CENTRAL BANK OF NIGERIA COMMUNIQUÉ NO. 125 OF THE MONETARY POLICY COMMITTEE MEETING OF MONDAY 22nd AND TUESDAY 23rd July, 2019

The Monetary Policy Committee (MPC) met on the 22nd and 23rd of July, 2019, in an environment of subdued global growth and fragile domestic economic recovery. The Committee reviewed developments in the global and domestic macro-economy. It noted that the global environment is overwhelmed with vulnerabilities and financial fragilities. Inflation in the advanced economies is trending downwards and significantly below the long-run objective, necessitating the adoption of accommodative monetary policy, the global economy is poised to see another round of loose monetary policy. All Eleven (11) members of the Committee were at the meeting.

Global Economic Developments

Global output growth remained weak with persistent headwinds expected to continue for the rest of the year. Key amongst these headwinds is the rising trade tensions, particularly between the US and its key trading partners in Europe, Canada, China and India, rising debt levels in some Advanced Economies and Emerging Markets and Developing Economies (EMDEs) as well as growing political uncertainties across several regions. Consequently, the International Monetary Fund (IMF) downgraded its 2019 global growth forecast from 3.6 per cent to 3.3 per cent.

Price developments across the major advanced economies remained muted alongside softening output growth. In the Emerging Markets and Developing Economies (EMDEs), however, inflationary developments were mixed in response to challenging macroeconomic conditions. The Committee noted, that the return to monetary accommodation by the advanced economies could see a new wave of capital flows to the EMDEs as investors continue to search for higher yields.

Domestic Economic Developments

Available data from the National Bureau of Statistics (NBS) showed that real Gross Domestic Product (GDP) grew by 2.01 per cent in the first quarter of 2019, driven by the non-oil sector, compared with 2.38 and 1.89 per cent in the preceding and corresponding quarters of 2018, respectively. The Committee noted the continued but moderate expansion in the economy as indicated by the Manufacturing and Non-Manufacturing Purchasing Managers' Indices (PMI), which grew for the 27th and 26th consecutive months in June 2019. The indices stood at 57.4 and
58.6 index points, respectively, in June 2019. Staff forecast indicate a 2.11, 2.39 and 2.56 per cent growth in GDP in Q2, Q3 and Q4 2019, respectively, expected to be driven largely by the non-oil sector. The Committee, however, noted that the downside risks to the

growth projections to include low credit to the private sector; high unemployment; delayed intervention of fiscal policy as well as low revenue and fiscal buffers, amongst others. The continued intervention by the Bank in the real sector is, however, expected to partly ameliorate the downside risks only in the short-run, while sound fiscal policy is expected to drive growth in the medium to the long-run.

The Committee observed that broad money supply (M3) grew by 4.97 per cent in June 2019 from the level at end-December 2018, at an annualized rate of 9.95 per cent. It was also below the indicative benchmark of 16.08 per cent for 2019. The growth in M3 was largely driven by the increase in Net Domestic Credit (NDC), which grew by 17.26 per cent in June 2019 from the level at end-December 2018. The growth in Net Domestic Credit (NDC) was accounted for by the significant increase in credit to Government, which grew by 55.80 per cent, while credit to the private sector grew by 9.0 per cent in June 2019. The Committee, however, noted that the constrained growth in the monetary aggregates as an indication of weak financial intermediation in the banking system and called on the Management of the CBN, to sustain the various initiatives of the Bank to improve lending to the private sector in Nigeria.

The Committee welcomed the moderation in headline inflation (year-on-year) to 11.22 per cent in June 2019 from 11.40 per cent in May 2019. This was attributed to the decline in the Food and Core components to 13.56 and 8.80 per cent in June 2019 from

13.70 and 9.03 per cent in May 2019, respectively. It noted the development as being partly due to the CBN's support to the agricultural sector and the prevailing stability in the Nigerian foreign exchange market. The MPC further noted that although inflation moderated in June 2019, the continued pressure on prices continues to be associated with structural factors such as the high cost of electricity, transport and production inputs. The MPC, however, expects that with the commencement of the harvest season, food prices will taper further downwards. It thus, however, advised that the security challenges in some parts of the country should be addressed urgently to increase agricultural produce in order to sustain the downward trend in inflation. The MPC reiterated its commitment to ensure the maintenance of price stability.

The net liquidity position and interest rates in the economy reflected the impact of liquidity injections and the Bank's liquidity management operations associated with fiscal federalism, transformation of maturing CBN Bills, Open Market Operations (OMO) auctions and foreign exchange interventions. Accordingly, the monthly weighted average Inter-bank call and Open Buyback (OBB) rates, oscillated within the MPR corridor, increasing to 8.38 and 8.71per cent in June 2019 from 5.14 and 8.34 per cent in May 2019, respectively.

The Committee noted with concern the continued bearish trend in the equities segment of the capital market in spite of the sustained capital inflow to the economy, reflecting continued portfolio reallocation from equities to fixed income securities. Consequently, the All-Share Index (ASI) declined by 9.11 per cent to 28,566.79 index points on July 12, 2019, from 31,430.50 index points at end-December 2018. Market Capitalization, however, grew by 18.77 per cent to N13.92 trillion on July 12, 2019, from N11.72 trillion at end-December 2018. This was due largely to the additional listing of new firms during the review period.

The Committee welcomed the continued stability in the foreign exchange market and the steady accretion to external reserves, which stood at US$44.88 billion as at July 19, 2019, representing a 0.38 per cent increase from US$44.71 billion at the end-June 2019. The MPC also noted the steady moderation in the Non-Performing Loans (NPLs) ratio of the banking industry to 9.36 per cent in June from 10.95 per cent in May 2019. While this remained above the prudential benchmark of 5.0 per cent, its continued moderation indicates the improved resilience of the banking system. The Committee thus emphasised its resolve to further drive down the Non-Performing Loans (NPLs) in the industry so as to strengthen the strategic health of banks in the Country.

Outlook

The overall medium-term outlook for the global economy remains mixed with indications of continued softening of global output due to persisting policy uncertainties and sustained macroeconomic vulnerabilities. These are likely to be accentuated by the increasing trade tensions between the US and its major trading partners, rising debt levels and geo-political tensions.

On the domestic economy, output growth in 2019 is expected to remain weak, peaking at 2.27 per cent, while inflation is projected at 11.37 per cent by the CBN staff projections by end-2019. The underlying arguments in favour of this forecast include: favourable oil prices; stable exchange rate; moderate inflationary pressures; enhanced flow of credit to the private sector; sustained CBN interventions in the real sector; effective implementation of the Economic Recovery and Growth Plan (ERGP); building fiscal buffers; and improved security in the food producing areas of the country.

Committee's Consideration

In its considerations, the Committee noted the need to boost output growth through sustained increase in consumer credit and mortgage loans and granting loans to our Small and Medium Enterprises companies. It also observed that the Management of the Bank had started the prescription of using benchmark loan-to-deposit ratios to redirect the banks focus to lending. To mitigate credit risk, the Committee enjoined the Management of the Bank to de-risk the financial markets, via the development of a reliable credit scoring system, similar to what applies in the advanced countries as this will encourage Deposit Money Banks (DMBs) to safely grow their credit portfolios.

The MPC called on the fiscal authorities to expedite action on expanding the tax base of the economy to improve government revenue and stem the growth in public borrowing. It further urged the fiscal authorities to build fiscal buffers to avert macroeconomic downturn in the event of a decline in oil prices.

The Committee also called on the Bank to intensify efforts to encourage Nigerians in the diaspora to use official sources for home remittances, noting that the effort will complement other measures geared towards improving Nigeria's current account balance. It enjoined the Bank to consider introducing incentives such as the reduction of charges on diaspora home remittances into Nigeria.

On the African Continental Free Trade Agreement (AfCFTA), the Committee urged the Federal Government to put in place measures to aid the economy in realising the benefits and full potentials of that Agreement. In particular, it noted the need to resuscitate moribund industries in Nigeria and improve key infrastructure in order to strengthen the productive base of the economy, create job opportunities as well as boost exports.

The Committee noted the positive developments towards the creation of a common currency in the West African Zone by January 2020 and commended Government and the Central Bank for pushing forward the initiative. The Committee, however, enjoined the Bank to ensure that Nigeria is properly positioned to maximise the benefits of monetary integration.

In consideration of the specific policy options to adopt; to hold, loosen or tighten, the MPC made the following observations:

(i) Whilst the focus on growth was imperative, the mandate of price stability remains sacrosanct;

(ii) Given the happenings in the external sector and the fact that inflation is moderating, tightening of monetary policy should not be an option at this time, as restriction of the capacity of the DMBs to create money could curtail their credit creation capabilities.

On the contrary, the Monetary Policy Committee (MPC) was of the view that, whilst loosening could increase money supply, stimulate aggregate demand and strengthen domestic production, the economy could be awash with liquidity especially if loosening drives growth in consumer credit without commensurate adjustment in aggregate output.

On holding the current monetary policy position, the Monetary Policy Committee (MPC) observed that given the recent actions of the Bank's management involving the prescription of minimum lending thresholds by the deposit money banks to our Deposit Money Banks (DMBs), it is safe to assume that this action, targeted at stimulating credit growth to the real sector would increase credit delivery to the real sector and accelerate investment and economic growth. It also observed that since interest rates were currently trending downwards, it is safer to await the full impact of these policy actions on the economy before a review of the position of monetary policy.

