance, external reserves and stability of the exchange rate as well as the desire for improved growth performance.

On the inflation front, there has been good news since the last three months. Year-on-year headline inflation continuously declined from 11.22 percent in June 2019 to 11.02 percent in August. Indeed, all measures of inflation (headline, food and core) moderated in August 2019, largely driven by food, housing, clothing, transport, furnishing and education. The Bank's tight monetary policy stance and stable exchange rates played vital roles in the downward trend in prices.

4. OPINION

The observed downward trend in inflation would have provided a headroom to loosen the monetary policy stance in view of the need to stimulate growth and generate employment. But the need to sustain a robust external reserves position, take advantage of the reversal of monetary policy normalisation by the major advanced countries, and hedge against weakening oil prices suggest caution in loosening monetary policy. At the same time, any tightening of monetary policy beyond the current stance will be at variance with the much-desired high inclusive economic growth that is employment-generating and poverty-reducing. Therefore, I will support the option of holding policy parameters at the extant levels, i.e.:

Monetary Policy Rate: 13.5%

CRR: 22.5%

Liquidity ratio: 30.0%

Asymmetric Corridor: +200 / -500 basis points

But then, the fiscal authority would need to appreciate the urgency of implementing fiscal reforms aimed at boosting non-oil revenue mobilization significantly, particularly, tax revenue. The present fiscal and public debt positions are unsustainable. It is in light of this that I fully endorse the plan to raise the Value Added Tax to 7.5

percent from its current level of 5.0 percent. Indeed, as a low-hanging fruit, it could have been 10.0 percent as I had argued in my article in Business Day newspaper in April 2015. The government needs to realise that hard policy choices are inevitable under the present economic circumstances to be able to make the lives of the citizens better in the medium-long term. There is need to relieve the Central bank of its current burden of continuously accommodating the excesses of fiscal policy with implications for its balance sheet and the price stability goal.

6. SANUSI, ALIYU RAFINDADI

1.0 Decision:

My decision to vote for a hold on all the policy parameters in today's meeting was informed by the increased uncertainties occasioned by domestic and global economic developments. These developments, including the weakening global output, the accommodative monetary policy stance in major advanced economies, the developments in the international oil market, as well as the evolution of domestic prices and output have waned the desirability of adjusting the current monetary policy stance. Therefore, my vote to hold was to allow for the cloud on the medium-term outlook to clear as the effects of the recent policy actions work themselves out.

2.0 Background and Justification

2.1 Global Economic Developments

The global uncertainty associated with the lingering US-China trade war, BREXIT, Persian Gulf crises, rising debt levels, and global financial vulnerabilities continues to weaken output growth and cause a downward trend in prices in major advanced economies, causing them to adopt accommodative monetary policy stance. This, along with uncertainties in the international oil market, have important implications for capital flows into the Emerging Markets and Developing Economies (EMDEs).

The weakening of global output growth that started in the second half of 2018 continues as a result of the persistence of the US-China trade war, the Persian Gulf crisis, and the uncertainties surrounding BREXIT continues. The IMF's forecast for output growth in 2019 has been revised downwards to 3.2%, a 40-basis point lower than in 2018. This is due to lower global trade flows, which declined from 4.1% to 2.6% in the first six months of 2018 and 2019, respectively. Global manufacturing output has also been adversely affected due to exports. The weak global output growth is caused by the weakening growth in both advanced economies as well as EMDEs. In the advanced economies, output growth is forecasted (by IMF) at 1.9% in 2019 compared with the 2.2 per cent achieved in 2018. In EMDEs, output growth is expected to grow by 4.1% in 2019 compared with 4.5% in 2018. Monthly trend in the JP Morgan's Global Composite Output Index also shows a decline in global output from 51.6 index points in July 2019 to 51.3 in August 2019. Growth of the Global Potential Output, estimated by Bank of Canada, was also revised downwards from 3.3% to 3.0% in 2019 as the escalating uncertainties adversely affect capital growth and total factor productivity.

