



Central Bank of Nigeria Communique No 109 of the Monetary Policy Committee Meeting of Monday and Tuesday 19th and 20th September 2016

The Monetary Policy Committee met on 19th and 20th September 2016, amidst persistently subdued global and domestic economic and financial environments. The Committee assessed the prevailing global and domestic risks to September 2016, and the outlook for the last quarter of the year. In attendance were 10 out of 12 members.

International Economic Developments

The Committee acknowledged the tepid growth performance of global output, but noted the constraints imposed by lingering legacy factors, the June 23rd Brexit vote, continuing weak demand in the emerging markets and contracting productivity. Whilst the advanced economies, led by the United States, are showing signs of

growth recovery, the outlook remains fraught with uncertainty as long-term government bonds have nosedived to multi-year lows on expectations of loose monetary policy from the advanced economies and continuing depressed output in the Euro Area, Japan and China. Consequently, the IMF had in July 2016, downgraded its baseline global growth forecast to 3.1 per cent from 3.2 in April. The World Bank in its June 2016 Report on Global Economic Prospects showed even less optimism in forecasting 2016 global output growth at 2.4 per cent from the 2.9 per cent in January. The subdued global growth prospects is traced to persistently weak aggregate demand in the emerging markets and developing economies (EMDEs), soft commodity prices, diminished investment, contracting trade, weak demand and rising inflation. Volatility in the global financial markets appeared muted in the second quarter of the year despite the UK Brexit vote. While crude oil prices remained tepid following supply disruptions in Nigeria, Iran and Iraq. Expectations of US interest rate hike remained ripe but not heightened.

US economic growth firmed up at a seasonally-adjusted annualized rate of 1.1 per cent in Q2 2016, although with a downward adjustment of 0.1 per cent from an earlier first estimate of 1.2 per cent. It, however, still represents a noticeable improvement compared with the 0.8 per cent growth recorded in Q1 2016. The improved performance of the economy was attributed to increased private consumption spending, a robust labor market and increased exports, even as retail sales and manufacturing output declined.

Japan's economy expanded against the backdrop of weak wage growth and an external sector that is undermined by a strong yen, at an annualized seasonally adjusted rate of 0.2 per cent in Q2 2016 compared with 1.7 per cent in Q1 of 2016. Fearing that monetary policy may be approaching its limits, the government on 2nd August, approved a fiscal stimulus of ¥13.5 trillion (US\$132 billion) in a spirited attempt to jumpstart the economy, even as the Bank of Japan (BOJ) dismissed market speculation that it was planning to stop its monthly

monetary stimulus program of ¥6.7 trillion (\$69.07 billion). The massive fiscal and monetary stimuli are, however, yet to have the desired impact.

Real GDP in the Euro area expanded by 0.3 per cent, a significant decline compared with the 0.6 per cent recorded in Q1 2016. Downside risks and expectations from the Brexit vote may not have crystallized yet and no attendant major economic shock to the euro zone has yet been experienced. As such, many of the conditions that had driven the recovery remained in place, suggesting that Q3 growth may further improve.

Following its September 8th, 2016 meeting, the Governing Council of the European Central Bank resolved to leave its key interest rates on the main refinancing operations, the marginal lending facility and the deposit facility unchanged at 0.00, 0.25 and -0.40 per cent, respectively. The Council also reaffirmed its commitment to sustain the monthly asset purchases of €80 billion (US\$90.4 billion) until end of March 2017 or until a sustained adjustment is seen on the path of inflation, towards the 2.0 per cent policy target.

The Bank of England (BoE), at its August 4th meeting, and in attempts to further blunt the aftershocks of the Brexit vote, decided to cut its benchmark interest rate for the first time since 2009, by 25 basis points from 0.5 per cent to 0.25 per cent, the lowest ever in the Bank's history. The Committee voted to increase its monthly assets purchase program financed through the issuance of reserves by another £60 billion (US\$80.4 billion) from £375 billion (US\$502.5 billion) to £435 billion (US\$582.9 billion). Furthermore, the BoE revived its financial crisis-era U.K. government bond buying program financed through the issuance of reserves, up to £10 billion (\$13.4 billion), in effort to stimulate the economy and steer inflation towards its 2.0 per cent target.