The Committee's Decision

In consideration of the foregoing, the Committee decided unanimously by a vote of all members present to retain the Monetary Policy Rate (MPR) at 13.5 per cent and to hold all other policy parameters constant. The decision was informed by the conviction of members that key macroeconomic indicators are trending in the right direction.

Consequently, the MPC unanimously voted to:

I. Retain the MPR at 13.5 per cent;

II. Retain the asymmetric corridor at +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

23rd July, 2019

PERSONAL STATEMENTS BY THE MONETARY POLICY COMMITTEE MEMBERS

1. ADAMU, EDWARD LAMETEK

Very much like the previous meeting, the July 2019 meeting of the Monetary Policy Committee (MPC) held against the backdrop of continued stability in key domestic economic and financial system indicators relative to 2018. It is however concerning that external vulnerabilities have continued to build and could soon start to undermine domestic stability unless enough safeguards are put in place. Global economic expansion continues to lose steam under the weight of a combination of factors including trade tension and tariff hikes between United States of America (USA) and some of her major trading partners; subdued investment in emerging markets and developing economies (EMDEs); increasing policy uncertainty across many countries; weak commodity prices as well as geo-political tensions. In Q1 2019, real gross domestic product (GDP) growth in most of the economies that reported expansion was weaker-than-expected. According to the World Bank, growth among advanced economies could fall to 1.7 percent in 2019 from 2.1 per cent in 2018, owing mainly to slowing external demand and persistent policy uncertainties. The Bank insists that the overall outlook for global growth in the year is laden with firm downside risks. The International Monetary Fund (IMF) shares the same impression and has further revised its global growth projection for 2019 from 3.3 per cent to 3.2 per cent, the third downward revision this year. The headwinds are not only strong but persistent and widespread. In Europe, there is yet no clear path to Brexit despite the leadership change in the United Kingdom. Growth in EMDEs is expected to remain muted at about 4.4 per cent from 4.5 per cent in 2018 driven mainly by slowing growth in China, the largest economy in the cluster.

Due mainly to the slow global growth, oil prices are projected to remain relatively low in the rest of the year. Consequently, government budgets in oil producing developing economies including Nigeria could remain pressured leading to more public debt as governments aim to support economic activity.

This pathway has its own consequences (including debt service burden and crowding out of the private sector), which must be carefully considered.

Global inflation continues to be benign owing mainly to declining energy (commodity) prices and weak global growth. Most central banks have, understandably, maintained a cautious monetary policy stance. Meanwhile, continued monetary accommodation and extremely low yields in advanced economies could keep portfolio investments and debt flowing into EMDEs including Nigeria. This is good for reserves accretion and exchange rate management but needs to be closely watched in view of the risk of sudden reversal.

On the domestic front, economic growth remains a key concern. The pace of economic expansion judging by the Q1, 2019 real GDP growth of 2.01 per cent, continues to be considerably slower than recorded during the years prior to the recent recession. Current projections indicate clearly that the overall economic growth prospect for 2019 is weak. Although the PMIs remained above 50 points in Q2, 2019, they slowed in June relative to April and May. The major downside risks to growth are coming from the slowing global economy, low crude prices and insecurity which is actively constraining production and distribution of agricultural produce. The risk of a low growth trap continues to be palpable and it is my considered opinion that economic policy generally should prioritize economic activity at this time.

In consideration of the weak outlook for economic activity, I voted earlier in the year (March 2019), for a reduction in the Bank's benchmark rate, the Monetary Policy Rate (MPR), in order to alleviate liquidity and credit pricing constraints. As I evaluate available data for the second quarter, I find indications that the downward adjustment in the MPR and other administrative measures by the Bank are having some effect. In particular, short-term rates are tending downwards as system liquidity grows. The banking system is showing greater resilience with sustained improvements in the ratio of non-performing loans (NPLs), capitalization, profitability and other financial soundness metrics. However, the challenge of translating these to more credit for activities with high growth and employment sensitivity remains. I am hopeful that the differentiated cash reserves requirement (DCRR) and the recent policy specifying a minimum loan/deposit ratio would improve the flow of credit to the desired sectors of the economy. While the real sector interventions by the CBN continue to be relevant for promoting growth and employment, greater collaboration with the fiscal authorities and the Federal Ministry of Agriculture and Rural Development (FMARD) will be required to address key bottlenecks in agriculture like preservation and low prices of some items, which could discourage their cultivation.

In arriving at the decision to support retention of all the policy parameters at the July meeting of the MPC, I considered not only growth but also the developments around money and prices. The naira exchange rate continues to be stable and disposing strong positive influences on economic activity and consumer prices, especially core inflation. The overall outlook for the naira exchange rate continues to resonate stability, predicated mainly on effective market interventions and relatively good level of external reserves (supported by high inflows). Threats to capital inflow are currently moderate particularly as central banks in advanced economies sustain monetary accommodation owing to uncertainties around trade, output growth and employment.

Headline inflation moderated slightly in June but remains above the policy reference range of 6 – 9 per cent. Food inflation which has been the real force behind the double-digit headline inflation, appears set to moderate as harvests kick-in properly in the third quarter. Nonetheless, the current outlook for inflation, based on staff forecasts, indicates that the year could close with inflation around 11.5 per cent, barring any major shock. It is, in my view, difficult at this time to rule out the possibility of a monetary/fiscal shock later in the year given that cabinets are just being set up across states and at the federal level. It is to be expected that most will hit the ground running and that could have significant spending (liquidity) implications. In the circumstance, aggressive easing of the monetary policy stance could be premature at this point, more so that the implementation of the new minimum wage may soon commence.

In choosing to hold, I am persuaded that the policy rate cut in March 2019 and other recent growth supportive actions of the Bank would compliment appropriate fiscal and sector policies to improve the outlook for growth, without sacrificing the price stability objective. Finally, I see the need to implement safeguards in anticipation of negative external spillovers. In this regard, I see merit in measures aimed at increasing the economy's financial buffers including purchase of excess foreign exchange (FX) from the market by the CBN to build external reserves and curtailment of FX leakages through appropriate import/trade policies and other demand management measures.

2. ADENIKINJU, ADEOLA FESTUS

International Economic Developments

The outlook for the global economy is mixed with significant risks and vulnerabilities in the medium term. Immediate risks include the unabating trade wars on multiple fronts, but more especially, between the U.S. and China; sentiments turning towards softening monetary policy in Advanced and Emerging Market Economies, and high anticipation for likely rate reduction by the Feds, at its July meeting; increased volatility of commodity prices, including oil prices; softening economic growth in major developed countries, and China; deterioration in global trade and business investment, and the real prospects of no-deal BREXIT. The outlook for oil price in the short and medium terms would be heavily affected by geopolitical tensions in the gulf and delicate balancing of global oil supply and demand. Again, my reading of events is that the downside and upside risks are evenly balanced with respect to short term effects on Nigeria.

Domestic Economic Developments

The Banking System Stability Report presented by Staff of CBN shows positive developments in the financial system. The financial systems indicators were in the right direction in the period under review. The Capital Adequacy Ratio (CAR), and the Non-Performing Loans (NPLs) ratios, are trending in the right direction. For the first time since December 2015, the NPLs in June 2019 was single digit, though higher than the maximum of 5% required under the prudential guideline. Other indicators like Liquidity Ratio, ROE, ROA continue to signal encouraging development. Efforts should be made to sustain the current trend.

Current measures by the CBN to redirect credit to the real sector of the economy are commendable and should be sustained. This should be complemented by sustained efforts by the monetary and fiscal authorities to support the environment which would make it easier for banks to lend to otherwise risky sectors, encourage markets for NPLs, and to put in place laws and regulations to facilitate resolutions of debt cases. Furthermore, credit access should be broadened to cover more sectors of the economy, especially those that will facilitate employment generation and promote economic diversification.

Consumer credit rose from N747.88billion in May 19 to N753.85 billion in June 2019. This is a significant increase from the figure of N632.71 billion in December 2018. Overall, personal loans accounted for 4.88% of total industry loans in June 2019. While this is a positive development, current and proposed measures by the monetary authorities should help to boost this ratio significantly. Analysis of the monthly trend in credit to Real Estate, shows that there is a need for both an increase in the overall share of the loan going to this potentially high employment generation and domestic oriented sector, as well as, rebalancing of the credit going to the sector between the supply and the demand sides of the market. Presently, credit to Real Estate is overwhelmingly focused on the supply side, which may lead to excess supply of housing units, albeit at very low sector equilibrium level.

The Economic Report presented by the Staff of the Bank, shows that Nigeria economic growth in Q1 of 2019, is positive but weak. In addition, inflation reversed its upward trend in June 2019, as headline inflation (y-o-y) declined from 11.40 in May 2019 to 11.22 in June 2019, attributed largely to the decrease in food and core inflation. This tendency is assumed to be sustained in Q3 because of expected boon from the harvest season. Moreover, the negative output gap and the positive unemployment-inflation gap imply that further economic growth could be supported with minimum impact on inflation. Sentiments in the economy, as reflected in the Purchasing Manager's Index for June remains positive. All the monetary aggregates grew at rates below their provisional levels, suggesting low inflationary build up in the economy. Foreign

Exchange market remains stable, with steady accretion to foreign reserves, which rose marginally from US$44.71billion at the end of June 2019 to US$44.83 billion July 17, 2019.

