



CENTRAL BANK OF NIGERIA COMMUNIQUÉ NO. 129 OF THE MONETARY POLICY COMMITTEE MEETING OF MONDAY 23RD AND TUESDAY 24TH MARCH 2020

The Monetary Policy Committee (MPC) met on the 23rd and 24th March 2020, amidst heightened uncertainty in the global macroeconomic environment arising from major disruptions associated with the outbreak of the Coronavirus Disease (COVID-19) and the oil price war between Saudi Arabia and Russia. The Committee assessed the developments in the global and domestic environments in the first quarter of 2020 and the outlook for the rest of the year, including the threats to capital flows, growing vulnerabilities across global financial markets, the probability of a global recession, risks to price and financial stability as well as the quick intervention by central banks to restore normalcy, with guidance for further action. Ten (10) members of the Committee were in attendance at this meeting.

Global Economic Developments

The Committee noted with concern, the combined demand and supply shocks to the global economy arising from the outbreak of COVID-19 and the oil price war between Saudi Arabia and Russia. It also noted the weakening performance of global output growth since January 2020, reflected in losses in global stock values; declining primary commodity prices, disruptions to the global supply chain associated with large scale global lockdown of mega metropolises and whole countries; and social distancing. Also, there has been adverse shocks to global capital flows; vulnerabilities and uncertainties in major

financial markets; as well as rising corporate debt in the advanced economies and public debt in some Emerging Market and Developing Economies (EMDEs). Consequently, global output growth in 2020 is projected to fall significantly below the initially projected level of 3.3 per cent.

Inflation in the advanced countries continues to trend below long run targets, except in the United States, especially in the light of prevailing headwinds and heightened global uncertainties. Central banks in the Advanced Economies have thus engaged in a coordinated approach with peers to embrace quantitative easing across every sector, notably in transportation, travel and tourism, health and setting up of social safety net funds, to stem the impact of these headwinds on aggregate demand and supply chains. In the EMDEs, price developments remained mixed with upward inflationary pressure in some of the key economies.

Domestic Economic Developments

Data from the National Bureau of Statistics (NBS) showed that growth in real Gross Domestic Product (GDP) continued to improve in Q4 of 2019. Consequently, real GDP grew by 2.55 per cent in the fourth quarter of 2019, compared with 2.28 and 2.38 per cent in the preceding and corresponding quarters of 2019 and 2018, respectively. Growth in Q4 2019, was driven largely by the strong performance of the oil sector, which grew by 6.36 per cent, though lower than 6.49 per cent recorded in the previous quarter, while the non-oil sector grew by 2.27 per cent. The Manufacturing and Non-Manufacturing Purchasing Managers' Indices (PMI) expanded, though at a lower rate in February 2020, for the 35th and 34th consecutive months to 58.3 and 58.6 index points, respectively. Staff projections indicate that real GDP in Q1 and Q2 2020 will slow because of the tepid global demand, resulting from the recent outbreak of COVID-19, depressed global aggregate demand and supply, and the oil price war which has resulted in supply glut and decline in crude oil prices.

This muted outlook for the first half of the year may thus, dampen overall growth prospects for 2020. To mitigate this trend, the Bank took decisive action to safeguard the Nigerian financial system and the economy from the emerging headwinds. The key policies include: provision of extended moratorium on loans by an additional 1 year beginning from March 2020. This is to ease pressure on loan repayments. The Bank also reduced interest rates from 9 to 5 per cent on its existing intervention programmes over the next one year; created a N50 billion fund to support households and Small and Medium Enterprises (SMEs) affected by COVID-19; introduced credit support for the healthcare sector; introduced regulatory forbearance to consider temporary and time-limited restructuring of loan terms and tenors to households and businesses affected by COVID-19, and strengthened the loan-to-deposit ratio (LDR) policy. The Bank also announced an intervention fund of N1.1 trillion to cushion the adverse effects of the Coronavirus outbreak on the economy. The sum of N1.0 trillion from this amount will be used to support local manufacturing to boost import substitution, while the balance of N100 billion will be used to support the health services sector and products through the provision of loans to the pharmaceutical companies, hospitals and other health practitioners to build new hospitals and health facilities or expand existing ones to first class health centres. This is in addition to the N1.5 trillion private sector driven Infracore Project fund, designed to target the construction of critical infrastructure across the country. In addition, pharmaceutical companies would be assisted through loan interventions to re-establish drug manufacturing firms in Nigeria and curtail the spread of the corona virus. In summary, it is expected that through these interventions, about N3.5 trillion would be injected as stimulus to support the Nigerian economy during this trying time.

The Committee noted the continued uptick in headline inflation (year-on-year) for the sixth consecutive month to 12.20 per cent in February 2020 from 12.13 per cent in the previous month. The increase in inflation, was largely attributed to

increases in the food and core components, which rose to 14.90 and 9.43 per cent in February 2020, from 14.85 and 9.35 per cent in January 2020, respectively. This was driven by shocks to food prices associated with renewed insurgency in major food producing areas of the Country and persisting infrastructural deficits.

The MPC observed that broad money supply (M3) contracted for the second consecutive month by 2.29 per cent (year-to-date) in February 2020, reflecting the decline in Net Foreign Assets and Net Domestic Assets. Specifically, the contraction in M3 was driven primarily by a decline in securities other than shares and currency outside depository corporations in the review period. Net Aggregate Credit, however, grew by 1.34 per cent in February 2020.

The Committee noted with satisfaction the growth in aggregate credit by N2.35 trillion since the inception of the LDR policy, reflecting the potency of the policy and thus urged the Management of the Bank to sustain the current momentum of improved flow of credit to the private sector in Nigeria. It emphasized the need for coordination with the fiscal authorities, to strengthen access to credit to some critical sectors of the economy, including the weak and vulnerable population, particularly those in the informal sector through the setting up of a special fund, as well as support the enforcement of credit recovery. Accordingly, sectoral distribution of credit between end-May 2019 and end-February 2020 was as follows: Manufacturing (N533.06 billion); General Retail and Consumer Loans (N380.71 billion); General Commerce (N229.87 billion); Agriculture, Forestry and Fishing (N163.04 billion); Information and Communications (N163.69 billion); Finance and Insurance (N131.20 billion); Construction (N112.25 billion); and Transportation and Storage (N45.42 billion), amongst others.

The Committee noted the dismal performance in the equities market as the All-Share Index (ASI) decreased by 17.30 per cent and Market Capitalization (MC)

by 10.73 per cent between end-December 2019 and March 20, 2020. The decline was largely attributed to profit taking and divestment by foreign portfolio investors, the delisting of shares of three quoted companies and capital outflow associated with the COVID-19 and subdued global economic activity.

The MPC noted the continued resilience of the banking system, evidenced by the further moderation in the ratio of Non-Performing Loans (NPLs) from 6.59 per cent in January to 6.54 per cent in February 2020. Although the ratio remained above the prudential benchmark of 5.0 per cent, the Committee expressed confidence in the Bank's regulatory regime and commitment to maintaining stability in the banking system.

Outlook

The overall medium-term outlook for the global economy remains uncertain with increased deterioration in financial market conditions and weak global output growth. The major headwinds to the current projection for global growth includes: disruption to the global supply chain arising from the COVID-19 pandemic; oil price downturn as a result of subdued global demand, vulnerabilities in major financial markets; rising corporate debt in the advanced economies and public debt in some Emerging Market and Developing Economies; as well as broad uncertainties leading to adverse shocks to foreign investment flows.

On the domestic front, available data on key macroeconomic variables indicate the likelihood of subdued output growth for the Nigerian economy in 2020. Based on the current downturn in oil prices, staff projections indicate that output in the 2020 would be less than earlier envisaged. The major downside risks to this outlook, however, include: the continued spread of COVID-19; further decline in crude oil prices and the reduction in accretion to external reserves; reduced government revenue leading to weak aggregate demand; declining

non-oil receipts; as well as infrastructural and security challenges. These headwinds will, however, be partly mitigated by: the timely and effective response of the monetary and fiscal authorities in containing the spread of the COVID-19 viral infection, the recalibration and adjustment of the 2020 Federal Budget to the revised thresholds while pegging expenditure to critical sectors of the economy, adoption of a new fiscal regime to encourage the build-up of fiscal buffers; sustained CBN interventions in selected sectors; enhanced flow of credit to the real sector and deliberate policies to diversify the Nigerian economy.

The Committee's Considerations

The Committee reviewed the prevailing adverse conditions in the global economy such as the COVID-19 pandemic and the oil price shock as well as the likelihood of continued oil supply glut into the near future, focusing on the impact of these headwinds on the Nigerian economy.

The Committee observed that not only will the COVID-19 pandemic result in health crises, it will also result in massive economic crises that will force many countries into recession, including the leading industrialised countries. The MPC took into cognisance the impact of the decline in oil prices on accretion to external reserves and the emergence of exchange rate pressures. The Committee thus commended and endorsed the Management of the Bank for its prompt response with the adjustment of the exchange rate to uniform market rates and the removal of distortions. It, however, took note of the likely impact of the exchange rate adjustment on the economy.

The Committee noted the weakened revenue position of the Federal Government, arising from the sharp drop in oil prices. It reiterated the need for government to urgently reduce reliance on oil revenue by gradually diversifying the economy and improving tax collection. To this end, the MPC noted the

speedy response of the Federal Government to the oil price shock by the revision of the 2020 budget downwards by N1.5 trillion and the oil price benchmark to US\$30 per barrel. The MPC urged the NASS to fully cooperate with the Federal Government in coming up with a budget that reflects our new realities. In addition, the Committee noted the introduction of price modulation measures, resulting in reduction in the pump price of PMS from N145 to N125 per litre and its contributory effect in boosting aggregate demand, lowering inflation and improving the welfare of the ordinary Nigerians.

The MPC further noted the persistence of inflationary pressures attributed to a combination of monetary and structural factors, and thus urged the Federal Government to leverage on Public Private Partnership (PPP) to intensify investment in infrastructure to increase output and employment. The Committee cited the potentials for Foreign Direct Investment (FDI) flows to the Nigerian auto manufacturing, aviation and rail industries, which could take advantage of these viable and untapped domestic and regional markets.

The Committee noted the sustained improvement in the financial soundness indicators, applauding the continued decline in the ratio of non-performing loans, growth in assets of the banking system and profitability of the industry in the light of increasing global uncertainties. It also recognised the success of the Bank's loan-to-deposit ratio policy and its potential to alleviate production shortfalls, reduce unemployment and boost aggregate demand, urging the Bank to pursue this and other related policies to a conclusive end.

The MPC underscored the COVID-19 pandemic as a public health crisis which will continue to undermine any monetary or fiscal stimulus unless appropriate measures are taken to trace, test, isolate and treat infected persons in order to curtail the spread, while ensuring that migration across the country is significantly reduced. The MPC, therefore, called on the Federal Government to take the necessary steps to safeguard the population through close monitoring

and emergency readiness measures to identify and care for infected persons in the country, including compulsory restriction of movement to curtail spread of the pandemic.

On the choices before the Committee, the MPC noted the recent actions of the Bank, targeted at strengthening the resilience of the financial system and alleviating the initial impact of the crisis. In its wisdom, the Committee felt that tightening would result in reining in the rising trend in inflation, and that it would support reserve accretion. However, it would reduce money supply and limit DMBs credit creation capacity, thus resulting in increasing the cost of credit, with adverse impact on output growth. Tightening would also result in a reduction in aggregate demand as a fall in disposable income results in output compression; whereas at this time, policy emphasis should be on stimulating aggregate supply and demand, both already weakened by COVID-19.

With respect to loosening, whereas the Committee felt it would stimulate the economy in the short term, and boost aggregate supply and demand, the Committee nevertheless, was of the view that there was a need to be cautious in loosening given the fact that it would exacerbate an already worsening inflationary condition, resulting in massive pressure on reserves and the exchange rate.