While major EMDEs continue to be constrained by low capital inflow, the intractable macroeconomic environment faced in 2015 and through to the first half of this year is gradually abating. The prospects for near term full economic and financial recovery in the EMDEs remain subdued, with the IMF (WEO July 2016 Update)

projected growth rate forecast for this group of countries at 4.1 per cent, a downward review from 4.3 projected in April. However, the resumption of growth is expected to be powered by rising credits and a surge in government spending.

The potential alliance between OPEC and non-OPEC members like Russia, to reduce quota, in the face of disruptions to production in Nigeria, Libya and Iraq, have aided relative stability in crude oil prices. Globally, general price levels remained tapered due to sustained low oil and other commodity prices. In the advanced economies, despite the uncertainties arising from the UK referendum, accommodative monetary policy stance of the region's central Banks, negative interest rate in Japan and elsewhere, as well as various fiscal stimuli, global inflation has remained suppressed. As deviations in macroeconomic fundamentals in the advanced economies and the EMDEs widen, monetary policy could continue to diverge between the two in the short to medium term.

Domestic Economic and Financial Developments

Output

Data released by the National Bureau of Statistics (NBS) in August indicated that the economy had slipped into recession following another contraction in Q2, 2016. The August 2016 data showed domestic output in Q2, 2016 contracted by 2.06 per cent. This represented a decline of 1.70 percentage points in output from the -0.36 per cent recorded in Q1, and 4.41 percentage points lower than the 2.35 per cent growth in the corresponding period of 2015. The non-oil sector contracted by 0.38 per cent, compared with the 0.18 per cent contraction in the preceding quarter. Agriculture; Other Services; Education; Arts, Entertainment & Recreation; and Information & Communication, grew by 4.53, 4.32, 2.88, 1.80 and 1.35 per cent, respectively.

The shocks associated with energy shortages and price hikes, scarcity of foreign exchange and depressed consumer demand, among others, apparently proved to be more damaging than expected. Recognizing that the conditions which precipitated the

current economic downturn were not essentially sensitive to monetary policy, the MPC again renewed its call for urgent complementary fiscal policies to resuscitate production and engineer aggregate consumption. In particular, members underscored the imperatives of diversification of the economy away from oil into agriculture, manufacturing and services as well as more efforts towards payment of salaries and arrears of public sector employees; particularly in states and local governments to stimulate aggregate consumption, as part of the overall fiscal policy menu kit. On the supply side, efforts must be intensified at increased capital expenditure to redress infrastructural deficits, improve the business environment and spur growth.

Prices

The Committee noted that headline inflation (year-on-year) rose again in August to 17.6 per cent, from 17.1 per cent in July 2016, thus maintaining the upward trend since January 2016. The increase in headline inflation in August reflected increases in both food and core components of inflation. Core and food inflation have

increased from 16.93 and 15.80 per cent in July to 17.2 and 16.43 per cent, respectively, in August 2016.

The Committee nonetheless, noted that the month-on-month evolution of consumer price inflation has been less phenomenal. The headline inflation index rose by 1.0 per cent in August from 1.3 per cent in July, 1.7 per cent in June; and 2.8 per cent in May 2016. Similarly, the core index has been increasing at a decreasing rate since May when it rose by 2.7 per cent. It moderated to 0.85 per cent in August from 1.22 per cent in July and 1.83 per cent in June. The same pattern of moderation is seen in the food (month-on-month) index which rose by 1.2 per cent in August from 1.21 per cent in July, 1.4 per cent in June and 2.6 per cent in May.

The MPC further noted that the pressure on consumer prices continues to be associated with reform-related legacy and structural factors including high costs of electricity, transport, production inputs, as well as higher prices of both domestic and imported food products. The MPC expects that with the onset of the harvest season,

the restrictive stance of policy as well as the flexible FX regime, prices will begin to taper in the fourth quarter.