However, the upside risks to the economy are balanced by downside risks. The growing and widespread insecurity in the country is a major challenge to the economy in the short and medium term as it will continue to impact on farm output and reduce the attractiveness of the economy to foreign direct investment. Unemployment, poverty and weak growth are major structural problems in the economy. Unfortunately, there is a limit to the potency of monetary policy alone to address problems of power deficit, infrastructural gaps, and other factors contributing to high costs of doing business in Nigeria. These problems, unless addressed, will also limit the extent to which the country can effectively benefit from the Africa Continental Free Trade Agreement (AfCFTA).

Other downside risks against the economy in the short term include volatility of oil prices, high and rising public debts, fiscal imbalances, uncertainties around fiscal arrangements in the oil sector, that is affecting new investments to boost reserves additions and improve the efficiency of the sector.

My Vote

My vote at this meeting is influenced by continuous uncertainties and risks in both the global and domestic economies. These uncertainties call for caution in adjusting the exiting policy parameters. This is further reinforced by the need to allow the effects of the last reduction in the MPR as well as ongoing interventions by the CBN to play out through the system. It is also important to wait for the constitution of the new cabinet so as to get the direction of government policies.

It is consideration of the foregoing, that I cast my vote to retain all exiting monetary policy parameters.

3. AHMAD, AISHAH N.

The July 2019 MPC meetings held in the context of an increasingly dim global economic outlook, presenting significant external sector vulnerabilities for the domestic economy. The US-China trade war remains stubbornly unresolved with India set to join the fray, an escalating skirmish with Iran and uncertainties with Brexit are some of the economic and geo-political headwinds which have negatively impacted global output in the first half. The deteriorating economic environment is reflected in lower trade volumes, weakening global output levels, increasing volatility in commodity prices and a steeply inverted US yield curve. The IMF has further downgraded global growth estimates in 2019 to 3.2 per cent from 3.3 per cent, even as global central banks cut rates in a bid to ward off a recession.

These developments have implications for the domestic economy as Nigeria grapples with its own idiosyncratic economic challenges. **A wave of monetary policy accommodation could see a surge of capital flows to the Emerging Market and Developing Economies (EMDEs) in the short to medium term,** as investors search for and seek to retain higher yields. This supports domestic exchange rate stability, keeping real naira denominated yields positive, without the need to further tighten the policy stance, thereby retaining a policy rate environment conducive to growth. However, volatility in commodity prices such as crude oil, could trigger exchange rate pressures with adverse implications for domestic stability, particularly in oil exporting countries like Nigeria. Unfortunately, the absence of fiscal buffers keeps our economy vulnerable to these potential shocks underscoring the importance of fiscal consolidation and diversifying the revenue base.

Meanwhile**, domestic price developments continue to recede.** According to the NBS, headline inflation declined in June 2019 to 11.22 per cent from 11.40 per cent in May 2019. Month on month, the price index also declined from 1.11 per cent to 1.07 per cent over the same period, largely driven by the food and core sub-indices which fell to 13.56 per cent and 8.8 per cent in June 2019 from 13.79 per cent and 9.0 per cent in May 2019 respectively. **Whilst slowing inflation is positive for the price stability mandate, its current path may be more indicative of the low aggregate demand environment;** a possible headwind for GDP growth which has remained slow and fragile since the economy exited recession in Q2 2017. Accordingly, stimulating aggregate demand has taken on new urgency for both the monetary and fiscal authorities, spotlighting the role of private sector intermediaries such as Deposit Money Banks (DMBs) in accelerating the recovery.

Thankfully, **banking industry soundness indicators remain positive; non performing loan (NPL) ratios turned single digit at 9.36 per cent in June 2019 for the first time in 40 months,** whilst industry capital adequacy, liquidity and profitability are robust. However, several months of low credit to the private sector amidst burgeoning treasury securities activity prompted the Central Bank of Nigeria's (CBN) policy statement on July 3, mandating DMBs to build up their minimum loan to deposit ratio (LDR) to 60 per cent over a three month period, with additional incentives (150 per cent weighting) for new SMEs, Retail, Mortgage and Consumer loans.

Focus on the minimum industry LDR is expected to stimulate additional private sector credit growth, reduce credit concentration in energy assets and large corporates and lower the cost of credit - which has remained sticky downwards despite recent decreases in treasury yields. This expanded finance for individuals and small businesses will create jobs, enhance consumer spending and stimulate growth. Whilst some DMBs are gradually increasing credit to retail, MSMEs and the informal sector through innovative products and technology platforms, the policy initiative seeks to replicate this focus, and ramp up SME credit growth momentum across the entire industry.

Updates from Bank staff show early promise as gross credit grew marginally between June and July 2019. Close monitoring of the initiative shall be combined with improved operationalization of frameworks designed to help de-risk Consumer, SMEs and Mortgage lending; a key requirement to improve credit risk appetite of banks and mitigate the risk of NPLs. These include the Collateral Registry, deepening of the secondary mortgage market through establishment of the Nigeria Mortgage Refinance Company (NMRC), Nigeria Mortgage Guarantee Company (NMGC), mortgage interest drawback programme and an improved Credit Scoring Framework. All of the above will complement CBN's existing interventions via the Agri-Business/Small and Medium Enterprises Investment Scheme (AGSMEIS), Micro, Small and Medium Enterprises Development Fund (MSMDEF) and other funding support in the agriculture, manufacturing and creative sector value chains.

The road to economic recovery is complex and winding, given global economic headwinds and Nigeria's peculiar domestic economic context. Thus far, monetary policy initiatives have worked - with relative success - to maintain price and monetary stability and create conditions that stimulate growth. However, it is not without its limits. Getting the economy on a sustainable growth trajectory will require fiscal policy and structural reforms to complement existing monetary policy initiatives.

Policy Decision

I believe the current policy stance is appropriate to maintain price stability, the primary mandate of the committee whilst keeping conditions favorable for domestic output expansion. Thus, I vote to retain the MPR at 13.50%; 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:

International economic prospects appear less optimistic since the last Monetary Policy Committee meeting held in May 2019. The sluggish global growth still remains persistent and projections for 2019 and 2020 have been revised further downwards. Even with somewhat muted inflation across many economies, market sentiments and expectations at the international levels continue to reflect a subdued optimism especially for 2019. This is partly due to the policy uncertainty arising from the renewed trade and political tensions as well as some emerging financial stress episodes across major advanced economies.

Domestically, the nascent economic recovery remains fragile, but there are signs that the conventional policy rate cut during the March 2019 MPC meeting complemented by the unconventional policies implemented by the Central Bank are gradually having some encouraging marginal impact on market lending rates. However, the rising public debt levels in Nigeria when added to a variety of other financial sector specific risks seems to dampen the prospects of growth in the near term. Whilst there are growing local sentiments for a further downward adjustment in the MPR given the marginal decreases in both headline and core inflation in June 2019, the policy space for such additional conventional rate cuts may just not be there for now. As such, a cautious approach is required in the MPR decision for July 2019 while the Central Bank will continue to carefully monitor and analyse international and domestic economic developments.

Trade Frictions and Policy Uncertainty in Advanced and Emerging Economies: Similar to the macroeconomic situation in the previous MPC meetings, trade disputes remain unresolved and tensions have continued to escalate. Brexit uncertainty has persisted longer than expected, geopolitical tensions (especially between US and Iran) as well as domestic political uncertainties have also intensified in several regions. These have resulted in such broad ranging consequences as weaker growth in key trade partners as well as manufacturing slowdown because of low and delayed investment plans. There are projections that over 80 percent of crucial markets including USA, Eurozone Countries, China and Japan will register very slow growth in 2019 and 2020. There are also warnings that a possible spiral of additional tariffs and retaliations could have very significant slipovers on many emerging and developing countries, especially those with significant export exposure to China and the United States. Over the past few months, there have been indications that Euro Area trade has stalled, while exports from Japan, Korea and South-East Asia to China have shrunk. A prolonged slowdown in the Euro area would certainly affect countries in Central/Eastern Europe and also North Africa given the trade, remittance and banking system linkages. Also a persistent growth deceleration in China would lower commodity prices across the globe with widespread effects on commodity exporters including Nigeria.

Considerable uncertainty now surrounds the monetary policy adjustment path in many economies especially given the price pressures which seems have been subdued in major advanced economies recently. For instance, current inflation rates are below the targets as set by the US Federal Reserve and the European Central Bank. With this dwindling inflation expectations amidst growth decelerations, there are growing uncertainties on future monetary policy path. The US Federal Reserve has maintained a policy rate of 2.25-2.5% since December 2018 but there are positive signals of a single rate cut in the second half of 2019 which may likely happen at its July 30-31 meeting and this could possibly trigger a sharp tightening of global liquidity conditions. For many other economies, the expectations in the near future are either for a 'no change stance' of for 'moderate loosening'. The European Central Bank (ECB) and the Bank of England have signalled that no rate changes are expected in 2019 as the policy rates are likely to remain at 0.0% and 0.75% respectively and interestingly, the ECB also postponed any withdrawal of its accommodative policy stance which has supported investment and the construction sector in various member countries. The Canadian Central Bank has also stayed put on policy rates with hints of a near-term loosening. The Bank of Japan recently expressed interest in keeping monetary policy loose while looking out for indications of stronger inflation in the near term.