Price developments in the advanced economies are expected to continue to moderate to 1.6% in 2019 from 2% in 2018. In the Euro area, inflation remained at 1% in August 2019 due to the fall in the cost of Energy. In the US, inflation declined to 1.7% in August 2019 from 1.8% in July 2019. UK inflation has increased from 2.0% in June

2019 to 2.1% in July 2019. In Japan, inflation declined to 0.5% in July 2019 from 0.7% in June 2019. Price developments in the EMDEs were mixed, but IMF's forecast inflation to remain at 4.8% in 2019.

The medium-term outlook in the international oil markets also continues to be clouded. As US sanctions on Iran remain in force, the attack on Saudi Arabia's oil installations introduces an additional source of uncertainty by adding dimension to the Middle East crisis. Prices of Bonny Light stood at US$63.12 on September 12, 2019 compared to the US$45.41 in January 2019. The uptick in the oil price is as a result of the production cutting agreement between OPEC and its allies that was extended till the end of 2019. Futures prices are on the decline and are expected to hover around mid-50s for the foreseeable future because of the uncertainties in both the demand and supply sides.

The combination of weak aggregate demand, declining output growth and moderating price developments have prompted accommodative monetary policy stance by major central banks. Bloomberg's Global Financial Conditions Index (GFCI), which remained significantly below zero since August 2019, shows increased easing in the global financial conditions, signalling increased financial vulnerabilities. *While the dovish monetary policy stance in advanced economies may be expected to induce capital flows into EMDEs, the spill over effects of the financial vulnerabilities from the advanced economies also constitute risks of reversal as capital flees to safety. This implies that capital flows are* *more likely towards the EMDEs that are also resilient. The weak aggregate demand in advanced countries also implies weaker demand for Nigeria's crude exports and lower fiscal revenues.*

2.2 Domestic Economic Developments and their Implications

Although the latest data shows a slowdown in both the output recovery and the disinflation process, there are encouraging signs that the heterodox policy interventions are working to improve bank lending as well as improve banking sector stability.

Latest data shows that output recovery remains positive at 1.94% in the second quarter of 2019, lower than the 2.01% achieved during the first quarter of 2019, but higher than the 1.5% achieved in the corresponding quarter in 2018. The relative decline in output growth was driven by the lower growth of the non-oil sector (91.18% of the total GDP), which grew by 1.64% in Q2 of 2019, compared to the 2.47% achieved in Q1 of 2019. The lower growth in the non-oil sector was, in turn, driven by the lower growth achieved in the four sub-sectors that contribute over 60% of the GDP. These sub-sectors are Agriculture (which contributes 22.82% of GDP, grew at 1.79 in 2019Q2 compared with 3.17% in Q1 of 2019), Trade (which contributes 16.01% of GDP, contracted by -0.25% in 2019Q2 compared with positive growth of 0.84% in 2019Q1), Real Estate (which contributes 6.44% of GDP, contracted by -3.84% in 2019Q2 compared with positive growth of 0.93% in 2019Q1) and Manufacturing (*which contributes 9.1% of GDP, contracted by -0.13 in 2019Q2* compared with the positive growth of 0.85% in 2019Q1). Data on the Industrial Production Index (IPI) shows a slower growth of 0.74% in 2019 Q2 relative to the preceding quarter mainly due to the decline in the manufacturing production occasioned by inventory build-up and weak demand. *Clearly, therefore, improved consumer credit to strengthen aggregate demand, and improved security in the rural agricultural areas to enable greater production, could significantly support output recovery, going forward.* Staff forecasts show that output growth in the third and fourth quarters of 2019 would average 2.11% and 2.34%, respectively.