Monetary, Credit and Financial Markets Developments

Broad money supply (M2) grew by 8.08 per cent in August, 2016, compared with the July level of 10.75 per cent. When annualized, M2 grew by 12.12 per cent in August 2016 above the growth benchmark of 10.98 per cent for 2016. Net domestic credit (NDC) grew by 20.09 per cent in the same period, annualized at 30.14 per cent. At this rate, the growth rate of NDC was above the provisional benchmark of 17.94 per cent for 2016. The development in NDC, essentially reflected the relative growth in credit to the private sector of 21.07 per cent in the month, annualized to 31.61 per cent. Credit to government grew by 1.99 per cent in August 2016, which annualized to a growth of 3.0 per cent compared with the growth benchmark of 13.28 per cent. The growth in M2 was traced to exchange rate effect following the depreciation of naira in the second quarter of the year.

Money market interest rates reflected liquidity conditions in the economy. Average inter-bank call rate, which stood at 15.00 per cent on 8th July 2016, closed at 30.00 per cent on August 26, 2016. Between July 8th and 26th August 2016, interbank call rate averaged 24.95 per cent. The rates increased to 50.0 per cent on July 15, 2016. The sharp increase was attributed to the drop in net liquidity during the period.

The Committee noted a decline in the equities segment of the capital market as the All-Share Index (ASI) fell by 3.51 per cent from 28,733.90 on July 18, 2016, to 27,725.40 on September 15, 2016. Similarly, Market Capitalization (MC) declined by 3.55 per cent from N9.87 trillion to 9.52 trillion during the same period. In addition, relative to end-December 2015, the capital market indices fell by 20.06 per cent and 3.35 per cent, respectively, reflecting the slowdown in the economy. Overall, the capital market did not show vulnerabilities to domestic and external sector developments.

External Sector Developments

The average naira exchange rate weakened at the inter-bank segment of the foreign exchange market during the review period. The exchange rate at the interbank market opened at N285.25/US\$ and closed at N305.90/US\$, with a daily average of N302.87/US\$ between July 1st and August 26, 2016. The Committee observed that total foreign exchange inflows through the CBN increased by 89.14 per cent, from US\$1,092.21 million recorded in July to US\$2,065.79 million in August 2016. This increase was due mainly to receipts of foreign flows within the month. Total outflows, however, decreased by 4.57 per cent from US\$2,728.12 million to US\$2,603.35 during the same period. In efforts to deepen the foreign exchange market and stabilize the financial markets generally, a number of policy instruments were deployed since the last MPC meeting, including an increase in the benchmark interest rate and the directive to IMTOs to sell forex directly to Bureau de Change Operators, in order to improve liquidity in that segment of the foreign exchange market. While challenges remained, the Committee expressed optimism the policy menu was in the right mix.

The Committee's Considerations

The Committee acknowledged the weak macroeconomic performance and the challenges confronting the economy, but noted that the MPC had consistently called attention to the implications of the absence of robust fiscal policy to complement monetary policy in the past. The Committee also assessed the impact of its decision to tighten the stance of monetary policy by raising the MPR in July 2016. At the time, the Committee understood the complexity of the challenges facing the economy and the difficulty of arriving at an optimal policy mix to address rising inflation and economic contraction, simultaneously. The Committee also recognized that monetary policy had been substantially burdened since 2009 and had been stretched. The Committee noted that new capital flows into the economy, approximately US\$1 billion, had come in since July, while month-on-month inflation has declined continuously since May 2016. Against this background, members reemphasized the need to channel monetary policy instruments

essentially in addressing stability issues around key prices (consumer prices and exchange rate) as prerequisites for growth.

The MPC noted that stagflation was indeed a very difficult economic condition with no quick fixes: having been imposed by supply shocks, culminating in twin deficits: fiscal and current account. Consequently, the policy framework must be reengineered urgently to provide a lever for reversing the negative growth trend. While the imperative for ensuring financial system stability remains, the MPC reiterated the fact that monetary policy alone cannot move the economy out of its present condition.

The MPC considered the numerous analysis and calls for rates reduction but came to the conclusion that the greatest challenge to the economy today remains incomplete structural reforms which raise costs, risks and uncertainty. The calls came mainly from the belief that reducing interest rates will spur credit growth to promote consumption and investment spending not only in the private sector but also by the public sector. The Committee was of the view that in

the past, the MPC had reduced rates ostensibly to achieve the above objectives; but found that rather than deploy the available liquidity to provide credit to agriculture and the manufacturing sectors, the rate cuts provided opportunities for lending to traders who deployed the same liquidity in putting pressure on the foreign exchange market which had limited supply, thus pushing up the exchange rate.