For many emerging markets and developing countries, monetary policy tightening has been paused and some countries have actually eased their policy stance. Brazil has indicated plans to cut interest rate substantially amidst the weak 2019 second quarter industry output. Other Central Banks which have communicated a more cautious view on the policy rate outlook include; Australia, Chile, China, India, Malaysia and Philippines.

Rising Domestic Debt levels amidst Reduced Episodes of Financial Market Stress:

The debt-to-GDP ratio in Nigeria remains arguably sustainable as the public debt levels continue to rise and the current levels appear to be the highest since the HIPC initiative of a debt moratorium by the Paris Club in 2004. The stock of total public debt rose from 79.4 billion US$ at end of December 2018 to 81.2 billion US$ at end of March 2019. The external debt component had moved from 18.9 billion US$ in December 2017 to 25.2 billion US$ in December 2018 and further to 25.6 billion US$ by March 2019. Eventhough such countries as Brazil, India and China have higher debt-to-GDP ratios as compared to Nigeria, these economies are also several times larger than Nigeria. Moreover, the increasing appetite for internationally private held debt and a persistent hunt for Eurobonds is worrying. Besides the associated high cost of borrowing, the huge debt levels crowd out other development spending given the portions of government revenue allocated annually to service the debt. A coordinated domestic revenue expansion with simultaneous fiscal prudence will be key to addressing the current weak fiscal position of the economy.

Interestingly, CBN staff report show reduced evidence of financial market stress in June 2019 as compared to the levels at the last MPC meeting in May 2019. For instance, there have been some modest capital market boost given the improvements in market capitalization and the All Share Index between March 2019 and June 2019. The banking soundness indicators especially the Non-Performing Loans ratio improved positively while such profitability indicators as Return on Equity and Return on Assets also gained significant positive momentum in June 2019 compared to the levels in May. Also there were marginal upward movements in the Total Deposits and Total Bank Assets between May and June 2019. Surprisingly, the total bank credit reduced in June even when the prime lending rate somewhat declined. Liquidity amongst banks remain unarguably high even as the ratio dropped to 51.6% in June, but the total bank requests for standing Deposit Facility (SDF) increased in June as compared to the levels in May 2019.

The mixed signs of other key macroeconomic variables however present further concerns. While a positive output growth was recorded in the first quarter of 2019, the lower June 2019 PMI for both manufacturing and non-manufacturing sectors compared to the levels in May, casts a cloud on the possible growth outlook for the second and third quarters of 2019. With oil prices still volatile, domestic economic conditions may remain quite challenging.

The Inflationary conditions moderated marginally in June from the momentary uptick that happened in May 2019. The short term expectation is for a continued moderated inflation in the next few months, although adverse weather conditions and the persistent insecurity in the food producing States may potentially disturb output of domestic food crops and lead to a possible minor jump in prices of affected produce.

My Decision:

While there maybe public anticipations of additional conventional monetary policy easing at this July MPC meeting, a further reassessment of the future domestic macroeconomic developments and the expected path of monetary policy in other economies may be necessary. Interestingly, the Central Bank has in the past responded to the lack lustre growth in the economy by making less expensive credit available for the private sector through development and deposit money banks. This seems to have restored space for real sector borrowing especially by small enterprises and such forward guidance through unconventional strategies will be key in the next few months.

My opinion is that policy parameters should remain largely unchanged at this July 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%.

5. BALAMI, DAHIRU HASSAN

Global Economic and Financial Developments

The International Monetary Fund (IMF) estimate for global output growth had been revised downward to 3.3 percent for 2019 as against 3.6 percent in 2018. The possibility of further dampening remains growing trade disputes between the United States of America (USA) and its trading partners including Canada, the European Union, and China; the unsuccessful negotiation between the US and North Korea; secondary tension with Iran, which is being opposed by China and Russia; trade dispute between Japan and South Korea and the impact on the microchips market; growing level of government debt in advance economies, and Emerging Markets and Developing Economies (EMDEs); and the uncertainties around BREXIT negotiations. Against this backdrop, global trade is estimated to weaken to 2.6 percent in 2019 from the 4.1 percent estimate of 2018 because growth in goods traded and new exports orders fell to levels comparable to those prevailing at the start of 2016. Aside the above, there had also been conflicting signals on global financial markets stability, due to the likelihood of either a smaller than expected rate cut, or a hold by the US Fed at its July 2019 Meeting.

The uncertainties at the global level therefore have implications on the domestic economy: First, the dovish monetary policy of advanced economies such as US, Euro Area, Japan and China may induce possible high inflow of Foreign Direct Investments (FDIs) and Foreign Portfolio Investments (FPIs) into Nigeria if investment climate improves. This could imply the appreciation of the naira via inflow of capital. This will therefore require that the Central Bank of Nigeria (CBN) to adequately manage naira. Second, the production cut by the Organisation of Petroleum Exporting Countries' (OPEC) which was extended to end in 2020, seems not to overwhelm the damping effect of Shale oil by the US on oil price futures with implications for fiscal revenue.

These developments points to the need for the fiscal side to build buffers while the price of crude oil remains above the budget benchmark while also preparing for possible lower volume of exports from Nigeria as an aftermath of the on-going trade wars. With the newly signed African Continental Free Trade Area (AfCFTA), Nigeria must also review its vulnerabilities that may result from rules of origin and potential dumping practices.

Domestic Economic and Financial Developments

The real Gross Domestic Product (rGDP) moderated to 2.01 percent in the first quarter of 2019 from 2.3 percent in the previous quarter of 2018 driven by the non-oil sector which grew by 2.4 percent in first quarter 2019. The major drivers of non-oil growth were transport, Information and Communication Technology (ICT) and agriculture sub-sectors. The contribution of the industrial sub-sector contribution to GDP in the first quarter of 2019 contracted by 0.01 percent due to the fall in the index of mining production. The industrial production index however rose by 0.4 percent in the second quarter of 2019, from to the previous quarter.

In the manufacturing sub-sector, growth increased by 0.3 percent to 184.2 index points, when compared to 183.7 index points in the preceding quarter, supported by improved electricity generation and distribution in the second quarter of 2019. The Purchasing Managers' Index (PMI) for manufacturing and non-manufacturing stood at 57.4 and 58.6 index points in June 2019, respectively, compared with 57.8 and 58.9 percent index points in May 2019. The employment index increased marginally in June 2019 to 57.5 percent from 57.3 percent index points in May 2019.

GDP remains fragile, shown by the fall in manufacturing and non-manufacturing PMI which may constitute a downside risk to the Economic Recovery and Growth Plan (ERGP) target.

Inflation

In most advanced economies including Euro Area, UK and Japan, inflation was below the 2 percent benchmark and for the Emerging Market and Developing Economies, was an average of inflation rate of 4.9 percent. In Nigeria, inflation fell to 11.22 percent in June 2019 from 11.40 percent in May 2019. The deceleration in inflation in Nigeria was due to fall in prices of foodstuff items and core-inflation driven by of increased agricultural output as the harvest season set in despite being, higher than the CBN target rate of 6-9 percent.

Core-inflation decreased to 8.8 percent in June 2019 from 9.0 percent in the month of May 2019 due to decrease in price of farm produces such as seafood, bread, cheese, egg and others.

Financial Soundness of the Banking Sector

In July 2019, the financial soundness indicators showed that the Nigerian financial sector had remained sound. The Capital Adequacy Ratio (CAR) stood at 15.26 percent which was slightly above the prudential requirements of 15 percent. This compares favourably with Nigeria's peers, such as South Africa, Malaysia and Turkey with CAR of 16.4, 17.3 and 18.1 percent, respectively. Also of importance was the decline of the Non-Performing loans (NPLs) which was a good signal that CBN policies in relation to NPLs were effective. Similarly, the liquidity ratio (LR) in June 2019 improved year-on-year and higher than that of peer's countries. The performance of the banking sector in terms of both Return on Equity (ROE) and Return on Asset (ROA) pointed to a healthy position of the banking sector. Key major risks and vulnerabilities identified in the Nigerian banking were slow economic growth, high inflation, growing debts sticky NPLs; Security and insurgency challenges.

Policy Options

Based on the developments in the global and domestic, economic and financial environment, the policy options were: to tighten, loosen or to hold. Each of these options have implications for price stability and output growth in the economy. Tightening at the current period, may present some policy challenges due to slow down growth, while loosening could be inflationary. The reduction in Monetary Policy Rate (MPR) in March 2019 by 50 basis points requires a hold of the current stance to allow the policy to work itself through. This would also enable policy makers to have a better understanding of the impetus of growth.

