**CENTRAL BANK OF NIGERIA COMMUNIQUÉ NO. 128 OF THE MONETARY POLICY COMMITTEE MEETING HELD ON THURSDAY 23rd AND FRIDAY 24th JANUARY, 2020**

The Monetary Policy Committee (MPC) held its 271st meeting, the first in fiscal 2020, on the 23rd and 24th of January, 2020. The Meeting held in an environment of sluggish global economic recovery and financial market vulnerabilities, and tepid domestic growth. The Committee appraised these developments and the outlook for the first quarter of 2020, as well as the rest of the year. All the Eleven (11) members of the Committee were in attendance.

**Global Economic Developments**

The headwinds that characterized the global economy in 2019 showed signs of moderation, giving way to improved prospects for economic recovery in 2020. Consequently, global output is projected to grow by 3.3 per cent in 2020 from 2.9 per cent in 2019. The downside risks to the global outlook, include: broad slowdown in the advanced economies; resurgence of financial stress in the

Emerging Markets and Developing Economies (EMDEs); rising geo-political tensions in the Middle-East; and extreme weather conditions in some regions. Output growth across major advanced economies, remains fragile, due to weak recovery in manufacturing activities and sluggish rise in global trade. Consequently, growth in the Advanced Economies is projected to slow to 1.6 per cent in 2020, from 1.7 per cent in 2019. With most EMDEs facing brighter prospects, output growth is expected to recover to 4.4 per cent in 2020 from 3.7 per cent in 2019. The major impetus for this recovery is expected to come from India, Brazil and Russia.

In most advanced economies, inflation remained below their long-run targets, reflecting weak aggregate demand in the Euro Area and Japan, as well as moderating wage growth in the US, despite the robust job performance. Central Banks in the advanced economies are thus, expected to continue with monetary accommodation into the medium term. In the EMDEs, however, inflation prospects remain mixed, with some economies facing stronger upside risks than others.

**Domestic Economic Developments**

Real Gross Domestic Product (GDP) continued to improve, although slowly. It grew to 2.28 per cent in the third quarter of 2019, compared with 2.12 and 1.81 per cent in the preceding and corresponding quarters of 2018, respectively. The improvement in growth was driven, largely, by the performance of the oil sector, which grew by

6.49 per cent, while the non-oil sector grew by 1.85 per cent. Staff projections estimate real GDP in Q4 2019 and Q1 2020 at 2.20 and 2.35 per cent, respectively. The Manufacturing and Non-Manufacturing Purchasing Managers' Indices (PMI) grew further in December 2019, for the 33rd and 32nd consecutive months, to 60.8 and 62.1 index points, respectively. The optimism in growth prospects in Q1 2020, and the rest of the year, is anchored on the enhanced flow of credit to the private sector, to improve manufacturing activities, and financial and exchange rate stability. In addition, the Bank's continued intervention in Agriculture, and Small & Medium Scale Enterprises (SMEs) is expected to boost growth. Identified headwinds to growth, however, include; uncertainty in the oil market, high unemployment, rising public debt and security challenges across the country.

The Committee noted the continued uptick in headline inflation (year-on-year) in December 2019 to 11.98 per cent, from 11.85 per cent in the previous month. The increase in inflation, which was anticipated, was largely attributable to increase in both the food and core components, by 14.67 and 9.33 per cent in December 2019 from 14.48 and 8.99 per cent in November, respectively.

The increase in the food component reflects largely seasonality effect and the impact of the continued insurgency in some food producing areas of the country. Although, Staff forecasts suggest a short-term upward trend in prices, the Committee believes that the

Bank's continued intervention in the real sector is expected to increase domestic production and lower prices in the medium-term.

The Committee observed that broad money supply (M3) grew by 6.22 per cent (year-to-date) in December 2019. Aggregate Credit (Net) similarly grew to 27.33 per cent in December 2019, from 23.12 per cent in the previous month. This was largely attributed to an increase in Credit to Government, which grew to 92.95 per cent in December 2019, from 72.36 per cent in the previous month. Credit to the Private Sector also grew to 13.61 per cent in December 2019, from 12.82 per cent in the previous month. Consequently, sectoral distribution of credit between end-May 2019 and end-December 2019 was as follows: manufacturing (N446.44 billion); General Retail and Consumer Loans (N419.02 billion); General Commerce (N248.48 billion); Agriculture, Forestry and Fishing (N160.94 billion); Information and Communications (N156.47 billion); Finance and Insurance (N129.87 billion); Construction (N86.54 billion); and Transportation and Storage (N68.61 billion), amongst others. The Committee observed with delight that, over the last six months, aggregate credit grew by N2.0 trillion and urged the Management of the Bank to sustain the current momentum of improved flow of credit to the Private Sector, while exploring other options with the fiscal authorities to strengthen the legal framework for the enforcement of credit recovery.

Lower money market interest rates, in the review period, reflected the liquidity overhang in the banking system, resulting from the restriction of individuals and non-bank corporates in the domestic economy from participating in OMO bill auctions. Consequently, the monthly weighted average Inter-bank call and Open Buy Back (OBB) rates fell sharply to 3.82 and 3.24 per cent, in December 2019, from 11.42 and 10.73 per cent, respectively, in the previous month.

The Committee noted the improved performance in the equities market, as the All-Share Index (ASI) and Market Capitalization grew by 11.61 and 18.27 per cent, respectively, between end-October 2019 and 10th January, 2020. This was indicative of the shift by domestic investors from the money market to the equities market in response to the Bank's policy to restrict their investments in the OMO bills auction.

The MPC also noted the improved performance and sustained resilience of the banking system, evidenced by the continued moderation of the Non-Performing Loans (NPLs) ratio from 6.6 per cent in October to 6.1 per cent in December 2019. The Committee noted that the improvement reflected the Bank's continued deployment of heterodox policies to ensure that NPLs fell below the prudential benchmark of 5.0 per cent.

**Outlook**

Although global output is projected to expand moderately in 2020, compared with the previous year, the overall medium-term outlook for the global economy remains uncertain, due to the persistence of several headwinds. These include: the lingering trade tensions between the US and its major trading partners; rising levels of both corporate and public debts; continued geopolitical tensions in the Middle-East; fragile recovery of manufacturing activities; and the narrowing policy space by which central banks in the advanced economies can respond to future macroeconomic shocks. In addition, predicted weather-related disasters could pose further threats to global output recovery.

On the domestic side, available data on key macroeconomic indicators show prospects of improved output growth for the economy in 2020. Revised projections for 2020, show that the economy is expected to grow by 2.50 per cent (IMF), 2.10 per cent (World Bank) and 2.35 per cent (CBN). The underlying projection is anchored on the following conditions: enhanced flow of credit to the real sector of the economy; sustained stability in the exchange rate; continued CBN interventions in agriculture and non-agricultural Small and Medium Enterprises (SMEs); and the effective implementation of the Economic Recovery and Growth Plan (ERGP). The downside risks to this projection are primarily the rising stock of public debt and lack of fiscal buffers. Others include the persistent security threat in major food-producing areas, poor and inadequate infrastructure and weak public and private sector investment.

**The Committee's Considerations**

The Committee noted the persistent increase in the inflation rate, which stood at 11.98 per cent in December 2019. It also noted that the inflation was driven by both monetary and structural factors. Having addressed the monetary factors, the headroom for further monetary policy measures has become constrained, being supported by empirical evidence which suggests that inflation above 12.00 per cent is inimical to output growth in the Nigerian economy. The MPC thus called on the fiscal authorities to speedily address legacy structural impediments giving rise to upward-trending price developments. Amongst these, the Committee identified infrastructure deficit and the long-standing clashes between herdsmen and farmers, which are constraining domestic production and contributing substantially to the rise in food inflation. The MPC, therefore, urged the Federal Government to relentlessly seek innovative ways of addressing security challenges across the country in order to boost aggregate food supply. The Committee further noted the contribution of imported food and other tradeables to the rise in price levels but emphasized the opportunity to ramp up production of domestic substitutes supported by the Bank's development finance initiatives, particularly in agriculture and manufacturing sectors.

The Committee noted the improvement in the financial soundness indicators, growth in assets of the banking system and the gradual switch in the composition of DMB assets from investments in government securities to growth in credit portfolio. It, however, noted that lending rates at the retail segment of the market had remained fairly sticky downwards as deposit rates had declined substantially. It also noted that in some cases, DMBs were not encouraging term deposits in their portfolios and therefore, emphasized the Bank's commitment towards the implementation of the Loan-to-Deposit ratio (LDR) policy.

On fiscal operations, the Committee applauded the Government for the recent signing of the 2020 Finance Bill which opens a new vista of opportunities in public financial management. The MPC, however, cautioned that public debt was rising faster than both domestic and external revenue, noting the need to tread cautiously in interpreting the debt to GDP ratio. The Committee also noted the rising burden of debt services and urged the Fiscal Authorities to strongly consider building buffers by not sharing all the proceeds from the Federation Account at the monthly FAAC meetings to avert a macroeconomic downturn, in the event of an oil price shock.

It urged Government to gradually reduce reliance on oil receipts and focus on revenue diversification through reforms of the tax system. The Committee also called on Government to rationalize fiscal expenditure towards reducing the current excessively high cost of governance.

The MPC expressed concern about the rising inflation, which increased consecutively in the last 4 months as at December 2019 to 11.98 per cent and higher than its target range of 6-9%. This rising price level is attributable to a combination of structural and supply side factors, expansionary fiscal policy; and growth in money supply arising from rising liquidity surfeit in the industry due to changes in the Bank's OMO policy. In furtherance of its primary mandate to maintain price and monetary stability and in view of the anticipated medium-term liquidity surfeit from maturing OMO bills held by local private and institutional investors, which would not be rolled over, the Committee considered it prudent to raise the CRR to curtail liquidity surfeit in the banking system.

The Committee is confident that increasing the CRR at this time is fortuitous as it will help address monetary-induced inflation whilst retaining the benefits from the Bank's LDR policy, which has been successful in significantly increasing credit to the private sector as well as pushing market interest rates downwards. The Committee further encouraged the Management of the Bank to be more vigorous in its drive to improve access to credit through its pursuit of the Loan-to-deposit ratio policy as doing this would help, not only in creating job opportunities but also help in boosting output growth and in moderating prices. It is noteworthy that Gross credit in the industry grew by N2 Trillion between May 2019 and December 2019; channeled primarily to the employment-stimulating sectors such as agriculture and manufacturing, in addition to increased lending to the retail and SME segments, which is expected to help boost domestic output growth in the short to medium term. To retain the gains from credit expansion and current industry focus on lending, the Committee advised the Bank to sustain its LDR Policy and in addition continue to deploy its DCRR policy which directs new funding for greenfield projects and expansion to critical sectors of the economy.