Consistent with the relatively slower recovery in the employment-elastic sectors of the economy (Agriculture, Construction, Real Estate and Trade), the unemployment situation continued to worsen as the number of entrants into the labour market (5.4 million people in the year) continues to outstrip the new jobs created (450,000 jobs in the year). However, according to Staff estimates, the output of these sectors are both credit and employment elastic, suggesting that improving credit flows into these sectors could raise both output and employment significantly. This provides some evidence supporting the suit of heterodox monetary policy of the Bank, including the Differentiated & Dynamic CRR regime, the new regulatory requirement on Loan to Deposit Ratio and the various interventions in the agricultural sector that aim to direct cheap long-term credit into these sectors.

Domestic prices continue to decline, albeit marginally, towards the Banks long-term inflation target. Headline inflation declined (year-on-year) from 11.08% in July 2019 to 11.02% in August 3019. The disinflationary process is characterized by persistence, with prices being sticky downwards. The key drivers of these price developments continue to be dominated by the food price component, which declined (Y-o-Y) from 13.35% in July to 13.17% in August 2019. Core inflation also declined, year-on-year, from 8.8% in July 2019 to 8.68% in August 2019. On Month-on-Month basis, the headline inflation and its food and core inflation components also declined in August 2019. The analytical measures on inflation suggest that changes in the market-driven prices are driven by the tradable prices, which further highlights the important role of import prices (hence exchange rate stability) on the inflationary process. *In addition to improving the supply-side production activities, therefore, maintaining the stability of the exchange rate is curtail to the sustenance of the current disinflationary process.* Staff forecasts suggest that inflation would continue the downward trend.

Available data shows signs of a significant improvement in credit flows to the private sector. Total credit to the private sector increased by about 2.7 percentage points from 6.97% in July 2019 to 9.36% in August 2019. At an annualized rate of 14.05%, it is about 0.44% short of the provisional benchmark of 14.49% for the year 2019. Credit to the Core Private Sector also increased to 10.55% in August 2019 from 7.55% in July 2019. As a result of the new regulatory measures to improve lending to the real sector, available data shows that gross lending has increased by N610 billion between the end of May and September 13, 2019, representing 3.9% increase. The distribution of this increased lending appears to be in the desired direction as lending to Manufacturing recorded the highest increase (N194.88 billion), followed by general retail and consumer lending (N122.33 billion, then commerce and agriculture (with N107.6 and 70.61 respectively). Between the end of May 2019 and end of June 2019, credit to agriculture, Manufacturing and general (consumer and retail) has increased by 11.16%, 13.99% and 68.74% respectively. Reports show that the banking industry remains sound and has recorded a significant reduction in Non-Performing Loans (NPLs), which is now 9.4%. The new policy measures, including the introduction of Global Standing Instruction (GSI), are expected to help sustain the declining trend in the NPLs.

3.0 The Basis for My Policy Choice

In considering the policy options, I was convinced that, while loosening the current monetary policy stance may complement the various heterodox policy interventions in raising credit, it could also raise inflationary pressure and jeopardize the downward trend in inflation. It may also raise pressure on the foreign exchange, the stability of which is important for the current disinflationary process. Further tightening would further depress aggregate demand and hurt the fragile output recovery, thereby exacerbating the high unemployment situation. As the data shows, I am convinced that the several heterodox policy actions taken by the Bank are still working themselves out. Therefore, I voted for a hold to appraise their effects.

Consequently, I voted to:

Retain the MPR at 13.50 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.

7. SHONUBI, FOLASHODUN A.

Global Economic Developments

Weakened international trade, on account of trade tensions and volatility in the global oil market remained the major headwinds to global growth. Hence, moderating external demand in China, weak investment sentiment in the euro-area and mounting risks (from trade tensions) in the US exacerbated slow-down in the developed economies. Near-term growth prospects remain subdued in the emerging and developing economies, due to uncertainties in the commodity market and spill over effects of declining trade. Consequently, weak global growth and low inflation in the major developed economies in the third quarter of 2019 reinforced the condition for adoption of accommodative monetary policy. Though the increasingly dovish global policy stance provide respite from possible pressure on currency and opportunity for further policy easing, domestic policy posture must avert external sector imbalance, while pursuing domestic economic prosperity.