Based on the analysis and empirical evidence on the global and domestic environment, I therefore vote for the following:

i. To retain the MPR at 13.5 percent;
ii. Retain the CRR at 22.5 percent;
iii. Retain the LR at 30 percent; and
iv. Retain the Asymmetric Corridor of +200/-500 basis points around the MPR.

6. ISA-DUTSE, MAHMOUD

A. INTRODUCTION

The lingering trade tension between key economies is a major cause for the downturn in global economic activities which has led to falling trade volumes, subdued investment and dampening prospects for global growth. Moreover, the possibility of a disorderly Brexit and escalating geo political tensions have aggravated the problem of a slowing global economy.

Against the backdrop of these negative developments in the international arena, coupled with the sustained contraction in the oil sector, reduction in agricultural production due to security concerns, manufacturing capacity under-utilization and capital market under-performance, growth prospects in the domestic economy are still fragile.

B. EXTERNAL ECONOMIC CONDITIONS

The deepening uncertainty pervading the global economy spurred the IMF in July 2019 to further downgrade its global growth forecast to 3.2% from 3.6% in 2018.This is the fourth downgrade from October 2018 to date. Global trade is now projected to weaken from 4.1% in 2018 to 2.6% in 2019. The Netherlands Bureau of Economic Policy Analysis estimated the decline in global trade volumes at 2.3% between October 2018 and April 2019, representing the sharpest six-month decline since the recession of 2009. The persisting trade tension between the US and its trading partners is beginning to have noticeable effects on developing countries with the channel of transmission being the disruption in global supply chains due to falling demand for industrial inputs/raw materials. The share of countries with industrial production in technical recession tripled since 2018. In the Euro zone, manufacturing activities contracted for the fifth month in June 2019 while US factory output dropped in June – the third time in four months. Thus, primary commodity exporting countries like Nigeria may be affected if the trade war progresses unhindered.

Global inflation is expected to remain muted, especially in the advanced economies following subdued growth in the global economy. Consequently, an increasing number of central banks in these economies are cutting policy rates to stimulate productive activities as aggregate demand wanes. Low policy rates may benefit a number of developing economies through an increase in capital flows from investors seeking higher yields as US dollar-denominated assets soften and several currencies appreciate against the dollar. Not surprising, there were signs of an upward tilt in the global stock market as most markets displayed varying degrees of recovery. However, the Nigerian equity market performed less than expected due to growth headwinds but capital flows into the debt market are likely to continue, if the current policy stance is maintained. Given the improved and relatively stable price of crude oil on the back of sustained OPEC and non-OPEC production cut, Nigeria may keep on experiencing relative stability in the foreign exchange market.

C. DOMESTIC ECONOMIC CONDITIONS

Available data from the National Bureau of Statistics indicate that real GDP grew by 2.01% in Q1 2019 compared with 2.38% in Q4 2018. However, in-house forecast from the Central Bank of Nigeria (CBN) shows an output growth of 2.11 % in Q2 2019 – a 0.10 percentage point above the actual GDP for Q1 2019. The contraction in the oil sector which commenced in Q2 2018 is expected to continue as the forecast for Q2 2019 shows a negative dip of 1.63%, while the non-oil sector is projected to maintain its fluctuating growth path with 2.32% in Q2 2019. Both the manufacturing purchasing manager index (PMI) and the non-manufacturing PMI, at 57.4 and 58.6 index points in June 2019, respectively, grew at a decreasing rate when compared to the previous month. Evidently, the economy is operating below its full employment potential due to numerous downside risks to growth, including the continuing insecurity that hampers agricultural production and investment, sub-optimal performance in the oil sector and persisting constraints in expanding private sector credit, among others.

Price developments indicate that on a year-on-year basis, headline inflation fell marginally in June 2019 to 11.22% compared with 11.40% in the previous month. In the same vein, food and core inflation declined to 13.56% and 8.84% in June 2019 from 13.79% and 9.03% in May 2019, respectively. On a month-on-month basis, headline and food inflation fell slightly to 1.07% and 1.36% in June 2019 from 1.11% and 1.41% in the preceding month, respectively while core inflation grew by 0.10 percentage point to 0.85% in June 2019 from 0.75% in May 2019. One of the factors that account for the decline in prices is the increase in harvested farm produce across the country. This trend may not be sustainable as the inflation outlook based on CBN in-house estimate shows that inflation may pick up from October 2019 until year-end. This calls for proper policy articulation to rein-in potential inflationary pressures.

Monetary developments in the review period show that broad monetary aggregates, M3 and M2, grew by 4.97% and 3.04% in June 2019 compared with the growth of 4.55% and 2.72% in the previous month, respectively. This performance is below the provisional benchmarks for 2019. Aggregate credit increased to 17.26% in June 2019 compared with 16.65% in the preceding month although the growth rate of credit to the private sector declined in the review period (9.0% growth in June 2019 compared with 9.44% in the previous month). Banking system liquidity remains robust but there is need for policy to guide new credits into growth enhancing sectors/segments, particularly the micro, small and medium enterprises.

D. VOTING DECISION

A tightening policy option for now is difficult to justify in view of the fragility of domestic growth and the emerging global trend toward policy rate cut as global growth slowdown intensifies. A loosening policy scenario also appears inappropriate in view of the liquidity overhang in the banking system and potential inflationary pressures. I therefore voted to retain all existing policy parameters:

- MPR at 13.50% per annum
- The asymmetric corridor at +200/-500 basis points around the MPR
- Liquidity ratio at 30.0% per annum
- CRR at 22.5% per annum

7. NNANNA, OKWU JOSEPH

Growth is improving but the current momentum remains inadequate to create sufficient jobs to address the subsisting high unemployment level. Indices from manufacturing and non-manufacturing Purchasing Managers Index (PMI) at 57.4 and 58.6 index points respectively, in June 2019 reveal short-run output expansion. The level of expansion is tepid. The rising rate of unemployment and the social crisis it entails is worrisome – consequently, the need for a massive public works program to absorb the huge army of unemployed labour force cannot be over-emphasized.

Inflation continued to decline but remain in double digits and generally sticky southwards due to supply side constraints. Headline inflation (year-on-year) decreased marginally to 11.22 in June 2019 from 11.40 per cent in May 2019. Similarly, food inflation declined to 13.56 per cent (year-on-year), from 13.75 per cent in the same period. Core inflation declined to 8.80 per cent in June 2019 from 9.03 per cent in May 2019. The marginal decline in inflation rate, contrary to expectations, represents a welcome development and indicative of a time consistent monetary policy.

Though financial conditions softened and banking industry Non-Performing Loans (NPLs) improved, the sluggish growth of credit to the private sector remains lower than expected. Broad money (M3) grew by 4.97 per cent in June 2019, compared with a growth of 4.55 per cent in May 2019, while credit to the Government continued to crowd-out the core private sector. With the recent regulatory measure of loan-to-deposit ratio of 60.0 per cent, it is expected that commercial banks will enhance lending to the real sector.

Interest Rates in all Segments of the money market fluctuated in line with the level of liquidity in the banking system. The weighted average OBB and inter-bank call rates opened at 4.87 and 16.00 per cent on May 22 and 28, 2019, respectively and closed at 4.12 and 8.12 per cent respectively on June 27 reflecting the risks perception in the market. Since, the last MPC, the equities market had remained bearish, symptomatic of profit taking. The All-Share Index (ASI) declined by 11.17 per cent from 31,430.50 on December 31, 2018 to 27,919.50 on July 19, 2019. Market Capitalization (MC) increased by 16.13% to N13.61 trillion on July 19, 2019, from N11.72 trillion at end-December 2018.

Fiscal conditions remain disappointing and could further exacerbate the public sector debt and debt service challenges. Strengthening the institutional capacity to grow buffers particularly, efficiency in revenue collections would yield significant economic benefits. An efficient subsidy regime can generate additional fiscal buffer for well-targeted public investments and public works programmes for employment creation and social inclusion.

The external sector remain stable on account of strong export growth, robust foreign exchange reserves and relative exchange rate stability. The convergence of the rates in the various FX windows represents a positive development. Gross external reserves stood at US$44.714 billion, as at 28th June 2019, while the provisional Balance of Payments (BOP) estimates for Q1 2019 reveal an overall surplus of US$2,201.99 million.

In order to achieve sustainable long-term growth, fiscal and structural policies are required to close the infrastructure gap and diversify the economy for inclusive growth. The efficacy of monetary policy per se, is limited.

I vote to retain subsisting policy metrics and watch developments in the macro-economic fundamentals unfold in the face of the recent monetary policy measure (loan-to-deposit ratio regulation) unfold in the next quarter.

8. OBADAN, MIKE IDIAH

INTRODUCTION

As at the beginning of the third quarter of 2019, uncertainties continued to challenge the global economy. These uncertainties relate to concerns about global, regional and individual country growth prospects; weakness in global trade; trade wars/tensions between the United States and its trade partners, particularly China, Europe, Canada and India; volatility in commodity prices, especially crude oil, financial markets vulnerabilities and rising global debt, among others. In light of these, countries/regional groups that have implemented monetary normalisation, through raising policy rates, have begun to move in the direction of softening monetary policy in order to sustain positive growths and/or prevent their economies from slipping into recession, especially in 2020 as has been speculated. As the Economic Report for the MPC Meeting had correctly reported, the broad direction of the global economy is towards a downturn, thus pointing to the urgent need for a coordinated approach to monetary and fiscal policy to avert a global recession in 2020.