Based on the balance of these arguments, the MPC, in taking note of the recent actions already taken by the Management of the Bank in response to the COVID-19, resolved to allow time for the measures to permeate the economy while allowing the pandemic to wear out its plateau before deciding on further supporting policy measures to boost and strengthen aggregate demand and supply in the recovery phase of the economy. The choice to hold also considered the subsisting LDR and the DCRR policies, which sterilize excess liquidity in the banking system, hence an increase in the MPR would be counter-productive.

The monetary policy stance arrived at this meeting took cognisance of the need to address the unfolding unfavourable macroeconomic developments, rein in inflation, support growth and employment through the extant interventions and recent initiatives, check capital outflows and support external reserves accretion, and dampen pressure and ensure foreign exchange market stability.

A review of the policy options indicates relative tightness of the current monetary policy stance. The CRR was increased at the last MPC meeting. Time is required for its full effects to manifest. Increasing the MPR will be contradictory to the recent reduction of interest rate in the CBN intervention windows from 9 to 5 per cent. Besides, an increase in MPR will be taken by the Deposit Money Banks (DMBs) as an invitation to increase lending rates and this will be most undesirable at this point in time when efforts are being made to avert a recession. Besides, a reduction in the MPR, will not encourage the DMBs to reduce lending rates. But other strategies of the CBN are making the DMBs to reduce lending rates in furtherance of the growth objective.

The Committee's Decision

The Committee noted the continued rise in domestic prices; the glut in oil supplies and low oil prices in the wake of the current global shocks; exchange rate pressure and other domestic monetary and fiscal responses to the evolving crises. In view of the foregoing, the Committee decided by a unanimous vote to retain the Monetary Policy Rate (MPR) at 13.5 per cent and to hold all other policy parameters constant.

In summary, the MPC voted to:

- I. Retain the MPR at 13.5 per cent;
- II. Retain the asymmetric corridor of +200/-500 basis points around the MPR;
- III. Retain the CRR at 27.5 per cent; and
- IV. Retain the Liquidity Ratio at 30 per cent.

Thank you.

Godwin I. Emefiele

Governor, Central Bank of Nigeria

24th March 2020

PERSONAL STATEMENTS BY THE MONETARY POLICY COMMITTEE MEMBERS

1. ADAMU, EDWARD LAMETEK

The Nigerian economy came under severe pressure in the aftermath of the January 2020 meeting of the MPC. Two new sources of vulnerability emerged and grew rapidly in importance during the first quarter of the year. The first, and undoubtedly more invasive, is the novel corona virus (COVID-19) pandemic. Across the globe, COVID-19 is weighing heavily on economic activity and financial markets, particularly stock markets, despite attempts by monetary authorities to ease liquidity conditions. Analysts fear that, at the current rate of disruption of commerce, trade and movement of goods and services, the COVID-19 pandemic will orchestrate another global economic downturn. COVID-19 has had a direct dampening impact on economic activity in Nigeria through widespread movement restrictions since the index case was uncovered in February 2020. It is also impacting the domestic economy through the disruption of global supplies of inputs (and intermediates) as well as the demand for oil, Nigeria's main export commodity.

The second source of pressure was the sudden sharp fall in the prices of oil following the collapse of the OPEC+ production cut discussions and the consequent price war between Saudi Arabia and Russia. Whereas the shock to crude oil prices is likely to feed (positively) into activity recovery process in some countries, it could make recovery even more difficult in oil producing (developing) countries like Nigeria, by undermining government revenue/budget, external reserves accretion and exchange rate, in addition to propagating instability across the financial system.

Meanwhile, against the backdrop of old pressures, particularly geo-political tensions, Iran sanctions, Brexit and trade disputes, global economic growth was weak in 2019, but already stabilising until the new pressure unfolded. The global

economy continues to be heavily burdened by the fallouts of both COVID-19 pandemic and oil price war. Factory closures, supply chain disruptions, cutbacks in services, travel restrictions – all leading to loss of confidence, have been the primary channels of the impact of the pandemic on global economic activity. Stock markets are experiencing bearish runs across the globe, underpinned by rapidly diminishing business confidence and palpable anxiety about another economic meltdown, barely a decade after the last. Given the muted global inflation, central banks are responding to the weakening prospects of economic activity brought about by COVID-19 in line with the International Monetary Fund's suggestion that they should aggressively support demand and confidence by easing financial conditions. Indeed, some of them, particularly in low inflation countries, have already lowered interest rates and/or injected more liquidity.

However, with Nigeria's current inflation at 12.2 per cent (which is much higher than the policy reference range of 6.0 – 9.0 per cent) and projected to trend upwards, the economic challenge is not only about supporting demand - liquidity expansion (monetary easing) in the circumstance becomes a double-edged sword and therefore ought to be carefully scrutinized. ***I voted to hold all policy parameters at their levels prior to the March 2020 meeting based on this and other considerations outlined in the reminder of this statement.***

Data made available by National Bureau Statistics (NBS) show that in Q4 2019, real GDP grew by 2.55 per cent, compared with 2.28 and 2.38 per cent in the previous and corresponding quarters of 2018, respectively. Growth was driven by the non-oil sector, particularly Services, which contributed the most, 2.60 per cent in Q4 2019, compared with 1.87 and 2.90 per cent in the previous and corresponding quarters of 2018, respectively. Overall, non-oil real GDP growth rate increased to 2.27 per cent in Q4 2019 from 1.85 per cent in the preceding quarter. Oil real GDP maintained an impressive growth of 6.36 per cent, though

lower than 6.49 per cent recorded in the previous quarter. The Nigerian economy appeared set for better outcomes going into 2020 until it confronted the latest headwinds. The outlook for economic growth has since February deteriorated as a result of the extra challenges. In fact, both manufacturing and non-manufacturing PMIs dipped in March 2020, just like the overall business outlook for “Current” and “Next month”, based on impressionistic staff survey of businesses, deteriorated. In support of economic activity in view of COVID-19, the CBN recently announced some measures including direct interventions in the health and SMEs sectors; one-year moratorium on principal repayments and reduction of the interest rate on its facilities as well as a regulatory forbearance allowing banks to restructure existing credit.

I believe that these measures would complement the minimum loan-to-deposit ratio (LDR) introduced in 2019 and the differentiated cash reserve requirement (DCRR) to ensure adequate flow of credit to sectors with significant growth and employment prospects. The LDR policy has done remarkably well – industry credit rose by over two trillion naira between May 2019 and March 2020, against the background of improved banking system resilience. It is quite encouraging that most financial soundness indicators have remained strong notwithstanding the rapid expansion in credit – strong Tier 1 capital (88.2 per cent of the total qualifying capital at end-February 2020); relatively low non-performing loans (NPLs) ratio; rising industry capital adequacy ratio (15.0 per cent in February 2020 from 14.5 per cent in December 2019); and growing industry size. Sustaining the stability of the banking system continues to be a key policy priority on its own merit and in view of its importance in the economic growth process.

Since June 2019, inflationary pressures generally started to build particularly in the food segment, owing to insecurity in the major food-producing regions (North-east and North-central) of the country and other supply factors like the partial closure of the country's land borders. In February 2020, all measures of

inflation (headline, food and core) increased, taking the headline further away from the implicit policy target. Food inflation increased to 14.90 per cent in February 2020 from 14.85 per cent in January while core inflation inched up from 9.35 per cent in January 2020 to 9.43 per cent in February. However, in terms of short-term outlook, I noted some important moderating factors which somehow doused my sense of urgency about the need to further tighten the stance of monetary policy. First, the reduction in pump price of PMS from N145 to N125 per litre should help to moderate inflationary pressure on commodity prices, particularly food prices, as transportation cost is expected to reflect the reduction, albeit with a little time lag. Second, COVID-19 comes with a drastic reduction in the velocity of money owing to movement restrictions/lockdowns, implying that spending-induced pressure on prices could moderate in the short-term. Third, slowing economic activity combined with high inflation points fundamentally to supply disruption/constraint, which best fixed by measures aimed at ameliorating supply (output). This is essentially what the Bank's interventions in the agricultural sector seek to achieve. Lastly, the increase in CRR in January 2020 continues to have the desired effect of reining-in excess liquidity. As a direct consequence, overnight interbank rates, the open-buy-back (OBB) and interbank call rates trended upwards in February 2020.

Meanwhile, the country's external accounts weakened in 2019 with 3 consecutive quarterly current account deficits (Q1 - Q3) and a trade deficit in Q4. Financing the deficits has meant gradual depletion of the country's external reserves from about \$45 billion in July 2019 to \$38 billion in December 2019. As at March 2020, the external reserves position had declined to \$34.9 billion. The naira exchange rate, nevertheless, remained stable in January and February in all the segments of the market, but depreciation pressures crept in March following the oil price shock. With receding capital inflows due to the turbulence in the global economic atmosphere, maintaining stability of the naira exchange rate, a key priority, can only happen with increased CBN

intervention in the FX market, drawing on already slowing external reserves. Clearly, the orientation of monetary policy at this point need not aggravate the pressure on the external accounts by being anymore lax. I therefore did not deem it immediately necessary to alter any of the policy parameters.

Finally, in choosing to hold, I am not unmindful of the heavy potential economic costs of COVID-19; rather, I am persuaded that the various responses by the CBN, Bankers' Committee, governments at all levels and the organized private sector would go a long way in ameliorating the impact of COVID-19 on livelihoods and the economy in general. Nevertheless, a trust fund by the Federal Government in support of the informal sector as part of the overall response to the fallouts of the COVID-19 pandemic in Nigeria would not be out of place. I should add that effective coordination of responses and some understanding of sectoral impact of the pandemic would be important in ensuring efficient allocation of resources and attainment of superior outcomes.

2. ADENIKINJU, ADEOLA FESTUS

Year 2020 is unfolding to be a very difficult year for Nigeria and indeed for the global economy. The emergence and rapid spread of coronavirus is proving to be a challenge that few countries were prepared for. COVID-19 is a public health issue but with significant socio-economic and financial impacts on economies across the globe. Global growth for the year has already been reviewed significantly downward. The channels of transmission of COVID-19 on national economies are through demand, supply and financing impacts. Nigeria is already experiencing a fallout from the global pandemic through sharp decline in the price of oil, declining portfolio investment, falling foreign reserves, adjustments in exchange rates, shut down of global supply networks, gradual shutdown of the local economy with direct impacts on travel and tourism, entertainment, education, manufacturing, and trade sectors; sharp fall in capital market and threat of corporate debt default.

There is no doubt that we are still at the early stage of the pandemic. We are yet to understand the full impacts of the pandemic on our economy as well as the distribution of the impacts by sectors and economic agents. The primary focus should be on how to contain the pandemic and address health and safety concerns of Nigerians. Policy makers have to consider, first, how to respond to these challenges and mitigate the impacts of the pandemic on the economy, disruptions on growth, financial stability during and after the crisis and reduce income uncertainty for economic agents. Second, how to deal with rising inflation trend from shocks from foreign exchange adjustments, falling oil price and liquidity surfeit in the banking system. We currently rank 15th among countries with highest inflation rates.

Bank Staff Presentations

The presentations from the Bank Staff shows mixed results. The financial system Stability (FSS) Report shows that most FSS indicators are trending in the positive direction, NPLS ratio is at single digit, credit creation by deposit money banks remain strong, and more sectors record increase in credit access in Q1 2020. Weighted average lending rates also continue to trend downwards. However, staff model simulation shows that the financial system remains vulnerable to sharp and persistent decline in oil prices and the coronavirus epidemic.

The Economic Report shows that real GDP rose by 2.55% in Q4 2019 according to National Bureau of Statistics (NBS), bringing average GDP growth for 2019 at 2.27%. Real GDP Growth was driven by oil and non-oil sectors, especially information and communication, agriculture, manufacturing, finance and insurance, entertainment and recreation, accommodation and food services.

