CENTRAL BANK OF NIGERIA COMMUNIQUÉ NO. 124 OF THE MONETARY POLICY COMMITTEE MEETING OF MONDAY 20TH AND TUESDAY 21ST MAY, 2019, WITH PERSONAL STATEMENTS OF MEMBERS

Background

The Monetary Policy Committee (MPC) met on the 20th and 21st of May 2019, amidst uncertainties in the global financial, economic and political environments. All Eleven (11) members of the Committee were present.

Global Economic Developments

The Committee reviewed developments in the global economy, noting with concern, the declining trend in global output growth, which commenced in the second half of 2018. Accordingly, the International Monetary Fund downgraded global output growth from 3.7 per cent in 2018 to 3.6 per cent in 2019 and further revised it downwards to 3.3 per cent in 2019. The decrease in the global composite Purchasing Managers' Index (PMI) in the last three months provides further fillip to this downgrade. The Committee noted that the weakening global output growth continued amidst prevailing uncertainties from familiar headwinds including: the further escalation of trade tensions between the US and China; imposition of new rounds of sanctions on Iran; breakdown of BREXIT negotiations; a new wave of tension on the Korean Peninsula; vulnerabilities in major financial markets and rising public and private debt in some Emerging Market and Developing Economies (EMDEs).

Despite these uncertainties, inflation in the advanced economies remained muted and largely below their 2.0 per cent long-run targets. As a result, most central banks in the advanced economies, including the US Fed, Bank of England and the European Central Bank, adopted a dovish monetary policy stance, which is expected to remain in place in the near to medium term, as signs of weakness in the global economy re-emerged. In the Emerging Market Developing Economies, however, developments were mixed, with inflation rising in some, but moderating in others. In response, the financial markets witnessed the rebalancing of portfolios from equities to fixed income securities, and some stock markets posting losses. In the main, the Emerging Market Developing Economies are expected to continue to benefit from the accommodative monetary policy stance of the advanced economies through increased capital inflows.

Domestic Output Developments

Available output 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 compared with 2.38 and 1.89 per cent in the previous and corresponding quarters of 2018, respectively. This was largely driven by the non-oil sector, which grew by 2.47 per cent in the first quarter of 2019 while the oil sector contracted by 2.40 per cent. Staff projections indicate real GDP growth of 2.34 and 2.36 per cent in Q2 2019 and Q3 2019, respectively, including a reduction in the unemployment rate. The Monetary Policy Committee observed that actual output remains below potential, implying that the economy still had sufficient headroom for non-inflationary growth. This is expected to be driven largely by sustained stability in the financial system; continued special interventions in Agriculture, manufacturing and SMEs sectors, by the Bank; sustained effort in improving transport infrastructure to address distribution challenges; continued expansion of business activities as indicated by the PMI and increased supply of foreign exchange to growth-stimulating sectors of the economy, among others.

The Committee noted the continued expansion of the Manufacturing and Non-Manufacturing Purchasing Managers' Indices (PMI) for the 25th and 24th consecutive months in April 2019 and broadly welcomed this positive development in economic activities in Nigeria. The manufacturing PMI grew by 57.7 index points compared with 57.4 index points in the previous month. Similarly, the non-manufacturing PMI grew by 58.7 index points compared with 58.5 index points in March 2019. The growth in both measures of PMI were anchored by marginal increases in production, employment level and new orders.

Developments in Money and Prices

The Committee noted the growth in broad money supply (M3) by 5.42 per cent in April 2019 from the level at end-December 2018, annualized to 16.36

per cent, above the indicative benchmark rate of 14.47 per cent for 2019. This was largely driven by the growth of 19.62 per cent in Net Domestic Assets (NDA). In contrast, Net Foreign Assets (NFA) contracted by 5.83 per cent in April 2019 relative to the level at end-December 2018. In spite of the significant underperformance of M1 at -4.26 per cent annualised to -12.77 per cent, M2 grew by 1.85 per cent in April 2019, annualized to 5.54 per cent, which was significantly below the benchmark rate of 12.99 per cent for 2019. This development was largely due to the growth in time and savings deposits by 6.53 per cent. The Net Domestic Credit (NDC) grew by 19.31 per cent in April 2019 from the level at end-December 2018, annualized to 57.92 per cent, above its indicative benchmark of 11.82 per cent. The growth in NDC was attributed to the significant increase in credit to both government and the private sector by 64.44 and 9.64 per cent, respectively, in April 2019, compared with end-December 2018. The Committee noted the developments in the monetary aggregates and enjoined the Bank to initiate moves towards improving lending to the private sector and urged other intermediary institutions in the financial sector to support these initiatives by improving their credit delivery to boost output growth.

The Committee noted the uptick in inflation as headline inflation (year-on-year) rose slightly to 11.37 per cent in April 2019 from 11.25 per cent in March 2019. The increase in headline inflation was driven mainly by food inflation which rose by 13.70 per cent in April 2019 from 13.45 per cent in March 2019. Core inflation, however, declined marginally to 9.28 per cent in April from 9.46

per cent in March 2019. In April 2019, month-on-month headline, food and core inflation increased to 0.94, 1.14 and 0.70 per cent from 0.79, 0.88 and 0.53 per cent in March 2019, respectively. The MPC noted that the recent uptick in inflationary pressure was seasonally driven and anticipated.

Liquidity conditions in the banking system reflected the net impact of Open Market Operations (OMO) auctions, maturing CBN Bills, statutory allocations to states and local governments as well as interventions by the CBN in the foreign exchange market. Consequently, the monthly weighted average Inter-bank call and Open Buy Back (OBB) rates increased to 13.98 and 16.15 per cent in April 2019 from 10.80 and 12.17 per cent in March 2019, respectively. The daily unsecured interbank and the OBB rate, fluctuated within the standing facilities corridor, closing at 6.57 per cent and 5.55 per cent on May 10 and May 16, 2019, respectively, reflecting the reaction of the money market to the 50 basis point reduction in the policy rate at the meeting of the MPC in March 2019.

The Committee observed the continued bearish trend in the equities market in spite of the sustained capital inflows into the economy during the period under review. The All-Share Index declined by 8.14 per cent to 28,871.83 index points on May 17, 2019 from 31,430.50 index points as at end-December 2018, while market capitalization grew by 8.53 per cent to N12.72 trillion on May 17, 2019 from N11.72 trillion at end-December 2018. The recent growth in market capitalization reflected new listings in the market, prominent amongst which is: MTN and Skyway Aviation Handling Company Plc and additional listing from the merger between Access Bank and Diamond Bank.

The Committee welcomed the continued stability at both the Bureau-de-change (BDC) and the Investors' and Exporters' (I&E) windows of the foreign exchange market, expressing optimism in the recovery of crude oil prices due to the OPEC production ceiling and other geo-political issues affecting oil exports.

The MPC also noted the steady accretion to external reserves, which stood at US$45.42 billion as at May 16, 2019, an increase of 2.20 per cent from US$44.44 billion at end-April 2019.

The Overall Outlook and Risks

The overall medium term outlook for the global economy remains mixed and uncertain with growing indications of persistent macroeconomic vulnerabilities, global financial market fragilities, accommodative monetary policy, policy uncertainties and weakening global output.

Data on the domestic economy suggests some fragility in output growth during the second quarter of 2019 with improved outlook for the rest of the year. Accordingly, revised output projections indicate that the economy would grow by 2.1 per cent according to the International Monetary Fund (IMF), 2.2 per cent by the World Bank and 2.38 per cent by the CBN in 2019. This outlook is hinged on the following key factors: the effective implementation of the Economic Recovery and Growth Plan (ERGP);

supportive monetary policy; enhanced flow of credit to the real sector; sustained stability of the exchange rate; and improved fiscal buffers; amongst others. The Committee, thus, expects that monetary policy would focus on improving access to credit, reducing unemployment and stimulating economic growth.

Committee's Considerations

The Committee took into consideration the continued slowdown in the global economy and the persisting uncertainties, including the ongoing trade wars between the US and its major trade partners, financial fragilities in a number of countries, the debt-constrained fiscal operations of most EMDEs, including Nigeria, and the volatility in the oil market. The Committee, therefore, enjoined the Federal government to urgently build fiscal buffers through a more realistic benchmark oil price for the Federal Budget.

The MPC noted the 2.01 per cent growth in real GDP during the first quarter of 2019 compared with 1.89 per cent in the corresponding quarter of 2018. Although output growth in the first quarter was slower than 2.38 per cent recorded in the preceding quarter, it emphasized that actual output remains well below the economy's long-run potential, indicating the existence of spare capacity for non-inflationary growth in the economy, an opportunity which should be explored through increased credit delivery to the private sector. Not impressed by the flow of credit from the Deposit Money Banks (DMBs) to the private sector, the MPC called on the CBN management to urgently put in place modalities to promote Consumer, and Mortgage lending in the Nigerian economy, noting that doing this will greatly and positively impact on the flow of credit and ultimately result in output growth.

The MPC called for a close monitoring of the uptick in inflationary pressures in April 2019, driven largely by food shortages during the Easter season, the commencement of the planting season as well as persisting security challenges in some of the food producing regions of the country. The Committee, urged the relevant authorities to strengthen efforts to address the security challenges and improve food production. It encouraged financial intermediating institutions to ensure that loans to the agricultural sector were channelled effectively to end users.

The MPC welcomed the improvement in financial soundness indicators (FSIs), but noted that although the Non-Performing Loan (NPL) ratio moderated, it remained above the prudential benchmark. Consequently, the Committee considered and recommended to the CBN, a proposal to develop a comprehensive administrative, legal and regulatory framework to speed up the recovery of delinquent loan facilities of the banking system; involving structured engagement with relevant stakeholders and authorities, in order to mitigate credit risk and ultimately open up the credit delivery space in the Nigerian economy.

The Committee extended warm felicitations in an expression of gratitude to the President and Commander in Chief of the Armed Forces of the Federal Republic of Nigeria, President Muhammadu Buhari, and the Senate of the Federal Republic, respectively, for the reappointment and prompt confirmation of the Governor of the Central Bank of Nigeria, Godwin I. Emefiele, for a second 5-year term in office. In particular, the Committee noted that the reappointment was in recognition of the contributions of the CBN to maintaining macroeconomic stability and it would engender confidence and build policy credibility and deliver stability to the Nigerian financial markets.

In view of the abundant opportunities available to banks for unfettered access to government securities, which tends to crowd out private sector lending, the Committee called on the Bank to provide a mechanism for limiting DMBs access to government securities so as to redirect bank's lending focus to the private sector, noting that this would spur the much needed growth in the economy. It called on the Government to use all machinery at its disposal to increase tax revenue to enable the government fund its budget adequately.

The Committee's Decision

The global and domestic developments have conditioned an environment of low optimism in the macroeconomic and financial sector space, forcing central banks to return to accommodative monetary policy.