GLOBAL CONTEXT

Weakening global growth. Global growth has continued to soften in 2019 as the headwinds confronting the global economy at the start of the year and into the first and second quarters, persisted with no signs of abating and, in some cases, with renewed intensity. Consequently, growth projections have been revised downwards by credible international organisations. For example, the IMF's World Economic Outlook (WEO, April 2019) downgraded global growth in 2019 to 3.3 per cent from 3.6 percent in 2018 and is likely to weaken further given the continued trade tensions between the US and China, enforcement of trade sanctions by the US on Iran, a slowing German economy as exports and industrial output fell, uncertainty around BREXIT and a host of other developments in the global economy. Other projections include the following:

Advanced Economies: 1.8% in 2019 compared to 2.2% in 2018

EMDEs: 4.4% in 2019 compared to 4.5% in 2018

Sub-Saharan Africa: 3.5% in 2019 compared to 3.0% in 2018

In a number of other countries, economic growth has either slowed or contracted and this has driven a number of central banks towards the monetary policy stance of accommodation.

Trade tensions between the US and key allies such as China and the EU continue to dampen global growth prospects as the US continue to give conflicting signals on the direction of its international trade policy. The continued trade war between the US and its trade partners has weakened global trade and impacted negatively on global growth. For example, global trade is projected to weaken from 4.1 percent in 2018 to 2.6 percent in 2019 – the weakest since the global financial crisis of 2007/2008. The sharp drop in global trade volumes between 2018 and 2019 is a cause for concern as it will have a considerable impact on global output growth in 2019. Also, projections indicate rising negative impact of the trade war on the potential outputs of the two major combatants - US and China.

With continuing trade tensions across the global economy, the likelihood of the dollar weakening, moderating price of gold, increasing uncertainty around BREXIT and likelihood of low oil price due to increased shale production by the US, output growth in 2019 may continue to experience a weak recovery. This is not good for the Nigerian economy as it could weaken the country's export and lower revenue.

Crude oil remains the major source of foreign exchange and domestic revenue for Nigeria. In the global market, **volatility in oil prices** has remained amid tensions in the Middle East, U.S-Iran sanctions, unstable global demand in light of trade tensions. The price of Bonny light on July 16, 2019, stood at US$68.27 per barrel compared with US$61.85 per barrel on May 7, 2019 and the opening price of US$45.41 per barrel on January 1, 2019. The extension of the production ceiling by OPEC and non-OPEC members till March, 2020, has contributed to the recent uptick in oil prices. But then, oil futures price remains flat up to April 2020 deliveries. The futures price of oil is expected to hover around the top 50s for the foreseeable future due to significant uncertainties clouding both the demand and supply side of the market. And the increasing investment in shale oil production is unarguably a significant threat to future oil price increases. The Energy Information Agency (EIA) forecasts U.S. crude oil production to peak at 12.4 million b/d in 2019 rising from a record-high of 11.0 million b/d in 2018 and rising further to about 13.3 million b/d in 2020. As this could succeed in keeping oil prices low, there would be need for Nigeria to discourage capital outflows/encourage inflows by appropriate monetary policy action, especially if the Federal Reserve Bank maintains its current dovish stance on monetary normalisation. Easy monetary policy stance by the U.S. Federal Reserve Bank and other major central banks will increase the prospect of capital flows to EMDEs.

Monetary Policy response

In light of the feared slowdown of global economic activity, Advanced and Emerging Market Economies are responding with easy monetary policy. A total of fourteen (14) central banks surveyed by the CBN's Monetary Policy Department between May 2019 and July 2019 showed two of the central banks in the survey reducing their policy rates while all others held constant. Russia and India reduced their Policy Rates by 25 Basis Points in June compared to the Levels in May, 2019.

In the wake of a slowing global economy and threats to the US economy, the U.S Fed switched from an aggressive pace of normalization to a dovish stance.

The Fed indicated its unwillingness to progress with monetary policy normalization in July 2019 as wage growth figures were well below expectation thus implying that inflation will continue to trend below the Fed's long run objective. Accordingly, it has given guidance of a likely rate cut in July 2019 as the disconnect between unemployment and inflation calls for an unconventional approach.

In Europe, although the European Central Bank (ECB) gave indications of some recovery, it is continuing with its monetary accommodation to sustain the economic recovery. The ECB has maintained that there is no likelihood of a rate hike till the end of 2020 with monetary policy remaining largely accommodative. In the ECB's new regime of monetary accommodation, it provided a series of monetary stimulus including zero interest loans to enable deposit money banks increase consumer and corporate credit.

The Bank of England continued to hold its policy rate constant to avert a recession as the uncertainty around BREXIT threatens to dampen growth. The Bank has continued to warn of the drastic impact of a disorderly BREXIT on the macroeconomy despite an upward trending yield curve. In South Africa, the Reserve Bank of South Africa retained its policy rate in July, 2019 to support the economy's recovery from recession. The likelihood of easing of monetary policy by the US FED or maintenance of easy monetary policy stance by a number of other central banks in the advanced countries increases the prospect of increasing capital flows to the EMDEs.

Thus, against the backdrop of unrelenting uncertainties pervading the global economies, and the realities of slowdown of economic activities, most Advanced and EMDEs' monetary policy stances are being conditioned by the need to avert recession, enhance growth and employment or sustain economic recovery. As global disturbances affect the Nigerian economy through trade and finance, the country would need to implement monetary policy measures to boost its fragile growth and/or prevent recession.

DOMESTIC DEVELOPMENTS

Besides the influence of the above global developments on Nigeria's monetary policy direction, several domestic developments are important influencers of the monetary policy stance. They include the following:

i. Low and fragile economic growth and excessively high unemployment. The real GDP growth rate moderated from 2.38 percent in Quarter 4, 2018 to 2.01 percent in Quarter 1, 2019. Real output remains below potential while the economy is expected to continue on a modest recovery path in 2019. In this direction, the CBN staff estimates show the quarterly real GDP increasing by 2.11 and 2.56 per cent in Q2 2019 and Q4 2019, respectively and with annual GDP forecast of 2.27 percent in 2019. The relationship between unemployment and NAIRU confirms output gap and the existence of underutilisation of labour force. Thus, the Central Bank of Nigeria's goal of using monetary policy to complement fiscal policy to strengthen economic recovery and create jobs with heterodox monetary measures is very much in order.

ii. Unstable oil earnings with its implications for external reserves and exchange rate stability. Oil earnings have been unstable due to challenges in oil sector investment and production, quota constraints and volatility of oil prices. This strongly suggests the need to build fiscal buffers as a way to sustaining macroeconomic stability.

iii. Declining rate of inflation. The year-on-year inflation rate moderated to 11.22 per cent in June 2019 from 11.40 per cent in the previous month due to a slight slowdown in the price of food and housing utilities. However, headline inflation is still above the CBN's target band of 6 – 9 percent and CBN Staff forecast estimates have projected headline inflation to inch up to 11.37 per cent at end-December 2019. Thus, the rate of decline of inflation is sluggish and the level that will permit a significant adjustment of the Monetary Policy Rate has not been achieved. Importantly, given the role of food inflation as a driver of headline inflation, the rate of decline of inflation can be improved if a lasting solution is found to the security challenges currently faced by the agricultural areas of the country.

iv. Monetary aggregates. The annualised monetary aggregates, as at June 2019, were generally below the annual provisional benchmarks and hence low to adequately drive growth in the economy. Also, the issue of credit to the public and private sectors raises concerns as the available data indicate that the former has continued to crowd out the latter. Increased revenue mobilisation by the government can scale down its borrowing while access of the private sector to increased credit is likely to improve with the CBN's measures aimed at encouraging the deposit money banks to deliver increased credit to the private sector.

v. Financial system soundness indicators generally reflect improvements. The banking industry's assets and total deposits indicate consistent growth. But total credit has continued to decline year-on-year since June 2017. Loan-deposit ratio also declined between 2018 and 2019. And the number of new credits each month in 2019 is lower than the amount for December, 2018. However, the good news is that credit to the manufacturing sector increased end-June 2019 compared to end-June 2018. Also, credit to the agricultural sector has trended upwards since September, 2018. This is not unconnected with the CBN interventions. Importantly, the CBN's recent measures relating to the Standing Deposit Facility and raising the loan-deposit ratio target for banks will most likely boost credit delivery to the private sector.

vi. External sector developments. Although the external reserves position is fairly comfortable covering about 11.2 months of imports of goods and services, the sustainability is not certain. The oil earnings uncertain outlook makes the encouragement of capital inflows important. Achievement of this will depend, partly on availability of attractive yoelds.

vii. Fiscal position and debt. Fiscal deficit and the associated public debt accumulation are worrisome considering the monetary policy implications, among others. Fiscal deficit for January – March, 2019 stood at -N1,540.41 billion while total public debt outstanding stood at N24,947.08 billion as at end March, 2019. The Federal Government debt poses a serious burden with nearly 30 percent of the budget devoted to debt servicing. Although the debt-GDP ratio is relatively low, the debt – revenue ratio is very high. And it must be stressed that GDP is not used to service debt; rather is revenue in the case of domestic debt or export earnings in the case of external debt. Therefore, caution must be exercised on further borrowing while domestic revenue mobilisation efforts are stepped up. The state governments also need to exercise caution in borrowing from commercial banks. The available data indicate that state governments are relying too much on bank loans compared to the other tiers. They account for 74 percent of bank credit to the governments. And apparently short-term credits are being used by the state governments to finance consumption or long-term projects. This compounds their financial woes as deposit money banks obtain direct debits from their Federation Account Allocations. There is need to ascertain the deployment of bank loans by state governments while they should mobilise more Internally Generated Revenue to finance development.