Domestic Economic Environment

Real GDP growth in the second quarter was lower, when compared with the first quarter. The expansion rate was, however, higher than the rate recorded in the corresponding period of 2018, just as the trend was historically consistent. Driven, mainly, by the 5.15 per cent expansion in the crude oil and natural gas sector, the gross domestic product (GDP) grew by 1.94 per cent in the second quarter, compared with 2.10 per cent in the first quarter of 2019. Growth, however, remained fragile and weak, especially as the 1.64 per cent growth of the non-oil sector reflected slower growth of the agricultural sector and contraction of the manufacturing sector. The expansion rate in the second quarter was 0.4 percentage point higher than growth in the second quarter of 2018, highlighting the possibility of higher growth in the coming quarters as agricultural harvest commence and manufacturing activities pick-up.

Inflation maintained a downward trend for the second consecutive month in August 2019, underscoring the relative stability of the general price level. Decline in food and core inflation led to further moderation in the headline inflation from 11.22 per cent in July 2019, to 11.08 per cent in August 2019. Increased activities and supply in the agricultural sector has continued to maintain relative stability in the prices of agricultural products, though increased insecurity in many agrarian communities is hampering production and threatening supply. Also, sustained exchange rate stability has contributed to preserving the downward trend in core inflation.

The monetary sector and financial markets remain challenged by less than benchmark growth of critical monetary aggregates, as well as, persisting disconnect between trends in monetary aggregates, financial market indices and developments in the real sector. Growth in credit to the private sector, annualised to 14.05 per cent, was below the indicative benchmark of 14.49 per cent, while credit to the government expanded by 94.33 per cent, against the indicative benchmark of 58.78 per cent. Growth in broad money supply (M_2), annualised to 2.87 per cent, compared with 13.11 per cent growth bench mark, reflected the contraction of narrow money supply and net foreign asset, against their respective growth benchmark of 17.20 and 18.32 per cent. Despite the higher net banking system liquidity in August over the level in July 2019, the weighted average inter-bank call and Open-Buy-Back rates rose, while the spread between the lending and deposit rates remained high. Declining fortunes in the capital market reflected bearish sentiments in the global market, as investors' flight to safety is underscored by increased activity in the bonds market.

Growth in credit by the banking sector seems to have found a new impetus, probably in response to recent measures by the CBN. Sustained moderation in financial soundness indicators highlight the resiliency of the banking sector. It is gratifying to note the sustained improvement in the various measures of banking sector resilience. The industry capital adequacy and liquidity ratios remained above the minimum threshold, just as the non-performing loans ratio fell to 9.4 per cent in August 2019, from 11.0 per cent in May 2019, though it remained above the regulatory minimum.

The economy continued to enjoy the benefit of relatively stable exchange rate and rebound in non-oil exports, though the external sector remained challenged by heightened uncertainties in the international oil market and trade tensions. On account of sustained supply management by the CBN, the exchange rate remained relatively stable. This moderated the impact of challenges to the balance of payment and external reserve accretion, from volatile oil market and decline in global international trade.

Overall Considerations and Decision

The intensifying trade war has shaken the global economy, with its effect on consumption and investment sentiments, thereby causing significant slowdown of growth. With possibility of escalation of the trade war and generally lower than benchmark inflation, central banks are rising up to the occasion by adopting largely accommodative policy. Though a generally accommodative global policy stance provides opportunities for emerging and developing economies, including Nigeria, strategies must ensure that resources are deployed to enhance domestic economic capacity and productivity.