As in the past, the Committee considered the options of whether to be more accommodative, tighten or hold it position. The Committee felt that although the slight inflation uptick should result in tightening, it nevertheless felt that doing this will limit the ability of DMBs to increase credit at this time, given the need to support or redirect the focus of DMBs to new credit in support of consumer, mortgage and other priority sectors of the economy, including, SMEs, agriculture and manufacturing. It also felt that given the fragile state of the economy, increasing the cost of credit would further diminish investment flow and impact negatively on output growth.

As regards loosening, some members felt that it was desirable to aggressively stimulate growth, restart the capital market activities and increase lending at lower rates; which would ultimately stimulate domestic aggregate demand.

Those against loosening felt that given that there was a marginal increase in headline inflation for April 2019, there is need to restrain from loosening in order not to exacerbate inflationary pressures. They also felt the economy would experience liquidity surfeit and without corresponding increase in real sector output, inflationary pressures could be elevated; resulting in likely exchange rate pressures.

As for members who favoured a hold position, maintaining monetary policy rate at its present level was essential for better understanding of the momentum of growth before determining any possible modifications. They also felt that retaining the current policy stance provides an avenue for evaluating the impact of the Bank's intervention policies to support lending to the priority sectors of the economy.

Consequently, the MPC decided against the backdrop of these developments by a vote of 9 members out of 11, to hold all parameters of monetary policy constant. Two members voted, however, to reduce the monetary policy rate by 25 basis points.

In summary, the MPC voted to:

I. Retain the MPR at 13.50 per cent;

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

III. Retain the CRR at 22.5 per cent; and

IV. Retain the Liquidity Ratio at 30 per cent.

Thank you.

Godwin I. Emefiele

Governor, Central Bank of Nigeria

21st May, 2019

PERSONAL STATEMENTS BY THE MONETARY POLICY COMMITTEE MEMBERS

1. ADAMU, EDWARD LAMETEK

The 267th meeting of the Monetary Policy Committee (MPC) held against the backdrop of sustained global economic and financial uncertainties. Drivers of rising risks in the world economy include BREXIT, Iran sanctions, volatile commodity (oil) prices as well as the trade war between the United States of

America (USA) and China. Financial markets have remained on the edge in the face of multiple vulnerabilities connected especially to the dangling US sanctions, weak growth prospects and absence of a clear pathway to non-disruptive exit of the United Kingdom from the European Union (EU). Mindful of these setbacks, the International Monetary Fund (IMF) has further reviewed downwards its projection of global growth for 2019 to 3.3 per cent on the heels of lower growth expectations across developed, emerging markets and even developing economies. On average, growth in the advanced economies is expected to slow to 1.8 per cent in 2019 from 2.2 per cent in 2018. Similarly, growth in Emerging Markets and Developing Economies (EMDEs) is expected to moderate to 4.4 per cent from 4.5 per cent in 2018, owing mainly to low commodity prices and likely spillovers from weakening global trade and geo-politics.

Amid concerns about global growth, trade and financial markets' unease, most central banks (CBs) are holding back on policy tightening. From the advanced economies, the indications are much clearer. In Europe, neither the European Central Bank (ECB) nor the Bank of England (BoE) is currently looking to increase policy interest rate. In April, the Bank of Japan clarified its intension to maintain the extremely low rates into 2020. Similarly, the US Fed had offered guidance to the market suggesting that any future rate hikes would be gradual. With global inflation remaining benign, central banks' appetite for tightening should moderate across board with those in EMDEs moving gradually towards synchronizing their monetary policy postures with their counterparts in the advanced economies.

The generally cautious approach to monetary policy underlines the fact the CBs have not forgotten the unwholesome lessons of the last global economic and financial crisis and are therefore quite mindful of current risks to growth and financial stability. Aligning this global trend with the domestic context increases my persuasion about the merit of protecting growth over the medium-term. There is no doubt, the lingering external vulnerabilities would pressure growth in many developing economies especially through their impact on commodity prices and export demand generally. Nigeria's oil export already faces both price and demand uncertainties, adding to the pressures on aggregate domestic output.

In Q1, 2019, real GDP grew by about 2.0 per cent, representing moderation when compared with the last quarter of 2018. Key indicators suggest expanding economic activity in the second quarter of 2019, albeit slowly. Both manufacturing and non-manufacturing PMIs stood at 57.8 and 58.9 points, respectively, in May 2019. Nevertheless, the overall outlook for economic growth remains fragile as shown by the CBN's Composite Index of Economic Activity (CBN-CIEA), owing largely to external risks, domestic insecurity and slowing credit to the private sector. Against this background, the current projection of 3.01 per cent real GDP growth for 2019 could prove too optimistic unless growth-promoting policies are vigorously pursued. Clearly, economic growth needs to be much better to be able to positively impact unemployment significantly, in view of the growing number of new entrants into the labour market. Given the protracted slack contribution of the oil sector, the impetus for speedier economic growth could only be expected to come from the non-oil sector. In particular, agriculture and services will continue to require considerable support to move the economy out of the apparent low growth trap.

Meanwhile, traditional pressures on prices appear to be ameliorating notwithstanding the slight uptick in inflation in April. Banking system liquidity continued to be moderate on account of the Bank's sterilization actions (OMO auctions and foreign exchange sales by the CBN). These actions have continued to offset injections from FAAC, repayment of maturing bills and rediscounting of bills. Consequently, broad money supply (M3) rose only moderately in March 2019, driven mainly by claims on the Federal Government. In line with the decision of the MPC in March, interbank rates (OBB and IBR) moderated (on average) in April (11.50 and 12.32%) relative to March 2019 (16.71 and 18.09%). However, transmission to the entire term structure of interest rates remains a key policy challenge. Relatedly, the foreign exchange (FX) market continues to be relatively stable on account of sustained supply of FX by the CBN and from autonomous sources. Consequently, the naira exchange rate has remained stable with a positive medium-term outlook deriving mainly from the relatively good level of external reserves and prospects of sustained inflow of capital. Threats to capital inflow are moderate especially as advanced economies tilt monetary policy towards accommodation owing to uncertainties around trade and economic growth.

Given the foregoing background, It is not surprising that core inflation has maintained a downward path even as headline inflation rose to 11.37 per cent in April 2019 from 11.25 per cent in March. On the month-on-month basis, the headline index increased by 0.94 percent in April 2019, up from 0.79 percent in March. The increase in headline inflation came primarily from food inflation which rose to 13.7 per cent in April from 13.45 per cent in March. The outlook for inflation up to October 2019 shows relative stability, with the headline measure expected to be around 11.0 per cent, barring any major shock. This outlook is predicated largely on sustained sterilization, naira exchange rate stability and early commencement of food harvest. In this regard, the Bank's interventions in agricultural production will continue to be particularly relevant in addressing high food prices in the short- to medium-term.

In the banking system, major financial soundness indicators (FSIs) further improved in April 2019 due mainly to recoveries, loan disposals and write-offs. Industry capital adequacy ratio (CAR) increased marginally to 15.60 per cent in April 2019 from 15.14 per cent in February 2019, while Non-Performing Loans (NPLs) decreased to 10.95 per cent from 11.28 per cent. However, the NPLs ratio is still higher than the prudential limit of 5.0 per cent. Other vulnerabilities in the industry include high concentration and contagion risks as well as significant FX exposure. These conditions have tended to increase averseness to risk in the industry leading to some form of asset substitution. It is especially concerning that credit to the private sector is declining and this needs to be halted and possibly reversed to strengthen economic activity and job creation.

In arriving at a decision at the May MPC meeting, I reckoned that the effects of the downward adjustment of the MPR in March had not fully manifested and that downside risks to growth were quite strong. Although, interbank rates slightly eased in response to the adjustment in the policy rate, retail rates remained sticky downwards. More importantly, credit to the real economy declined. In my statements following the immediate past 2 MPC meetings, I underscored the need to support growth given the weak outlook for economic activity based on indications from the oil sector, external vulnerabilities and sluggish consumption demand. I am persuaded to sound a similar tone in this statement given that the outlook for growth and employment continues to be hazy and largely uncertain in view of multiple risks at home and abroad.

Much as openness offers numerous benefits, it certainly increases exposure to external risks and vulnerabilities, which economic policy must continuously take onboard. I perceive, at the moment, that the external threats to medium-term economic stability of Nigeria are quite strong, meriting a coordinated policy shield in the form of building buffers (fiscal and monetary) and clear signals to the markets.

I voted to retain all the policy parameters at their levels prior to the May meeting of the MPC principally to allow some more time for the policy adjustment in March 2019 to fully unleash its effects. Finally, it is important to note that the challenge posed by rising food prices demands action beyond monetary policy and CBN's intervention in the sector. As I have stated in the past, insecurity and distribution bottlenecks need to be addressed holistically to ease food supply across the country.

2. ADENIKINJU, ADEOLA FESTUS

International Economic Developments

International economic environment has not changed significantly from the last meeting of the MPC in March. Global economy remains fluid with significant vulnerabilities and uncertainties. Global growth is projected to slow from 3.6 per cent in 2018 to 3.3 per cent in 2019. Given that global economic growth is the most important determinant of evolution of international commodity prices, the uncertainties surrounding the health of the global economy is a potential threat to the Nigerian economy that depend so much on oil prices and financial flows. However, in the short term, the geopolitical tensions in the Middle East, the accommodating monetary policy of the Feds and in many other western economies, and moderation in inflation rates in the advanced economies, may positively impact on oil prices and private capital flows to emerging and developing economies. Hence, there is a strong probability that oil price will stay above the budget benchmark price.

Domestic Economic Developments

On the domestic front, output growth retains its fragile but positive trajectory in Q1 of 2019. The real GDP grew by 2.01 per cent in Q1 2019 compared with 1.89 per cent in Q1 2018, fueled mainly by the non-oil sector. The oil sector contracted by 2.4 per cent. Purchasing Manager's Index (PMI) continues its positive trajectory. Exchange rate across the various windows remain stable, with the naira appreciating slightly in the Investors' and Exporters' (I&E) segment of the market. Foreign reserves which stood at US$45.42 billion by mid-May still provides respectable import coverage. Measures of both the output gap and unemployment gap suggest underutilization of domestic resources and spare capacity in the economy.

Headline Inflation (year-on-year) increased from 11.25 per cent in March 2019 to 11.37 per cent in April 2019, driven largely by food inflation. Core inflation however fell to 9.30 per cent in April 2019 from 9.46 per cent in March, 2019. The rising food price is partly due to seasonal effects and rising insecurity across the country.

Broad money aggregates, M3, and M2 performed significantly below their targeted benchmarks in April 2019. Reserve money grew by 9.69 per cent month on month in April, 2019. This was 13.87 per cent above the Q2 2019 provisional benchmark. The Nigerian stock market underperformed Emerging Markets stocks on the average in Q1 2019.

The financial system indicators (FSI) since the last MPR meeting continue to trend in the right direction. The NPLs ratio is trending downward but is still significantly above prudential benchmark, requiring more actions by the Central Bank and by the DMBs. The preference shown by the DMBs for fixed income government assets over credit to the real sector of the economy is worrisome. Credit to real sector is not only low but decreasing in relative terms in asset portfolio of DMBs, and is concentrated on low employment generating sectors. Banks seems to have abandoned their primary role of intermediation. This unhealthy trend should be strongly discouraged. Banks continue to focus on easy ways of making money, including through its various charges on customers and government securities, at a time when the economy is in dire needs of banks' credit.