**The Committee's Decision**

On the arguments to tighten, the Committee noted that given that inflation rate inched up in December 2019 and that the rate is still above the upper band of the 6-9 per cent threshold, tightening may be necessary to tame the rising trend in inflation. In addition, the relatively bearish outlook of the equities market indices points to waning investor confidence in equity in preference for coupon rate on bonds. Raising the policy rate, could be a policy choice to reverse the tendency and attract more foreign portfolio investments. Also, the risks to the level of reserves persist as prices of oil futures remain uncertain. Policy tightening would enhance the accretion to foreign reserves and attain relative stability in the foreign exchange market. Moreover, raising rates would reinforce the stability of the foreign exchange market as an upswing in the rate will inhibit demand pressures in the market through a decline in money supply.

Although tightening would limit the ability of DMBs to create money, ultimately leading to a reduction in money supply and curtail their credit creation capabilities, which would eventually lead to rising cost of credit and credit risk as DMBs re-price their risk assets, the MPC believes that the aggressive pursuit of the current loan-to-deposit ratio policy thrust would continue to help to catalyze credit growth and positively impact growth and prices.

On the decision to loosen, members noted that the relative stability in the foreign exchange market provides confidence to foreign investors. There is, therefore, no immediate concern that loosening would exert pressures on the foreign exchange market in the near term. In addition, an accommodative monetary policy stance would motivate banks to lend to maintain their profit performance and would result in decline of the overall cost of production. This would further affirm the Bank's support for stimulating output growth.

The Committee also feels that the downside to loosening is that it could amplify inflationary pressures as the economy experiences increased liquidity surfeit, particularly if loosening drives growth in consumer credit, without corresponding adjustment in output, thus escalating inflationary pressures. An interest rate reduction would increase money supply and exert pressure on the exchange rate. Moreover, an accommodating monetary policy stance may not necessarily lower the retail lending rate, as interest rates are generally sticky downwards.

On the argument for a Hold, the MPC acknowledged that a mix of heterodox monetary and financial policy measures have recently been deployed by the Bank. Noting the existence of a lag between the policy pronouncement and its impact on the economy, a hold in the rate would ensure its efficient impact on the economy. The Committee noted the slow pace and low rate of economic growth as real GDP growth of 2.10, 2.12 and 2.38 per cent in Q1, Q2 and Q3 2019, respectively, being below the population growth rate, still needs sustained policy support. Maintaining monetary policy rate at its present level is essential for sustainable support to growth before any possible adjustments. This will enable policy to react suitably to developments as they occur in the near term. In addition, retaining the current policy position provides avenues to evaluating the impact of the heterodox monetary and financial policies to support lending by the banking industry without altering the policy rate.

On the downsides to holding, the Committee noted that it would reduce the speed of economic recovery relative to loosening, exert a drag on output growth, as DMBs continue to utilize bonds sales instead of engaging in financial intermediation to the private sector.

In view of the foregoing, the Committee by a decision of 9 members, voted to alter the Cash Reserve Requirement (CRR) by 500 basis points from 22.5 to 27.5 per cent, while leaving all other policy parameters constant. Two members voted to leave all parameters constant.

In summary, the MPC voted to:

1. Change the CRR from 22.5 to 27.5 per cent;

2. Retain the MPR at 13.5 per cent;

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

4. Retain the Liquidity Ratio at 30 per cent.

Thank you.

Godwin I. Emefiele

Governor, Central Bank of Nigeria

24th January, 2020

## PERSONAL STATEMENTS BY THE MONETARY POLICY COMMITTEE MEMBERS

### 1. ADAMU, EDWARD LAMETEK

Economic recovery continued in 2019 albeit slowly. In Q3 2019, real output grew by about 2.28 per cent, up from 2.1 and 2.2 per cent, respectively in Q1 and Q2, 2019. Relative to 2018, economic growth strengthened in the first three quarters of 2019. Based on available forecasts, the overall growth for 2019 is expected to be better than recorded in 2018 and 2017. To that extent, it is reasonable to say that output recovery has remained on a firm path despite several headwinds including security challenges and uncertainties in the global economic environment. The improvement in economic activity in recent quarters has been underpinned by relative stability in prices and improved credit to the real sector.

The naira exchange rate remained stable in 2019 just as interest rates moderated especially following the implementation of a minimum loan-to-deposit (LDR) for deposit money banks (DMBs) in the second half of the year. Headline inflation remained lower than the end-2018 level of 11.44 per cent until October 2019 when it rose to 11.61 per cent. Bolstered by increased liquidity and a variety of structural constraints, consumer price pressures continued to build in the rest of the fourth quarter of 2019. At 11.98 per cent in December, headline inflation was almost at the upper limit (12.0%) of its (optimal) threshold for the economy, and if not addressed, could soon begin to undermine economic growth. Considering this and some other risks to overall stability, I voted to raise the cash reserve ratio (CRR) primarily to rein-in excess liquidity in the system and stem inflationary expectations.

The last quarter of 2019 witnessed significant liquidity build-up which resonated in very low short-term (interbank) rates. The open-buy-back (OBB) rate for the period averaged 3.26 per cent between November and December 2019. Likewise, the unsecured (overnight) interbank rate averaged 3.95 per cent. Both rates persisted at levels far below the policy corridor defined by the Bank's Standing Lending Facility (SLF) and the Standing Deposit Facility (SDF). In like manner, the Nigeria Treasury Bills (NTBs) rate trended downwards significantly in the second half of 2019. The sources of the excess liquidity that accounted for the slide in short-term interest rates included improved Federation Account allocations to the three (3) tiers of government, open market operations (OMO) maturities and Federal Government of Nigeria (FGN) domestic debt maturities. More importantly, perhaps, the restriction of access to OMO securities which came into effect in 2019 had left the DMBs with extra liquidity. Meanwhile, the outlook for system liquidity in 2020 remains inclement on account of these same factors in addition to the high prospects of an expansive fiscal stance. In effect, I see the need for monetary policy to brace for a relatively stronger excess liquidity challenge in 2020.

Directly related to the problem of liquidity surfeit is the creeping pressure in the economy's external accounts. In Q3 2019, the country's current account balance (CAB) recorded the third consecutive deficit, not because exports slacked; rather, imports and net invisibles (negative) increased. This trend constituted, in my view, an important pressure point, and therefore required a policy response. Persistent excess liquidity would no doubt exacerbate pressure on the country's external sector, which outlook is currently not very strong in view of the protracted low prices of oil (the country's most important export) and unstable capital inflows. Given the strong connection between Nigeria's external sector and the real sector, a pressure in the former rapidly transmits to the latter through the exchange rate. Typically, both domestic output and consumer prices are pressured by vulnerabilities in the external sector, and could easily degenerate into a self-propelling process of economic instability.

Of course, in deciding to raise the CRR, I was not unmindful of the need to support the fragile output recovery, which consideration had greatly influenced my thought and judgment during the last couple of meetings. However, as I evaluated available statistics including the massive expansion in credit to the real sector over the past few months owing to the implementation of a minimum Loan-Deposit-Ratio (LDR) policy for DMBs, the level of progress made by the Bank with the implementation of the differentiated CRR and the growth-enhancing developments on the fiscal side, I viewed that the balance of risks was tilting towards price stability which remains the primary goal of monetary policy.

Notwithstanding the headwinds I hold a broadly optimistic view of the economy. In particular, the timely conclusion of the 2020 budget process and the ongoing payment of contractors' arrears should reinvigorate business confidence and spur economic activity. This is already showing in the capital market with the All Share Index (ASI) rising by about 10% between end-December 2019 and January 22, 2020. Equally encouraging is the significant improvement in the banking industry's resilience (with the non-performing loans ratio falling to about 6.0% at end-2019 from 11% in April) and the considerable growth in new credit to key sectors like agriculture and manufacturing. I should emphasize that these developments would only have the desired maximum effect on output and employment in an environment of stable prices, which underscores the need for adjusting monetary policy at this time to restore liquidity to its optimal path. As I have argued previously, preserving the stability of the exchange rate of the naira continues to be essential for both consumer price stability and output recovery. Excess liquidity in the banking system is a real threat to the stability of the naira exchange rate just as it is to inflation. And so, I voted specifically to raise the CRR from 22.5% to 27.5% in order to address this risk.

## 2. ADENIKINJU, ADEOLA FESTUS

### International Economic Developments

2019 was a challenging year for the global economy. The prolonged US-China trade war and the uncertainty around the BREXIT negotiations affected global economic growth. Outlook for 2020 global economy is on the balance better than in 2019 with the partial resolution of the US-China trade war, and the resolution of BREXIT. Global growth is projected to expand to 3.3% in 2020 from 2.9% in 2019. However, global economic growth will continue to be challenged by soft economic growth, rising corporate debt and accommodating monetary policies in advanced economies. Global trade growth will also be impacted by continuous rise of nationalism, trade protectionism, coronavirus disease and slow growth in China. Global oil market will remain volatile, but for flashes of geopolitical tensions, the price of oil per barrel will trend around a projected long-term rate of low $60s. While this is above the $57/barrel, oil price benchmark used in the 2020 budget, however, given the challenges with other non-oil income sources, and nature of government expenditure in Nigeria, the scope for creating fiscal buffers is low.

### Domestic Economic Developments

As at the time of this MPC meeting, the NBS is yet to release its figure for Q4, 2019 GDP growth. However, figure for 3rd quarter, 2019 shows that real GDP grew by 2.28% compared with 2.12% in the preceding quarter. Thus, the economy continues its progressive recovery from the 2016 economic recession. Nevertheless, GDP growth remains fragile and below the population growth rate.

Headline inflation rate in December rose to 11.98%. This represents 4 months of successive rise in inflation rate. Forecast by Bank Staff shows inflation in the short to medium term rising above 12%. This is above the tolerance level for economic growth. Inflation expectations in the near time remains high. Inflation inducing factors in 2020 include, 50% increase in VAT rate, likely increase in electricity tariffs, effect of the increase in national minimum wage, insecurity and the border closure.

The financial Soundness Indicators are quite robust. Non-performing loans (NPLs) ratio fell from 6.6% in October 2019 to 6.1% in December 2019. Capital adequacy ratio, and Liquidity ratio fall within prudential requirements. Returns on equity and assets were better in December 2019 compared to October 2019.

The increase in lending by over N2 trillion between May and December 2019 is a positive outcome of CBN monetary policies. The new lending went to critical sectors like manufacturing, agriculture and trade. This is in addition to the major lending activities by the other financial institutions like the microfinance and development banks. The new lending will drive up supply and exert downward pressure on domestic prices. It should also drive down lending rates at the retail end of the financial sector if it is sustained.

Rates on financial assets fell across the financial markets. OBB rates declined to 3.24% in December 2019 from 6.64% in October 2019, outside the lower band of the MPR corridor of 8.5% and 15.5%. Yields in treasury bills also dropped to a decade low. These are not unconnected with the liquidity surfeit in the economy. Net banking system liquidity position rose from N160.03 billion in December 31, 2018 to N587.21 billion in December 31, 2019.

The equity market reverses its negative growth trajectory. Between December 31, 2019 and January 22, 2020, the All-Share Index (ASI) rose by 9.75%. This was a major departure from the -14.6% decline in the ASI between December 31, 2018 and December 31, 2019.