In the same vein, headline inflation (y-o-y) rose to 12.20% in February 2020 from 12.13% in January 2020. This is more than 3 percentage points outside the tolerable band of 6 - 9% for the economy. Growth in headline inflation was driven by food inflation and core inflation. There is evidence of liquidity surfeit in the banking system. Foreign reserves also declined to US\$34.9 billion in March 2020. Trade and current accounts balances remain negative. Exports grew less than imports in Q1 2020 Foreign portfolio investment also declined and the exchange rate was adjusted from N360 to N380/US\$ at the I&E window, to stem the pressure in the foreign exchange market. The capital market also declined sharply and the uncertainty in the local and global economy is affecting both the equity and fixed income markets.

The absence of fiscal buffers and falling foreign reserves will not only limit the capacity of the economy to respond to the unfolding impacts of COVID-2019, but also impairs the future ability of governments, especially at lower levels, to

meet their obligations. The falling oil prices (more than 50% between January and March 2020) will sharply reduce the quantum of inflow to the federation account and consequently the shares thereof allocated to all levels of governments. States will struggle to pay workers, contractors and meet other obligations.

Considerations and Recommendations

The CBN has already rolled out package of incentives to mitigate the impact of supply and financing disruptions and reduce the growth effect of the pandemic. The intervention cost provided by the CBN is about N3.5 trillion. This more than compensates the expected reduction of N1.5trillion in 2020 FG budgetary expenditure. However, I am worried that the current interventions may not cover individuals and families and those largely in the informal sector.

The CBN is already in a tightening mode. Given the 500 basis point increase in the CRR at the January meeting of the MPC. The CBN also has arrays of tools at its disposal, including the OMO to address inflation as it arises.

My survey of all central banks that had responded to the ongoing pandemic did not show any that has raised policy rates or tighten monetary policies at this time. Monetary policy rates have either been reduced or left unchanged.

There are good reasons to advocate for loosening (encourage growth) or tightening (fight inflation and attract portfolio investment). However, given the unfolding situation, and the state of our economy, the cost of both actions will be detrimental, hasty and not appropriate and definitely worsening than just staying the course.

1. I endorse current measures put in place by CBN to mitigate the impact of the pandemic.

2. The Bank should continue to review the situation as it unfolds and take appropriate measures to stabilize the economy.
3. The fiscal side should consider complementary trade and income policies to support the measures put in place by the CBN including the reduction in tariff rates on imported raw materials, intermediate and capital goods.
4. Deferment of implementation of the 50% increase in VAT,
5. Put a hold on increase in utility prices for this year
6. Compensation package for vulnerable households and individuals

My Vote

Based on the unfolding developments in the economy, uncertainties around the full impacts of COVID-19, and preliminary measures by the CBN, I cast my vote at this meeting to retain all policy parameters at extant levels. Hence, I vote as follow:

1. Retain MPR at 13.5%
2. Retain the CRR at 27.5%
3. Retain LR at 30%
4. Maintain Asymmetric corridor around the MPR at -500/+200 basis points.

3. AHMAD, AISHAH N.

The Monetary Policy Committee held its March 2020 meeting under the dark cloud of an unprecedented global health and emerging economic crisis caused by the COVID -19 pandemic. Naturally, discussions at the meetings focused on the impact of the outbreak on the global economy, with emphasis on domestic policy implications for the Nigerian economy.

Coronavirus Pandemic: The most pervasive global economic shock in modern history. Over 150 countries have been affected as infections and deaths continue to rise exponentially - over 300,000 and about 14,500, respectively as at 24th March 2020. While the economic impact is yet to fully manifest, massive lock-downs and travel restrictions are in place across multiple countries, leading to disruptions in global supply chains, particularly in manufacturing, travels, tourism and trade. Global financial and commodity markets are also in deep turmoil. The Dow Jones lost 25.6 per cent between 10th March and 23rd March 2020, whilst Bonny light crude oil price dropped 56 percent from an average of US\$65.10pb in January 2020 to US\$28.60pb as at 20th March 2020 primarily due to the Saudi - Russia oil price war, but exacerbated by slowing global demand due to the Pandemic. As a consequence, global growth in 2020 is expected to significantly underperform the 3.3 per cent earlier projected by the IMF, increasing the likelihood that the world economy will slip into a recession.

In response, governments and central banks worldwide have implemented various measures ranging from social distancing, partial or complete lock-downs, monetary easing, unemployment benefits and other fiscal stimulus and relief packages. The US Fed made a full percentage point cut to the federal funds rate to range from 0.00 per cent to 0.25 per cent, coupled with a fiscal stimulus of US\$1trillion among other initiatives. China, UK, Australia, Italy, South Africa and many other countries announced various forms of stimuli to mitigate the economic impact of the coronavirus outbreak.

COVID - 19 in Nigeria: Health and Economic Implications

In Nigeria, COVID-19 cases are low, but are expected to rise as testing capacity improves (over 40 infections and 1 death as at 24th March, 2020). Should positive cases grow significantly, there would be tremendous strain on an already weak healthcare system, causing a severe health crisis. Whilst infection prevention strategies – travel history monitoring, contact tracing, self-isolation - have been put in place by the Nigeria Center for Disease Control (NCDC), Federal and state governments have begun to institute containment measures via lock-down/stay-at-home pronouncements, shutting down schools, religious, business and social activities. These actions, designed to ‘flatten the curve’ and slow spread of the coronavirus will have negative consequences for output growth, price and monetary stability, and key macro economic variables such as inflation, exchange rate, and the financial system; these are briefly explored below.

Domestic Output growth

Contraction in oil and gas sector caused by softening demand, glut in the oil market and a collapse in crude oil prices; disruption in global trade and domestic business activity due to the lock-downs are all negative for domestic output growth, which is currently fragile. Under/unemployment levels are also predicted to rise even as businesses make significant cut backs to cushion losses. This implies that the rising trend in domestic output (averaging 2.27 per cent) through 2019, may likely reverse in 2020 as spillover effects from the pandemic build up.

Naira Exchange rates

The sudden deep crash in oil prices is a seismic shock for a country like Nigeria which relies on oil exports for over 60 percent of its government revenues and over 80 per cent of foreign exchange earnings. Furthermore, the exit of foreign

portfolio investors from emerging markets, due to rising global investor risk aversion, is a double whammy for foreign reserve levels and exchange rate stability. Whilst reduced forex demand due to restrictions in travel and global trade are somewhat compensating, it is reasonable to expect some exchange rate pressures which may also worsen inflation expectations in view of the high pass through to domestic prices.

Inflation

The pandemic may temporarily exacerbate an existing trend of rising domestic prices in the short term. Headline inflation (year-on-year) rose for six consecutive months to 12.20 per cent in February 2020 from 11.02 per cent as at August 2019 largely driven by the food index, which increased to 14.90 per cent from 13.17 per cent, over the same period. Stock piling of food by households and artificial supply shortages during the lock-downs may drive food prices higher in the short term. However, this is expected to be tempered by increasing domestic food production which has been aggressively pursued since the partial border closure in August 2019. Increased coordination between states is also expected to smoothen domestic food supply chains to meet demand. Monetary induced inflation is also being actively curtailed by the CBN via an increase in the minimum Cash Reserve Ratio (CRR) from 22.5 per cent to 27.5per cent in January and dynamic implementation of CRR.

Financial System: Preserving resilience to support macroeconomic stability

The financial system remains vital to support the domestic economy through this crisis, hence the need for continued vigilance by the Bank to forestall any reversal of gains recorded so far. The Loan to Deposit Ratio (LDR) policy together with other complementary measures has been effective (net growth in aggregate credit of N2.35 trillion between May 2019 and March 2020) in driving credit to growth enhancing sectors of the economy such as manufacturing, retail, commerce and agriculture. Furthermore, financial soundness indicators

such as return on equity, asset quality, capital adequacy and other prudential ratios remained strong; for instance, capital adequacy ratio strengthened by 50 basis points to 15 per cent as at end February 2020 as a result of capitalization of strong 2019 earnings.

Notwithstanding, there are imminent risks to the banking sector arising from the spillover effects of the COVID-19 pandemic. There is potential default risk by obligors with oil-related repayment sources, or others unable to meet obligations due to the economic downturn, increased concentration of oil and gas exposures, deterioration in the foreign currency asset book, pressure on capital adequacy from currency depreciation, pressure on liquidity from reduced trading lines and heightened exposure to cyber threats.

Stress tests conducted by Bank staff under low to moderate scenarios revealed that the financial system remained resilient in the face of tightened financial conditions. However, under severe stress scenarios certain vulnerabilities in the system are evident – reduction in earnings, deterioration in asset quality and decline in capital adequacy. This requires heightened vigilance by the Bank to mitigate emerging risks and other complementary measures such as restructuring of credit lines for existing obligors and provision of liquidity backstops as and when required to safeguard the financial system.

COVID-19 in Nigeria: Policy responses

The fiscal and monetary authorities, working collaboratively have announced various initiatives to cushion the impact of the pandemic on households, businesses, fiscal revenues and the economy.

The CBN plans to inject about N3.5 trillion into the economy through various policy measures ranging from reduction in interest rates and increased moratoriums on existing intervention programs, a N50 billion fund to support households and Small and Medium Enterprises (SMEs) most affected by COVID-

19, and over N1.1 trillion in credit support facilities for hospitals, advanced diagnostic centers and pharmaceutical companies to improve healthcare and boost local manufacturing across critical sectors, in line with Government's import substitution strategy.

The Bank has also granted regulatory forbearance to deposit money banks to consider temporary restructuring of loan terms to individual, SME and Corporate obligors in the financial system whose repayments may be affected due to the disruptions caused by the pandemic.

Complementary fiscal measures include a new price modulation framework for petroleum products, reduction of petroleum pump price from N145 to N125 per litre, cut in public expenditure targets and downward revision of the oil price benchmark from US\$57pb to US\$30pb in the 2020 Federal budget.

Policy Decision

The Nigerian economy is facing a significant and unprecedented shock from the Covid-19 pandemic, accentuated by idiosyncratic structural deficiencies. It must forestall an imminent severe health crisis, weather a global economic crisis and maintain financial and macroeconomic stability in the light of exchange rate pressures, low foreign exchange flows from crude oil receipts amidst a severely constrained fiscal space and low reserve buffers.

Like other central banks, the Bank has limited policy options in this circumstance. As it works in collaboration with the fiscal authorities to limit the humanitarian and economic costs of the pandemic, it will be prudent to focus on structural reform and the long term objective of diversifying the economy to enhance its global competitiveness. Initiatives designed to boost local food and manufacturing production, improve import substitution and support local

businesses to meet domestic demand, whilst positioning for export and participation in the global supply chain must be sustained.

As earlier stated, a number of policy responses have been embarked on, which introduce significant stimulus into the economy to buffer it from the shock of the pandemic. It is advisable to monitor the effects of these measures in the short term before further policy actions are contemplated.

I therefore vote to maintain the current stance of monetary policy by retaining the MPR at 13.5%; Cash Reserve Ratio at 27.5%; Liquidity Ratio at 30% and Asymmetric corridor at +200 and -500 basis points around the MPR.