The Nigerian economy needs a vibrant consumer credit system in order to drive private consumption and expand domestic supply. Consumer credit is a major driver of growth in a capitalist economy. However, the ecosystem and institutions needed for a successful consumer credit system must be established.

It is also disappointing that the decrease in the MPR in March has not impacted in expected way on rates at the retail end of the credit market, although rates on intermediate financial assets decrease. Maximum and prime lending rates rose in April, while rates on consolidated demand, savings and terms deposit declined, further worsening the gap between the average lending and deposit rates.

Coordination between monetary policy and fiscal policy is important to ensure that current policy interventions have the desired impacts on the economy. Fiscal deficit is high and worrisome, government debt is rising in the face of underperforming revenue, and security is a major challenge, posing significant threat to investment and economic growth. One viable way to address revenue under performance is for the government to explore alternative funding sources for infrastructure projects.

Decision

There is need to allow the previous cut in the MPR to work itself through the system. Staff report shows that current MPR is consistent with Taylor rule estimates, suggesting that the present monetary policy stance appears to be appropriate. Short- and medium term inflationary outlook suggests that inflationary build up is moderate. Protecting and deepening economic growth rate to reduce high unemployment and poverty in Nigeria is quite important. I am interested on how the policy direction of the new administration and the implementation of the national minimum wage would impact on the future trajectory of the economy.

Hence, I cast my vote to hold the existing monetary policy parameters.

3. AHMAD, AISHAH N.

Background

At the March 2019 meeting, the monetary policy committee (MPC) cut the monetary policy rate by 50 bps to 13.5 per cent, following several meeting cycles of a hold in the policy rate. This decision was predicated on the need to strengthen the fragile economic recovery and spur stronger output growth in view of the relative price and monetary stability achieved in recent months.

Accelerating domestic output expansion is further supported given worsening global growth prospects and heightened fears of some advanced economies (AEs) slipping into recession in the near future; this portends significant headwinds for emerging market and developing economies (EMDEs) like Nigeria.

Thus, in the first MPC meeting since the rate cut, my primary considerations were to review developments in key macroeconomic variables - particularly inflation, exchange rate, the factors that support these, and examine improvements, if any, in economic expansion and growth prospects.

Slight uptick in Inflation attributed to seasonal effects

As the committee focuses on growth, it is important to closely monitor any potential negative effects of its monetary policy decisions aimed at stimulating aggregate demand on price and monetary stability, its primary remit. According to the National Bureau of Statistics (NBS), headline inflation (year-on-year) inched up 0.12 per cent points in April 2019 to 11.37 per cent due to increase in food inflation from 13.45 per cent to 13.70 per cent over the same period, while core inflation declined to 9.30 per cent from 9.46 per cent. The NBS attributes increases in food inflation to seasonal factors; whilst current increases in the price level was anticipated by Bank staff in their inflation outlook issued at the January meeting. These submissions indicate that the slight growth in inflation is not a result of the recent rate cut.

It appears safe to conclude that downside risks to consumer price stability remain low in the medium-term. NBS maintains that structural (not necessarily monetary) factors currently hold sway. Furthermore, results of research conducted by Bank staff provided at the May meeting indicate positive impact for growth with minimal effects on inflation in the current range of rate cut. Finally, whilst the new minimum wage is a potential headwind for inflation, its effects are expected to be benign, given persistently low aggregate demand.

Exchange rate stability persists amidst volatile oil prices and portfolio flows

A key consideration at the March meeting was the potential effect of a policy rate cut on portfolio flows which have helped buoy the exchange rate and accretion to reserves; i.e. if a lower rate would reduce Nigeria's competitiveness relative to other emerging markets, spurring flow reversals thereby creating a headwind for the exchange rate stability.

Whilst foreign exchange inflows dipped noticeably in April 2019, net flows remained positive at US$4.7billion reflecting strong investor confidence, supported by accommodative policy stance in AEs. These factors, combined with crude oil price levels which have remained above US$60p/b over the last six months, have supported stability and fueled further accretion to reserves - US$45.42 billion as at May 16th, 2019. Although there is some volatility in crude oil prices, along with uncertainty in global growth prospects, the naira exchange rate is expected to remain relatively stable in the medium-term even in the face of slight easing in domestic monetary conditions.

Domestic output growth positive but weak

Although real GDP grew by 2.01 per cent in Q1 2019, compared with 1.89 per cent in Q1 2018, growth remains weak and far below the pre-2016 recession levels of 6.34 per cent (Q1 2012); suggesting the economy is still at the recovery stage of the business cycle which requires significant stimulus to forestall any reversals. Similarly, the Purchasing Managers' Index, a leading indicator of GDP performance showed expansion of economic activities, but at a slower pace from 58.5 points to 57.7 points in January and April 2019 respectively. More importantly, unemployment remains high at 23.1 per cent (Q3 2018) and most projections for Nigeria's real GDP growth for 2019 hover around 2.0-3.0 per cent which remain below the levels required to reduce vulnerabilities and improve development outcomes. This underscores the importance of significantly stimulating the domestic economy, in view of the limited fiscal space, whilst supporting growth in the non-oil sector which remains the key driver of output growth.

Banks as a catalyst for economic growth

This sluggish domestic output growth environment underscores an urgency to dramatically enhance investment and expansion in the real sector via new credit. Positive financial soundness indicators suggest that the banking industry is well-positioned to play a bigger role in this respect. Industry capital adequacy, liquidity and profitability continue to improve whilst non - performing loans (NPLs) reduced between February and April 2019. This picture of financial resilience is at odds with the current low levels of real sector lending, especially in the light of burgeoning lending to government observed in banks' outsized subscriptions to risk-free treasury securities. For instance, information from Bank staff reveals contraction in credit to the private sector between February and March 2019, even as income from trading activities increased vis a vis a reduction in non-interest income from credit activities.

Whilst factors such as residual low risk appetite in the light of recent high levels of NPLs and significant asset portfolio write-offs are duly noted, the industry must dramatically increase lending to the real sector to strengthen the economic recovery, bolster domestic productivity and create jobs. In addition, banks are encouraged to ramp up investments in technology to facilitate efficient retail loan distribution and explore using behavioral analysis and artificial intelligence to enhance credit decisions, particularly for loans to the informal sector.

These must be supported by other institutions and initiatives designed to de-risk lending to SMEs such as micro finance banks, (including the new national micro finance bank), collateral registry (to expand small and micro credit collateral options) and the CBN's interventions in employment elastic sectors like agriculture and more recently textile and creative industries which will help bridge the credit gap and lower lending rates in the long run.

Policy Decision

Notwithstanding relative stability in key macroeconomic indicators, we must remain mindful of risks from an increasingly vulnerable global economy. The escalating trade war between the United States and China has created stronger headwinds, while other familiar headwinds continue to threaten global growth prospects. In consideration of these developments, the IMF has further revised downward global growth projections for 2019 from 3.6 per cent to 3.3 per cent. Although a 3.3 percent global expansion is relatively reasonable, the outlook for many countries remains challenging, with considerable uncertainties in the short term especially for oil dependent EMDEs, like Nigeria operating within a volatile international crude oil market and constricted fiscal space.

The foregoing implies a balance of risks tilted against output growth. My March 2019 statement emphasized the need to urgently ramp up investments to support growth given the fragile recovery and persistent vulnerabilities. However, pursuit of stronger growth must be balanced with the imperatives of price and monetary stability, the primary mandate of the committee. Whilst the medium-term path of inflation suggests a downward trajectory, its current level remains above the target band and thus calls for vigilance. Furthermore, to support the relative FX stability, it is critical to maintain an appropriate interest rate that sustains capital inflows in the short term, alongside implementing long-term initiatives designed to grow fiscal revenues and improve fiscal consolidation.

As further impact of the rate cut is allowed to manifest, the present policy rate maintains stability and creates conditions that support growth and overall economic resilience. Therefore, I vote to retain the current monetary policy stance, by keeping 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

My Decision:

At the March 2019 Monetary Policy Committee meeting, the MPR was cut to support economic activity and the decision was largely underpinned by the lower inflationary risks, long periods of exchange rate stability and higher levels of external reserves. Eventhough inflation rates increased marginally in April 2019 due to rising food prices, the general expectations as well as CBN staff projection is that lower inflationary pressures are likely to re-emerge in the near future. Amidst this recent marginal inflation uptick and with the increased uncertainty in the external economic environment, there may be genuine reasons for moderate monetary tightening. These considerations may however not be ideal at this time given that the anticipated gains from the March 2019 MPR cut are yet to fully materialize, especially in the credit market. In a real sense, the Monetary Policy Committee and indeed other policy makers in Nigeria at this time still face an increasingly challenging task of supporting growth while reining in possible price increases and moderating any domestic financial market imbalance.

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

The Considerations:

The key considerations for monetary policy choice at this meeting follows an assessment of two underlying trends:

- Global Macroeconomic Situation,
- Domestic Economic Prospects including the Financial Market Conditions

Global Macroeconomic Situation: On the global issues, trade tensions and policy uncertainties continue to diminish global growth prospects. As such, growth projections for many developed and developing economies have once again been downgraded for 2019 and 2020. Similar to the macroeconomic situation in the last MPC meeting, trade tensions have escalated, Brexit uncertainty has persisted longer than expected, geopolitical tensions and domestic political uncertainties have intensified in several regions and there have also been some localized natural and weather-related shocks. As a result, trade and investment have moderated drastically especially in Europe and China and the manufacturing sector where global vale chains prevail is expected to remain in this low gear for some time in future. In specific terms, for 2019, subdued growth is expected in most advanced economies, especially those where trade and manufacturing play important roles, such as in Germany where GDP growth is now projected to remain below 1 percent and Japan projected to grow by 1.0 per cent. Similarly, GDP growth for 2019 is expected to moderate in the other Euro Area countries as well as in China, while the forecasts for Australia and New Zealand have also been revised down slightly. In the United States, eventhough the momentum of growth was high in the early parts of this year, it has since started to moderate as the fiscal policy support earlier introduced begins to wane. For the emerging market economies there are diverging trends of growth prospects for 2019. For instance, the short term outlook for Argentina, Mexico, Turkey is expected to be sluggish and subdued as a result of poor investment and industrial production while some moderate growth strengthening is projected for India, Brazil, Republic of Korea and Malaysia.

The inflationary pressures in many economies appears to have been dampened and generally below central bank targets and in several of these cases caused largely by the weak domestic demand. In the US, despite the rising wage growth, headline inflation still hovers below the 2 per cent target, which is similar to Europe where inflation remains subdued and it is expected to remain steady in 2019 even with the increasing upward wage pressure. In Japan, inflation has been projected to stay well below the 2 percent target in 2019 and 2020 while across South Asia, inflation rates are forecast to remain largely similar to the levels in 2018.