On the external sector, the foreign exchange markets were generally stable aided by the foreign exchange interventions of the CBN. Foreign reserves fell from $41.54billion in December 2018 to $38.07billion in December 2019. The current account balance by Q3, 2019 was -2.24% of GDP. This was better than -3.27% in Q2, 2019. However, capital importation in December 2019, went largely into the purchase of shares, finance, banking and trading. The non-financial sectors of the economy attracted only insignificant share of total capital imports. The fiscal side continues to pose significant challenge in my view. The rising debt level and high fiscal deficit pose significant challenge to effective economic management.

Between January and September 2019, actual revenue stood at 52% below budgeted revenue, whereas actual expenditure exceeded planned expenditure over same period. Capital expenditure, which is expected to drive economic growth, as expected underperformed.

**My concerns**

I have considered carefully the excellent reports presented by the Bank's staff at this meeting. However, I have some concerns. These include inflation persistence, the continuous decline in foreign reserves, the liquidity surfeit in the economy, the negative current account balance, the poor state of the fiscal sector, fall in prices of financial assets, and the bearish outlook for the oil sector.

The MPC should not ignore the inflation threat. The primary responsibility of the CBN remains price stability. The fall in interest rates across financial market instruments is suggestive of liquidity surfeit in the system. The CBN policy to increase lending to the real sector is a good policy to boost the supply side of the economy and relax constraints to domestic food and agricultural supply. This policy is in order and CBN should maintain it. Several analyses have shown that among the policies available to control liquidity in the Nigerian economy, the CRR is the most potent.

**My Vote**

Based on the balanced of probabilities facing the economy in the near term, I cast my vote at this meeting to tighten the liquidity in the system. Hence, I vote as follow:

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

## 3. AHMAD, AISHAH N.

The January 2020 MPC meeting held against a backdrop of a somewhat positive global economic outlook as expectations of an economic slowdown which strengthened in Q4 2019 appeared to abate. The implications of this and other domestic macroeconomic developments for Nigeria's continued economic stability shaped discussions.

**Global growth momentum expected to be resilient in 2020.**

Risks to global output growth, which intensified over the course of 2019, are expected to taper as the year progresses. This reflects improved investor sentiment around monetary policy, trade and geopolitical tensions and the impending resolution of Brexit negotiations. This positive view is supported by the IMF's global output growth projections of 3.3 and 3.4 percent in 2020 and 2021, respectively, 0.4 and 0.5 percentage points above 2.9 percent growth reported for 2019.

**Renewed confidence notwithstanding, crude oil price volatility remains a key headwind for Nigeria, given its disproportionate impact on fiscal revenues, reserves accretion, price and monetary stability.** Bonny light rose from US$66.11/barrel in November to US$70.37/barrel in December 2019, and dropped to US$69.87/barrel in January 2020, due to geopolitical tensions (US, Iran, China, Middle East, etc) which appear to be prevalent in the short to medium term.

Thus, the fiscal and monetary authorities must be vigilant for any sudden shocks that may set off a weakening of the external sector, given its impact on external reserves and exchange rate stability. Fiscal consolidation remains paramount and the passage of the Finance Bill is a step in the right direction.

**Whilst the Q4 2019 GDP growth number is being awaited, it is important to acknowledge the positive trajectory of output growth since the country's exit from recession in Q2 2017.** Performance in the first three quarters of 2019 (2.10, 2.12 and 2.28 percent, respectively) inspire confidence for a strong finish in Q4, in view of the Bank's supportive policies sustained through the year. The importance of ramping up domestic output growth and productivity is further underscored by the high unemployment and population growth rate which continues to depress GDP per capita. Focused implementation of the ERGP by the fiscal authorities, particularly aspects that seek to strengthen the business environment, deployment of technology and quality of human capital, will be critical to improve productivity, and position Nigeria for sustained growth over the long term.

The Committee thereafter focused its discussions on evaluating the impact of the Bank's policies, especially the Loan to Deposit Ratio (LDR) policy, developments in price and monetary stability, the path of domestic prices, monetary expansion and financial stability.

**Financial system stability emerged strong into 2020 as data provided by Bank staff indicated sustained improvement in soundness indicators in 2019**, even as credit to the private sector continued to grow. Capital adequacy, liquidity and other prudential ratios remain within desired levels, whilst the NPLs ratio in particular, reduced further to 6.1 percent as at end December 2019, from 6.6 percent at end-October 2019. The key challenge for the Bank will be to sustain this positive industry risk profile, notwithstanding continued growth in credit driven by the LDR policy.

**The LDR Policy retained its efficacy, stimulating substantial increases in private sector loans, lowering market lending rates and has progressively diversified industry credit portfolio.** Gross credit in the industry grew by N1,997.72 billion between end-May 2019 and end December 2019; channeled primarily to employment-generating sectors such as agriculture and manufacturing. This is in addition to increased lending to the retail and SME segments, expected to help boost domestic output growth in the short to medium term in support of the economic diversification agenda of government.

The significant growth had positive impact on industry LDR ratio, which grew by 319 basis points from 57.45 per cent at end May 2019 to 60.64 per cent at end-December 2019. The industry also recorded growth in average customer deposit and aggregate funding, which grew 6.9 percent over the same period - a positive indication of expanded capacity of the financial sector to sustain further lending to the real sector.

In view of its relative success, the Committee advised the Bank to retain the LDR Policy and in addition, continue to deploy its Differentiated Cash Reserve Requirement (DCRR) policy which directs targeted funding to critical sectors of the economy. It further encouraged the Bank to hasten implementation of its risk mitigation measures such as the Global Standing Instruction (GSI) to proactively preserve asset quality.

**Price and monetary stability objectives are being achieved, with relative stability in the exchange rate, albeit with decreased yet healthy external reserve levels.** However, domestic prices, particularly inflation was a key area of focus, given its recent upward trend. The general price level increased for the sixth consecutive month to 11.98 percent (y-o-y) in December 2019, higher than the 6-9 percent benchmark. The rising price level is attributable to a combination of structural supply side factors, expansionary fiscal activities and growth in monetary aggregates, caused by rising liquidity surfeit partly as a consequence of the Bank's recent OMO policy. This rising price level is a key concern in view of the Bank's primary mandate of price and monetary stability, particularly as additional liquidity is expected from upcoming maturities of OMO bills previously held by local private and institutional investors.

**Policy options are limited in this scenario and tradeoffs must be made.** Whilst increasing the MPR at this time would be harmful for growth which remains fragile, raising the CRR may reduce banks' capacity to lend. Fortunately, the potentially restrictive impact of a higher CRR will be counterbalanced by continued implementation of the LDR policy to sustain credit expansion. Therefore, raising the CRR will be an effective tool in the short to medium term that will absorb the anticipated excess liquidity and curb monetary induced inflation whilst supply of treasury securities improves over the long term.

I therefore vote to retain the MPR at 13.5 per cent; increase CRR by 500 basis points from 22.5 per cent to 27.5 percent; retain liquidity ratio at 30.0 per cent and also retain the asymmetric corridor at +200/–500 basis points around the MPR.

## 4. ASOGWA, ROBERT CHIKWENDU

**Decision:**

Both domestic and global macroeconomic conditions have been a bit strong at the time of the January 2020 Monetary Policy Committee (MPC) meeting which reflects positive surprises to economic activity in 2020 as compared to the major uncertainties in trade that retarded growth in 2019. Key indicators suggest that global growth has somewhat stabilized in early 2020 and the significant loosening of monetary policy by many central banks over the past few months is currently being sustained. On the domestic front, there are early indications of positive progress with recent policies of the Central Bank of Nigeria such as the Loan to Deposit Ratio (LDR) which has improved the credit outlook, while overall banks' financial soundness conditions appear to have strengthened further in the past two months. The uptick in inflation in the third and fourth quarters of 2019 remain a huge concern, but part of it was related to non-monetary factors especially food supply constraints. In determining the future part of monetary policy rate (MPR), it is therefore important for the Monetary Policy Committee to first watch closely (with incoming data), if the recent increases in the levels of banks' credit is sufficient to boost output whilst paying particular attention to any response of domestic prices to the potential supply growth.

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

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

**The Global Economic Outlook:**

The global economy is expected to recover in 2020 as some of the major uncertainties impacting the world economy appear in recent months to be resolving themselves. For instance, the risks of an escalation in the US-China trade tensions seems to have partly eased with the announced 'phase one' trade deal between U.S and China and a document aimed at de-escalating the ongoing trade dispute was signed on 15th January, 2020. Also in the UK, the fears of a no-deal Brexit has diminished recently ending a near-term political uncertainty. Further, the renegotiated US, Canada and Mexico trade deal, which is to replace NAFTA received approval of the US Congress by late December 2019. However, despite these positive outcomes, geo-political tensions have re-emerged lately including the events between the USA and Iran, as well as further worsening of relations between USA and such other trading partners as the European Union. These new threats including a possible Chinese crackdown in Hong Kong remain potential downside risks to the global growth outlook in 2020.

Overall, CBN staff report, suggest that global growth is projected to increase to 3.3 percent in 2020 which is a marginal rise from the 2.9 percent estimated at the end of 2019. This expected uptick remains uneven across countries as accelerations are expected in the Euro Area, Latin America and Sub-Sahara Africa, while moderations are expected in the USA, Japan and China. In the Euro area, growth is expected to pick up from 1.2 percent in 2019 to 1.3 percent in 2020, fuelled by projected improvements in external demand. In UK, following an orderly exit from the European Union, growth is expected to recover to 1.4 percent in 2020 from the level of 1.2 percent in 2019 and even projected to firm up to 1.5 percent in 2021. In the USA, growth is expected even lower further in 2020 from 2.3 percent in 2019 to 2.00 percent in 2020 largely reflecting the toll caused by prolonged trade policy uncertainty as well as the impact of tariffs on some key sectors. Similarly, the Chinese economy growth is projected to contract from an estimated 6.1 percent in 2019 to 6.0 percent in 2020 and even further down to 5.8 percent in 2021 as a result of partial rollback of past tariffs. Japan's economy is also projected to remain weak in 2020, slowing to 0.5 percent from 0.9 percent in 2019.

The early signs of stabilization and positive growth outlook in 2020 appears to reinforce the monetary policy sentiments demonstrated in 2019 by central banks rate cuts and easing posture that characterised the broadest shift in monetary policy of several advanced and emerging economies. The US shift to 'hold' position after three rate cuts in the second half of 2019 remains the position of the Federal Reserve, which has indicated that 'the current stance of monetary policy is appropriate and no further rate cuts are expected in 2020'. In the Eurozone, the central bank continued its monetary accommodation mode during the final quarter of 2019 by restarting the asset purchase programme in November and has indicated that both the marginal lending facility and the deposit facility will remain unchanged even in the near future. The Bank of England has also indicated interest to hold onto the current accommodative monetary policy stance in 2020 especially given the fact that global business confidence and other manufacturing indications are generally picking up in the early days of 2020, partly reinforcing the expected recovery in UK GDP. The People's Bank of China in an attempt to stimulate the Chinese economy has also continued on the part of monetary easing by cutting the reserve requirement ratio for major banks by 50bps, effective January 6, 2020 and this policy is expected to release nearly 1 trillion Yuan into the real economy. The Bank of Canada have also maintained the overnight rate target in early January 2020 citing the positive trade developments and the recent resilience of the Canadian economy.