4. ASOGWA, ROBERT CHIKWENDU

Background:

Developments related to the COVID-19 pandemic which recently sparked a combined health and economic crisis has radically altered both the global economic outlook for 2020 and the current thinking about monetary policy priorities. The fears that the economic crisis could possibly lead to liquidity problems that may threaten financial stability spurred quick monetary policy actions in many economies across the globe with aggressive cutting of interest rates and liquidity injections. On the domestic level, the persistent marginal up-ticks in monthly inflation rates up to February 2020 at a time of gradual output growth remain a significant concern. Besides, early threats of currency depreciation were beginning to emerge as external reserves maintain a sharp fall in the midst of declining oil prices and investors negative sentiments on portfolios. These unfolding events shaped the thoughts on expected monetary policy choices at this March 2020 MPC meeting and the options were to ensure a balance of weights in the risks between the rising domestic headline inflation (especially in the absence of other fiscal and structural policy support) and the potential consequences of a prolonged COVID-19 outbreak. While monetary policy actions need to remain supportive of growth, it may be necessary in the current situation to monitor the many uncertainties involved so as to be able to provide coordinated policy actions in the short to medium term.

The Global Economic Outlook and the Threat of COVID-19

Prior to the COVID-19 outbreak, the estimation was that the global GDP growth will improve to 3.3 per cent in 2020 compared to 2.9 per cent in 2019, especially with the US-China 'phase one' trade agreement in January 2020 and the conclusion of BREXIT on 31st January, 2020. In the fourth quarter of 2019, GDP growth slowed in a number of developed and emerging market economies. For

instance, Eurozone real GDP increased just 0.1 per cent in the fourth quarter of 2019 with Germany's output remaining flat, while Italy and France suffered contractions. The UK fourth quarter 2019 output also slumped to 0.0 per cent from 0.5 per cent in the third quarter. Similarly, there was output contraction in the fourth quarter of 2019 in Japan as a result of sharp declines in household consumption, while marginal increases in quarter four output growth were recorded in few emerging markets such as China and India, but output growth in the US remained the same in Q4 2019 as in Q3 2019. At the start of 2020, available data was suggestive of a path to solid growth as several indicators had begun to stabilize and modest improvements observed in the manufacturing sector in many countries. In addition, financial market conditions in Europe and America started off on a strong note following monetary policy accommodation measures in the Eurozone and other advanced economies as well as the reduced global trade tensions.

Unfortunately, the stress arising from the spread of COVID-19 virus appears to have eroded the 2020 early year gains. There are new predictions that the global economy will be heading for a recession as a downturn is imminent possibly as from the second quarter of 2020. In China, where the corona virus first appeared, industrial production, sales and investment all fell in January and February 2020 and this has largely disrupted the global supply chains. The effects of the disruptions on the commodity and travel markets across the world have also been substantial. Subsequent outbreaks in other economies have led to unprecedented restrictions in economic activities and declaration of national emergencies especially in North America and Europe.

On the basis of the pandemic, global growth prospects have now been revised downwards from 2.9 per cent in 2019 to 2.4 per cent in 2020 with growth possibly hitting the negative territory in the first quarter of 2020. Growth is however expected to pick up in 2021 as the effect of corona virus pandemic reduces

leading to recovery of global production and trade. These expectations have generated significant across-the-board cuts in the forecasts for GDP growth in major economies such as China, the Eurozone, UK, USA and Japan. Even developing markets with highly concentrated trade exposures are particularly vulnerable to the expected growth slowdown in these major economies and their growth prospects also remain highly uncertain. Many commodity-exporting economies are hard hit as world demand depresses amid increasing travel and business restrictions. The early year production disagreements between Russia and Saudi Arabia led to the high uncertainty in the global oil market and a consequent slump in prices, while the effect of the pandemic has driven prices further down. The financial market has since February 2020 been affected by the COVID-19 pandemic thus adding to the persisting financial vulnerabilities. The stock market particularly experienced sudden bouts of volatility in several countries fuelled by uncertainty related to both the oil market and the COVID-19 pandemic. The currencies of many emerging markets have also come under severe pressure as investors are reducing risk in their portfolios due to the increasing negative sentiments worldwide.

In response to the deteriorating economic outlook arising from COVID-19, Central Banks across developed and developing countries have initiated several monetary policy measures which are expected to complement some discretionary fiscal easing by the national authorities. The US Federal Reserve Bank lowered its target rate by 50 basis points to 0.0-0.25 per cent, while the Bank of England cut its rate by 50 basis points to 0.25 per cent. The European Central Bank has also rolled out strategies including the expansion of their asset purchase programmes so as to deliver cheap liquidity for banks to prevent credit market crunches. Other Central Banks in Asia, Latin America and Africa have also implemented rate cuts recently. It is however not clear if the interest rate cuts and asset purchases will stimulate economic activity at this immediate period as the pandemic keeps spreading, but they at least represent important

market signals which will help to restore market confidence and support economic recovery.

The Domestic Economic Outlook:

There were signs of stabilisation of the domestic economy in the early parts of 2020 despite the mild inflationary upticks. The quarter four real GDP grew by 2.55 per cent, compared with 2.28 per cent in the previous quarter with an impressive performance of the non-oil sector, especially services. There was also a relative expansion in the Purchasing Managers Index for both manufacturing and non-manufacturing sectors in January 2020 as compared to the levels in December 2019. Signs of economic pressure started to manifest in early March with a downward spiral in oil prices arising from the impact of the raging COVID-19 pandemic and the dispute between OPEC and non-OPEC oil producers relating to output stabilization. The possible impact of the plunging oil prices on government revenues and the external reserves unleashed fears on the domestic economy and this has subsequently triggered some policy response by Federal government and the Central Bank of Nigeria. The outlook for domestic output growth in 2020 now looks uncertain and a short but sharp dip is highly anticipated especially in the first half of the year. Should oil prices remain at the current low levels for a sustained period, then the near term economic outlook for Nigeria will be extremely challenging. However, based on historical experience, a bounce back in global demand for commodities may be very likely once there is gradual recovery from the pandemic.

There are still downside risks which may weaken growth further and slowdown an early recovery from the effects of COVID-19. First, Inflationary developments remain a huge concern with a seventh consecutive increase from 12.13 per cent in January 2020 to 12.20 percent in February 2020 which is the highest rise since April 2018. CBN Staff estimates suggest a further increase in the March 2020 inflation rates, with a slowdown expected as from May 2020, but the impact of

an extended COVID-19 pandemic may further worsen the current inflationary situation. Second, the domestic currency is under pressure now as oil prices wobble and foreign investors are drastically reducing their portfolio risk due to a global negative sentiment. A serious currency depreciation will affect the country's ability to service the foreign currency debt and with the current huge exposure to foreign-currency denominated debt, a contraction in governments capital and social infrastructure spending becomes highly inevitable. In addition, the domestic equity market has also taken a big hit as the All Share Index (ASI) and the Market Capitalization, both of which had increased between October and December 2019 fell by 17.30 and 10.73 per cent, respectively, in February 2020. These declines have been attributed to the building financial market volatility across the globe and investors fear that the spread of COVID-19 will hamper future domestic economic growth.

Interestingly, threats to bank stability remain minimal. Although CBN staff report show a minimal negative trend in the non-performing loans ratio and the banks' profitability indicators (ROE and ROA) in February 2020 as compared to December 2019, the banking system remains somewhat robust. The consistent increase in both the banking industry total assets since November 2019 and total deposits since August 2019 apparently demonstrates some internal resilience within the industry. If the COVID-19 crisis becomes prolonged and the banks experience any further increases in the non-performing loans ratio, then the Central Bank and the Government may need to introduce some policy measures to forestall any possible short-term banking distress.

Decision:

Given the severity of the COVID-19 pandemic globally and its rising trend in Nigeria at the time of this meeting, monetary policy changes at this early containment phase will have limited effectiveness. While moves to enhance monetary policy accommodation at this time may be good to send future

market signals, its ability to stimulate domestic output in this immediate period when there are both supply and demand sides disruptions is highly doubtful. What may be needed now, are short term measures to ensure enough liquidity in the financial system while the pandemic containment phase lasts. These measures should support any existing fiscal measures to cushion the adverse effects on vulnerable groups. Once the pandemic outbreak ceases, policy adjustments will have more meaningful impact of accelerating demand recovery and boosting investment confidence. It is necessary that the monetary policy decisions now should align with the current inflationary realities and the need to mitigate future risks to financial stability.

My opinion therefore, is that policy parameters should remain largely unchanged at this March 2020 MPC meeting. I will thus vote to:

- Retain the MPR at 13.5 %
- Retain the CRR at 27.5%
- Retain the Asymmetric Corridor at +200/-500 basis points around the MPR
- Retain the Liquidity Ratio at 30.0%

5. BALAMI, DAHIRU HASSAN

GLOBAL ECONOMIC AND FINANCIAL ENVIRONMENT

Global Growth

In year 2020, the global economy started with a hint of recovery, owing to positive outlook such as the US-China trade negotiations, successful resolution of the BREXIT crisis and growth in the manufacturing sector. However, shocks shattered hopes of higher level of growth emerged in the Q1 2020. These include the Corona Virus pandemic which started in China; oil price war between Saudi Arabia and Russia on crude oil production cut as Russia and its allies stand firm against production cut; US/China trade dispute remains largely unresolved; negotiations with the European Union (EU) and the United Kingdom (UK) have still not been fully resolved, with the UK threatening to pull out and pursue a no deal BREXIT, if the EU remains rigid.

These developments will affect the global growth. The International Monetary Fund (IMF) had earlier estimated global output growth at 3.3 percent in 2020, from 2.9 percent in 2019 due largely to the Corona Virus pandemic, shocks to travel and tourism, along with the fall in Chinese exports in the first two months of 2020. These would lead to lower demand for our crude oil, increase the level of unemployment, business failures, reduce economic activities, as well as weaken demand for non-essential items globally and domestically.

Growth in Advanced Economies has been marked down to 1.6 percent in 2020, from 1.7 percent in 2019. In the Emerging Market Economies, output growth is expected to slow down, while in Europe growth is expected to fall to 1.4 percent in 2020 from 1.5 percent in 2019. In Africa, output growth is expected to rise to 3.9 percent in 2020 from 3.4 in 2019, due to moderate expansion in the continent's "big Five" (Algeria, Egypt, Morocco, Nigeria, South Africa).

The evolving global trend has implications for the Nigerian Economy. It is estimated that the Nigeria's major trading partners like China and Russia, have also been hit by the nibbling effects of the virus resulting in broken supply chains. These would also result in large decline in both Foreign Direct Investments (FDIs) and Foreign Portfolio Investments (FPIs) to Nigeria. This has Implications for the external reserves and the foreign exchange market.

The return to monetary accommodation led by the US federal reserves, implies a huge capital outflow from the Nigerian economy to safer assets such as gold. This may require Nigeria's government to refocus its attention on gold reserves in the country, diversify its external reserves from oil, the primary foreign exchange earner due to the crash in price and demand. As a consequence, the Nigeria economy will be hit with significant revenue shock in the absences of buffers. The shock to the economy of major oil exporters like Nigeria could lead to depletion of their foreign reserves. This may weaken the naira, if the situation persists, heightened the downturn in the Nigerian Stock Exchange, weakened domestic aggregate demand, increase unemployment, and overall presents challenging business environment that would dampen growth in Nigeria.

Global Exchange Rates

The effect on global currencies showed that the British pound, euro, and Russian rubble depreciated against the US dollar by 3.98, 0.91 and 6.45 percent, respectively. In Asia, the Japanese yen and the Chinese yuan appreciated marginally by 1.2 and 0.5 percent, respectively, against the US dollar, while the Indian rupee depreciated against the US dollar by 2.56 percent. In North America, the Canadian dollar and Mexican Peso depreciated by 3.02 and 2.94 percent respectively. In South America, the Brazilian Real, Argentine Peso and Columbian Peso depreciated by 11.61, 3.99 and 2.16 percent, respectively. However, in Africa, the Ghanaian cedi and Egyptian pound appreciated by

5.77 and 2.56 percent respectively, while the South African and Kenyan shillings depreciated by 8.77 and 1.27, percent respectively.