On the domestic front, sustained deceleration in inflation for the second consecutive month is a welcome development, especially as we move into the harvest season, a condition that is expected to lead to further reduction in food inflation. Although, headline inflation remained at double digit, it is very likely that in the absence of any major external shock or disturbance, the current trend in the components of the composite index, supported by sustained exchange rate stability, would eventually move the headline inflation into the desired territory.

While I recognise that the recent GDP numbers are in line with historical trend and even showed slight improvement over the corresponding period of 2018, there is no doubt that the present performance is far from the potential of the domestic economy. It is worrisome that growth is still driven by the oil sector, and more so that growth in the non-oil sector actually lost momentum. In particular, agriculture experienced lower growth, while manufacturing and trade contracted. As the CBN intensifies its effort to promote growth through enhancement of credit flows to the real sector, it is hoped that we will start seeing the outcome in the near-term, as the lag effect passes.

Unfortunately, deteriorating fiscal space has limited the ability of fiscal authority to provide the much-needed support to further stimulate economic activities for output growth and employment generation. Government revenue has significantly underperformed, causing the authorities to run huge deficit for the three quarters so far in 2019. Fiscal authorities and agencies must therefore be innovative in their quest to enhance revenue collection, build fiscal buffers, and eliminate wastages by disposing unproductive and improving efficiency of their assets, while also addressing the wave of insecurity across the country.

I commend the supervisory structure of the CBN for ensuring sustained improvement in the health and soundness of the institutions in the banking sector. I believe that, as resiliency of the sector improves, it will be able to adequately support the recent drive by the CBN to increase credit to the real sector.

As noted in my last statement, initial feelers indicate positive outcomes from recent strategy by the CBN to increase credit flow to the real sector. Again, I want to reiterate that as we make progress, the CBN must sustain its mechanisms for ensuring good quality control and risk management. In the same vein, we must continue to put measures in place to promote the efficiency of the financial market for the effectiveness of monetary policy.

Overall, while there is no clear and urgent need for a tight monetary policy stance at this time, especially as inflation remain on downward trend, it is pertinent that we must continue to promote growth and enhance employment generation. Moreover, the strengthening dovish wave across central banks and relatively competitive domestic yield provides some respite. I am therefore persuaded that we must allow the present policy environment to mature for the full benefit to be realised.

I therefore vote to retain the:

- MPR at 13.50 per cent;
- 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.

8. EMEFIELE, GODWIN I.

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

Since the turn of the year, uncertainties in the global financial markets have heightened vulnerabilities especially in emerging market economies. Sentiments around global growth, inflation and interest continue to trend southwards, given the tepid growth prospects in key advanced economies. The downside risk to global outlook reflects the continued trade, economic, and political tensions and hostilities involving major economies. This is exacerbated by fragilities in global financial markets. Accordingly (and on the backdrop of subdued growth in advanced economies and uneven prospects in emerging markets and developing economies) the IMF lowered 2019 global growth forecast to 3.2 per cent from 3.6 per cent.

Macroeconomic conditions in the domestic economy lost pace in 2018q2 as downside risks threaten short-term outlook. Real GDP growth rate slowed from nearly 2.1 percent in 2019q1 to 1.9 percent in 2019q2. A breakdown indicates that, though the oil sector grew by 5.2 percent during the quarter, it only contributed about 0.5 percentage point to total growth. In parallel, the non-oil sector, with a growth of 1.6 percent during the quarter, accounted for the balance of over 1.4 percentage points of overall real growth. While the huge recovery of the oil sector over the preceding quarter is pleasing, the non-oil sector remains germane at ensuring a more structurally balanced and well diversified economy. Driven largely by the non-oil activities and on the backdrop of improved credits to high-impact private sector, real growth is projected at 2.1 and 2.3 percent in 2019q3 and 2019q4, respectively.