There are also early signs of strengthening in the equities markets of many advanced economies given the backdrop of positive news on US-China economic relations and reduced fears of a hard Brexit which perhaps have stimulated the risk appetite of global investors. The US equities market has generated strong gains from the last quarter of 2019 up to the early weeks of January 2020 driven by an improved economic picture and the reduced trade tensions. European equities also gained nearly 9 percent while China' index rose at about 15 percent during the same period. Portfolio flows to emerging market economies have also strengthened as there have been recent equity market gains in such emerging markets as Brazil, Russia and India. Similarly, currency movements in the last quarter of 2019 and early January 2020 reflect an improvement in the risk sentiment and reduced tensions as US dollar and Japanese yen weakened by about 2 percent while the Chinese currency gained very marginally.

**The Domestic Economic Outlook:**

The outlook for the domestic economy prior to the January 2020 MPC meeting looks positive eventhough the trend of key variables has been a bit mixed. Output figure for the fourth quarter of 2019 is yet to be released officially, but recent CBN staff projections point to a firmer GDP growth in Q4 2019 of about 2.34 percent resulting in a 2019-year end growth of about 2.12 percent which is a little above earlier estimates of potential output growth. The positive year end outlook is informed by the relative expansion of the Purchasing Managers Index for both the manufacturing and non-manufacturing sectors. In addition, the stable oil prices and exchange rate as well as an expanding credit growth in the economy especially to the agricultural sector were key to the 2019-year end growth estimates.

The outlook for 2020 is also positive, but CBN staff estimates remain cautious as it forecasts that growth will moderate at 2.1 percent in 2020 and 2021, driven largely by the non-oil sector. Should oil prices remain at current levels for a sustained period, or even increase further, it is expected that GDP growth in 2020 may even be stronger.

While the baseline growth projections are titled on the upside, inflationary developments since June 2019 point to a set of downside risks to domestic economic activity. Latest inflation data (headline, food and core) for December 2019 show an increase for the fifth consecutive month since August 2019 and the marginal increases have been attributed mainly to food inflation, but prices of non-alcoholic beverages are also on the rise since December 2019. CBN staff estimate suggests that headline inflation will stay above 12 percent between January and March 2020.

On a positive side, recent bank stability data reflects the general strengthening of banking system and a more supportive financial market. The decline of non-performing loans from 9.4 percent in August 2019 to 6.6 percent in October 2019 and further to 6.1 percent in December 2019 and the improvements in the both profitability indicators (ROE and ROA) are indications of an increasingly robust banking system and the build-up of a more resilient financial system. Also, the growth in total banking assets after the last MPC meeting, largely driven by growth in new credit suggests a positive response to the CBN's loan to deposit ratio (LDR) guideline for deposit money banks eventhough the effectiveness of the new credit in stimulating growth are yet to be fully ascertained.

The domestic equity market has also generated strong gains in the fourth quarter of 2019 as both the All Share Index (ASI) and Market Capitalization increased between October and December 2019 by 1.85 and 1.00 percent, respectively. This late rally in the stock market has been driven largely by the improving domestic economic performance as well as the declining rates in the money market which perhaps may have induced local portfolio shifts.

A prime vulnerability remains the high and rising public debt burden and the risks they pose for future growth. The concerns about rising debt accumulation, which are not being matched by rising output growth have been raised at previous MPC meetings and the suggestions for a coherent fiscal coordination strategy that will reduce the levels of fiscal deficit have also been adequately canvassed in the past. With the continued elevation of the proportion of debt denominated in foreign currency, any sharp dollar appreciations will only add to the existing debt sustainability concerns and magnify the negative feedback loop.

## 5. BALAMI, DAHIRU HASSAN

## GLOBAL ECONOMIC AND FINANCIAL ENVIRONMENT

### Global Growth

This personal statement spotlight growth, inflation and financial soundness of the banking sector. The year 2019 was a year of uncertainty and slow growth. The global landscape headwinds which had adversely affected, and still affecting growth output are; the lingering trade war between the United States of America (US) and China, and the US and Iran geopolitical crisis in the Middle-East. The difficultly in negotiations around Brexit and the inversion of the yield curve in the US are resolving. Business confidence continued to wane in the year 2019, which reflected signs of weakness and waning fiscal stimulus in Europe.

Global trade remained weak during 2019. Amongst the developments in this regard was that the US economy is susceptible to global headwind, and the Germany economy slowed, although domestic fundamentals remain strong, uninspiring export growth remains a key drag to growth of the economy. Export which accounts for half of Germany's GDP slumped by 1.3% year-on-year in the period under review.

Heightened socio-political tensions equally weaken global growth. A review of developments showed that the French economy suffered from socio-political and economic challenges, which led to incessant demonstrations that almost crippled the economy. In Italy, there was a problem of budget crisis. However, the Italian economy emerged from a third recession in 10 year as the economy grew marginally at 0.1% quarter on quarter for 9 months even though the high debt overhang became a problem.

Central banks across the globe have been under pressure as they struggle to limit the impact of the mounting economic downturns. As a consequence, the adoption of dovish monetary policy by central banks and increased government fiscal stimulus packages were wide-spread.

The UK's economy sustained its expansionary trend in the Q1 2019 due to improved household consumption and higher government expenditure but slowed down in Q2 2019 and Q3 2019 to 1.3% and 1.0% year-on-year, respectively, due to the impact of uncertainties of Brexit on economic activities. In the Q1 2019, the Japanese economy grew by 2% due to improvement in private and public investment. However, the momentum waned in Q3 2019 when economy growth was at an historic low at 0.2%. Its Purchaser Manager's Index (PMI) had remained in contractionary zone since august 2019.

**Emerging Markets and Developing Economies (EMDEs)**

Growth in China ranged from a high of 6.4% in Q1 2019 to a low 6.0% in Q3 2019 due to the negative impact of the rising trade protection.

To reflate the economy, China undertook a government stimulus package inclusive of a massive tax cut worth USD290 billion and bond-buying of USD300 billion to boost infrastructure construction.
In India, growth slowed 5.8% in Q1 2019 to a low of 5% in Q2 2019. Manufacturing PMI in October 2019 was 50.6% compared to a high of 51.40 % in August 2019. To arrest this situation, the Reserve Bank of India adopted an accommodative monetary policy and cut the repurchase rate in July by 35 bps to 5.4%. Turkey slipped into a technical recession after reporting a second consecutive Gross Domestic Product (GDP) contraction in 2019. The economy contracted by 2.4% year on year in Q1 2019 and 1.5% year on year in Q2 2019 on account of weaker business spending.

Growth performance across African countries were mixed, some benefiting from stable commodity prices and favourable weather conditions e.g. Egypt and Nigeria, while others were negatively affected by weak global growth. South Africa for instance recorded unimpressive outturns driven by mining, agriculture and the manufacturing sectors.

**Expected Growth in 2020**

The momentum of global growth would be driven by the position of the first US and China trade pact signed early 2020. The escalation of crisis between US and Iran had since dissipated, while Brexit is showing signs of moving forward. Growth in the US is expected to moderate, driven by the adoption of a dovish monetary policy and strong domestic consumption. In Europe, weakness in industrial output, sluggish monetary activities and deteriorating domestic demand pose a drag to growth. Further accommodative monetary stance and fiscal stimulus packages are expected to be put in place to support growth.

Dovish monetary policy stance was adopted in advanced and emerging market economies in order to spur growth. In Europe, a number of unconventional monetary policies were introduced by the European Central Banks (ECB), for example, longer term refinancing operation (LTROs) which encourages Deposit Money Banks (DMB) to lend to the private sector of the economy. Growth in the less developing countries would drive overall global growth. In India, growth is expected to increase to 7% in 2020, driven by three factors namely: dovish monetary policy, strong domestic demand and fiscal spending.

**Inflation**

At the global level, inflation in advanced economies rose from 1.5% in 2014 to 1.8% in 2020, but mostly below 2.0% except in the US where inflation rose to 2.3% in December 2019. In the UK, inflation slowed to 1.3%, while in the Euro area it rose to 1.3% in December 2019. The less developing countries are equally experiencing moderation in price developments.

## DOMESTIC ECONOMIC AND FINANCIAL ENVIRONMENT

### Growth of Output

Throughout 2019, economic growth had been sluggish, hovering around 2.0% in the last few quarters and trailing the pre-recession historical average of 4.80%. The primary drivers of growth in the economy is the non-oil sector, but more of the rebound in oil sector. Oil GDP in Q2 2019 was 5.2% year-on-year; supported by the improvement in crude production (2.02m bpd). In Q3 2019, the impressive growth in oil GDP mainly stemmed from higher condensate production, with new volumes from Edina deep-water oil field project.

Growth in the economy has been fragile since exiting from recession in 2017. To promote growth in the economy, Central Bank of Nigeria (CBN) heterodox polices should be sustained such as expanding the Anchor Borrowers programme. The Loan-to-Deposit-Ratio (LDR) for the Deposit Money Banks (DMBs) should equally be encouraged. The LDR has led to more than N2 trillion credit to the real sector. It is expected that this should generate a positive effect on the level of growth in months ahead due to lag effect.

### Inflation

Inflation has been persistent in trending upward. Headline inflation, food inflation and core inflation, year-on-year rose from 11.85%, 14.48%, and 8.99% in November 2019 to 11.98%, 14.67%, and 9.33%

respectively, above the CBN target of 6-9 per cent range, in December 2019. This was due to increase in the price of processed food and supply constraint. It is my opinion that both growth and inflation can be tamed by increasing domestic output in the medium and long term; resolving insecurity challenges which, currently is country wide inclusive of the farmers/herders' clash; improving poor infrastructure facilities, reducing high level of unemployment and the twin deficit in the current account and fiscal budget.

**Soundness of the Banking Sector**

Available data on the trend of financial soundness indicators showed that the banking industry remained sound with good performance of the Capital Adequate Ratio (CAR), Non-Performance Loan (NPL), Liquidity Ratio (LR), and, Return on Equity (ROE). The Central Bank of Nigeria (CBN), however should continue to monitor and regulate the performance of the financial sector.

Of the three policy options which were to tighten, lose or to hold, given the current macroeconomic fundamental of the economy, I vote to tighten by raising the cash reserve ratio (CRR) by 500 basis point to 27.5% because of the expected liquidity surfeit in the economy due to the maturity of OMO bills and Government treasury bills. It should be noted that the LDR of 65% will not be hampered by the increase in CRR because the economy will be awash with liquidity.

Hence in summary, I voted to:

i. Retain Monetary Policy Rate (MPR) at 13.5 Percent;

ii. Retain the asymmetric corridor of +200/-500 basis point around the MPR;

iii. Raise the CRR by 500 basis point to 27.5 percent; and

iv. Retain the liquidity ratio at 30 percent.