Policy Rates

In the developed economies, the US Federal Reserve Bank and Bank of England cut their policy rates by 50 basis points, while in Emerging Markets and Developing economies (EMDEs), Russia cut its policy rate by 25 basis points, and Reserve Bank of South Africa by 100 basis points. Kenya, Brazil, Russia, China and Indonesia had also lowered their rates in response to broad weakening of the global economy, while the Reserve Bank of India maintained their policy rate in response to the need for economic stabilization.

DOMESTIC ECONOMIC AND FINANCIAL ENVIRONMENT

Output Growth

National Bureau of Statistics (NBS) 4th Quarter 2019 data showed that GDP grew by 2.55 percent compared to 2.28 percent in 2020. Growth was driven by the non-oil sector mainly finance, insurance and information and communication technology, entertainment and recreation, food, services, agriculture, and industry sub-sector. Oil gdp grow by 6.36 percent lower than 6.49 recorded in the last quarter of 2019. This was due to the decline in crude oil output from 1.91million bpd in 3Q 2019 to 1.8 million bpd in 4Q 2019.

The expansion in non-oil Gross Domestic Product (gdp) was driven by finance, insurance, information and communication technology. Growth in the economy is depicted by expansion of purchasers' managers index, relative stable exchange rates, rising consumer loan, and credit to the manufacturing sector. The headwinds to growth which include oil price volatility, lack of fiscal buffers, security challenges, infrastructure shortage, and novel corona virus pandemic, have crushed the hopes for stronger growth in 2020. Overall the macro economy remains relatively weak.

Domestic Inflation

Inflation in the domestic economy inched up from 12.13 percent in January 2020 to 12.20 percent in February 2020, due to monetary and structural factors. It should be noted that an inflation rate of more than 12 percent is inimical to growth in the Nigerian economy. Some of the structural factors include decaying infrastructure, shortage of food due to insecurity in major food producing areas of the North-East and North-West, border closure, and the emergence of the novel coronavirus and its impact, due to social and economic shutdown. It should be noted that the adjustment of the exchange rate at the I&E to N380/US\$ from N360/US\$ is inflationary, along with increase in food inflation could be major contributors to inflation in Nigeria.

Financial Soundness Indicators

Stress tests for Deposit Money Banks (DMBs) show that Capital Adequacy Ratio (CAR) has improved from the level in December 2019. The Non-Performing Loans (NPLs) ratio performance at 6.1 percent as at December 2019 is also commendable because it is close to the prudential requirement maximum of 5 percent. Furthermore, the Liquidity Ratio (LR) of the industry was above the prudential requirement of 30 percent and comparable to that of Turkey, South Africa and Malaysia. Likewise, the Return on Assets (ROA) of 1.9 percent was also laudable. Lastly, the Return on Equity (ROE) at 20.5 percent is above most of similar countries such as Turkey at 13.3 percent; South Africa, 18.7 percent; and Malaysia, 13.3 percent. This clearly shows that the banking industry system is stable. However, it should be noted that the headwind affecting the banking system include the following: credit fault, credit concentration, liquidity, solvency, increasing cybercrime, and the side effect of corona virus pandemic. The CBN should therefore continue to monitor the performance of the DMBS and intervene appropriately.

Policy Choice

On the basis of the above analysis, the three policy options are to tighten, loosen or to hold. The monetary stance is already tight, therefore there is no need to adjust or tinker the Monetary Policy Rate and the Cash Reserve Ratio (CRR), because raising these tools will negatively affect growth. On the other hand, loosening will be inflationary, and contradict the Bank's earlier policies, hence the Bank should hold all parameters to allow the earlier policies and the current interventions taken by the Central Bank to work its way through. The Central Bank's interventions should be encouraged and maintained.

Given the weak public revenue profile, exchange rate stability is essential to support the current outlook, besides, there is need to give assurance to the market. The monetary policy decision should be made to attract both foreign direct investment and foreign portfolio investment. Therefore, the need for cooperation between monetary and fiscal authorities is indispensable, as it relates to developing strategic policies to manage the impact of the corona virus pandemic. As highlighted earlier, economic growth should be the responsibility of fiscal authorities, while monetary policy should play a complimentary role. Notably, government finance would be negatively impacted by low crude export receipts. The budget which is riddled with high recurrent expenditure needs to be drastically reduced.

In addition to the above, the CBN should continue to monitor developments in the financial sector, recommend, implement and monitor the appropriate management tools.

Based on the above analysis, I vote to hold, therefore, to retain:

- i. The Monetary Policy Rate (MPR) at 13.50%,
- ii. The Cash Reserve Ratio (CRR) at 27.50%,
- iii. The Liquidity Ratio (LR) at 30.00%
- iv. To retain the asymmetric corridor at +200 / -500 basis points.

6. OBADAN, MIKE IDIAHI

The 272nd meeting of the Monetary Policy Committee was held against the backdrop of the coronavirus (also called COVID-19) pandemic which has spread like wild fire to about 148 countries with devastating effects on the global economy and individual economies. In some severely-hit countries, the spread of the disease has taken a geometric dimension with the death rate also assuming the same character. The micro and macro-economic impact of the disease is such that recession is feared in the global economy and many individual economies, prompting governments to roll out stimulus packages.

THE CORONAVIRUS PANDEMIC AND THE GLOBAL ECONOMY

In an effort to contain the coronavirus disease, the Chinese economy, where the outbreak first occurred, has been locked down and many businesses and firms shut down, setting the stage for contraction of economic activities. Indeed, the Chinese economy is expected to slow considerably in 2020 from the 6.1 percent growth in 2019. Many other countries where the virus has berthed, have taken similar containment measures with significant threat to global growth, trade and financial flows. In other words, considering the containment measures taken by countries so far, coronavirus has resulted in a retrenchment of globalisation with negative implications for growth, trade, financial flows, inflation and welfare. China is the world's second largest economy and the largest importer of crude oil. Its impact on global trade and growth is significant. With the corona virus, the initial expectations of improved global growth in 2020 have subdued and agencies like the IMF and OECD have cut their growth projections. For Nigeria, China is the largest source of imports. It also buys some of Nigeria's oil and gas and other exports. With the developments in China and other countries where the coronavirus has taken firm root, global macroeconomic stability is under serious threat as portrayed by the following:

- Highly reduced growth projections because of lockdown of major economies. A fall in global growth of output could disrupt supply chain of manufacturing inputs, decreasing domestic productivity, increasing unemployment and macroeconomic instability.
- High likelihood of global recession in 2020 considering the lockdowns and travel restrictions in several countries including China, United States and European countries.
- Weakened global trade. Global trade in 2020 is expected to further drop to below the 1.4 percent recorded in 2019 due to prolonged trade wars and disruption in supply chains occasioned by the coronavirus pandemic.
- Global financial market volatility with corporate debt building up at unsustainable levels across several advanced economies. Several global stock markets across the globe have plunged, recording huge losses. March 9, 2020 recorded the highest single day loss since 2008 as the US Dow Jones Industrial Average (Dow Jones), National Association of Securities Dealers Automated Quotations (NASDAQ) and Standard and Paul (S&P) 500 indices fell by 7.79, 7.29 and 7.60 percent, respectively.
- Increased inflation prospects due to widespread recourse to monetary accommodation by many countries as a response to the coronavirus.
- Heightened unemployment in the major affected countries as a result of the shutdowns and lockdowns.
- Collapsed crude oil market with oil prices dropping from about US\$ 65.0 per barrel in January 2020 to about US\$ 26.0 per barrel as at March 20, 2020, reflecting highly reduced demand and increased supply due to inability of OPEC+ countries to agree on production cuts, price war between Saudi Arabia and Russia and United States' shale oil policy. World oil demand for 2020 has been revised from 100.65 mb/d to 99.73 mb/d, while supply is expected to increase from 100.6 mb/d in 2019 to 102.09 mb/d in 2020.

- Microeconomic impact on individuals, households and firms, especially those affected by the shutdowns, lockdowns, travel restrictions and those in the aviation and travel/tourism industry. These groups have suffered different forms of economic losses and/or social dislocations which need to be addressed.

In order to address the above issues at the country level, several governments have responded with various fiscal stimulus packages and monetary accommodation measures entailing downward policy rate adjustment and quantitative easing, among others, especially to encourage investment, stimulate aggregate demand, sustain employment and avert recession.

CORONAVIRUS AND THE NIGERIAN ECONOMY

Certain features of the Nigerian economy make the country to be very vulnerable to the impact of the coronavirus. The economy is highly open and strongly connected to the rest of the global economy through trade and financial flows. The economy is not diversified in any meaningful sense. It relies rather precariously on crude oil production and export for the bulk of its domestic revenue and foreign exchange earnings. Oil revenue propels over 50 percent of the Nigerian economy. The country has no fiscal buffers to fall back on when there are unfavourable disturbances in the world oil market as is currently the case as a fall-out of the corona virus pandemic. The Excess Crude Account is less than US\$ 80.0 million while the Sovereign Wealth Fund has about US\$ 2.0 billion compared to Saudi Arabia's over US\$ 500.00 billion. Nigeria thus has very limited financial capacity to deal with the social and economic impact of the coronavirus.

In other countries experiencing lockdowns and shutdowns, the corona virus has had both macro and microeconomic impact. So far, in Nigeria, the very visible impact has been macro in nature, especially in relation to government finances

and macroeconomic performance. Now that the virus has begun to spread with 46 confirmed cases, necessitating restrictions in movements and gradual lockdowns affecting the production and distribution enterprises, the likelihood is that the impact will become visible on individuals (whose means of livelihood depends on their daily efforts), households and firms, thus eliciting the kind of fiscal responses in the USA and Europe where the virus has intensified.

Meanwhile, the following current features of the Nigerian economy should guide the monetary policy response.

- Reduced growth projections and possibility of the economy slipping into recession, thus reversing the gains made in the past one year. The Nigerian economy showed signs of encouraging recovery in 2019 with increasing growth rates each succeeding quarter culminating in 2.55 percent in the fourth quarter and an average of 2.27 percent for the whole year. That growth is now threatened by numerous factors: COVID-19-induced lockdowns and input supply disruptions arising from limited or no imports, rising inflation, high unemployment rate, crude oil market collapse, depleting external reserves, contraction in capital inflows, balance of payments pressures, rise in fiscal deficits and public debt level, continued herdsmen-farmers clashes, etc.
- Increased inflation rate as a result of the legacy factors and possible supply shortages because of the retrenchment of globalisation. All measures of inflation (headline, food, core) increased further in February 2020 with the headline inflation moving into the zone which is considered anti-growth. The headline inflation has moved further away from the target threshold of 6 - 9 percent.
- Notable drop in expected government revenue due to the sharp drop in oil prices and exports. Even when the oil market was still stable, the

Federal Government retained revenue decreased from N557.79 billion in October 2019 to N369.49 billion in December.

- Increasing borrowing to finance growing fiscal deficits and associated public debt accumulation. At the end of 2019, the overall Federal Government fiscal deficit stood at –N4,838.79 billion, far above the budgeted deficit. Less financing through domestic borrowing of N912.82 billion, the net overall deficit stood at –N3,925.97 billion for possible inflationary monetary financing.
- Weak balance of payments position and declining foreign exchange reserves. In quarter 4 of 2019, the overall balance of payments recorded a deficit of -US\$2,624.89 million, while the external reserves declined from US\$38.07 billion in December 2019 to US\$34.9 billion in March 2020.
- Threats to foreign exchange market and exchange rate stability. The threats arise from declining external reserves and escalating capital outflows due to market uncertainties and volatilities.
- Stock market collapse and heightened capital outflows. The All-Share Index declined by 17.3 percent to 22,198.43 index points on March 20, 2020 from 26,842.07 index points at end December 2019 driven by increased financial market volatility, foreign exchange market pressure and concerns over the impact of coronavirus.

The above features are most likely to be exacerbated by the coronavirus pandemic. At a time when Nigeria's economic growth, which had been weak and fragile since 2016, was beginning to show signs of improvement, the coronavirus is posing a notable threat to the growth prospects with fears of a likely return to the stag-flationary era.