The monetary policy stances of major central banks across the globe have shifted slightly towards an easier approach reflecting these lower inflationary trend and the slowing levels of economic activity. In March 2019, US Federal Reserve lowered general expectations from two interest rate hikes to none in 2019 while the European Central Bank has also delayed any possible increase in interest rates until at least 2020. The Bank of Japan has recently provided strong indications to continue with its quantitative and qualitative monetary easing programme while in China, the easing of credit conditions has continued with a further lowering of reserve requirement ratios for banks in early 2019 so as to improve domestic liquidity conditions. India has also cut interest rates in February and April of 2019, while in the Republic of Korea, the central bank has removed any reference to a possible monetary policy tightening in the near term. Similarly, few countries in Africa (Angola, Nigeria, Egypt, Gambia, Ghana, Malawi) have opened monetary policy space by cutting interest rate since the beginning of 2019 so as to support economic activity. Interestingly, the pausing of monetary policy normalization process in the developing economies seems to have also reduced the threats and pressures of capital outflow from these African countries that recently reduced policy rates, but many of the countries including Nigeria still face the challenge of translating the capital inflows into productive domestic investments.

Domestic Economic Prospects and Financial Market Imbalances:

As at May 2019, the macroeconomics dynamics in Nigeria remained weak despite moderate GDP upticks in the 2019 Q1, thus casting a shadow over the prospects of achieving the Economic Recovery and Growth Plan (ERGP) targets as well as the Sustainable Development Goals (SDGs). More worrisome is the seemingly unpredictable financial market (banking, debt and stock market) conditions even in the midst of rebounding portfolio capital flows to Nigeria.

Recent output estimates show that although there was an improvement in real GDP growth in Q1 2019 at 2.01 percent when compared to the corresponding period of Q1 2018 at 1.89 percent, but it fell short of the 2.38 percent growth recorded in Q4 2018. While the non-oil growth rate declined from 2.70 percent in Q4 of 2018 to 2.47 percent in Q1 of 2019, the oil growth rate contracted further from -1.62 percent in Q4 2018 to -2.40 in Q1 of 2019. Except for the agricultural and construction sectors which performed better in Q1 of 2019 when compared to Q4 of 2018, all other sectors including Industry, Trade and Services had a sluggish start in 2019 when compared to the last quarter of 2018. The growing output divergence between sectors in Nigeria at a time of high unemployment rates and low domestic demand is worrisome and will require fiscal and quasi-fiscal government support to complement monetary policy efforts. Such a combination can address the current output weakness, especially the sector divergence and boost long term growth in a sustainable way.

Inflation also remains a crucial macroeconomic challenge in Nigeria eventhough there have been relatively subdued pressures in recent times. An upward trend emerged in April 2019 as the headline inflation (y-o-y) rose to 11.37 percent from 11.25 percent in March 2019 and this was largely due to increases in food prices. Recent trend show that core inflation has been moderating consistently since April 2018, while food inflation has been largely unpredictable. Given that the expenditure share of food items in the consumption basket underpinning the consumer price index is high in Nigeria, then achieving price stability and curbing inflationary pressures in the near term will depend heavily on food price inflation which may sometimes be less sensitive to prevailing market interest rate.

Furthermore, financial market conditions have remained poor and sluggish since the start of 2019 and the recent easing of monetary policy at the March 2019 MPC meeting seems not to have stabilized these conditions. The All Share Index and equity market capitalization have maintained continued declines in 2019 similar to 2018 due to poor activity at the primary segment of the market. Even though there was a temporary rebound of market capitalization- by early May, the upwards daily movements have not been sustained. The expected impact of the MPR cut on other market rates are yet to materialize. While maximum lending rate rose by 0.05 percent between March and April 2019, the prime lending rate grew by 3.30 percent. The spread between the maximum lending rate and the consolidated deposit rates according to CBN staff report stood at 26.56 percent in April 2019, which is huge while the continued daily volatility in the interbank and OBB interest rates also does not yet depict any correlation with the monetary policy rate (MPR). Of importance is the current trend in total bank credit which also seems not to have responded to the March monetary policy shifts as staff report show a decline between March and April 2019. In addition, the bank profitability indicators responded poorly to the easing of monetary policy and have remained volatile eventhough such soundness indicators as capital adequacy ratio and non-performing loans ratio are on the positive trajectory.

While it may appear too early for the monetary policy rate cut in March 2019 to have reduced some short term risks on the financial market so as to guarantee improved credit supply, additional monetary policy rates cut now are unlikely to reverse credit trend or even boost domestic demand. Rather, there is a short term likelihood that it could spur additional financial market imbalances, which may further raise the risks to financial stability. Given this limited monetary policy space, a moderate fiscal stimulus but with less elevated public debt levels would be very useful for further bolstering growth in critical underperforming sectors of the economy.

5. BALAMI, DAHIRU HASSAN

The global economy is being challenged by familiar headwinds which include the following: trade tensions between the United States of America (US) and key allies such as the China and the European Union (EU); unsuccessful negotiation between the US and North Korea; secondary sanction against Iran; heightened uncertainty around BREXIT negotiations; diminishing pace of normalisation in the US monetary policy; European Central Bank (ECB) returning to monetary accommodation, and UK refraining from monetary normalisation. The above headwinds have implications on the Nigerian economy.

Growth

Global output growth in 2019 is expected to moderate to 3.3 percent, down from 3.6 and 3.8 percent in 2018 and 2017, respectively. In the advanced economies growth is projected at 1.8 percent, for Emerging Markets and Developing Economies (EMDEs), it is projected at 4.4 percent, while for Sub-Saharan Africa, output growth is estimated at 3.5 percent in 2019 against 3.0 percent in the previous year. It should be noted that the potential output growth is driven partly by strong total factor productivity (TFP) and capital accumulation in China and other emerging market economies such as India due to technological growth and economic efficiency. The output growth in Q1 2019 by country showed that the US economy slowed to 3.2 percent in Q1 2019. In China output continued to slow down due to the effects of US trade tariffs and the rebalancing programme. The expectation on the Nigerian and the South African economies is that they may continue on the path of recovery but at a slow pace due to volatility in price of crude oil. For South Africa problem of power supply and labour issues may weigh on growth. It is worth noting that the Gross Domestic Product (GDP) in 2018 in selected advanced economies; the Euro area, United Kingdom (UK), and Japan slowed down. The direction of world trade continues to be characterised by heightened trade tension, thus depressing global trade volume by 1.7 percent month- on- month in February from 2.1 percent in January 2019.

Inflation

In terms of inflation, the advanced economies are locked up in low inflation trap, while the EMDEs are in high inflation trap, each responding appropriately to their economic environment. In Euro area, inflation inched up moderately to 1.7 per cent in April 2019 from 1.4 percent in the previous month. The European Central Bank's (ECB's) new requirement of monetary accommodation kicked in following indication of weakening macroeconomic fundamentals. In Japan, inflation remained low in spite of continued government stimulation, inching up marginally to 0.5 percent in March 2018 from 0.2 percent in the previous month as food, transport and housing prices increased moderately.

Similarly, inflation in the UK continued to trend below Bank of England (BoE) long run target of 2.0 percent remaining flat at 1.9 percent in March 2019. While there were mixed price development in Emerging Market and Developing Economies, inflation rates in most countries reviewed moved upwards with the exception of Egypt. In India, inflation was projected at 3.9 percent in 2019 up from 3.5 percent in 2018. In China, inflation forecast for 2019 indicate a 2.3 percent rise in consumer prices from the 2.1 percent figures in 2018 due to expected rise in food prices. Inflation in Ghana rose to 9.5 percent in April 2019 from 9.3 percent in the prior month. In Egypt, inflation rate fell to 13 percent in April 2019 from 14.2 percent in the prior month, reaching its lowest level since January, 2019. In Brazil inflation rose further to 4.94 percent in April 2019 from 4.54 per cent in the previous month and slightly below market expectations of 5.0 per cent. Across advanced economies, given the fall in commodity prices inflation is likely to remain muted. It is expected that currency depreciation in some EMDEs could pass through to higher domestic prices and partially offset downward pressure on low commodity prices.

Exchange Rates

Generally, most currencies depreciated against the US dollar as shown by data on the global financial markets. In Europe, the British pound, and the Euro depreciated against the US dollar by 0.92 and 0.60 percent respectively between March 29 and April 26 2019. In Asia, the Japanese yen, the Chinese yuan and the Indian rupee all depreciated marginally against the US dollar by 0.68, 0.25 and 1.24 percent respectively, over the same period. In North America, the Canadian dollar depreciated by 0.79 percent, while the Mexican peso appreciated 2.59 percent. In South America, the Brazilian real, Argentine peso and Colombian peso all depreciated against the US dollar by

0.28, 5.62, and 1.61 percent. In Africa, the naira remained relatively flat against the dollar in the review period. South Africa's rand and Egyptian pound and Ghanaian cedi appreciated by 0.76, 0.86 and 0.05 percent. Kenyan shilling however depreciated against dollar by 0.68 percent. The pass through effect of depreciation can be inflationary if not properly handled.

Policy Rates

From March 2019 and May 2019, central banks survey revealed that only Nigeria reduced her policy rates, while others held their policy rate constant. These included the Fed, Bank of England, ECB, Reserve Bank of India, Bank of Japan and Peoples Bank of China, all of which retained their policy rate in response to the prevailing uncertainties in the global economy.

The global development have implications for the domestic economy. For example the weakening signal from the oil future market will affect the CBN ability to support the naira if oil spot prices follow the direction of the futures market. This shows the need to build buffers to enable the CBN respond to anticipated changes in the global economy. Capital flows to emerging market economies, such as Nigeria, may likely increase, particularly if the post-election security situation in the country improves. CBN should work closely with the fiscal authority to improve the investment climate. There is need to monitor current portfolio investment inflows into Nigeria which are being lumped up at short end of the yield curve.

Domestic Level

At the domestic level, factors such as volatility in crude oil prices, high NPLs, infrastructure deficit, low capacity for revenue generation, and insecurity such as boko haram, herders/farmer conflicts, kidnaping and cybercrime hampered economic activities. The growth in the economy is driven by the non-oil sector, which grew from 2.87 percent in first quarter of 2018 to 2.4 percent in the first quarter of 2019. The economy registered a positive growth rate of 2.01 per cent in the first quarter of 2019, which was far below the potential productive base of the economy. The growth rate is weak as it is below the population growth rate of 2.82 percent, thus reflecting a fall in per capita output. Increase in output growth is extremely critical for the growth of the economy.

Further on domestic developments, the current inflation rate of 11.37 percent is above the CBN target of 6 – 9 per cent. Unemployment in the economy is above the Natural Rate of Unemployment (NAIRU). To promote growth and reduce inflation, there is need for demand side and supply side management policies to be formulated and implemented. It has been identified that there is demand gap in the economy and therefore, banks should embrace consumer credit. This would impact on consumption, production and growth in the economy. Private credit bureau or system be created, engage stakeholders to contribute their quota and how to honour their obligations, and alternative dispute resolution system be established. The credit channel for monetary policy will aid growth and will have high impact in housing, mining, and transportation value chain.