## 6. ISA-DUTSE, MAHMOUD

## A. INTRODUCTION

Several unresolved and persistent headwinds confronted the global economy in 2019 which render the prospects for 2020 largely uncertain. The unfolding outcome is mixed – the abating trade war between the US and China and the certainty of Brexit present an upside to global growth but geo-political tensions, trade and technology conflicts, heightening social unrest and extremism constitute veritable downside risks.

As a largely open economy, Nigeria cannot be shielded from external influences such as shocks to oil price, investment, portfolio and trade flows. Thus, it becomes imperative to address the issue of declining external reserves, inadequate fiscal buffers, security and other macroeconomic challenges to withstand unforeseen global developments.

## B. EXTERNAL ECONOMIC CONDITIONS

The easing monetary conditions across the advanced and emerging economies in 2019 and the lessening of trade tension between Washington and Beijing following the recent signing of "phase one" trade agreement signpost an upbeat in the global economy in 2020. The IMF projection for global growth is 3.3% in 2020, up from 2.9% recorded in 2019 as global manufacturing picks up. In the emerging market and developing economies (EMDEs), output growth is expected to rise to 4.4% in 2020 from 3.7% in the preceding year, while the forecast for advanced economies indicate that growth will decline marginally to 1.6% in 2020 from 1.7% in 2019. In tandem with the envisaged upturn in global output, global trade is expected to rise to 1.9% in 2020 from 1.4% in 2019. Moreover, given the global growth conundrum witnessed in 2019, there has been a general policy convergence across both the advanced economies and EMDEs in switching over to monetary accommodation to spur growth. A survey of key central banks across both divides since the last MPC meeting in November 2019 shows that several central banks lowered their policy rates, while others retained existing rates.

The US Energy Information Administration (EIA) forecast that crude oil prices would average US$65/barrel in 2020. The more benign global economic environment anticipated in 2020 is expected to promote the implementation of the 2020 budget in Nigeria with an oil price benchmark of US$57/barrel. The continuing pursuit of monetary accommodation by the US Fed which has given a forward guidance of one or two rate cuts in 2020 should douse the concern of a further appreciation of the dollar against the naira. However, the effect of the uptrend in the US yield curve which reached its highest level on December 30 2019 (if sustained) may threaten portfolio shifts to Nigeria.

## C. DOMESTIC ECONOMIC CONDITIONS

Growth remains weak in Nigeria and the slow recovery trend is expected to continue in 2020. Although the real GDP figure for Q4 2019 is yet to be released by the National Bureau of Statistics (NBS), a growth proxy – the Purchasing Manager Index (PMI) - grew faster in the review period. The manufacturing and non-manufacturing PMI stood at 60.8 and 62.1 index points in December 2019 compared with 59.3 and 60.1 index points in November 2019, respectively. Against the background of real GDP growth of 2.1%, 2.12% and 2.28% in Q1, Q2 and Q3 2019, respectively, CBN estimates show that output will grow by 2.38% and 2.35% in Q4 2019 and Q1 2020, respectively. In order to address the numerous downside risks to growth and restore confidence amongst economic agents, there is need for renewed, effective and sustained policy coordination between the fiscal and monetary authorities.

On a year-on-year basis, inflationary pressures in Nigeria persisted as headline inflation rose to 11.98% in December 2019 from 11.85% in the preceding month. Headline inflation has maintained a consistent upward trajectory since September 2019 with food and non-alcoholic beverages representing the key factor underlying the price uptick. Food inflation, on year-on year basis, also increased to 14.67% in December from 14.48% in November 2019 with processed food accounting for the highest relative contribution, while imported food inflation inched up to 16.04% in December 2019 from 15.99% in the previous month. Moreover, on a year-on-year basis, core inflation peaked at 9.33% in December 2019 compared with 8.99% in November 2019. However, on a month-on-month basis, both headline and food inflation declined during the period under review, but core inflation sustained its upward trend in line with the rising aggregate price level. The problem of inflation is expected to exacerbate in the near term as forecasts (CBN) indicate an upward path of 12.09%, 12.18% and 12.21% in January, February and March 2020, respectively. Consequently, it becomes germane to employ appropriate policy tools to curtail liquidity surfeits arising/expected to arise from the redemption of maturing OMO bills, increased financing needs of Government and injections from FAAC, among others. To enhance agricultural production in Nigeria and thereby lessen inflationary pressures, ongoing efforts aimed at overcoming the country's security challenges should be sustained and further strengthened.

The decrease in the nation's external reserves position to US$38.07 billion at end-December 2019 from US$42.54 at end-December 2018 is also linked to excessive liquidity in the banking system. The average monthly weighted interbank and open buy-back (OBB) rates fluctuated well below the lower band of the monetary policy rate (MPR) throughout Q4 2019. Therefore, the need to rein-in liquidity pressures at this time cannot be over-emphasized taking into cognizance the objective of ensuring price and foreign exchange market stability.

The recent policies of the Bank aimed at channeling credit to the productive sectors of the economy is yielding desired results as absolute gross credit from the banking system rose by almost N2.0 trillion between June and December 2019. A salutary fall-out is the lowering of lending rates in various strata of the credit market spectrum. Moreover, on the back of the crash in the Treasury bill rate, the capital market witnessed a notable rebound as the All-Share Index and market capitalization grew by 9.75% and 17.08% between end-December 2019 and January 22, 2020.

## C. VOTING DECISION

The challenge of fragile growth and a high unemployment rate calls for caution in tweaking policy parameters to avoid truncating the recent policies aimed at promoting growth. However, the uptick in inflation which is close to the empirical growth-deterring threshold raises serious concerns in a banking system awash with liquidity. Therefore, I am of the view that adjusting the cash reserve ratio (CRR) to the extent of absorbing the excess liquidity and curtailing inflationary pressures is a step in the right direction, while maintaining the existing policy rate. Consequently, I voted to increase the CRR by 500 basis points (from 22.5% to 27.5%) and retain all other policy parameters as follows:

- MPR at 13.50% per annum
- The asymmetric corridor at +200/-500 basis points around the MPR

- Liquidity ratio at 30.0% per annum
- CRR at 27.5% per annum

## 7. NNANNA, OKWU JOSEPH

### Output and Prices

**Despite the uncertain global macroeconomic developments, the Nigerian economy showed signs of resilience and recovery. Growth continued to be recorded in all sectors – albeit tepid.**

Available data on manufacturing and non-manufacturing Purchasing Managers Indices (PMIs) stood at 60.8 and 62.1 index points, respectively, in December 2019. In November 2019, the manufacturing and non-manufacturing Index was 59.3 and 60.1 respectively; vis-à-vis the benchmark of 50.0 index points. Specifically, the real GDP grew by 2.28 per cent in 2019 Q3 averaging 2.2 per cent in the last four quarters. Services and Industry grew by 3.24 per cent apiece, while agriculture grew by 2.28 per cent in Q3 2019. The oil sector grew by 6.49 per cent, lower than 7.17 per cent recorded in the previous quarter, reflecting the decline in volume and crude oil prices. The oil sector averaged 2.65 per cent growth in the last four quarters. However, the output growth was inadequate to address the massive unemployment challenge facing the economy.

**Inflationary pressures remain high arising from banking system liquidity surfeit and structural shocks which triggered temporary food supply shortages.** Consequently, headline inflation rose to 11.98 per cent (y-o-y) at end-December 2019, compared with 11.85 at end-November 2019. Food inflation rose to 14.67 per cent (y-o-y) at end–

December 2019, compared with 14.48 (y-o-y) at end of the preceding month while core inflation rose to 9.33 per cent (y-o-y) at end–December 2019, compared with 8.99 (y-o-y) in the preceding month.

**Fiscal and Monetary Policy Coordination**

**Public expenditure was constrained by weak tax administration and concomitant inadequate revenue buffers.** Security related spending and higher wage bill due to the implementation of the minimum wage are the major factors driving the non-debt recurrent expenditure. With the debt-service-to-revenue ratio rising precipitously, the debt level is on the trajectory which is not sustainable given the slow pace of revenue generation and output growth. Debt service obligations remain precariously high as the 2020 budget reveals. At N2.45trn or 23.2 per cent of the total expenditure, the obligation is 14.5 per cent higher than the previous year and could be exacerbated if fiscal revenues and oil exports decline lower than the benchmarks.

**Financial System**

**The financial system is resilient and stable, but threatened with significant liquidity overhang due largely to the lack of coordination between monetary and fiscal policy.** I noted that the liquidity surfeit in the banking system arising from the financing of maturing OMO bills and the fiscal operations of Government represent clear upside risks to inflation and volatility in the exchange rate of the naira. Emerging CBN policies particularly, the Loan-to-Deposit Ratio (LDR) which is pegged at 65.0 per cent have led to the expansion of credit to the private sector. Also, the introduction of the Global Standing Instruction (GSI) mandate, have aided the de-risking of the financial market. Nevertheless, we caution that action must be taken to lower the cost of liquidity management, moderate the uptick in inflation and sustain stability in the foreign exchange market.

**External Sector**

**The gross external reserves is sufficient in the short-to-medium term. However, the level of import is weighing on the current account.** Nonetheless, it is noteworthy that the composition of visible imports is changing predominantly to capital goods, raw material and durable consumer goods. While strong diaspora remittances are expected to be a tailwind to mitigating a potentially higher current account deficits in the short-to-medium term.

Rising insecurity nation-wide and the tepid recovery following the general decline in global oil prices have slowed investor appetite in the equity market. Thus, foreign direct investment which have been on the slide in recent memory, fell further to US$498.62 million in Q3 2019 from US$906.90 million in Q2. Similarly, portfolio inflow declined to US$2.59 billion in Q3, from US$4.46 billion in Q2 2019. “Hot” money is volatile and is subject to sudden reversal at the slightest swing in sentiment.

The gross external reserves at approximately US$38 billion, as at January 27, 2020 is adequate to meet 12 months of import obligations. This, I believe, should allay the concerns of foreign investors. With the price of crude oil hovering around $60 per barrel and above the budget benchmark, the resilience of the overall balance of payments is assured.

**The risk to macroeconomic stability remain the twin deficits which the economy is belabouring under and the persistent inflationary pressures arising from expansionary fiscal and accommodating monetary policies.** The combination of Ways and Means financing and weak fiscal buffers have resulted to a fiscal deficit of about N3.68 trillion (3.5% of GDP) and a current account deficit of $2.79 billion (2.24% of GDP), in Q3 2019, respectively. Overall, I note that socio-political stability is heavily anchored on massive job creation – nation-wide. Unemployment remains the ticking time-bomb.

In view of these developments, I vote to raise the CRR by 500 basis points and to hold other policy metrics constant.