Therefore, the key issues to consider in the monetary policy decision relate to the need to:

- Support growth and employment and prevent recession

- Rein in inflation which has trended up uncomfortably for sometime and which will worsen if unaddressed in the corona virus era
- Check capital outflows and support external reserves accretion
- Reduce pressure and ensure stability in the foreign exchange market

Generally, price and monetary stability remains the primary responsibility of the Bank. Consequently, it will only complement the efforts of the fiscal authority in addressing the growth objective. This, the Bank can continue to do through its unconventional monetary policy measures while the fiscal authority takes the lead in promoting growth.

OTHER POINTS OF NOTE

For some time, various indicators have pointed to a misalignment of the exchange rate in an environment of dwindling external reserves and intensified market pressure and so the recent exchange rate adjustment is in order. But there is need to dampen uncertainties and speculation in the foreign exchange market. This means that assurance needs to be given to the market to the effect that the Bank will continue to do the needful to maintain a stable exchange rate in the context of a managed float exchange rate system. Finally, the monetary policy decision should support the need for external reserves accretion through capital inflows. The current monetary accommodation stances of the advanced and EMDEs provide an opportunity to attract capital inflows given the right policies and environment. Nigeria has the balance of advantage in relative returns to investment.

The government needs to be reminded that the current situation is grave; the dreaded disease is being battled at a time the country is facing a serious revenue challenge unlike the advanced countries where the virus is also being battled. It is a situation whereby the country is consuming more than its income. In a period when the rest of the world is struggling for survival, the prospects of

getting foreign assistance including loans are dim for now. The government would therefore need to look inwards, undertake adjustment by cutting luxurious and inefficient expenditures and explore imaginative options for revenue generation. Inefficient expenditures include the huge petrol subsidy payments with high opportunity cost. The government should use the opportunity of the low crude oil prices which has robbed off positively on pump prices in the country to deregulate the petroleum downstream sub-sector and free the economy of burdensome subsidy payments.

As the economy gradually locks down, it is not clear as to the feasibility of gathering information in support of evidence-based public policy responses, especially with respect to the microeconomic impact. Nevertheless, there is a group of individuals who are going to be adversely impacted by the lockdowns. These are the individuals who may lose their jobs and/or lose their means of livelihood because of the nature of their occupations as daily-paid workers, artisans, traders and others. For this group to have succour, the government may need to consider setting up a fund (COVID-19 Relief Fund) with the support of stakeholders. With assistance they should be able to maintain a certain amount of consumption and boost aggregate demand. It is a socio-economic initiative that the government should consider seriously.

Finally, two crucial lessons need to be learnt from the economic impact of the coronavirus pandemic: First, is the need to build fiscal buffers to eliminate panic and anxiety on the part of the government in difficult times like we are in. Second, is the need to take the diversification of the economy very seriously. A country whose economy is diversified has a much greater capacity to respond to the present type of socio-economic crisis than a country like Nigeria that is commodity dependent and lacks meaningful diversification.

MONETARY POLICY OPINION

It is important to stress that monetary policy decisions need to be taken with a view to achieving a clear objective(s); they should not be taken because other countries have taken similar decisions as circumstances tend to differ. For example, in the present situation that is conditioned by the coronavirus pandemic, the infected advanced countries are battling to redress the unemployment, loss of revenue and loss of demand arising from the shutdowns of their economies; consequently, monetary easing and fiscal stimulus packages are being implemented to stimulate aggregate demand and avert recession. This contrasts with the Nigerian situation where the micro impact is limited as at now, but could be high in the event of serious lockdowns aimed at combatting the virus.

The current monetary policy stance in Nigeria is already tight with MPR at 13.5 percent and CRR at 27.5 percent. It will not be desirable under the present circumstance to raise them. Raising the MPR will be interpreted by the deposit money banks (DMBs) as a signal to raise their lending rates which will neutralise the gains under the Loans-to-Deposit Ratio policy. Reducing the MPR to entice DMBs to reduce lending rates will be an academic exercise as they relate to the MPR in an asymmetrical way.

In light of the foregoing, I vote to retain the policy decision parameters at their current levels, while the Bank will vigorously implement the extant intervention measures and those recently rolled out, specifically, in response to the impact of the corona virus pandemic.

7. OBIORA, KINGSLEY ISITUA

In light of the unprecedented, yet unfolding, impact of the COVID-19 pandemic, and in support of the measures already announced by the Management of the CBN to mitigate these effects, I voted to retain the MPR at 13.5 percent, the CRR at 27.5 percent, the LR at 30 percent, and the asymmetric corridor of +200/-500 basis points around the MPR. This stance allows for better dimensioning of the effects and preserves the flexibility for further actions once they are fully calibrated.

The December 2019 outbreak of the Novel Coronavirus Disease (COVID-19) in China has fundamentally altered the global economy. Although this is first and foremost a public health crisis, the spillover economic damages are already unparalleled in many ways: stock valuations for the Nikkei, Dow Jones and FTSE 100 have declined by 22.2, 24.1, and 28.8 per cent, respectively; global airlines have lost about US\$252 billion in revenues, due to sharp decline in average global flights from 188,901 daily to 69,508 as of 28 March 2020; year-on-year car sales in China sank a record 80 percent in February 2020, while exports fell by 17.2 percent for January and February combined; cancelled and/or postponed events have cost the sports and entertainment industry more than US\$10 billion; close to 10 million Americans filed for unemployment benefits in the first two weeks of March, and many analysts expect U.S. unemployment rate would spike to about 15 percent in the coming months, which would be the highest such number in over 70 years.

This impact has also been drastic on the domestic front, with the most immediate spillover reflecting in the price of crude oil. Global crude oil prices fell from about US\$63 per barrel in January to as low as US\$17 per barrel by the end of March. Given that oil contributes a large share of both revenues for the government and reserves for the Central Bank, I cannot exaggerate the effect

of this slump, especially as the 2020 Budget was planned with a US\$57 per barrel oil price benchmark. Furthermore, many foreign investors have, as usual, settled their fears on the side of caution, and withdrawn investments from the Nigerian Stock Exchange, with about N2.3 trillion wiped off in losses in the three weeks following the first confirmed case of the virus in the country. In addition, widespread local and international travel restrictions and supply disruptions have dramatically changed the way we live at the moment.

Regrettably, these outcomes are a setback for the promising signs of progress in the economy, particularly in the fourth quarter of 2019. Growth was gradually picking up from 1.6 percent contraction in 2016 to 2.1 percent expansion over the next three years. During the fourth quarter of 2019, the country recorded a 2.55 percent growth rate, its highest quarterly growth since the 2016 recession. This fourth quarter performance culminated in a 2.3 percent year-on-year GDP growth for 2019, largely driven by the non-oil sector, which increased to 2.26 percent in the fourth quarter of 2019 from 1.85 percent in the third quarter of 2019. Similarly, the agriculture sector grew marginally by 2.31 percent in the fourth quarter of 2019 from 2.28 percent in the third quarter of 2019. Although headline inflation rose to 12.2 percent in February 2020, it did so at a decreasing rate when compared with the 12.13 percent rate in January 2020. While food inflation increased by 14.9 percent in February 2020, the rate of increase was 0.12 percentage point lower than it was in January 2020. To my mind, these were preliminary signs that inflation may have plateaued and ready to turn the corner towards a deceleration.

There were also significant improvements in the financial system, reflecting proactive policies by the Central Bank. The policy on Loan-to-Deposit Ratio (LDR) appears to have boosted lending to key sectors of the economy, as credit increased by N2.35 trillion between end-May 2019 to mid-March 2020. This credit expansion was largely recorded in manufacturing, consumer credit, general commerce, ICT, and agriculture. Reflecting recoveries, write-offs and disposals,

non-performing loans (NPLs) decreased to 6.54 percent at the end of February 2020, compared to 11.28 percent in the corresponding period of 2019. Short-term interest rates continue to suggest some surfeit in the system with average Open Buy Back (OBB) and inter-bank call rates opening at 9.40 and 10.50 percent on January 27, 2020, and closing at 15.50 and 16.42 percent on February 28, 2020, respectively. As of end-February 2020, gross external reserves stood at US\$36.5 billion, representing a decrease of 0.54 percent or US\$199.52 million when compared with US\$36.730 billion at the end of January 2020. This outcome largely reflects lower-than-anticipated receipts from oil revenues and the outflow of funds by portfolio investors in the wake of the COVID-19 outbreak.

In light of a somewhat hazy economic outlook, I believe that the Central Bank must remain vigilant and retain the flexibility to act at short notice. No one knows for sure the length and depth of potential effects of this pandemic on key macroeconomic variables. But it does appear that the net effect of the associated temporary supply shocks and the reductions in the price of PMS would be a slight moderation in both inflationary and related fiscal pressures in the coming months. At the moment, many financial sector indicators suggest that the industry remains safe and sound, but several downside risks may materialize in the short term, particularly those related to loan exposures. This implies that both the Central Bank and Deposit Money Banks (DMBs) must be ready with nimble and effective strategies to contain and/or mitigate these risks. That is why I support the recent policies by the Central Bank that grants regulatory forbearance allowing DMBs to restructure existing loans, while also providing immediate reprieve to households and businesses through interest rate reduction and moratorium on both new and existing loans. These policies also provide direct credit facility to the healthcare industry, and strengthens the LDR policy to ensure greater flow of credit to other key sectors at this critical time. I believe that these measures are already helping to cushion the worst effects of the crisis on the economy.

I also think that coordinated and targeted policies are needed to ensure we do not waste the latent opportunities presented by this pandemic. As aforementioned, this is first and foremost a public health problem, and as such, the most immediate priority is clearly to keep people as healthy and safe as possible. Precautionary and temporary measures would be needed to limit the reproductive rate of the disease using travel/movement restrictions, closures of all forms of public gathering, and voluntary/involuntary quarantines. All of these require policy coordination at the highest levels of the government. More also, considering that the economic fallout would not be even or symmetric and may be more acute in specific sectors, coordination is required to objectively dimension these effects, design appropriate policies and implement targeted fiscal, monetary, and financial market measures to help affected households, corporates and aspects of government operations. This could entail using new realities to re-prioritize both revenues and expenditures in the entire budget, undertake more aggressive health awareness campaigns, and provide temporary and targeted stimulus to help households and businesses stay afloat. Alongside these measures, however, we must also harness the opportunities being presented by this pandemic. For example, the ongoing supply shocks in processed food, ICT, personal healthcare and medical services clearly offer opportunities for investments, job creation and local sourcing of production inputs that could all boost economic growth in the near-term.

While awaiting the unfolding magnitude of effects and the incipient adjustments from the policy actions of the Central Bank, I believe the best course of action at this meeting is to leave our policy parameters unchanged. In light of the uncertainty of the outlook for economy in the short- to -near-term, and in support for the immediate policy actions already taken by the Bank's Management, I voted to:

1. Retain the Monetary Policy Rate (MPR) at 13.5 percent;
2. Retain the Cash Reserve Requirement (CRR) at 27.5 percent;
3. Retain the Liquidity Ratio (LR) at 30.0 percent; and
4. Retain the asymmetric corridor at +200/–500 basis points around the MPR.