Banking Industry Financial Soundness

The capital adequacy ratio (CAR) improved from a low of 15.14 percent in February 2019 to 15.60 percent in April 2019. This is remarkable because it is slightly above the prudential requirement by 0.60 percentage point. On the non-performing loans (NPLs) ratio, there was improvement as the ratio declined from 11.28 percent in February 2019 to 10.95 percent in April 2019. The reduction in the NPLs was driven by write offs and recoveries. There was also increase in provisioning by banks for NPLs in the review period. Similarly, the industry liquidity ratio (LR) rose further from 51.05 percent in February, 2019 to 52.61 percent in April 2019. This performance was 4.81 percentage points higher when compared with of the ratio at end-April 2018. Overall, the Nigerian banking sector remains sound and resilient.

Policy Decision

The decision taken was based on developments in the global and domestic economic and financial environment. Given the above, I am of the opinion that we hold, but advised that consumer credit should be pursued vigorously to promote growth. There is need for sustained policy support because GDP growth is still fragile.

I therefore, vote to:

i. Retain 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.

6. ISA-DUTSE, MAHMOUD

A. INTRODUCTION

The waning momentum in the global economy which became evident in the second half of 2018 is expected to intensify in 2019. This scenario is directly attributable to a confluence of factors plaguing key advanced and emerging economies, such as, the escalating trade tensions between the US and China that saw tariffs jump from 10% to 25%; the enforcement of Iranian sanctions; the uncertainty of a no-deal Brexit; the underperformance of some key economies in Europe; and the continuing effort at re-balancing the Chinese economy away from external demand and credit-driven investment to higher domestic demand. On the domestic front, the economy is still confronted with headwinds that threaten sustainable growth.

B. EXTERNAL ECONOMIC CONDITIONS

The seemingly unending whirlwinds buffeting the global economy led the IMF to cut its global growth estimate for 2019 from 3.6% to 3.3% which represents the third time the IMF has downgraded its growth forecast within a period of six months. In tandem with the slowing global economy, global trade in goods and services will increase at a weaker rate of 3.4% in 2019 as compared with the 3.8% growth achieved in 2018.

Growth in the advanced economies is expected to decline from 2.2% in 2018 to 1.8% in 2019. The key economic blocs accounting for the slide include: the

US, where growth will plummet to 2.3% in 2019, down from 2.9% in 2018; the Euro Area that will see output nose-dive to 1.3% in 2019 compared with 1.8% in the previous year. In line with the global pattern, economic growth in Emerging Market and Developing Economies (EMDEs) is to witness marginal deceleration from 4.5% in 2018 to 4.4% in 2019 which is a reflection of the continuing slowdown in the Chinese economy. It is worth noting that the softening industrial production in the world's major economies and the weakening global demand lead to reduced international trade with broad implications for primary commodity exporting countries like Nigeria where potential decline in exports may result in falling aggregate demand, output and employment.

Moreover, the expansionary policy response to the growth conundrum by the advanced economies range from monetary accommodation in the Euro Area to 'no rate hike' in the US and UK, and outright lowering of rate in New Zealand with implications for financial market development in EMDEs. Given that policy normalization is no longer on the front burner, the moderation in the speed of financial flows into US dollar-denominated assets is expected to remain while correspondingly, inflows into EMDEs are expected to rise. The increasing portfolio flows into the Nigerian economy will continue to support and further sustain the relative stability in the foreign exchange market. Consequently, import-induced inflationary pressures will remain subdued in the foreseeable future in Nigeria.

The international price of crude oil is projected to remain above $60/barrel in 2019 and is now hovering around $70/barrel. With this favourable swing, there is re-kindled hope that Nigeria can build fiscal buffers, increase foreign reserves and facilitate stability in the foreign exchange market.

C. DOMESTIC ECONOMIC CONDITIONS

The recent data from the National Bureau of Statistics (NBS) underscores the fragility in domestic economy with a real GDP growth of 2.01% in Q1 2019 which was 0.37 percentage point less than the 2.38% recorded in Q4 2018. The same trend is evident on a disaggregated basis as the contraction in the oil sector growth rate worsen from 1.62% in Q4 2018 to 2.40% in Q1 2019 while the non-oil sector growth declined by 0.23 percentage point from 2.7% in Q4 2018 to 2.47% in Q1 2019. These are pointers to the existence of spare productive resources in the economy. Thus, the unemployment rate remains high as CBN in-house research reveals the yawning gap between the unemployment rate and the Non-Accelerating Inflation Rate of Unemployment (NAIRU). Therefore, there is need for a multi-pronged approach to address the binding constraints to rapid and inclusive growth.

The data from NBS indicates that there is a gradual build-up in inflationary pressures as headline, core and food inflation (month-on-month) rose to 0.94%, 0.70% and 1.14% in April 2019 from 0.79%, 0.53% and 0.88% in March 2019, respectively. On a year-on-year basis, the outcome is mixed as headline inflation stood at 11.37% in April 2019 compared with 11.25% in the previous month while core inflation fell by 0.16 percentage point and food inflation rose by 0.25 percentage point between March and April 2019, respectively. The annual headline inflation rate for April 2019 is not particularly alarming when compared with the 11.37% and 11.44% of January 2019 and December 2018, respectively. Nevertheless, an appropriate policy mix should be put in place to nip this developing inflationary pressure in the bud against the backdrop of the numerous upside risks to inflation, which include: upward adjustments in wages and salaries; high liquidity injections arising from the continuing implementation of the 2018 FGN budget; and increased liquidity prompted by massive interventions, high inflow of capital and home remittances. On a salutary note, the current level of external reserves of over $44 billion and the moderately high price of crude oil in the international market, provides the platform for sustainable foreign exchange rate stability (in the near term) and mechanisms to rein-in imported inflation.

Broad monetary aggregates, M3 and M2 increased during the reporting period even though, they exhibited significant negative deviations (underperformed) from their indicative benchmarks in April 2019. M3 and M2, at 5.42% and 1.85%, were 9.05 and 11.14 percentage points below the 2019 benchmarks of 14.47% and 12.99%, respectively. Maximum and prime lending rates however increased from 30.83% and 14.92% in March 2019 to 30.89% and 18.23% in April 2019, respectively. These developments have negative implications for credit extension to the real sector.

The banking system development is mixed as the industry performed well in the areas of good capital adequacy, cost effective operations, high liquidity and robust returns on investments. However, while the deposits and liquidity trends increased progressively, the total credit growth remained negative and new credits fell in terms of value against the background of declining non-performing loans (NPLs), even though these still remain high. The falling trend in new credits in Q1 2019 correlates well with the increase in real GDP at a decreasing rate during the first quarter of 2019. At this time, the poor credit delivery to the private sector by banks cannot be attributed to low system liquidity because the converse is the case. It is thus inappropriate to contemplate a further policy rate cut as this will add fuel to the liquidity overhang and jeopardize the price stability mandate of the Bank, especially in the light of the uptick in the general price level in April 2019. It is more appropriate to decisively deal with the numerous factors which account for the high level of NPLs in the system to create a conducive environment for banks to lend for both production and consumption.

C. VOTING DECISION

A loosening policy option will appear time inconsistent – there is need to allow a reasonable time lag to judge the impact of the recent policy rate cut. Moreover, any further rate cut will aggravate liquidity problems and will be out of tune with the buildup of inflationary pressures. On the other hand, a rate increase is likely to undercut the nascent growth in output and exacerbate the high level of unemployment and underemployment in the economy. Therefore, I voted to retain all existing policy parameters as follows:

- 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 remains muted amidst sub-optimal credit to the private sector and commercial banks' preference for public sector lending. Aggregate demand was relatively weak and the financial conditions reveal a banking industry overwhelmed by adverse selection and risk aversion. Data from the NBS reveal that Real GDP grew by 2.01 per cent in 2019Q1, relative to 2.38 per cent in 2018Q4 and 1.89 per cent in the corresponding quarter of 2018. Against this backdrop, the need to diversify the productive base by channeling more resources to the agricultural sector cannot be overstated.

Despite the reduction in Non-Performing Loans (NPLs), credit to growth-enhancing sectors continued to be weak. At 5.42 per cent growth in April 2019, compared to end-December 2018, broad money (M3) was below target and inadequate to significantly drive growth. Though banking industry data reveal that non-performing loans (NPLs) remain elevated, its downward trend indicates that the industry remains resilient. Despite the soundness of the sector, growth in credit to the core private sector was tepid at 9.79 per cent in April relative to end-December 2018. At 64.4 per cent growth, credit to government was significantly crowding out the private sector. Money market rates were relatively stable, with modest oscillations in line with liquidity conditions.

Incipient inflationary pressures persist on account of structural and food supply shocks. Headline inflation (year-on-year) increased marginally, after three consecutive months of decline to 11.37 in April 2019 from 11.25 per cent in March 2019. Similarly, food inflation rose to 13.70 per cent (year-on-year), from 13.45 per cent in the same period. However, core inflation declined to 9.30 per cent from 9.50 per cent in March 2019. With this development, I see strong merit in pursuing tight monetary policy in the short-run, while ensuring that farmers and operators in the agricultural value chain space are adequately funded.

The fiscal space to scale up well-targeted capital expenditure was further constrained by rapidly growing public sector debt, rising debt service obligations and low revenue collections. These developments represent headwinds to the implementation of the N8.92 trillion 2019 Budget and achievement of inclusive growth. Accordingly, the urgent need to enhance the fiscal buffer cannot be overemphasized.

The balance of payments continued to be viable, supporting external reserves accretion and exchange rate stability. A balance of payment surplus of US$0.002 billion was recorded in 2018Q4, while external reserves of US$45.42 billion was achieved. This performance revealed resilience which will sustain investors' confidence and bolster exchange rate stability.

Despite the overwhelming need to grow the economy, pursuing an expansionary monetary policy at this juncture, is contemporaneously time inconsistent. What is needed is a combination of fiscal and structural policies to improve the infrastructure deficits and diversify the productive base of the economy. Thus, I vote to retain the current policy metrics.

8. OBADAN, MIKE IDIAH

As at the last Monetary Policy Committee meeting held in March, 2019, there were indications of strong concerns about the effects of uncertainties and vulnerabilities in the global economy on global economic activity, financial flows and economic policies. The uncertainties related to the likelihood of the US economy going into recession in 2020, non-resolution of issues surrounding BREXIT, weakening growth in Europe as major economies like Germany, Italy and France are confronted with internal weaknesses, slowing growth in China due to the impact of its trade war with the US and tighter financial regulations, amongst others. These developments conditioned domestic policy measures, in particular, monetary measures across the globe.