OPINION

The MPR was reduced by 50 basis points to 13.5 percent at the MPC meeting in March, 2019. In the past one month, the Central Bank has introduced new measures aimed at re-focusing the Deposit Money Banks on their primary responsibility of financial intermediation, especially lending to the private sector. Although market interest rates have reportedly trended downwards, the full effects of the various measures have yet to be ascertained, Very importantly, given the level of external reserves and the rather uncertain oil market outlook, the role of capital inflow in ensuring exchange rate stability cannot be overemphasised. There will be an opportunity to realise enhanced capital inflow into the country if the US FED refrains from further monetary policy normalisation or actually cuts the Policy Rate.

Therefore, I will vote to hold the MPR constant at 13.5 percent; CRR at 22.5 percent; Liquidity Ratio at 30 percent. The corridor may have outlived its usefulness. Its fate may need to be determined in subsequent meetings while the CBN continues to play its lender of last resort role.

9. SANUSI, ALIYU RAFINDADI

1.0 Decision:

During the last meeting, I noted that further reduction in inflation from its current levels without compromising the relative stability of the exchange rate or reducing reserve accretion requires a delicate mix of demand-side and supply-side policies. I also noted that heterodox policy measures to boost the short-run aggregate supply supported by strong effective demand are the appropriate policy mix required. The Bank has, since then, introduced further policy measures that aim at supporting both short-run aggregate supply and the aggregate demand. Available data and staff estimates suggest that these measures are working in the desired direction. My vote for a hold in today's meeting is, therefore, to allow for the effects of these measures to bear.

2.0 Background and Justification

2.1 Global Economic Developments

The global economic environment continues to be characterized by weak growth in major advanced countries, high level of global uncertainty associated with trade wars, global stock market vulnerabilities, and declining inflation in key advanced economies. The resultant dovish stance of monetary policy in key advanced economies may raise capital flows into the Emerging Markets and Developing Economies (EMDEs).

As the uncertainty in the global economy persists, global output growth continues to weaken, as the headwinds confronting the global economy since the beginning of the year show no signs of abating. The modest output recovery in the EMDEs is constrained by weakened investments, thereby dampening the prospects for achieving the growth expectations for 2019. In the advanced economies, the deterioration of relationships between Iran and the US into a near-military conflict has further raised the trade tensions and dampened the global output growth prospects. Data from the JP Morgan's Global Manufacturing PMI suggests that the output expansion achieved in June 2019 is the slowest rate achieved since June 2016. The projected growth of global potential output has also been revised downward from 3.3% to 3.0% on the account of the escalating trade conflicts, geopolitical tensions that have moderated the growth of global trade and investments.

The inflationary process in the key advanced economies continued to trend below the 2% target. In the Euro Zone, it declined from 1.7% in April 2019 to 1.2% in June 2019. In June 2019, inflation in the UK, it remained unchanged at 1.9% since March 2019. In the US, it declined from 1.8% in May 2019 to 1.6% in June 2019, while it remained unchanged in Japan at 0.7% between May and June 2019. This continued moderation of inflation in the face of a projected slowdown in output growth has prompted many central banks in advanced economies to continue with dovish monetary policy stance, and have completely diminished the implied probabilities of policy rate hikes in the key advanced economies, with positive probabilities for a cut in policy rates.

A key development in the global oil market is the OPEC's decision to extend the production ceiling to the end of 2020. The production cutting agreement between OPEC and its allies has been extended till to the end of 2019 so that Russia and other non-members will maintain a production ceiling of 1.2mbpd. These developments have significantly reduced the volatility in the market despite the renewed sanctions on Iran and the increase in US shale production. The price of bonny light has therefore increased from US$61.85 per barrel on May 7, 2019, to US$ 68.27 per barrel on July 16, 2019. Oil price is expected to be stable in the sort to medium term, given the relatively flat futures prices up to April 2020 deliveries.

While the dovish monetary policy stance in advanced economies and the relatively stable oil price may be expected to increase reserve accretion as *capital flows and export revenue increase, the weak global output growth poses some risks of weakening Nigeria's export revenues.*

2.2 Domestic Economic Developments and their Implications

Available suggests that although domestic output expansion continues, the rate of expansion has been too weak to make a dent in the unemployment rate. The positive output growth has therefore been followed by a rising unemployment rate. Inflation has declined but continued to be sticky around the low double digits as supply-side pressures continue.

Available data on suggest output recovery continues to be positive but weak. At a quarterly rate of 2.01% achieved during the first quarter of 2019 compared with 2.38% in Q4 2018. Although new GDP data for Q2 2019 is not yet available, the monthly Manufacturing PMI suggests that the expansion achieved in June 2019 was slightly lower than that achieved in May 2019. The data shows that both production and employment levels have improved between May and June 2019. Also, available data on the production indices of manufacturing, mining, and industry have all improved in the second quarter of 2019. Staff estimates show that the output gap is negative and the unemployment rate (23.1% at Q3 2018) lies above the NAIRU, suggesting the existence of spare capacity in the economy. Employment data shows that, between 2017Q3 and 2018Q3, the total number of employed has increased from 69.09 million to 69.54 million, suggesting an increase of about 450, 0000 jobs. However, this increase was not enough to absorb the new entrants into the labour market of about 5.4 million people. This implies that the output expansion achieved over the period was well below the rate required to make a significant dent on the current unemployment rate. Staff forecasts suggest that output growth will increase to 2.56% by December 2019.

Inflation data show that headline inflation has declined (year-on-year) from 11.4% in May 2019 to 11.22% in June 2019. This is largely due to the decline in food inflation from 13.79% in May 2019 to 13.56% in June 2019. Core Inflation also declined from 9.0% in May 2019 to 8.8% in June 2019. Staff forecasts, however, suggests that inflation will increase to 11.74% by the end of the year 2019. The headline inflation has remained sticky lower double digits outside the target band since May 2018, chiefly due to the persistence of the Food inflation. This suggests that successful disinflation would require a significant and sustainable decline in food prices.

Data on lending shows that although there was an increase in the growth of domestic credit to the economy (from 16.69% in May 2019 to 17.26% in June 2019), the increase was driven by Credit to Government. Credit to the Private Sector grew by 9% in June 2019 compared with 9.5% achieved in May 2019.

A key implication of these domestic developments is that significant output growth, especially in employment elastic sectors, is required to reduce the unemployment and inflation rates. This further underscores the need for banks to play their traditional role of extending credit to the economy to support production as well as boost aggregate demand.

3.0 The Basis for My Policy Choice

While global economic developments suggest policy tightening to provide an attractive destination for the impending capital flows for sustaining the relative exchange rate stability, domestic economic developments suggest easing to support domestic production to reduce the unemployment rate. However, given the recent heterodox policies to encourage banks to lend, I voted for a hold to allow for appraising the effects of these policies.

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.

10. SHONUBI, FOLASHODUN A.

Global Economic Developments

Recent doubts about global growth in 2019 heightened in the second quarter, on account of weakening global trade, declining productivity and general low inflation. Persistent slowdown in developed economies, expected to lead global expansion, has softened growth prospects. Though growth in the US has been stronger than expected, sluggish growth persisted in Japan and euro area due to uncertainties in Germany, Italy and France. Also, UK's economy continue to suffer from the challenges around Brexit. Across the emerging and developing economies, though growth in India is projected to remain relatively strong, stunted and reversed momentum in China, Russia, Brazil and major economies of Africa, may constitute drag to global growth. To address the slow growth, authorities have tended towards more accommodative strategies, with far reaching implications for policy in developing economies, including Nigeria.

Domestic Economic Environment

The turnaround in movement of general prices during June 2019 provided some respite from what seem like a resurgence of inflationary pressures experienced in the previous two months. Headline inflation moderated to 11.22 per cent in June 2019, from 11.40 per cent May 2019, mainly, on account of decline in both food and core inflation. Fall in food inflation was due to increase in the supply of agricultural products, as a result of the start of harvest season, while the generally stable exchange rate, accounted for the decline in core inflation. This indicated muted inflationary pressures in the near term.

Though latest output numbers are still being expected, domestic economic conditions portends positive impetus for further output growth. On the back of the 2.01 per cent output growth in the first quarter of 2019, developments in the major sub-sectors of the real economy indicated prospects for further expansion. Increased activities in the agricultural sector and expansion in the manufacturing sector, as indicated by sustained improvement in the Purchasing Managers' Index, are expected to aid growth and employment generation.