## 8. OBADAN, MIKE IDIAH

No doubt, global economic growth weakened significantly in 2019 against the backdrop of the US-China trade wars and declining growth in China, and declining manufacturing sectors in some advanced economies. These were either in recession or close to recession territory. The declining growth in China from 6.6 percent in 2018 to 6.1 percent in 2019 negatively impacted world economic growth. However, in quarter four (Q4) 2019, there was a rebound in the global economy supported by increased consumer spending, low oil prices, inflation, and interest rates. The rebound was also not unconnected with the introduction of another round of accommodative monetary policy aimed at providing additional incentives to support growth and employment. In addition, global financial conditions improved across the world, although rising debt levels posed a future threat.

## 2020 GLOBAL ECONOMIC PROSPECTS

Considering various developments, the initial fears about global economic outlook in 2020 relating to economies moving into recession, financial market conditions and oil prices, among others, may appear to be overly pessimistic. Global growth projections are generally better in 2020 than 2019, 3.3 per cent compared with 2.9 percent. With the conclusion of the first phase of the Trade Agreement between the US and China in January 2020, trade tensions have eased, and global trade volume is expected to improve in 2020 to 1.9 percent compared with 1.4 percent in 2019. If the Agreement is taken to a second level or sustained, trade growth could be close to the 4.0 percent achieved in 2018. The uncertainties surrounding BREXIT appear to be moving towards elimination as the Brexit Bill was endorsed by the House of Commons on January 9, 2020 and the UK is set to leave the European Union (EU) on January 31 2020, following which the second phase of negotiations for a trade deal with the EU will commence.

Thus, global economic outlook may be better in 2020 following likely cessation of trade hostilities between China and the United States, the diminished risk of a no-deal Brexit, an ease in financial conditions, and continuing stimulus provided by central banks. Indeed, a key feature of the current global policy environment is the continuation of monetary accommodation by some advanced and emerging market economies. Many central banks have sustained implementation of accommodative monetary policy including both orthodox and unconventional policy instruments in view of the need for one or a combination of the following:

- Respond to slowing global economy
- Address underlying threats to the economy
- Boost output growth and support economy's weak recovery
- Accommodate growth concerns
- Stem prevailing uncertainties in the global economy; and

- Achieve lower unemployment and sway economies from recession

Although geopolitical tensions, particularly between the US and Iran, were heightened in January 2020, following the assassination of a top Iranian General by the US, the tensions may not rise to a level as to destabilise the Middle-East region and the global economy. Following the Iranian response which resulted in the shooting down of a Ukrainian airliner and death of about 176 passengers, a doubling down on both sides is likely.

Oil market outlook in 2020 may not be as bad as predicted in 2019. Oil prices averaged mid-US$60s as at January 2020. The price of Bonny light on January 8, 2020 stood at US$67.58 per barrel compared with US$63.12 per barrel on November 19, 2019 and the opening price of US$67.2 per barrel on January 1, 2020. However, according to the futures market, the price of oil is expected at US$63.89 per barrel in February 2020 and could be lower at US$58.35 per barrel in December 2020. This implies that oil price (dollars) will hover around the top-50s to low 60s for the foreseeable future due to significant uncertainties clouding both the demand and supply sides of the market. These are still better than the 2019 projections which put the price at mid-fifties dollars. But a number of factors could influence the prices in an upward direction in prices among which are: optimism around the new trade deal between the US and

China; production cuts by OPEC; and shut down of Libyan oil fields. However, the threat to oil price by the US policy on shale oil supply cannot be overemphasised. Information from the U.S. Energy Information Administration (EIA), show that US crude oil production for 2019 was estimated at 12.3 million b/d, 1.3 million barrels per day higher than in 2018 and is expected to rise by 0.9 barrels per day to 13.2 million barrels per day in 2020 – targeted at Donald Trump's re-election agenda.

High oil prices would be good news for Nigeria which has no fiscal buffers. But the Government must worry about the continuing loss of the country's oil markets. The US which used to be the largest importer of crude oil from Nigeria ceased importation years ago. Following the trade agreement between the US and China, the latter now has to import oil from the US which is likely to adversely affect China's oil imports from Nigeria. With the US having a similar trade deal with India, then that market is also being lost. And so, Nigeria has to go out aggressively to search for markets for its oil exports.

## DOMESTIC DEVELOPMENTS

The major developments in the domestic economy which have implications for the direction of monetary policy are in the following areas: financial sector, price stability and fiscal operations of the government.

## Excess liquidity build-up

Generally, the financial sector has continued to show good performance as portrayed by various financial soundness indicators. The Non-performing Loans (NPL) ratio has maintained its downward trend, standing at 6.1 percent in December, 2019 compared to 11.3 percent in February, 2019. The liquidity ratio stood at 45.6 percent last December compared to the minimum requirement of 30.0 percent. The capital adequacy ratio of 14.5 percent is good in relation to the prudential requirement of 10 – 15 percent. The rates of return on equity (25.8%) and assets (2.3%) are robust and indicate high profitability of the banking industry. The rates are higher than those of comparator countries: Turkey, South Africa and Malaysia. In addition, for the banking industry, total assets, deposits, and aggregate credit have grown substantially. The growth in assets has been steady and impressive, rising by 15.36 percent (or by N5.36 trillion) between December 2018 and end-December 2019. The structure of total assets has also changed in favour of more loans and advances, and less of government securities. It shows that the impact of the loans to deposit ratio (LDR) policy has been positive. The growth in total deposits has also been steady; total deposits recorded an increase of N2.34 trillion or 10.73 percent between December 2018 and December 2019. Besides, aggregate credit growth has also been impressive; total credit increased by N2.23 trillion or by 14.54 percent between December 2018 and December 2019, largely due to the Central Bank of Nigeria's (CBN) policy on

LDR. This has encouraged banks to increase lending to the economy. The impact of the policy on agriculture has been positive. Since the policy was issued, lending to agriculture has been on the increase. Lending to the sector accounted for 4.67 percent of the total credit at end-December 2019. Thus, unorthodox monetary policy has achieved significant success in credit delivery compared to orthodox policy.

However, the implementation of the LDR policy along with the policy restricting individuals and domestic corporates from participating in the Open Market Operations (OMO) market (CBN Bills), has resulted in excess liquidity in the system with implications for price and monetary stability as well as stabilisation costs. The liquidity build-up continues as long as the OMO bills held by these agents mature. Monetary policy stance would need to take cognisance of this factor. The above policies have led to the crash of deposit rates, particularly, term or fixed deposit rates which are now even less than the savings rates in most cases. But the data do not show the lending rates as crashing in a similar manner, thus leaving the spread between the lending and savings rates even wider than before. Commercial banks have no reason to maintain very high lending rates in the face of exploitative low savings rates. They would need to be compelled to do the needful, otherwise they are undermining the essence of the policies. In other words, the very high rates have adverse implications for financial intermediation and effectiveness of monetary policy transmission channels. Finally, the Nigerian Treasury

Bills (NTBs) rate has also crashed like the deposit rates. This is good for government borrowing. But the NTBs rate should not be used as a benchmark by the Deposit Money Banks (DMBs) for their deposit rates. Rather, their benchmark is the Monetary Policy Rate (MPR) which is currently 13.5 percent.

The challenge posed by the current liquidity surfeit would need to be addressed. This may involve the use of both orthodox and unconventional monetary policy instruments.

**Upward Trend of Inflation**

Rather uncomfortably, the headline year-on-year rate of inflation has trended upwards each month in the period, September - December, 2019, after the low level of 11.02 percent attained in August 2019. All the measures of inflation – headline, food, core - increased steadily standing at 11.98, 14.67 and 9.33 percent, respectively in December, 2019. The increase in headline inflation is due largely to increase in food (including imported food) and core inflation, invariably the highest increase in food inflation since May 2018. The increase in inflation rate coincides with the period of border closure aimed at checking unwholesome smuggling of goods into and out of the country, dumping of goods and illegal importation of arms and ammunition. No doubt, it is a much desired policy. But it has created temporary supply constraints along with subsisting structural factors to heighten food inflation. Thus, the inflation in the country may be largely attributed to policy and structural factors, although monetary factors relating to excess liquidity may not be ruled out. The implications are very clear. While the CBN will continue to implement measures to address the monetary elements of inflation, the structural and policy induced factors cannot respond to monetary policy tools directly. However, through the unconventional monetary policy measures which ensure delivery of a high volume of credit to priority sectors of the economy, monetary policy could stimulate a high volume of output which would lower food prices and inflation. CBN would therefore need to sustain the unconventional monetary policy measures. Agricultural producers need to be encouraged to take advantage of the border protection measures to increase investment and boost supply of food and other agricultural products. The structural factors of inflation in the country are not unconnected with the infrastructural deficits – power and transport - insecurity and crimes, insurgency in the North-East, supply constraints arising from farmers-herders conflicts, among others. These adversely affect GDP growth and food supply. It is not likely the case that the negative impact of the war against the Boko Haram group and the herders' menace in the food producing areas of the country is deeply appreciated. For quite sometime now, huge financial resources have been expended on the war against insurgents. The opportunity cost is very high in terms of infrastructure and social development programmes and other development initiatives. There is thus the need to win the war and bring it to a closure to free resources for development and make government business of improving the lives of the citizens much easier. More public and private investment will improve the current weak growth rates and ease supply constraints. A permanent solution is also needed to the protracted farmers-herders conflicts.

**Persistent and Large Fiscal Deficits**

The Federal Government's persistent fiscal deficits and the corresponding debt accumulation have continued to be worrisome in view of the implications for monetary policy effectiveness and debt sustainability. The Federal Government fiscal operations from January to September 2019 resulted in a deficit of N3,466.83 billion. The Government borrowed from the domestic markets through the issuance of FGN bonds amounting to N670 billion in order to finance the budget deficit. This left a net overall deficit of N2,796.83 billion which may have been largely financed from non-budgetary sources in which event it contributes not only to excess liquidity and monetary inflation in the economy, but also to public debt accumulation and crowding out of private investments in the financial markets. To the extent that the widening fiscal deficits have been driven by revenue underperformance and bludgeoning public expenditure whose quality is on the low side, it is crucial for the government to do three things: aggressively pursue domestic revenue mobilisation through tax reforms and enforcement of compliance; progressively build fiscal buffers; and drastically reduce the cost of governance by ensuring expenditure efficiency and effectiveness which is low at present.

**OPINION**

This takes cognisance of the above developments, in particular, the banking system liquidity challenge, the increasing inflation rate beyond the target range of 6.0 – 9.0 percent and moving towards the zone that can endanger growth, and the need to improve the positive growth rates which trended upwards in the quarters of 2019. Monetary policy stance, reflected by the Monetary Policy Rate of 13.5 percent, is tight. Any increase in this rate to fight inflation and excess liquidity would be interpreted by the commercial banks as a signal to further increase their already high lending rates, thus jeopardising the desired improvements in the economic growth rates. The banks have for some time now related with the MPR in an asymmetric way by raising lending rates when MPR is increased. But the cash reserve requirements (CRR) can be adjusted upwards and/or stabilisation securities issued at minimal or no interest cost to address the liquidity problem. The possible negative effect on lending can be addressed by the discriminatory cash reserve requirements (DCRR) through which the banks can still access their reserves to provide lending to priority sectors at single digit interest rates. Of course, the CBN will have to vigorously promote the DCRR as well as continue with the unconventional monetary policy measures which have turned to be very effective. They can be refined/strengthened as may be desired.