Global Economic Developments

The above uncertainties across the global economy, arising from various economic and political developments, had not abated by the time of the MPC meeting on 20th and 21st May, 2019; indeed, they had intensified in some cases. The concerns about them derive from their implications for growth and trade volumes both for the global economy and individual economies as well as monetary policy directions. Examples are the following:

- Downgrading of global output growth. In light of the uncertainties and vulnerabilities, global growth in 2019 has been further revised downward by the International Monetary Fund (IMF) to 3.3 per cent from the earlier 3.5 compared to 3.6 percent in 2018. This is against the backdrop of the advanced economies that are expected to lead growth in 2019 continuing to contend with uncertainties looming around them. Output growth in this group of economies has been further downgraded by the IMF from 2.2 percent in 2018 to 1.8 percent in 2019 from an earlier 2.0 percent projection. The speculation that the US economy may dip into recession sometime in 2020 remains relatively strong while the European Central Bank (ECB) has revised its growth forecasts for 2019 and gave indications of some recovery as it returned to monetary accommodation in the wake of macroeconomic weaknesses observed in the first quarter of the year. Growth in the Emerging Market and Developing Economies (EMDEs) is projected to slow moderately to 4.4 percent in 2019 from 4.5 percent in 2018. Other major world economies are projected to have mixed growth performance: China is expected to continue to weaken to 6.3 percent in 2019 from a peak of 6.6 percent in 2018 while India is projected to have a robust growth of 7.3 percent in 2019, up from 7.1 percent in 2018. Ghana is projected to have moderate growth in 2019 while Kenya's growth is projected to decline to 5.8 percent in 2019 from the growth of 6.0 percent in 2018.

- Continued trade war between the US and China. Recently, following the apparent breakdown of trade negotiations, the US raised tariffs from 10 percent to 25 percent on US$ 200.0 billion goods imported from China. In retaliation, China has announced plans to impose 25 percent tariffs on US$ 60.0 billion imports from the US. Even though President Donald Trump has indicated readiness to enter into trade negotiations with China, it appears the stage is set for a tariff/trade war which may ultimately benefit no one as prices shoot up in both countries, volumes of trade fall and consumer welfare is sharply eroded. In contrast, the US has eliminated high tariffs on steel and aluminum from Mexico and Canada to pave the way for a new trade deal. This, notwithstanding, the direction of world trade continues to be characterized by heightened trade tensions which depress global trade.

- Phenomenon of slowly rising inflationary pressures. Price development in the advanced economies has remained muted and, indeed, trending below 2.0 percent in some key advanced economies while in the EMDEs, it averaged 4.9 percent. With prices receding faster in some of the economies and much slower in some others, many central banks have receded into a dovish stance with respect to a possible return to monetary accommodation in the face of signs of weakness in the global economy.
- Uncertainties around BREXIT. In the United Kingdom, uncertainties surrounding BREXIT have persisted with the increasing likelihood of a no-deal BREXIT and a second referendum. The prospects of a second referendum has become higher on the agenda even though the European Union has further extended the exit date to October 2019. Meanwhile, investors appear to have adopted a wait-and-see posture with British and European assets as developments around BREXIT unfold gradually.

- Volatility of oil prices remain. The price of Bonny light on May 7, 2019, stood at US$ 61.85 per barrel compared with US$ 67.48 per barrel on March 13, 2019 and the opening price of US$ 45.41 per barrel on January 1, 2019. Even though, the reduction in production of oil by both OPEC and non-OPEC members by 1.2 million barrels per day, effective from January 2019, has contributed to the recent uptick in oil prices, the increasing investment in shale oil production by the US remains a significant threat to future oil price increases. US crude oil production is reported to have averaged 12.1 million barrels per day in March, 2019. It is forecast to average 12.4 and 13.1 million barrels per day in 2019 and 2020, respectively. Futures market data suggest that the price of crude oil will fall to just over US$ 60.0 in 2021. And if Russia declines to back an extension of the production cut agreement at the end of June, as has been indicated, oil prices may become much lower in line with the expectations of the US oil production strategy and to the detriment of the oil exporting countries.

All the above point to a global economy that is grappling with challenging times. The developments have several implications, some of which are sources of concern generally.

- Weak growth leads to a slowdown in global aggregate demand and weak export revenue.

- The growth concerns have led many central banks to adopt dovish stances on monetary policy such that policy rates are being maintained or reduced. The US Federal Reserve Bank (Fed) has abandoned its initial forward guidance of at least two policy rates hikes in 2019. The Fed no longer sees any compelling need to adjust the policy rate in either direction. While it is jealous of its independence vis-a.vis President Trumps attempted interference, the Fed is not unmindful of indications of the likelihood of the economy going into recession in 2020 and the consequent need for monetary accommodation. Generally, because of the weak growth projections and the need to avert recession and generate employment, most central banks have gone into accommodation mode by keeping the policy rates constant or reducing it. Out of 14 central banks surveyed by the CBN between March and April, 2019, two of them (Central Bank of Nigeria and Reserve Bank of India) reduced policy rates while the others held the rates constant.
- With the return of ECB to monetary accommodation and the US and UK moving away from normalization of monetary policy in the short-term, capital flows to EMDEs such as Nigeria may likely increase. This requires creating the necessary conditions for this to materialize.
- The uncertainty associated with BREXIT negotiations and the US' mercantilist trade policy towards its trading partners, particularly, China, Europe, Mexico and Canada, has a significant negative impact

on trade and investment flows resulting in the slowdown of the global economy.

Thus, at a time of increasing vulnerabilities in the global economy, with possible negative implications for domestic economies, Nigeria's monetary policy direction would have to take cognizance of the economy's slow recovery from recession and the need to improve growth performance as well as employment generation, poverty reduction and overall economic diversification. Specific developments in the domestic economy are also important in determining policy direction.

Domestic Economic developments

GDP growth performance. Well-thought-out fiscal, monetary, trade and other policies as well as recovery of the world oil market, moved the economy out of recession since the second quarter of 2017. But the growth attained remains low and fragile, very much below the economy's potential and below the country's worrisome high population growth rate. The growth rate has also tended to fluctuate, standing at 1.81, 2.38 and 2.01 percent in quarters 3 and 4, 2018 and quarter 1 in 2019, respectively. The baseline growth projections for the economy in 2019 are also below 3.0 percent although the annual budget puts the average at 3.01 percent. However, the output gap suggests room to expand the economy and make it to grow fast. The gap can be closed when the economy is stimulated with appropriate policy measures including monetary accommodation. In this regard, the major focus would be the non-oil sector which has continued to drive growth.

Inflation rate. The headline inflation rate increased marginally in April, 2019 after three months (January, February and March) of successive moderation. The year-on-year headline inflation rate stood at 11.37 percent in April compared to 11.25 percent in March. The month-on-month headline inflation rate also inched up from 0.79 percent in March to 0.94 percent in April. But, the year-on-year core inflation rate reduced while the month-on-month core inflation rate inched up. The price of food and non-alcoholic beverages was the primary source of the uptick in headline inflation as the prices of most other items remained constant. The uptick in headline inflation at this time is not unexpected considering that the harvest season has gradually been replaced by planting/farming season. Supply challenges have begun to surface compounded by farmers-herders conflict which has impacted food supply negatively. This factor, along with other structural impediments to agricultural production would need to be effectively addressed. The Central Bank of Nigeria's heterodox policy interventions in agriculture, manufacturing and SMEs development would need to be sustained to boost domestic production, food security, dampen inflation expectations, raise employment, reduce poverty and advance the economic diversification objective.

Banking System Performance. The available data indicate that improvements have continued to be recorded in capital/asset based financial soundness indicators – Capital Adequacy Ratio, Liquidity Ratio and Non-Performing Loans Ratio (NPL). Nevertheless, the NPL ratio is still high and above the prudential limit. And even though the return on equity and return on asset showed decline between February and April, 2019, they are still high compared to comparator countries where efficiency and management levels are much higher. The assets of the banking industry have continued to trend upwards driven by increased investment in government securities. This leads us to the issue of concern in the industry's asset structure. The proportion of government securities in the banking industry's asset structure is growing while that of loans and advances is declining; loans and advances are being displaced by banks' investment in government securities which have become seductive to them because of their high yields and risk-free nature. This cannot be allowed to continue as it implies abandonment of their primary mandate of intermediation to the detriment of production, distribution and exchange that are yearning for loans financing. Even though the number of new credits increased strongly in April, 2019 compared to December, 2018, the value of such credits is much lower while the credit is highly concentrated in a few obligors. Therefore, a way must be found to limit banks' purchase of government securities so that they can focus on their primary functions of deposit mobilization and lending. At the same time, the Central Bank would need to expedite the implementation of its planned measures aimed at assisting the banks to minimize non-performing loans and boosting loans repayments. This will further encourage the banks to focus on delivering on their primary mandate of intermediation and hence avoid crowding out the non-bank public in the government securities market.

Government's fiscal operations. These have been characterized by weak revenue mobilization, unstable and inadequate oil revenue receipts, and fiscal deficits. Year-in-year-out, government revenue projections are not realized while expenditures are large, resulting in huge fiscal deficits, public debt accumulation and pressure on the monetary authority. The fiscal deficit in 2018 was N3.6 trillion, financed by domestic borrowing, external borrowing, and the monetary authority (net deficit). Consequently, the country's public debt has grown and become highly worrisome with debt servicing accounting for a very significant proportion of revenue and the annual budget. The total public debt as at December 31st, 2018 stood at N24.387 trillion with external debt accounting for 32 percent. As the country would not like to return to the pre-2005 era of external debt crisis, control must be exercised on future foreign borrowing while efforts are further intensified to grow the economy, diversify the revenue base and mobilise significant non-oil revenue. Greater stability will be achieved when the country begins to rely more on taxation rather than unstable oil receipts to finance development.

Opinion

This opinion takes cognizance of the foregoing, especially the need to strengthen growth and economic diversification. It also takes cognizance of the Staff quantitative assessments of the impacts of the various monetary policy options relating to loosening, tightening and maintenance of the status quo. Even though the inflation rate inched up in April, the assessments show that a reduction in the Monetary Policy Rate (MPR) would accelerate GDP growth, moderate inflation rate while the monetary aggregates would not exceed their provisional benchmarks for 2019. The Interbank Call Rates for the entire 2019 would be lower than what prevailed in the second quarter. Consequently, I vote to reduce the MPR by 25 basis points while holding the other monetary policy indicators – Cash Reserve Requirements, Liquidity Ratio and Asymmetric Corridor - at their extant levels.

9. SANUSI, ALIYU RAFINDADI

1. Decision:

My decision to vote for a hold, in today's meeting, was informed by the need for monetary policy stance to rein in inflation, sustain the relative exchange stability and support output recovery. Although the increase in the headline inflation (year-on-year), in April 2019, driven mainly by food prices may appear to suggest that the inflationary process was driven by supply side and structural factors, available data and as well as staff estimates of the NAIRU and Output gap suggest that monetary policy (demand side measure) can be efficacious in taming the sticky inflation. Further analysis of the available data and empirical evidence from the staff estimates, therefore, shows to further reduce inflation from its current low double-digit level and boost output growth without compromising the relative stability of the exchange rate or reduce reserve accretion, a delicate mix of supply-side and demand-side policies are required. My vote to hold the rate at 13.5% was informed by the conviction that aggressive pursuit of the heterodox policy measures could boost the short-run aggregate supply (through interventions that increase low-cost credit) supported by increased effective demand (through interventions that increase consumer credit).