8. SANUSI, ALIYU RAFINDADI

1.0 Decision:

My perception of the multi-dimensional effect of the COVID-19 global pandemic on the domestic output and inflation informed my decision to hold all the parameters unchanged. In my opinion, the appropriate public health policy measures required to curb the spread of the virus (local and international travel restrictions, border closure, social distancing or complete lockdown), would necessarily reduce output at best, or lead to a recession. This recession would result from the effect of the containment measures on both Demand-side and Supply-side of the economy. During this period, therefore, monetary policy response must strike a delicate balance in addressing the demand-side and supply-side effects of the shock so that in doing so, the policy does not exacerbate the inflationary pressure already observed before the shock. In my opinion, therefore, monetary policy should not boost the Aggregate Demand when the lockdown measures limit the scope of Aggregate Supply to adequately increase. The already announced targeted interventions are appropriately directed at supporting production and distribution in the health sector so as to shorten the duration of the pandemic as well as support the few businesses that remain operational during the pandemic. In the post-containment period, these interventions would facilitate fast-recovery. *Easing the monetary policy stance, at the moment, is therefore inconsistent with the appropriate public health containment policy.* As the probability of global economic recession rises, with attendant implications on the domestic output, a policy-induced stagflation environment must be avoided.

2.0 Background and Justification

2.1 Global Economic Developments

The necessary epidemiological solution to the outbreak of the COVID-19 that is fast spreading across the world has induced a global economic recession. Economic response to this shock must, therefore, focus on ensuring that the recession is both short-lived and the recovery is V-shaped.

The global economic environment was hit by a debilitating global response to an unprecedented global health pandemic. The highly infectious coronavirus disease (COVID-19), which started in China, has been ravaging the world with unprecedented speed. In addition to the international travel restrictions since January 23, 2020, the global public health policy response to reduce the peak critical care demand in the affected countries was a combination of case-isolation, home quarantine and population-wide social distancing. Workers were, therefore, asked to work from home; schools, sports & entertainment events, bars, restaurants and markets were shut down. As the number of COVID-19 cases outside China continues to accelerate rapidly, the chances of economic shutdown increases as more of the heavily affected countries impose these public health containment measures. *These measures will continue to cause significant disruptions in the global supply chain, increase uncertainty and threaten global investments, trade, capital flows and increase the vulnerability of the global financial markets. At the global level, therefore, the public health response to containing the spread of COVID-19 is an intentionally-induced unavoidable economic recession.*

Before the global outbreak, the global macroeconomic environment had already started showing clear signs of weakness due to weak growth and risk of recession in the advanced economies and Emerging Market and Developing Economies (EMDEs) as well as the lingering trade war. This weakness was

reflected in slower output growth, losses in major financial markets, rising corporate debt in advanced economies and public debt in EMDEs. Several global output growth projections were, therefore, already revised downwards. For instance, OECD cut its forecasts for global output growth in 2020 from the earlier 2.5% announced to 2.4%. On account of the COVID-19 outbreak, Fitch has reduced its projection for global growth in 2020 from 2.6% to 1.3%.

Inflation in the Advanced Economies is projected to rise by 1.7% in 2020 from 1.5% in 2019. Except in the US, inflation in the Advanced Economies continued to trend below their long-run target in February 2020. In the Euro area, inflation decreased to 1.2% in February 2020 compared to 1.4% in January 2020, mainly due to declining energy prices. In the US, inflation fell from 2.5% in January 2020 to 2.3% in February 2020 due to the declining energy costs. In Japan, inflation also decreased from 0.8% in January 2020 to 0.7% in February 2020 due to a decrease in fuel prices and utilities. *The combination of weak output and declining inflation that is below its long-term target, monetary policy easing could be an appropriate response to the COVID-19 pandemic in these economies.*

Apart from the effect of COVID-19 on global demand for crude oil, the declining demand from China, as well as the warmer-than-expected winter in the Northern Hemisphere, had already caused over-supply in the international oil market. The failure of the OPEC+ to reach agreement on production cut (December 2019 and March 2020) ignited an oil price war between Saudi Arabia and Russia that has led to the oil price crash. As at March 11 2020, the price of Bonny Light stood at US\$36 per barrel compared with US\$67 per barrel on January 8, 2020, and by March 20, 2020, Bonny light has declined to US\$26.07 per barrel. *Given the effect of the COVID-19 on global demand, failure of production cut agreement by the OPEC+, the global oil market will continue to be volatile with price remaining low. This volatility has serious implication on*

Nigeria's international reserves accretion as well as the Government's' fiscal revenue.

2.2 Domestic Economic Developments and their Implications

Data from the NBS shows that output recovery continued in the fourth quarter of 2019, with the quarterly real output growth of 2.55% in Q4 2019. The annual growth of real output for the year 2019 was 2.27%, which is 0.38 percentage points above the 1.9% achieved in 2018. In Q4 2020, the output growth was driven by both oil and non-oil sectors. The non-oil sector, which contributed 92.68% of the real GDP, grew by 2.27% in Q4 2019 compared with 1.85% in the preceding quarter. Industry (2.75%) Services (2.60%) and Agriculture (2.31%) were the key drivers of the non-oil GDP growth in Q4 2019. Oil GDP, which contributed 7.32% of the real GDP, grew by 6.36% in Q4 2020, which is lower than achieved in Q3 2019. The decline in the growth of oil GDP during the quarter was attributable to the fall in oil output from 1.91mb/d in Q3 2019 to 1.84mb/d in Q4 2019. *Although lower than desired, the output growth in Q4 2019 is the highest rate recorded since the 2016 recession and reflects the effects of the massive increase in credit flows to the economy induced by the Bank's LDR policy during the period.*

As noted earlier, however, the outlook for the rest of the year remains poor as Nigeria joins the rest of the world in enforcing the public health containment measures against the spread of the COVID-19. As major cities and urban centres lockdown, real output would necessarily decline in what can be seen as an intentional and unavoidable recession. *The depth and length of this inevitable recession will depend on how successful these public health measures (domestic and global) are in containing the spread of the virus as well as the appropriateness of the fiscal and monetary policy responses to the economic consequences of this public health crisis.* Staff forecasts suggest that, in Q4 2020,

real output growth decline on account of weak global demand due to the COVID-19 and developments in the crude oil market.

Available data from NBS shows that, in February 2020, inflation has continued on the upward trajectory, which started since September 2019 following the closure of all land borders on August 20, 2019. Headline inflation (year-on-year) has increased to 12.20% in February 2020, compared with 12.13% in January 2020. The increase was mainly due to increases in food & non-alcoholic beverages and core inflation. Food inflation (year-on-year) increased from 14.85% in January 2020 to 14.90% in February 2020. The key components that drive food price developments include processed foods, garri and vegetables. Imported food prices increased by 2.51 percentage points in February 2020. Core inflation increased (year-on-year) to 9.45 % in February 2020 from 9.35% in January 2020. The increase in core inflation was driven by processed foods; clothing and footwear; housing; water; gas & other fuel; furnishing; household equipment & household maintenance. On the month-on-month basis, however, headline inflation declined from 0.87% in January 2020 to 0.79% in February 2020. Both the food and core components have also declined (month-on-month) in February 2020. According to staff forecasts, inflation would continue an upward trajectory. The upside risks to inflation include increased shortages induced by the containment measures against the COVID-19 pandemic; increased foreign exchange market pressure; and high cost of imported food arising from the border closure.

Review of the Banking System Stability Report shows that the banking system continues to be stable and resilient. The Non-performing loan (NPLs) ratio decreased from 6.59% in January 2020 to 6.54% in February 2020. Total assets of the industry have grown from N38.57 trillion in November 2019 to N42.89 trillion in February 2020. Total credit to the economy has also continued to increase from about N15.69 trillion in February 2019 to N17.62 trillion in February 2020. Since the

introduction of the LDR policy, total credit has increased by N2.35 trillion between end-May 2019 and March 17, 2020. Manufacturing, consumer credit, general commerce, ICT and agriculture continue to receive the highest share of this new credit.

Owing to the outbreak of COVID-19, the CBN has announced several policy measures and interventions to mitigate the adverse effect of the pandemic on the economy. These measures include an extended moratorium on loans by one year to ease repayments given the cashflow disruptions; reduction of interest rate on all interventions from 9% to 5% over the next one year; introduction of time-limited regulatory forbearance for DMBs to temporarily restructure terms of loans and tenors to businesses and households affected by the COVID-19 containment measures; and a total of N3.5 trillion in various targeted interventions to support the economy during the difficult times, including support for local pharmaceutical firms to manufacture the drugs and medical supplies needed in the fight against the pandemic.

3.0 The Basis for My Policy Choice

The appropriate scientific measure of combating the COVID-19 health pandemic across the world necessitates slowing down of production, as all economic activities that involve physical interaction would drastically reduce. *These measures, as I noted earlier, imply that economic recession is unavoidable, and output will contract as firms either require workers to work from home or completely shut down in major cities.* Because the supply chain is also disrupted, unaffected businesses would suffer rising costs and slower production activities. The stay-at-home measure also implies that household consumption would significantly fall not only because of the implied income losses,^A but also as many bases for expenditure are unfeasible. This suggests that the COVID-19 measures would reduce both Aggregate Supply, as firms produce less, and depress the Aggregate Demand as consumption declines. The effect

of this measure on output and inflation, therefore, depends on its relative impact on the Aggregate Demand and Aggregate Supply. Given that, even before the emergence of COVID-19, inflation was trending on upward trajectory owing to the scarcity that followed the land border closure, I am convinced that the effect would be disproportionately more significant on the Aggregate Supply. This would further raise the inflationary pressure amidst contracting output (leading to stagflation). Given that production must fall, an appropriate monetary policy response should therefore not seek to boost AD when the scope for increasing AS is limited. On the one hand, the effect of a conventional monetary policy easing will be to raise the Aggregate Demand at a time when Aggregate Supply may not sufficiently increase; this exacerbates the already existing inflationary pressure. On the other hand, conventional tightening to rein in inflation would be inconsistent with the state of the economy when the few businesses that remain operational may suffer from cashflow disruptions and may need low-cost credit. Indeed, the N3.5 trillion intervention funds already introduced by the CBN seek to make funding available to such businesses at a reduced cost. In considering my options, therefore, I am convinced that the best option is to hold all policy parameters, for now.

Consequently, I voted to:

Retain the MPR at 13.50 per cent;

Retain the CRR at 27.5 per cent;

Retain the asymmetric corridor at +200/–500 basis points around the MPR; and

Retain liquidity ratio at 30.0 per cent.

9. SHONUBI, FOLASHODUN A.

Coronavirus pandemic (Covid-19) and a troubled global oil market are the challenges to global and domestic economic growth prospects in 2020. The public health shock from rapid outbreak of Covid-19 is fast causing widespread economic paralysis that is set to lead to severe contraction of the global economy. The resulting demand shock in the oil market, along with the collapse of the OPEC+ agreement, has created a heavily oversupplied market, with implications for near-historically low prices. These developments have aggravated the precarious domestic economic conditions, characterised by fragile output growth, rising inflation, tighter fiscal space and pressured external sector. To address the challenges, the Bank must continue to pay attention to the fundamentals and peculiarities of the domestic macroeconomic environment, while implementing policies that are focused on maintaining the delicate balance of achieving price and monetary stability that is conducive for economic growth.

Global and Domestic Economic Developments

Prospects of global growth in 2020 is significantly dampened, initially because of the collapse of global oil market and further aggravated by the outbreak of Covid-19. The rapid spread of Covid-19 has created global demand shock via loss of consumer and investment spending, as well as, supply disruption, in terms of widespread forced shut-downs. This has liquidity and solvency implications for operators in the real economy, investors and producers. Overall, global growth is generally subdued, with a high probability for global recession, especially as Covid-19 shock persists, creating human and economic challenges.

The uptick in domestic inflation continued, as headline inflation rose to 12.20 per cent in February 2020, from 12.13 per cent in January 2020, on account of rise in both food and core inflation. Food inflation reached 14.90 per cent at end-

February 2020, from 14.85 per cent in the previous month. Core inflation also rose to 9.43 per cent, just as imported food inflation increased for the 6th consecutive month to 16.14 per cent in February 2020. ***It is worth noting that headline, food and core inflation moderated, on month-on-month basis.***

Output growth, according to National Bureau of Statistics (NBS) improved to 2.55 per cent in the fourth quarter of 2019, driven by improvement in both oil and non-oil sector, resulting in overall growth of 2.27 per cent for fiscal 2019. Though growth continued on a positive trajectory, the expansion rate remained weak and fragile, underscoring the need for a strengthening of measures designed to facilitate continuous expansion. Declining manufacturing and non-manufacturing purchasing manager's Indices further highlighted slowing growth.