In light of the foregoing, I vote to increase the CRR to 27.5 percent and maintain the other parameters at their extant levels. In other words, my opinion is reflected as follows:

| | |
|---|---|
| MPR: | 13.5 percent |
| CRR: | 27.5 percent |
| Liquidity Ratio: | 30.0 percent |
| Asymmetric Corridor: | +200 / - 500 basis points. |

## 9. SANUSI, ALIYU RAFINDADI

### 1.0 Decision:

My conviction about the source of the current inflationary pressure informed my vote to hold on all the policy parameters in today's meeting. From the available data, I am convinced that, although monetary factors do have some influence, the trigger and, to a large extent, the key driver of the upward-trending inflation is the supply-side pressure occasioned by the closure of land borders. Given the evidence that banks have resumed lending to the real sector, in response to the central bank's heterodox policies to support faster output recovery, a hold, rather than tightening is the appropriate policy for now. Although I am concerned about the possible rise in the cost of liquidity management especially as the OMO bills mature, I believe policy action to address this must not be at the risk of raising the costs of lending. This is because such a rise may weaken the demand for credit, which needs to remain strong as banks seek to lend in line with the Loan-to-Deposit Ratio (LDR) policy.

### 2.0 Background and Justification

### 2.1 Global Economic Developments

*Output growth in 2019 was weakened by the uncertainties associated with the trade wars between China and the US, geopolitical tensions, BREXIT as well as the resultant decline of growth* *in China. In 2020, global output growth is projected to be slower than earlier projected due to risks of a re-escalation of trade tensions, the slowdown in advanced economies and the resurgence of financial stress in emerging and developing economies (EMDEs).*

The lingering uncertainties surrounding BREXIT and the US-China trade wars, which dominated 2019, significantly affected output growth in China and pushed the global manufacturing sector into near-recession. This prompted central banks in advanced economies to start another round of accommodative monetary policy to avert a recession. Growth projections for 2019 were consequently revised downward, severally, to 2.9%. The monetary accommodations in advanced economies are, however, expected to support global output recovery in 2020. Accordingly, the IMF has projected global growth to be at 3.3% in 2020, compared with 2.9% in 2019. Growth in advanced economies, which was estimated by IMF at 1.7% in 2019, is forecasted at a slower rate of 1.6% in 2020. The World Bank has also revised its global output growth forecast for 2020 from 2.7% to 2.5% owing to a number of downside risks. These risks include the possible re-escalation of tariff wars, EU's imposition of new taxes on technology companies that are largely based in the US, fragile growth in the advanced economies as well as weather-related disasters. Growth is, however, expected to pick up in the EMDEs from the projected 3.7% to 4.4% (IMF). Global trade is expected to grow to 1.9% in 2020 compared with 1.4% in 2019 owing to reduced trade uncertainties, improved industrial production in China and other major Asian economies.

The global inflation forecast for advanced economies moderated to 1.8% in 2020 compared with 1.5% in 2019. In the US, inflation increased from 2.1% in November 2019 to 2.3% in December 2019 due to the increase in energy costs. In most of the advanced economies, inflation continued to trend below their long-term target, albeit upward owing to the return to monetary accommodation. In the UK, for instance, inflation continued to decline from 1.5% in November 2019 to 1.3% in December 2019, which is the lowest rate since November 2016. In the Euro area, inflation increased to 1.3% in December 2019 compared to 1.0% in October 2019. In Japan, inflation also increased from 0.2% in October 2019 to 0.5% in December 2019, representing the highest rate since August 2019, reflecting increases in food and housing prices. In the EMDEs, however, price developments remained mixed, with the IMF inflation forecast at 4.7% in 2019 and 4.8% in 2020.

In the international crude oil market, OPEC basket stood at US$65.58 per barrel; Bonny Light, US$64.84 per barrel; and West Texas Intermediate (WTI), US$65.51 per barrel on January 20, 2020. Price developments in the oil market are influenced by the optimism around the new trade deal between the US and China, Production cuts by OPEC and shut down of the Libyan oil fields. US Energy Information Administration (EIA) forecasts oil prices to average US$61 per barrel in 2020. World Bank expects the oil price to grow by 1.9% in 2020 compared to -5.4% in 2019. World demand is projected to rise to 101mb/d in 2020 from 99.77 mb/d in 2019.

## 2.2 Domestic Economic Developments and their Implications

Available data shows that, although still fragile, domestic output growth continues to recover from the 2016 recession. Output growth increased from 2.12% in Q2 2019 to 2.28% in Q3 2019, a rate that is significantly higher than the 1.81% achieved in the corresponding quarter of 2018. This performance was largely driven by the oil sector (9.77% of the total real GDP), which grew by 6.49 % in the Q3 of 2019. The non-oil sector, which contributed 90.23% of the real GDP, grew by 1.85% in Q3 2019 compared with the 1.64% achieved in Q2 2019. The growth in the real GDP was driven by services (1.09%), industries (0.69%), agriculture (0.67%) and construction (0.07%). Trade output, however, declined by 0.23% during the quarter. Manufacturing output, which contributed 8.74% of the total real GDP, grew by 1.1% in Q3 2019 compared with a decline of 0.13% in the previous quarter.

Monthly Purchasing Managers' Index (PMI) for manufacturing and non-manufacturing sectors stood at 60.8 and 62.1 index points, respectively in December 2019. This indicates expansion in the economy for the 33rd and 32nd consecutive months, respectively. These index points indicate faster rates of expansion in December's output compared to November 2019. The Manufacturing PMI is driven by expansion in production level, suppliers' delivery time, new orders, raw materials inventory. The expansion of the non-Manufacturing PMI was driven by expansion in business activity, new order, inventory, average input price, and new export order. The Industrial Production Index (IPI), which stood at 119.8 (2010 = 100) in the fourth quarter of 2019 indicates a growth rate of 3.7% compared with the preceding quarter. The increase was driven by growth in manufacturing, mining, electricity, and consumption. The estimated Index of Manufacturing Production also grew by 2.2% in the fourth quarter of 2019 compared with the preceding quarter, owing to festive season consumer demand and improved manufacturing activities due to the closure of land borders. Staff forecasts suggest a real output growth of 2.38% in 2029Q4 and 2.2% for the year 2019. In the first quarter of 2020, the output is forecasted to grow by 2.34%.

Available data from the NBS indicated that in December 2019, the headline inflation (year-on-year) has increased to 11.98%, compared with 11.85% in November 2019 and 11.61% in October 2019. The increase was driven by increases in food prices and core inflation. Food inflation (y-o-y) rose from 14.48% in November 2019 to 14.67% in December 2019, representing the highest increase since May 2018. The key components that drive food price developments include processed foods, meat, oil and fat, yam, potatoes, and other tubers. Core inflation grew (year-on-year) from 8.99% in November 2019 to 9.33% in December 2019, driven mostly by processed foods, housing, water and gas, furnishing, household equipment, and housing maintenance. According to staff forecasts, inflation would continue to rise, in the medium term, mainly due to shortages and higher costs of imported food caused by insecurity in the food-producing areas and land border closure, implementation of the new minimum wage, VAT increase and food shortages due to insecurity in the agricultural area of the country.

Available data shows that the banking system continues to remainstable and resilient. The Non-performing loan (NPLs) ratio declined to 6.1% in December 2019 from 6.6% in October 2019 and 9.4% in August 2019. Total credit to the economy has also continued to increase from about N15.44 trillion in June 2019 to N17.57 trillion in December 2019, representing an increase of N2.13 trillion in 6 months, which is attributable to the CBN's policy on LDR. Manufacturing and general (retail and consumer loans) continue to receive the highest share of this increased lending. Between May-end 2019 and December-end 2019, the manufacturing sector received the highest share (N446.44 billion), followed by Retail & Consumer (N419.02 billion), General Commerce (N248.48 billion), Agriculture & Forestry (N160.94 billion), ICT (N156.47 billion) and Construction (N86.54 billion).

## 3.0 The Basis for My Policy Choice

In weighing my options for policy choices, the key issues in consideration are the threat to inflation, which has been trending away from its long-run target band and the fragile output recovery. In addition, there are concerns about the rising cost of liquidity management, which may be exacerbated by the maturing OMO Bills. However, as I noted in my Personal Statement for the 270th meeting, improved output recovery, especially amidst the current Federal Government's policy on the land border, is a necessary means of subduing the current inflationary pressure. Tightening is, therefore, not an attractive option for dealing with the current upward inflationary pressure for now. In addition, if a policy option to tackle the liquidity surfeit, such as raising the CRR, causes banks to raise the lending rates, demand for loans may be affected and consequently the LDR policy. Because there is evidence that the heterodox monetary policies have started to re-direct credit to the real sector, especially amidst the recent border closure, strong output response is the preferred means of reducing the current inflationary pressure. In considering my options, therefore, I am convinced that the best option is to hold all policy parameters.

Consequently, I voted to:

Retain the MPR at 13.50 percent;

Retain the CRR at 22.5 percent;

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

Retain liquidity ratio at 30.0 percent.

## 10. SHONUBI, FOLASHODUN A.

Dragging global growth and tepid domestic economic recovery, amidst recent uptick in inflation constitutes a conundrum for monetary policy as we move into 2020. Slow global economic growth has the tendency to weaken demand for Nigeria's crude oil and cause fiscal fragility, while crawling recovery is certain to worsen unemployment and poverty. Though current inflationary pressure is an expected outcome of current strategies to alter the structure of domestic production, rising prices must be tamed. The Bank must continue to take necessary actions to deliver on its primary mandate of maintaining monetary and price stability that is conducive for economic growth, even as benefits of recent measures manifest gradually.

### Global Economic Developments

Developments in the global economy continued to be influenced by the dynamics of China-US trade dispute, changing vulnerabilities in global financial markets, and geo-political tensions, amidst global debt build up and generally sub-optimal inflation in developed economies. Low-inflation, especially among the major developed economies, further heightened the prospect for continued adoption of accommodative policy by central banks in 2020 to tackle slowing growth. Global growth in 2020 is therefore projected to be gradual and steady, at 3.3 per cent (IMF WEO, January 2020), as positives of the largely accommodative policy environment in 2019 manifests.

**Domestic Economic Developments**

In the last quarter of 2019, the economy experienced persistent rise in general prices. Headline inflation increased for the 4th consecutive month to 11.98 per cent in December 2019, from 11.85 per cent in November 2019, on account of the rise in both food and core inflation. Food inflation reached 14.67 per cent at end-December 2019, from 14.48 per cent in the previous month. ***Importantly, on a month-on-month basis, headline and food inflation trended downward over the last three months, highlighting a gradual dissipation of (food) inflationary pressure.*** Core inflation, at 9.33 per cent in December 2019, trended upward, on month-on-month basis. Similarly, imported food reached 16.04 per cent in December 2019 after five consecutive months increase.