With respect to providing opportunity to the public sector to borrow at lower rates, the Committee agreed that while it was expected to stimulate growth by encouraging aggressive spending, doing so without corresponding efforts to boost industrial output by taking actions to deepen foreign exchange supply for raw materials will not help reduce unemployment nor would it boost industrial capacities. The Committee was also of the view that consumer demand for goods which will be boosted through increased spending may indeed be chasing too few goods which may further exacerbate the already heightened inflationary conditions. The urgency of a monetary-fiscal policy retreat along with trade and budgetary

policy, to design a comprehensive intervention mechanism is long overdue.

The Bank has since 2009 expanded its balance sheet to bail out the financial system and support growth initiatives in the economy. While stimulating economic growth and creating a congenial investment climate always is and remains essentially the realm of fiscal policy; monetary policy in all cases only comes in to support sound fiscal policy. Nevertheless, the Bank has and shall continue to deploy its development finance interventions to complement the overall effort of fiscal policy towards reinvigorating the economy. The interest rate decisions of the Bank are, therefore, anchored on sound judgment, fundamentals and compelling arguments for such policy directions.

The Committee also feels that there was the need to continue to encourage the inflow of foreign capital into the economy by continuing to put in place incentives to gain the confidence of players in this segment of the foreign exchange market. Consequently the Committee considers that loosening monetary

policy now is not advisable as real interest rates are negative, heightened demand pressure exists in the foreign exchange market while inflation is trending upwards.

The Committee noted the positive response of the deposit money banks (DMBs) to the Bank's call for increased credit to the private sector between July and August. As the growth in the monetary aggregates spiked above their provisional benchmarks, headline inflation continued its upward trajectory in August 2016, and now close to twice the size of the upper limit of the policy reference band. Supply side factors including energy and utility prices, transportation and input costs, have continued to add to consumer price pressures. Members emphasized that improved fiscal activities, especially, the active implementation of the 2016 Federal Budget, and payment of salaries by states and local governments, will go a long way in contributing to economic recovery. In the same direction, the Committee urged the fiscal authorities to consider tax incentives as a stimulus on both supply and demand side of economic activities

Outlook

The data available to the Committee and forecasts of key variables suggest that the outlook for inflation in the medium term appears benign. First, month-on-month inflation has since May 2016 turned the curve; second, harvests have started to kick-in for most agricultural produce and should contribute to dampening consumer prices in the months ahead; and third, the current stance of monetary policy is expected to continue to help lock-in inflation expectations which, has started to improve with the gradual return of stability in the foreign exchange market. In this light, the MPC believes that as inflows improve, the naira exchange rate should further stabilize. Overall, the major pressure points remain the challenges in the oil sector (production and prices), output contraction, and other financial system vulnerabilities as well as foreign exchange shortage.

The Committee's Decisions

The Committee assessed the relevant risks, and concluded that the economy continues to face elevated risks on both price and output

fronts. However, given its primary mandate and considering the limitations of its instruments with respect to output, the Committee elected to retain the current stance of policy, evoked at its last meeting when it raised the MPR from 12 to 14 per cent. Conscious of the need to allow this and other measures like the foreign exchange market reforms to work through fully, the Committee decided to retain all the monetary policy instruments at their current levels.

In summary, all 10 MPC members voted to:

- (i) Retain the MPR at 14.00 per cent;
- (ii) Retain the CRR at 22.5 per cent;
- (iii) Retain the Liquidity Ratio at 30.00 per cent; and
- (iv) Retain the Asymmetric Window at +200 and -500 basis points around the MPR

Thank you for listening.