Performance of the monetary aggregates generally tracked the indicative benchmark, while the dynamics of money market rates reflected liquidity conditions in the banking system. Broad money supply (M_3) grew by 4.97 per cent in June 2019, annualised to 9.95 per cent, against the indicative benchmark 16.08 per cent. Credit to the Federal Government and the private sector also grew relative to their levels at end-December 2018. Money market rates, including inter-bank and Open-Buy-Back rates generally moved in tandem with the liquidity levels in the market, while the capital market remained largely bearish.

Whereas banking sector soundness indicators continued to improve, the sector remained characterised by lower than expected credit growth, exposure to asset/liabilities mismatch and market risk from significant foreign currency denominated loans and advances. Banking industry capital adequacy and liquidity ratios remained above the minimum threshold, underscoring enhancement in the health of the institutions. Similarly, lower non-performing loans (NPL), a measure of troubled assets and sustained improvement in earnings, as shown by increase in returns on asset and equity, further highlighted the soundness of the industry.

Supported by relatively stable exchange rate and robust external reserves, viability of the external of sector was sustained in the second quarter of 2019. Despite the general uncertainty in the global economy and relative disruption of global trade, developments in the external sector indicated continual improvement. Relative stability at the various windows of the foreign exchange market combined with favourable macroeconomic environment to preserve investors' confidence and promote sustained inflow of foreign direct and portfolio investment, thereby ensuring robustness of external reserves. Improving export and curtailed import have also engendered favourable balance of payment.

Overall Considerations and Decision

As we focus on implementing appropriate policies within the domestic macroeconomy space, it is important that we do not lose sight of the imperatives of developments around the global economy. While the volatile international oil market portend pertinent implications for stability within the fiscal revenue space, uncertainties in major developed economies continue to dampen the prospects for global growth, with its potential spill-over effects. I believe that recent monetary policy direction in the developed economies towards a dovish strategy, however, presents us with the opportunity to optimize capital flow and strengthen external reserves.

On the domestic front, though headline inflation remained at double digit, latest moderation justifies the need for non-drastic action. Moreover, further tightening may not elicit desired outcome, considering the lag in the reaction process, as well as, the weak transmission to money market rates. Notably, consistent improvement in financial soundness indicators in the last two quarters has further strengthened the resilience of the financial system. I reckon that with relatively stable macroeconomic environment, sound financial system and largely viable external sector, the urgent concern will be to stimulate economic growth.

In this regard, I commend the new focus by the CBN to use the financial system to catalyse growth by making banks play their financial intermediation role effectively, through increased consumer credit, mortgage loans and credit to small and medium enterprises (SMEs). Initial feelers indicate positive outcomes from this recent strategy by the CBN. I am therefore optimistic that, with effective monitoring to track and ensure compliance, the measures will promote credit creation in the near to medium term.

As we pursue what seem like a bank-led strategy towards recovery and growth, we must intensify controls to ensure that vulnerabilities that may arise from rapid expansion of credit are put under check. Facilitating and enforcing mechanisms for monitoring and quality assurance to ensure facilities are properly deployed, will be critical to consolidating on initial gains, as well as, promoting sustainability.

More importantly, given the limitations of monetary policy to promote growth in the medium to long run, we must realise that the Bank does not have unlimited resources to stimulate growth. The fiscal authorities also have the responsibility for promoting growth, but resource constraint within the fiscal space has limited the capacity of the Government. It is important that this is addressed as soon as possible. Therefore, the effort of the CBN needs to be supported by other sectors, like the pension sector, to facilitate the release of needed capital to fund high capital-based projects with linkages across the economy.

Looking at the numbers alone, the immediate reaction will be to further lower the monetary policy rate, to stimulate the economy, especially as headline inflation recently declined. The reality, however, is that such action may not only be hurtful to inflation, but also put the country at a disadvantage in the global market space. Moreover, we must embrace forwarded looking strategy rather than continue to react to current situations. In this light, the impact of the recent CBN directive to banks on Loan-to-Deposit (LDR) needs to be monitored and dimensioned. I wish to also note that despite the temporary volatility around capital flows, which I strongly believe is related to profit taking, we are sure to achieve long run sustainability, as the Bank preserve its competitiveness and exchange rate stability.

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.

11. EMEFIELE, GODWIN I.

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

Driven by unfolding developments in the global and domestic economies, my inclination in today's MPC is to prop domestic non-oil output growth without undermining price stability. Consideration of global development indicate that subdued short-term outlook, prevalent trade tensions, political and economic confrontation in the middle-east, continued uncertainty around Brexit (amplified by the imminent change of the British Government) exacerbate downside risks to near-term economic outcomes and global financial conditions, especially in emerging markets and developing countries.

Accordingly, already sluggish global growth prospects for 2019 and 2020 were each trimmed by 0.3 percentage point by the IMF to 3.3 percent and 3.6 percent, respectively. For advance economies, 2019 growth forecast was set at 1.8 percent compared with 2.2 percent recorded in 2018 while projections for emerging market and developing economies was further lowered to 4.4 percent from 4.5 percent in 2018. The weakening global sentiment and fragile demand, combined with the shifting interest rate dynamics among advanced economies, have deep-seated ramifications for the domestic economy.

In-house analysis, nonetheless, indicate that the short-term outlook of the Nigerian economy remains modestly positive, as recovery of output growth is expected to continue in 2019. From a rate of 2.01 percent recorded in 2019Q1, economic growth is projected to advance to 2.11, 2.39, and 2.56 percent in Q2, Q3 and Q4, respectively. For 2019, annualised growth is expected to rise to about 2.35 percent from 1.95 percent in 2018 due largely to growth rebound in the non-oil sector. The favourable growth sentiment is supported by positive PMI –both in the manufacturing and non-manufacturing indexes–

buoyed by the continued stability in the foreign exchange market, our development finance initiatives, and the drive for increased credits to the real sector of the economy.

Regardless of this positive outlook, the need for cautious and well-balanced policy remains sacrosanct amidst fragile recover, 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, persistent 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.

Data on domestic prices shows continued moderation in the long-run trend of headline inflation from over 18.7 percent in January 2017 to 11.4 percent in January 2019. In the short-run, headline inflation also declined to 11.2 percent in June 2019 from 11.4 percent in the preceding month. The disinflation in June reflected the 0.14 and 0.23 percentage points decline in food and core inflation, respectively. Near-term inflation outlook suggests continued modest disinflation by end-2019, *albeit* above the CBN's 6–9 percent tolerance range. The projected disinflation is attributed to the CBN's intervention in the agricultural sector, imminent harvest season, and continued stability in the FX market. Still, inflation inertia is expected to remain in the near-term due essentially to supply-side factors including electricity, production inputs and transport bottlenecks. The CBN will continue to intensify its efforts at bolstering local productivity with a view to driving inflation towards target.

Liquidity conditions indicate a modest expansion in monetary aggregates year-to-date relative to provisional targets. At annualised growth rates of 9.95

and 6.09 percent as at June 2019, broad money supply (M3 and M2) fell below their respective benchmark of 16.08 and 13.11 percent. A breakdown shows that, on annualised basis, net foreign assets grew marginally by 0.80 percent even as net domestic credit expanded by 21.20 percent in June 2019 surpassing the target of 13.34 percent. This reflected the significant increase in credit both to government and private sector by 111.60 and 17.99 per cent, respectively.

The observed growth in private sector credit follows our various interventions, although underlying risk perception of the sector remains largely unfavourable. This is even as banks NPLs declined to 9.36 percent in June 2019 from 11.68 percent in December 2018 and 14.86 percent in December 2017. Thus, the CBN will continue with its development finance initiatives to de-risk the sector and channel increased amount of lending to key high-impact private sector activities. We have also announced a new policy to raise loan-deposit ratio from the extant 57 percent to 60 percent by end-September 2019 with a view to ensuring that banks undertake their fundamental intermediation role, for which they were licenced. Besides, we will continue to use all means available to us to engage and encourage banks to increase credit to the productive private sector

In my consideration, I once again, note the continued stability at the FX market and near convergence of rates, and expect this to continue in 2019. I also note that the prevailing macroeconomic stability and short-term prospects remain modestly positive as risks and vulnerability from global conditions persist. We must hedge against prevalent global risks including ongoing trade tensions, protectionist inclinations, global geo-political faceoffs, and financial market fragilities. On the domestic front, the skirmishes around food production belts and supply-side constraints threaten long-term objectives and weaken short-term outlook. We must therefore ensure that policies help us to support domestic productivity, employment creation, and growth acceleration without undermining our core objective of price stability. In this regard, enhanced credit channelling to the private sector by banks will help to stimulate domestic growth and curtail the supply-side factors that underpin inflation inertia. I affirm that the recently announced policy on the loan-deposit ratio will be sustained, strengthened and resolutely implemented.

My inclination today, given the near-term inflation expectations and growth outlook, is to maintain the current tight stance of monetary policy. This will allow for a sustained permeation of recent policy actions –including the MPR cut in March 2019 and the recent policy on loan-deposit ratio– without impetuously introducing undue policy shocks to the system. An adjustment today could in my view, destabilise the impulse-response traverse of the past policies and culminate to indeterminate outcomes. Therefore, I vote to:

- Retain the MPR at 13.5 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

July 2019