As I noted in my July statement, the need for cautious and well-balanced policy remains incontrovertible especially as growth stayed below potential. This is especially so as per capita income, incidence of poverty, labour productivity and unemployment rate are still outside tolerable levels. Besides, the modest short-term prospect is threatened by a delicate oil price dynamics, subsisting herder–farmer conflicts, weak aggregate demand, and adverse global conditions. I am of the view that a favourable resolution of these challenges, reinforced by sustained foreign exchange stability and appropriate credit policy to the domestic real sector will boost short-term outlook.

On domestic prices, the asymptotic decline in inflation rate remains a development in the right direction. Headline inflation rate fell from 11.1 percent in July 2019 to 11.0 percent in August. This short-run disinflation reflected the 0.2 and 0.1 percentage points decline in both the food and core components of inflation to 13.2 and 8.7 percent, respectively. The observed inflation dynamics is attributable to improved agricultural production in the current harvest season, sustained development finance schemes of the CBN in the agricultural sector, and the continued stability in the foreign exchange market.

Analyses of liquidity conditions show a less-than-par annualised expansion of 8.5 percent in broad money supply (M3) in August 2019 vis-à-vis the indicative benchmark of 16.1 percent. This was due to the considerable 94.3 percent rise in government credit, even as private sector credit expanded by 9.4 percent during the review month. Given the importance of the private sector at ensuring inclusive, diversified and sustainable growth, the CBN will continue to seek ways to de-risk key high-impact non-oil private sector activities. The Bank will also sustain its development finance intervention so as to channel vital funds to the real sector to boost local productivity, spur job creation, and moderate poverty.

Assessment of recent financial systems development in key emerging market economies indicate considerable vulnerabilities reflected in volatile exchange rates, reserves, money market interest rates and the capital markets of those countries. In Nigeria, external reserves declined from US$43.9 billion in July to about US$42 billion in August 2019. While the exchange rate in the various windows remained largely stable, the monthly weighted average Inter-Bank Call and Open Buyback (OBB) rates increased to 8.0 and 13.4 per cent in August 2019 from 6.5 and 11.0 per cent in July, respectively.

In my consideration, I note that the prevailing macroeconomic stability and short-term prospects are threatened by global and domestic headwinds. Though the trajectory of the economy remained generally positive, it is fragile and requires cautiousness.

On the global scene, the heightened political tensions in many regions and the weak economic outturns in many advanced economies are beginning to raise prospects of another global downturn. Besides, vulnerabilities in global financial market is infringing emerging markets and developing economies with noticeable capital repatriation from frontier markets, including Nigeria. This has significant ramifications for our FX reserves, exchange rate, and inflation. It is further exacerbated by an indeterminate budget cycle with attendant impact on output growth and inflations expectations.

Regardless of the desire to spur growth, there remains the need to ensure that inflation and inflation expectations are not undermined. Though inflation rate is declining, it remains outside the tolerant range of the CBN. Easing at this time may resolve one problem while aggravating a bigger one. Besides, given the tangential impact of interest rate on portfolio flow, this may inadvertently destabilise the FX market. It is my view that the current policies of the Bank to increase bank lending to the private sector is a functional tool to simultaneously increase domestic productivity without undermining inflation trajectory. The prescription of the loan-deposit ratio is apt in this regard and will be reviewed upwards in the near-term.

Given the need to avoid monetary policy actions that will worsen FDI outflows, destabilise the fragile recovery, and infringe on disinflation, I am inclined towards a more practical and well-balanced decision with considerations for output, unemployment and poverty. Accordingly, altering the current levels of monetary policy instruments could stir indeterminate outcomes. 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. Today, my immediate predisposition is that the current level of real policy rate is appropriate to balance the objectives of exchange rate stability, price stability and output stabilisation without introducing disruptive policy shocks. Therefore, I vote to:

1. Retain the MPR at 13.5 percent;
2. Retain the asymmetric corridor at +200/–500 basis points;
3. Retain the CRR at 22.5 percent; and
4. Retain liquidity ratio at 30.0 percent

GODWIN I. EMEFIELE, CON
Governor

September 2019