2. Background and Justification

2.1. Global Economic Developments

Global output is expected to slow down in 2019 while inflation would decline in Advanced Economies, but marginally rise in Emerging Markets and Developing Economies (EMDEs). Consequently, the dovish monetary stance in the key Advanced Economies could, in the short to medium-term, raise capital flows to the Emerging and Developing Economies.

The global economic environment continued to face uncertainties resulting from escalation of the trade war between US and China, breakdown of BREXIT negotiations, new US sanctions on Iran, tensions on the Korean Peninsular, rising public & corporate debt in some EMDEs as well as rising vulnerabilities in major financial markets. These have has resulted in the downgrade of global output growth, by the IMF, to the 3.3 percent in 2019 compared with the 3.3 percent achieved in 2018. The downgrade resulted from the expected slowdown in Advanced Economies, which were projected to grow by 1.8 percent in 2019 compared with the 2.2 per cent achieved in 2018. This is mainly because of the projected slowdown of growth in the Euro Area (to 1.3% in 2019 from 1.8% in 2018) and the US (to 2.3% in 2019 from 2.9% in 2018). Growth in EMDEs is also projected to slow down to 4.4 percent in 2019 compared with the 4.5 percent achieved in 2018 mainly due to the expected slowdown of the Chinese economy as a result of the trade war (from 1.5% q-on-q in Q1 2019 to 1.4% in Q1 2018).

Inflation in the key advanced economies is trending below the 2% target in Euro Zone (at 1.7% in April 2019), the UK (1.9% in March, 2019), Japan (0.5% in March 2019), and is on target in the US (at 2% in April, 2019). Inflation is forecasted to moderate to 1.6 percent in 2019 from the 2.0 percent achieved in 2018. These price development, coupled with the projected slowdown in output growth, have prompted many central banks in advanced economies to adopt a dovish monetary policy stance, with the possibility of return to monetary accommodation in the near to medium term. The recent cut in policy rate by the Reserve Bank of New Zealand could be marking the beginning of a coordinated response to the expected slowdown of the global economy. The Bloomberg's Global Financial Conditions Index shows that global financial conditions are easing, thereby threating to raise global financial market vulnerabilities. The rise of Merrill Lynch Global Financial Stress Index, also suggests an increased global financial market stress due to volatilities in the futures markets arising from the heightened US-China trade war tensions.

Crude oil price volatility is expected to continue on the account of the unrests in Libya, tensions in the Middle East, threats on military action on Iran, rising stock piles of US Shale Oil as well as fears of depressed global output growth. As the future direction of oil price is unclear, the likelihood of rising exchange rate pressures in oil exporting economies also remain uncertain. These developments have a number of clear implications for Nigeria. First, the possibility of a return to monetary in major advanced economies suggests that capital flows from the advanced economies to EMDEs may increase. This underscores the need for the real yields on the naira denominated assets need to remain positive. Secondly, the uncertainties in directions of the oil market remains a source of concern, especially for exchange pressures, should the downside risks to global output heighten. Thirdly, these developments are clear signals for Nigeria to intensify efforts aimed at diversifying the economy and government revenue away from the oil sector.

2.2. Implications of the Domestic Economic Developments

The available data, forecasts and Staff estimates reveal that domestic output has risen and is expected to continue to rise; real output remains below its potential level; unemployment lies below the NAIRU; and, inflation has risen and is expected to rise amidst tightening monetary condition. The combination of these developments suggests that the economy may be stuck in a short-run equilibrium that requires both demand and supply side policies to simultaneously reduce inflation and unemployment as well as increase output in the near-term.

Data shows that domestic real output has sustained a positive trend since the fourth quarter of 2017. Real output grew by 1.98 percent in 2018 compared with 0.82 percent in 2017. Quarterly output has also significantly increased, growing by 2.01 percent the first quarter of 2019 compared to 1.89 percent in Q1 2018. The growth was driven by the non-oil sector, which grew by 2.47

percent, while the oil sector actually contracted by 2.4 percent. Forecasts show that output growth is expected to rise throughout 2019, culminating into an annual growth rate of 2.3 percent for the year. Inflation (y-on-y), which has increased from 11.25 percent in March 2019 to 11.37 percent in April 2019, is expected to moderate until August 2019. The rise in inflation was driven by food prices, which grew by 13.7 percent in April from 13.45 percent in March 2019 while Core Inflation moderated. On a month-on-month basis, however, both Core and Food Inflation increased during the period. This underscores the importance of supply-side and structural factors in the inflationary process. In addition, Staff estimates show that *the real output has been below its potential level* since the second quarter of 2016, while the *unemployment rate lies above the Non-Accelerating Inflation Rate of Unemployment (NAIRU)*. Amidst rising inflation and rising output, these estimates of potential output and NAIRU suggest that the dynamics of output and inflation can be approximated by the comparative statics depicted in the simplified AD-AS framework in figure 1 for the purpose of evaluating policy options. As indicated in the figure, the current inflation rate (π_t) and real output (Y_t) are determined by the short-run equilibrium (E_1) at which the short-run Aggregate Supply curve (AS_0) intersects the Aggregate Demand (AD_0). This short-run equilibrium, located to the right of the long-run equilibrium (E_0), determine the current real output (Y_t) that is below its long-run potential, and current inflation rate (π_t) that is above its long-run target (π^*). The unemployment rate associated with the current output will be below the NAIRU (obtainable when $Y_t = Y_p$). As can be seen, therefore, to simultaneously reduce the current inflation and raise real output (or reduce unemployment), a combination of demand management and supply side policies are required. Tightening alone, for instance, will shift the AD to the left thereby reducing inflation, but will also reduce output. Easing would shift the AD to the right and raise output and reduce unemployment, but will also raise inflation. An effective policy strategy could be to use a targeted monetary policy intervention that increases lending to the real sector at the prevailing interest rate to support production, which will shift the short-run AS to the right, while holding the AD. This could be achieved if quantity of lending can be significantly increased at the current interest rates.

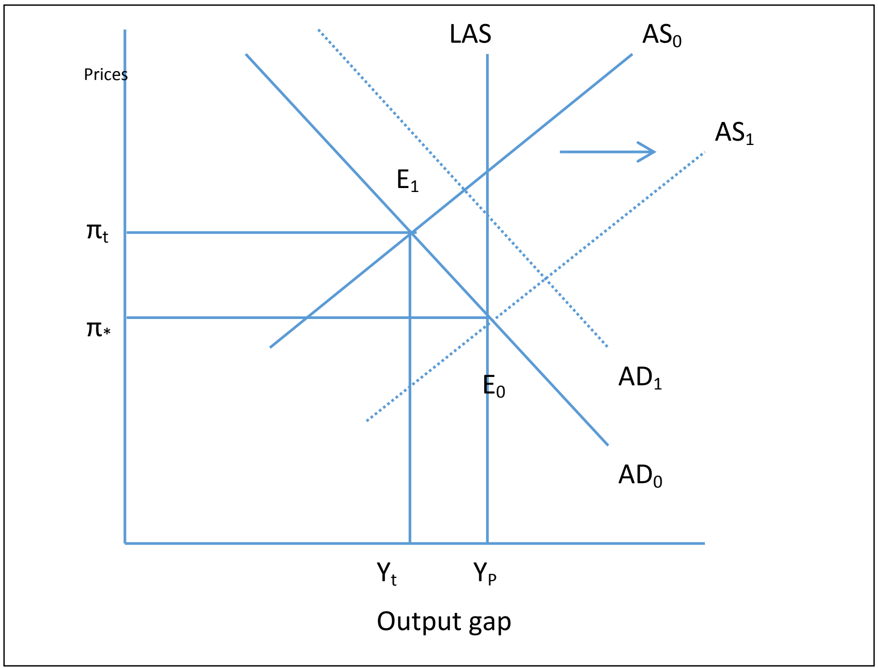
3. The Basis for My Policy Choice

In the light of above analysis, I voted to hold the rate because a loosening to support output would raise the inflation rate in the process while tightening to reduce inflation would reduce output and raise unemployment. I therefore voted for a hold with the conviction that, the Central Bank would intensify its development finance interventions and other heterodox policies that support the supply side so that both lower inflation and faster output growth can be achieved simultaneously.

Consequently, I voted to:

- Retain the MPR at 13.50 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.

Figure 1: The AD-AS Framework



10. SHONUBI, FOLASHODUN A.

Global Economic Developments

Economic fundamentals in some advanced economies developed more positively than expected in the first quarter of 2019. Growth in the United States, United Kingdom and the euro area were higher in 2019Q1, compared with the levels in 2018Q4. Germany and Japan recorded positive growth, against zero growth and contraction in 2018Q4, respectively. However, a number of downside risks may constitute drag to global growth going forward. Re-ignition of trade war between the US and China, breakdown of negotiation on Brexit and subdued international trade flows have dimmed the horizon on global growth. With the exception of India which had marginally higher growth, China, Brazil, Russia and South Africa slowed in 2019Q1. Thus, the International Monetary Fund projected global growth at 3.3 per cent in 2019 (WEO, April 2019). Inflation trended below the 2.0 per cent target in the advanced economies and generally averaged 4.9 per cent in emerging and developing economies, highlighting potential for higher growth to push inflation to target levels. These developments have implications for capital and investment flows, as well as, demand for EMDEs, including Nigeria.

Domestic Economic Environment

Recent uptick in inflation in April 2019 after the downward trend in 2019Q1 reflected, mainly, the effect of seasonal factor rather than a resurgence of

fundamental inflationary pressure. Headline inflation, on year-on-year basis, inched up to 11.37 per cent in April 2019, from 11.25 per cent in March 2019. This was due wholly to the rise in food inflation to 13.70 per cent, from 13.45 per cent in March 2019, on account of seasonal factors, including commencement of the planting season and insecurity in some parts of the food producing states which had disrupted production and distribution of food items. Sustained decline in core inflation so far in 2019 highlighted the muted effect of exchange rate pass through, as a result of generally stable exchange rate.

Driven by expansion in the non-oil sector, output growth remained weak and fragile with potentials for further non-inflationary growth through both expansionary fiscal and accommodative monetary policy. Real Gross Domestic Product (GDP) growth, at 2.01 per cent in 2019Q1, compared with 2.38 per cent in 2018Q4, reflected the 2.47 per cent expansion in the non-oil sector. With the major growth drivers being agriculture and services sectors, contraction in the oil sector was the major drag on output growth, as a result of below target production, amidst positive development in international oil price. Continued expansion of composite Purchasing Managers' Indices (PMI) for manufacturing and non-manufacturing sectors underscores the impact of sustained exchange rate stability on business planning and intermediate goods pricing. Overall, real output was well below the potential level, highlighting the need for greater aggressiveness of fiscal and monetary policy measures that promote expansion of economic activities, in the face of increasing population and unemployment.