Despite broad money supply and reserve money been generally below target performance, developments in the financial market underscored the preponderance of liquidity, with implications for monetary pushed inflation. Monthly weighted average inter-bank and Open-buy-back rates, fell to 3.82 and 3.24 per cent, respectively, in December 2019. Increased volume at the standing deposit facility window also further highlighted prevailing liquidity condition. Recent rebound of the capital market was viewed as an encouraging outcome of the recent policy on local investors' participation at OMO bills auction.

Latest released data by the National Bureau of Statistics (NBS) puts output growth at 2.28 per cent in the third quarter of 2019, driven by improvement in the non-oil sector and recovery in the oil sector. The expansion rate, however, remained weak and fragile vis-à-vis the desired and potential growth. Sustained rise in manufacturing and non-manufacturing purchasing manager's indices, also showed continuous improvement in industrial activities.

Resilience of the banking system was preserved throughout 2019, as indicated by the continuous improvement in prudential measures. Industry Non-Performing Loan (NPLs) ratio was at 6.1 per cent in December 2019, compared with 11.7 per cent in December 2018, and represented a significant improvement in 2019. Similarly, industry liquidity ratio, at 45.6 per cent in December 2019, was well above the prudential requirement of 30.0 per cent. Marginal decline in industry capital adequacy ratio to 14.5 per cent at end-December 2019, was attributed to, mainly, rise in risk weighted asset, on account of increased credit and Basle (IFRS) provisions. Return on asset and investment, at 2.3 and 25.8 per cent, respectively, showed robust profitability throughout 2019, higher than the levels in comparative jurisdictions.

The fiscal space remained tight in 2019. Government revenue persistently fell short of budgeted levels, while expenditure was higher, thereby resulting in deficit throughout the fiscal year. Government, therefore, consistently borrowed to fund its spending. In the external sector, exchange rate stability was generally sustained, though marginal depreciation was recorded at both the Investors' and Exporters', and the BDC segments of the foreign exchange market. The external sector was challenged by declining external reserves, due to capital flow slowdown and lull in the international oil market in the last quarter of 2019.

**Overall Considerations and Decision**

The global policy environment is expected to remain largely accommodative in 2020, as central banks strive to address persistent slowdown in growth. As the lagged impact of loose policy environment in 2019 manifests, growth is projected to further stabilise with implications for international oil markets. Accommodative policy environment provides further room for domestic policy maneuver, while better global growth is likely to guarantee stable commodity and energy market.

Clearly, current domestic growth level is grossly inadequate to address the critical challenges of high unemployment and poverty. We must continue to take appropriate actions that promote growth and facilitate employment generation. However, while weak growth remains a major concern, we must not lose sight of the recent uptick in inflation, attributed to both structural and monetary factors.

We continue to see significant progress with the measures taken in the banking sector. The combination of the Loan-to-Deposit Ratio (LDR) based and de-risking measures by the Bank have led to the ramping up of credit into employment generation sectors, thereby enhancing prospect for improved growth. I am, however, obliged to advocate for a review of capital requirement of banks to further strengthen their resilience and boost their capacity to adequately play their role as engine of growth.

As I have mentioned in my earlier statements, the fiscal authority need to rise up to the occasion and effectively support the effort of monetary policy to promote growth. Persistent shortfall in revenue and increasing recurrent expenditure, has made the fiscal space even tighter, while recent trends in the level of deficit and debt accumulation have reached a worrisome state. Government must urgently embark on an aggressive expenditure rationalisation to significantly reduce recurrent expenditure, free resources to fund expansion, ramp up fiscal stimulus and enhance fiscal buffers. Deficit financing by the monetary authority must be addressed. The Government must explore opportunities for financing by the banking sector. In the external sector, we must sustain our actions, including transparency, to further strengthen investor confidence. There has been a gradual return of investors after the sudden reversal in the last quarter of 2019.

Even as we push for growth, our actions must be forward looking and continuously leverage insights from available data. We must take action to address structural and monetary factors to tame persisting inflation and ensure it does not become inimical to growth. I believe that food inflation will further dissipate, as domestic supply improves from increased harvest activities. Also, the influence of imported food inflation is expected to wane, through substitution with local alternatives. Monetary influence, on account of excess liquidity has, however, become the culprit that is fueling persisting inflation.

Excess liquidity, arising mostly from maturing OMO bills and fiscal operations of government must be sterilised to address the monetary influence on inflation. Today, the MPR is more of a signaling rather than referencing parameter. The CRR appear to me as our most potent and direct instrument to mop up liquidity. I am inclined to recommend an increase of the current CRR and believe that as we take these actions, we can maintain monetary and price stability, as well as, continue to facilitate expansion and economic growth.

I therefore vote to:

- Retain the MPR at 13.50 per cent;
- Retain the asymmetric corridor of +200/-500 basis points around the MPR
- Raise the Cash Reserve Ratio (CRR) from 22.5 per cent to 27.5 per cent; and
- Retain the Liquidity Ratio at 30.0 per cent.

## 11. EMEFIELE, GODWIN I.

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

Following a tepid performance in 2019, global macroeconomic condition is expected to stabilise in 2020 as growth momentum inches up, *albeit*, sluggishly. According to the IMF, global growth for 2020 is projected at 3.3 percent from 2.9 percent in 2019. The projection is buoyed by expected positive outcome of the US-China trade talks, favourable execution of Brexit, and ample monetary policy stimulus. Regardless, downside risks subsist, and market sentiments remain fragile especially as heightening geopolitical tensions between US and Iran amplified global uncertainties. With growth in advanced economies projected to fall by 0.1 percentage point to 1.6 percent in 2020, global recovery is expected to be driven by the quickened impetus in Emerging Market and Developing Economies (EMDEs) to 4.4 percent from 3.7 percent in 2019.

For the Nigerian economy, short-term outlook remains modest, as output growth recovery is expected to progress. In-house analysis projects growth at about 2.4 percent for 2020 from 2.2 percent estimated for 2019. This could be accompanied by a gradual rise in inflation over the short-term, driven largely by structural and monetary factors in the domestic space. Data by the National Bureau of Statistics (NBS) shows evidence of consolidation in economic recovery as real GDP growth increased to 2.3 percent in 2019q3 from 2.1 percent in 2019q2. Analyses indicate that the oil sector grew by 6.5 percent, contributing 0.6 percentage point to total growth, while non-oil sector, with a growth of 1.9 percent, accounted for 1.7 percentage points with a robust prospect for 2019q4 outcome. The favourable growth sentiment is supported by positive PMI –both in the manufacturing and non-manufacturing indexes– buoyed by the continued foreign exchange (FX) market stability and the enhanced credit flows to the real private sector of the economy.

Regardless of this upswing, cautious policy is irrefutable as growth is still low while per capita income and unemployment rate remained outside tolerable levels. Besides, the modest short-term prospect is threatened by a delicate oil price dynamics, weak aggregate demand, persistent herder–farmer conflicts, and prevalent security challenges. I am of the view that a favourable resolution of these challenges, reinforced by sustained FX stability, as well as continued implementation of the Loan-to-Deposit Ratio (LDR) policy will further boost short-term outlook.

Data on domestic prices shows a displeasing and continued uptick in year-on year headline inflation rate from 11.85 percent in November 2019 to 11.98 percent in December, with near-term outlook suggesting a gradual build-up of inflationary pressure up to mid-2020. The observed rise reflects the 0.19 and 0.34 percentage points increases in both food and core inflations to 14.67 and 9.33 percent, respectively, over the preceding month. Analysis shows that food inflation derived from the yuletide spending and was exacerbated by the adverse effects of security challenges along some food producing belts. Though near-term upside inflationary risks subsist, the existing foreign exchange stability and ongoing aggregate supply boosting policies of the CBN are expected to continue to dampen emerging pressure.

Domestic liquidity conditions indicate an expansion in monetary aggregates in 2019 as broader money stock (M3) recorded a year-on-year growth of 6.2 percent. Net domestic credit expanded by 27.3 percent, reflecting the 92.9 percent growth in government credits and the 13.6 percent rise in private sector credits. I note the robust and progressing outturn of domestic private sector credits. While this reflects our recent inclination on LDR, I continue to emphasise the importance of enhanced credit flows to strategic 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. I note the improvements in banks' Non-Performing Loans (NPLs) position and our continuing efforts at de-risking the target sectors. Robust credits will bolster domestic investment, household demand, and factor productivity, while accelerating economic diversification, and ensuring strong and inclusive growth.

In my consideration, I affirm that the objective of price and exchange rate stability remain sacrosanct. I note the welcome stability at the FX market and near convergence of rates at different segments of the market in 2019, and expect this to continue in 2020. I also acknowledge the dissatisfying rise in inflationary pressure in the short-term. With December 2019 inflation at 11.98 percent, the scope for innocuous inflation rate is exhausted as rates above 12 percent are detrimental to domestic output growth. This underscores the need for effective action to tame inflationary pressures and ensure the trend returns to long-run objectives. I note as well that even as inflation trajectory rises, prevailing macroeconomic stability and short-term prospects remain cautious due to manifold global and domestic risks. On the global scene, weak demand, structural slowdown, geopolitical tensions, and fragilities in the crude oil market portend some downside risks. On the domestic front, widespread security challenges, declining total factor productivity, and rising sovereign debt profile dampen medium-term outlook. I reiterate that even as economic recovery stayed fragile, effective anchoring of inflation expectations remain fundamental. Besides, potential fall in oil prices could debilitate the economy and adversely impact the exchange rate with ramifications for inflations. It remains urgently imperative to diversify the economy and create institutional structures that will insulate the economy from oil shocks.

My inclination today, given the near-term inflation expectations is to tighten monetary policy stance. However, the dilemma of the trade-off between inflation and output remains afoot, since a rate hike could derail our modest recovery. I remain mindful of the need to pursue a policy of price stability without losing sight of the importance of economic growth. I note the recent upsurge in Deposit Money Banks (DMBs) deposits following the OMO bills prohibition of domestic non-bank investors and the attendant fall in deposit rates. I equally recognise the need to ensure that the surfeit is properly channelled to productive real sector. Accordingly, while the LDR policy ensures that some of the maturing OMO bills increase credit flows, it is imperative to sterilise the surplus and prevent a destabilisation of the foreign exchange market.

Overall, I am of the view that the current levels of key policy parameters are sufficiently tight. However, I acknowledge the need to constrain DMBs ability to undermine the foreign exchange market and debilitate the domestic economy. In my view, though the current level of real policy rate remains appropriate, there is the need to adjust the CRR in order to balance the objectives of exchange rate stability, price stability and output stabilisation without introducing disruptive policy shocks. Therefore, I vote to:

- Raise the CRR from 22.5 percent to 27.5 percent;
- Retain the MPR at 13.5 percent;
- Retain liquidity ratio at 30.0 percent; and
- Retain the asymmetric corridor at +200/–500 basis points.

**GODWIN I. EMEFIELE, CON**

Governor

January 2020