Sustained resilience of the banking system continued to provide some respite and hope for promoting expansion of the domestic economy. Though recent lull in the international oil market and uncertainties in the global economy has led to some stress, industry financial soundness indicators remained generally within regulatory thresholds. Aggregate industry credit continued to grow, as a result of the LDR policy, even as industry capital adequacy ratio improved to 15.0 per cent at end-February 2020. Slight increase in non-performing loan ratio to 6.5 per cent, from 6.1 per cent in December 2020, reflected regulatory induced provisioning, an outcome of targeted risk weighted assets examination for final account approval. Industry liquidity ratio declined to 44.2 per cent, but remained well above the regulatory threshold. Return on asset and equity, at 1.9 and 20.5 per cent, respectively, fell slightly, to reflect current lull in the business environment.

Though liquidity conditions underscore the presence of monetary influence on inflation, performance of monetary aggregates showed that broad money supply (M₃) contracted by 2.29 per cent at end-February 2020, against the 10.26

per cent provisional growth benchmark. Low yields on government fixed income securities continued to impact patronage, while slightly higher money market rates reflected the effect of net liquidity withdrawals from the banking system. Developments in the capital market were generally bearish, reflecting the investors' concerns about uncertainties in the market.

The fiscal space is characterised by persistent revenue shortfall, on account of declining proceeds from crude oil sales, due to low global oil demand and price, thereby causing near-zero capital release, rising deficit and increasing debt. The squeezed fiscal space has made it more difficult for the Government to effectively carry out its fiscal operations. The external sector faces severe difficulties as external reserves continue to decline on account of low foreign exchange earnings and net capital outflow, which exerts significant pressure on the exchange rate.

Overall Considerations and Decision

The public health shock of Covid-19 is causing extensive human and economic challenges, with far-reaching implications for the global economy. Actions by various government has likened the outbreak to a war-like situation that requires prompt and aggressive responses. A weakened global economy portends danger for the Nigerian economy, the effects of which can be further worsened by escalating outbreak on Covid-19 in the domestic environment. As a first step, Nigeria must rise to the occasion both as a sovereign nation and in collaboration with international community, by acting appropriately and promptly to stop the pandemic, to at least reduce the painful economic consequence that may follow.

In taking proactive actions to ameliorate the pain of the public health shock on the domestic economy, we must continue to take actions to rein in inflation, especially as it becomes inimical to growth, while addressing other impediments

to growth. Today, the monetary policy rate (MPR) serves more as a reference rate and a tool for signaling, while the cash reserve ratio has proven to be a more effective tool for liquidity management. The loan-to-deposit ratio policy is achieving the credit growth and interest rate reduction targets. Clearly, our current actions to support growth is working in the right directions and only requires us to be steadfast, for the full benefit to materialize.

At this juncture, the fiscal authority is advised to be more pragmatic in its engagement of the issues. As I mentioned in my earlier statements, Government is encouraged to explore aggressive expenditure rationalisation, including significant reduction of recurrent expenditure, in the face of persistent revenue shortfall and consider opportunities to use excess liquidity in the banking sector for deficit financing.

Though this crisis time provides opportunity for us to reset, our actions must take cognizance of our economic fundamentals. The speed by which confidence is restored will depend on the effectiveness of policy implementation. Even as we identify the drivers of inflation, to further intensify and target our efforts, I believe that the current tight policy stance will eventually serve to moderate inflationary pressure. Adjusting the MPR either way or increasing liquidity will be contradictory and not align with our current stance and recent actions.

I therefore vote to retain:

- MPR at 13.50 per cent;
- Asymmetric corridor of +200/-500 basis points around the MPR
- Cash Reserve Ratio (CRR) at 27.5 per cent; and
- Liquidity Ratio at 30.0 per cent.

10. EMEFIELE, GODWIN I.

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

Since the last MPC, an already fragile global macroeconomy was further weakened by a fast spreading pandemic, the COVID-19. The various containment measures being put in place to prevent or slow down the spread of the pandemic is taking massive tolls on global economic activity. The hitherto expected stabilisation of global output and increased growth momentum in 2020 now appears fragile. An unusual shock, the impulse of the COVID-19 pandemic is shifting both demand and supply functions of contemporary market system; and affecting every facet of economic, social, and political order globally. We have seen significant weakening in every genre of markets (including financial, primary commodities, and even tertiary products) following the outbreak at the beginning of the year. Global economic outlook for 2020 is realistically downgraded, following general lockdowns, disrupted production schedules, widespread layoffs, travel restrictions, border closures, portfolio capital flights, and heightened debt vulnerability. This reflects the expected adverse effects of the outbreak on both advanced economies and EMDEs. Accordingly, the 3.3 percent global growth projected by the IMF for 2020 is expected to be significantly downgraded. As a matter of fact, the IMF warned that coronavirus pandemic will cause a global recession in 2020 that could be worse than the one triggered by the global financial crisis of 2007-2008.

Developments in the Domestic Economy

For the domestic economy, short-term outlook has tapered considerably as the impact of the pandemic is exacerbated by the huge plunge in crude oil prices, with significant knock-on ramifications for fiscal operations and FX receipts. Previously envisaged consolidation of domestic economic recovery is now

enfeebled, as eventual growth outcome for 2020 may fall significantly below the initial projection of about 2.4 percent. This is also reflected in the moderation of the Manufacturing and Non-Manufacturing Purchasing Managers' Indices (PMI) that expanded at lower 58.3 and 58.6 index points in February 2020 respectively, than in January. These are irrespective of the steadily rising momentum recorded throughout 2019, with annual growth rate of 2.3 percent from 1.9 percent recorded in 2018.

The oil sector grew by 4.6 percent in 2019, contributing 0.4 percentage point to total growth, while non-oil sector, with a growth of 2.1 percent, accounted for 1.9 percentage points. This underscores the importance of the non-oil sector for the economy. Recent realities indicate that the economy could slowdown in the short-term as businesses come to standstill following lockdowns and other containment measures to stem coronavirus. The diminished prospect, due to global headwinds and local imbalances, provides the opportunity to reposition the economy, prop domestic productivity, and strengthen domestic demand. I note the proactive and recent efforts of the CBN to stimulate the Nigerian economy and defuse the prevailing shock, with an expected injection of about N3.5 trillion.

Domestic price levels maintained an upward trend, for the sixth consecutive month, due essentially to structural and supply factors. Year-on-year headline inflation rose to 12.2 percent in February 2020 from 12.1 percent in January, reflecting rises in both food and core components. This is attributable, in part, to border protection policy, disruptions and challenges around food production belts, and pass-through from the recent VAT increase. Short-term outlook suggests a gradual but continuously rising inflationary pressure. This may be aggravated by the inherent infrastructural deficits and emergent FX market pressures, especially as oil receipts dwindle and capital outflows persist. Given the trade-off between output stabilisation and price stability, I want to

emphasize the importance of a cautiously balanced and coordinated policies by fiscal and monetary authorities.

Aggregate liquidity in the economy decreased in February 2020 as the broad money supply (M3) contracted by 2.29 percent, driven by decline in net foreign assets (given the observed depletion in FX reserves). Aggregate Credit to the domestic economy grew by 1.34 percent in February 2020. The All-Share Index (ASI) and Market Capitalization of the Nigerian Stock Market declined by 17.30 and 10.73 percentage points, respectively, driven by concerns over the coronavirus pandemic and sharp decline in crude oil prices.

External reserves position stood at US\$34.9 billion in March 2020 as against US\$38.07 billion in December 2019. The depletion in external reserves was driven by FX sales to BDCs and I&E Window as well as dwindling oil receipt. The current level of reserves is estimated to finance about 6.30 months of imports. Consequently the value of the naira at the I&E window was readjusted by 4.53 per cent to N380.00/US\$1 on March 20, 2020 from N363.53/US\$1 as at end-December 2019, and at the BDC window by 5.48 per cent to N380.00/US\$1 from N360.25/US\$1 at end-December 2019. Overall, the BOP recorded a further deficit of US\$4.018 billion in Q3 2019 as against a deficit of US\$48.76 million in Q2 2019. The overall balance as a percentage of GDP in Q3 stood at -3.22 per cent.

The Banking System Stability Review indicate robust financial soundness indicators. The banking industry Capital Adequacy Ratio (CAR), for example, strengthened to 15.0 per cent at end-February 2020 as against 14.5 per cent at end-December 2019 and prudential limit of 15.00 per cent for banks with international authorization. Tier 1 capital accounted for 88.2 per cent of the total Qualifying Capital at end-February 2020. Similarly, the non-performing loan (NPL) ratio stood at 6.5 per cent in February 2020 compared with 6.1 per cent in

December 2019 and our prudential limit of 5.0 per cent. Although the industry NPL ration is still above the prudential limit of 5.00 per cent, it however, represents a substantial improvement when compared with 11.3 per cent in February 2019. Similarly, the industry average liquidity ratio of 44.2 per cent at end-February 2020 is well above the prudential minimum of 30.00 per cent.

I note with satisfaction, the positive impacts of the new LDR policy introduced in July 2019 to improve lending to the real sector. Total gross credit of the banking system increased by N1,997.72 billion from N15,567.66 billion at end-May 2019 to N17,565.37 billion at end-December 2019 and recorded an additional growth of N353.85 billion between end-December 2019 and March 17, 2020. The credit growth were mainly recorded in manufacturing, consumer credit, general commerce, information and communication as well as in the agricultural sectors. I continue to emphasize the importance of enhanced credit flows to strategic and high impact private sector ventures through an effective collaboration of all stakeholders. I reiterate that CBN will continue to propel credits to the private sector, even as I remain mindful of the risk aversion of banks to supposedly high risk real sector ventures.

Key Considerations

In my consideration, I affirm that the objective of price and exchange rate stability remain sacrosanct. I note the emergent pressure in the FX market due to oil price softening and the need to unify the exchange rate across all segments. On the weakened short-term growth outlook following the recent pandemic and allied global shocks, I also note the need to adequately support domestic productivity and buoy aggregate demand. In this respect, the CBN has taken recent measures to support critical private sector businesses and earmarked stimulus packages to assist households and Micro, Small and

Medium Enterprises (MSMEs). The recent LDR policy to enhance credit flows to the private sector is, again, hereby acknowledged.

In order not to undermine price stability, I want to emphasize the importance of cautiously aggressive and coordinated responses that are adequate. Inflation outlook suggests a rise in the short-term. The continued fall in oil prices which could heighten FX market pressures and undermine price stability needs to be sufficiently mitigated. Money market conditions including the real interest rates should be appropriate to retain investors' confidence and boost sentiments.

Policy Preference

I believe that the recent economic stimulus pronouncements by the CBN are adequate to spur domestic conditions. The adjustment and unification of exchange rates is also a step in the right direction. I am equally of the view that the effects of the changes to CRR is still permeating the system. It is important, thus, to allow the effect of these actions to touch-down so as to avert indeterminate equilibrium, which could accompany too many sudden policy impulses. Overall, I am of the view that the current levels of key policy parameters are sufficient to balance the objectives of exchange rate stability, price stability and output stabilization without introducing disruptive policy shocks. Therefore, I vote to:

- Retain the MPR at 14.0 percent;
- Retain the asymmetric corridor at +200/–500 basis points;
- Retain the CRR at 27.5 percent; and
- Retain liquidity ratio at 30.0 percent.

GODWIN I. EMEFIELE, CON

Governor

March 2020