Godwin I. Emefiele

Governor, Central Bank of Nigeria

20th September 2016

PERSONAL STATEMENT BY THE MONETARY POLICY COMMITTEE MEMBERS

1.0 ADELABU, ADEBAYO

An assessment of the latest macroeconomic data reveals intensification of key challenges confronting the economy since the beginning of the current fiscal year. Inflation continued its upward trend for eight consecutive months with headline inflation accelerating to 17.61 percent in August 2016 while the 2016Q2 output growth at -2.06 percent confirmed the widely held speculation that the economy is in recession. Besides, a number of other macroeconomic indicators continued to display less than satisfactory performance. The level of external reserves at US\$24.52 billion at end-August represents a decline of 13.29 percent compared with the position at end-December 2015 while the pressure on the exchange rate continued unabated. Development in the global economy is equally less supportive with global growth trailing below medium term average while the level of tension in the

global financial markets remained considerably elevated on the heel of uncertainty surrounding the timing of monetary policy tightening by the US Fed as well as the forthcoming presidential election in the US.

In light of the fact that the economy is now in stagflation mode, it is absolutely compelling for policy makers to carefully deploy optimal-mix of policies in order to avoid costly trade-off. With respect to inflation, the challenge is a bit complicated to the monetary authority because the pressure is from both the core and food elements. For instance, core inflation increased by 17.61 percent in August, on year on year basis, while food inflation increased by 16.43 percent during the period. It should be expected that the increase in the MPR by 200 basis points in the July meeting would sufficiently address the concern over the core components leaving the issue of non-core elements outstanding. The key drivers of non-core components are legacy factors such as the increase in petroleum products prices and electricity tariffs in the early part of the year

while the ongoing sharp adjustment in the exchange rate is providing additional headwind.

As alluded to in my last statement, it should be expected that the impact of upward adjustment in petroleum prices and energy tariffs may wane soonest which, invariably, implies that the major challenge to inflation over the medium term is the instability of the exchange rate. As such, a prominent consideration for decision at this meeting is the need to stabilize the exchange rate. Exchange rate at the interbank market depreciated by 54.82 percent in the first eight months of the year while the margin between the BDC and the interbank markets equally widened considerably on the backlash of mounting demand pressure in the FX market. An assessment of the dynamics of FX flows in the first eight months of the year reveals a steady net outflow except in the months of February and May. Although, it is expected that the proposed commencement of PTA disbursements by Travelex could stem the demand pressure but the adverse supply shock appears stronger while the medium term outlook does not offer a respite in view of many likely sources of

headwinds. First, the issue of negative term of trade shock through the plummeting oil price should be taken as a permanent shock. This thesis is drawn largely from the fact that the continue drop in price is driven principally by supply related factors. Among others, recent forecast of supply by the OPEC shows that supply may exceed projection in 2017 as a result of enhanced production by non-OPEC members particularly Russia. Second, the widely expected hike in the policy rate by the US Fed would invariably further strengthen the dollar with the attendant increase in net outflow of capital from developing and emerging market economies.

Within this context therefore, I am of the view that ongoing price discovery in the FX market should be allowed unimpeded albeit guarded interventions to avoid sharp swings that could disrupt orderly conduct of economic activities particularly in the banking sector. My view is premised on both theoretical construct and practical experience. From theory, the famous Balassa-Samuelson thesis posits that sustainable appreciation in real effective exchange rate could only come about through productivity gains which are

completely outside the confinement of monetary policy. Productivity gains rest squarely on structural reforms. From practical perspective, experiences in some other climes, notably Japan, have shown that the level of exchange rate is fairly immaterial but the paramount consideration to economic agents is the degree of stability as such would engender confidence. Within this context therefore, I hold considerable deal of reservation against further increase in the policy rate on the sole basis of mitigating slide in the value of the domestic currency.

The other key issue is the contraction in output for the second consecutive quarter, thereby pushing the economy into recession. The issue bring to the fore again the necessity for deep structural measures. The infrastructural deficit arising from long period of neglect in investment in critical infrastructure particularly power needs to be addressed head on. This notwithstanding, monetary policy cannot afford to stand aloof at this critical point, more so in view of the evolving paradigm on mandate of monetary policy which seeks to accommodate inclusive growth. While the Federal

Government continues to fine-tune the various reform measures particularly on the energy sector, the monetary authority should also put in place complimentary measures. In this regard, it is a welcome development that the recent measures by the Bank to exclude certain items from interbank forex demand has started showing positive results. An assessment of the current account of the balance of payment for the second quarter of the year revealed that trade deficit moderated considerably as a result of decline in import largely traced to items excluded from interbank foreign exchange market. In order to consolidate on the gains of such policy therefore, some form of assistance should be given to domestic production of commodities in this category such as rice and other staples with a view to completely eliminating these items from import list. Thus, I would reiterate my support for specialized credit schemes such as NIRSAL in order to jump start the production of these commodities.