Growth in the monetary aggregates was characterised by mixed trends, with the narrow measures of money supply generally underperforming, while sustained increase in securitized money pushed growth of the broader measure of money beyond the benchmark. Growth in broad money supply (M_3), relative to the level at end-December 2018, was 5.42 per cent at end-April 2019, annualised to 16.26 per cent, against the benchmark of 14.47 per cent. Though net domestic credit (NDC) and time and savings deposits grew by 19.31 and 6.53 per cent, respectively, in April 2019, narrow money supply (M_1) contracted by 4.26 per cent, while M_2 underperformed at 1.85 per cent, annualised to 5.54 per cent, compared with the benchmark of 12.99 per cent. The less than target growth in M_2 and contraction of M_1, despite the significant growth in NDC, highlights the persistent disconnect between the dynamics of money supply components and flow of credit to the private sector in particular and the real economy in general. This continues to be a concern.

Overall activities in the money market and movements in the rates reflected generally positive reaction to the 50 basis points reduction in policy rate at the preceding MPC meeting. Initial volatility that characterised movements in the Inter-bank and Open-Buy-Back rates, eventually culminated in a decline as at May 16, 2019. Also, low activity at the deposit and lending facility windows showed the relative vibrancy of the inter-bank segment in the review period. This was also reflected in the downward trend in Nigerian Treasury and CBN Bills rates, with implications for lower cost of liquidity management and positive balance sheet effect for participating entities in the money market. It, however, remained worrisome that trends in the money market rates did not transmit to lower lending rates, highlighting the weakness of transmission mechanism.

Sustained stability in the banking industry is reflected in improvement of banks' prudential measures, though conditions highlighted the need for the Bank to intensify current regulatory and supervisory measures to ensure further progress. Apart from the improvement in asset quality, indicated by the steady decline in industry non-performing loans (NPL) ratio from December 2018, provision coverage remained high and sufficient. Similarly, industry capital adequacy and liquidity ratios, were above the levels in March 2019 and the prudential thresholds. Recurring challenges of the banking sector, however, remained the lack of credit creation to support real sector activities and growth, excessive investment in government securities, as well as, high interest rate, which must be decisively addressed, along with prompt resolution of outlier institutions. These will further strengthen the resilience of the industry.

Despite the decline in foreign portfolio and direct investments, viability of the external sector was generally strengthened. Sustained stability at the Investors and Exporters, as well as, at the Bureaux-de-Change (BDC) windows, aided by the steady accretion to reserve, continued to boost business planning and investors' confidence. Also, declining import bill, narrowing income account deficit and increasing export of merchandise goods have combined to sustain overall balance of payment surplus. Whereas recent decline in capital flow may portend worrisome trend, a quick reversal is expected and already manifesting, as competitiveness remain unchanged.

Overall Considerations and Decision

Factors within both the global and domestic economic environment continued to condition the direction of monetary policy. On the global scene, beyond the implications of deterioration in Brexit negotiation and the fact that the bar for a near-term cut by the Fed is higher than most policy makers realise, policy direction must position against the spillover effect of further slowdown in global growth. Though recent trends in the international price of oil provides opportunity for some respite, sufficient caution must be taken, including building of fiscal buffers to manage likely impact of sudden reversal that may come with resolution of the temporary impasses fueling the upbeat in oil prices.

On the domestic front, the major challenges for monetary policy remained low credit flow to the real sector, sub-optimal output level and high unemployment, to which the increasing insecurity has been attributed. Recent uptick in inflation, mainly, on account of food inflation was expected, however the prognosis over the next months is a gradual decline inflation. Moreover, as the insecurity challenges are resolved, improved food distribution is expected to reduce pressure on food prices. Implementation of the new minimum wage is not expected to have any long term impact on general prices, just as declining core inflation, provides respite from heightening of inflationary pressures.

Addressing the sub-optimal output level will halt rising unemployment. Growing domestic output, however, requires a combination of fiscal and monetary policies. Within the gradual expansion of agriculture, a quick win will be aggressive investment along the entire value chain to harvest the gains of high capital-output ratio. The value chain, with numerous points for value added activities, provides enormous employment and income enhancing opportunities.

To reduce the shortfall in aggregate demand and take advantage of current negative output gap, focus of policy must include stimulating consumer spending. Banks must expeditiously grow consumer credit for households to take up accumulated stocks, which invariably lead to increased production and aggregate supply, thereby dousing inflationary pressure. In addition, to increase credit accessibility and uptake, deliberate effort must be made to drive down interest rate, especially considering the weakness of the transmission mechanism from the monetary policy and money market rates to deposit and lending rates. CBN's supply of low price credit is only to complement what banks do.

As CBN continues its supportive and intervention activities to facilitate expansion in the real economy, the fiscal authority must aggressively take actions that provide the necessary stimulus for economic growth. Specifically, It is imperative for the authority to enhance the tax net and compliance, so as to, grow the abysmally low tax to GDP ratio, reduce the seeming over borrowing trend to prevent crowding out of the private sector and avoid debt servicing pressure. Unnecessary subsidies must be discontinued, so as to provide resources for infrastructure, improved social services and reduced cost of doing business.

Overall, stable exchange rate and favourable returns continued to make the Nigerian market competitive and attractive for foreign flows. Output remained weak and fragile, but steady on an upward trajectory with potential for significant non-inflationary growth. I believe that our policy path is forward looking and that the CBN must intensify its activities to reduce the risk premium, as well as, other measures to drive down lending rates and promote credit growth.

I therefore vote to:

- Reduce the MPR by 25 basis points to 13.25 per cent;
- Retain the asymmetric corridor of +200/-500 basis points around the MPR
- Retain Cash Reserve Ratio (CRR) at 22.5 per cent; and
- Retain Liquidity Ratio at 30.0 per cent.

11. EMEFIELE, GODWIN I.

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

Global economic growth, which slowed to 3.6 percent in 2018, is projected to decline to 3.3 percent in 2019. For many countries, short term outlook remains weak due to pervasive uncertainties. These are underlain by the lingering trade tensions between US and China, macroeconomic challenges in some Emerging Market Economies (including, Brazil, Argentina, Turkey, and Indonesia) leading to a considerable exchange market pressures, the auto industry disruptions in Germany, as well as the normalization of monetary policy in most advanced economies. Although 2019 started on a low pedestal, the global economy is expected to strengthen in the second half of the year. This pickup will be driven by accommodative monetary policy in major economies, supported by retreating inflationary pressures and tapering output gaps. The US Federal Reserve paused interest rate hikes and signalled no increases for the rest of the year. The European Central Bank, the Bank of England and the Bank of Japan, have all shifted to a more accommodative stance. China has increased its fiscal and monetary stimulus to counter the negative effect of trade tariffs.

Domestic Economic Developments

Economic activity in Nigeria moderated in the first quarter of 2019 to 2.01 percent from 2.38 per cent in the Q4 2018. The non-oil sector continue to drive growth, contributing about 90.86 per cent to the nation's GDP. The growth performance is marginally above the IMF (WEO, April 2019) projection of 2.1 per cent growth for Nigerian economy in 2019, but lower than CBN staff estimate of 2.38 per cent for the same period. Despite the moderation, the Nigeria economy still enjoys favourable sentiments supported by positive PMI, both in the manufacturing and non-manufacturing indices. The favourable sentiment is also boosted by the continued stability in the foreign exchange market and the drive for increased credits to the real sector of the economy. Unemployment rate stands at an abysmal 23.1 per cent as at third quarter of 2018 with youth unemployment reaching 55.4 per cent.

Report on domestic prices indicate a slight uptick in the year-on-year headline inflation to 11.37 per cent in April 2019 from 11.25 per cent in March. The increase was driven by the composite food price index, which rose by 13.70 per cent as against 13.45 per cent in March 2019 even as core inflation fell to 9.30 per cent from 9.46 per cent. On a month-on-month basis, the three components of inflation recorded upticks, indicating existence of current pressures on inflation. However, the relative stability in the FX market continues to anchor expectations about future prices.

The current stock of FX reserves at US$45.4 billion covering more than 13 months of imports compares favourably with the international standard of 3-month import cover. Exchange rate has not only stabilized but has also significantly converged across different segments of the market. The Balance of Payments (BOP) estimates for Q4 2018 shows a substantial improvement in the BOP outcome. The overall balance of payments recorded a surplus of US$2.80 million as against a huge deficit of US$4,542.08 million recorded in the preceding quarter. The current account balance (CAB) also improved significantly from a deficit of US$1,544.41 million in Q3 2018 to a surplus of US$1,104.57 million in Q4 2018. These were made possible by the significant decline in import bills due largely to our various policy initiatives, including intervention policies and the restriction of FX supply for the importation of 41 non-essential items.

I noted that although aggregate credit to the economy and credit to the private sectors grew faster than their 2019 indicative benchmark, the Broad money supply fell short of their benchmark. M3 grew by 5.42 per cent over the preceding December 2018 relative to the benchmark of 14.47 per cent. Similarly, M2 grew by 1.85 per cent in April as against the provisional benchmark of 12.99 per cent.

Analysis of the overall liquidity condition of the financial system indicate that government securities plus OMO Bills account for more than 70 percent of total specified liquid assets of banks while interbank placements account for a meagre 4.75 per cent, suggesting that banks have shirked their intermediation role. Consequently, total industry credits declined by 0.58 per cent between April 2018 and April 2019, a trend that has persisted since 2017. This is a worrisome development given the slow and fragile economic activity in the country.

Key Considerations

The slowdown in global economic activity and the subdued inflationary pressures, has prompted a shift towards easier monetary policy stances across many developed and developing economies. Accordingly, the imperative is to take actions that boost potential output, improve inclusiveness, and strengthen resilience. In my March 2019 statement, I underscored the need to support growth and create jobs to bolster our economic prosperity. The same economic conditions that existed at that time continues to prevail even at the current period as the outlook for economy continues to be fragile. Our recovery process has remained slower than desired and worriedly lower than the rate of population growth. Thus, per-capita income remains low while unemployment rate continues to trend at a dangerously, unacceptable region accompanied by persistent poverty which undermine productivity.

I noted with concern the ongoing asset substitution by banks as they shift their balance sheet from loans and advances to risk free government securities. This is a classic case of disintermediation. We need incentive structures that would make banks lend to the real sectors of the economy. All these developments make case for continued support for growth and job creation.

I remain mindful of the fact that inflation rate which had been trending down for the past three months inflexed in April. However, the current level of inflation is still below the threshold of 12.0 percent above which inflation becomes inimical to growth. We should, therefore, utilize the small policy space created by this gap to pursue policies that would boost economic activity. Policies must, at this point, address critical issues such as access to credit, job creation and the diversification of the economy.

Policy Preference

I am, therefore, of the opinion that monetary policy should accommodate these critical issues as we continue to search for measures that would ensure sustainable economic growth in the long-term. My inclination today is to hold all parameters at their current levels while stepping up our intervention activities in critical sectors of the economy and using our OMO operations to control liquidity in the banking system. Therefore, I vote to:

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

Retain liquidity ratio at 30.0 percent

GODWIN I. EMEFIELE, CON

Governor

May 2019