With respect to enhancement of productivity, massive investment in infrastructure is germane but there is also the need to recognize the limitation imposed by resource envelope in view of obvious

challenge of low oil prices. The fiscal authority obviously needs to inject resources which could be sourced from either domestic or external market. I however hold some reservations to sourcing from domestic market, at least for now. Apart from the fact that domestic public debt is becoming too high, credit to the private sector is growing at a pace required for an economy in recession. Credit growth to the core private sector as at end-August was 18.63 percent, significantly below an acceptable threshold for an economy in recession. Further borrowing from the domestic market therefore presents additional challenge of stifling credit to the private sector with far reaching implications on growth. From this viewpoint therefore, I lend my support to the proposed external borrowing by the fiscal authority but on such terms and conditions that are highly concessionary terms to avert another debt overhang.

Against this background and given the need to allow full transmission of the upward adjustment in the MPR at the last meeting, I would like to propose for the retention of all monetary policy measures currently in place.

2.0 ALADE, SARAH O.

At -2.06 percent, the second quarter GDP numbers show a deeper GDP decline than witnessed in the first quarter, dragging the economy officially into recession. Although a reversed June inflow data showed an increase, the increase is not enough to keep the economy from sliding into deeper recession. The decision at this meeting is whether policy should respond to the price stability or growth objective. With accelerating inflationary pressures, policy should still favor price stability as rising inflation will erode purchasing power and further depress growth with headline inflation reaching 17.6 percent in August from 17.1 percent recorded in July. Given these developments monetary policy should remain focused on fighting inflation and attracting foreign investments to cushion the loss in foreign exchange earnings from oil. I will therefore support a hold on monetary policy rate.

Global growth remains tepid amidst uncertainty: Although the United State economy added 151,000 jobs in August, it was a

slower momentum than in the past. Despite August's weaker-than-expected results, labour market has been one of the bright spots in the American economic recovery. Job growth since the beginning of the year has outpaced the performance of the broader economy, which has averaged annual growth rate of less than 1 percent as uncertainty and elevated volatility in the global financial markets continue to exist. The International Monetary Fund's (IMF) World Economic Outlook (WEO) for July 2016 downgraded its baseline forecast for global growth to 3.1 percent from 3.2 percent in the April version. In the Emerging Market and Developing economies, weak aggregate demand and low commodity prices have translated to output decline and resulted in difficult economic and business environment. Depressed commodity prices continued to pose downside risk to growth in emerging markets, especially on commodity exporting countries, thus, dampening prospects for near term economic and financial recovery in those economies.

Gross Domestic Product (GDP) growth continues on a negative trajectory: Output growth in the second quarter continued on a steeper decline than what was experienced in the first quarter. The effect of energy shortages, high electricity tariffs, fuel price hikes, scarcity of foreign exchange and depressed consumer demand continued to dampen growth in the second quarter. In addition, the implementation of the 2016 budget remained slower than expected affecting the speed of economic activities at a time when fiscal policy is needed to complement the efforts of monetary policy to spur growth. Second quarter GDP growth contracted by -2.06 percent compared to a -0.36 percent recorded in the first quarter. This represented a decline of 1.70 percentage points in output from the first quarter numbers. The decline in GDP in a normal circumstance would have called for a reduction in monetary policy rate, however recognizing that the conditions which precipitated the current economic downturn were not sensitive to monetary policy interventions, in the face of rising inflation and dry up of capital inflow, monetary policy must

focus on its core mandate of price stability as rising inflation would erode the purchasing power if not checked. Efforts to spur economic growth will require the cooperation and collaboration of monetary and fiscal policy and delicate balancing of both global events and domestic risks. Therefore, policies targeted at expanding the revenue base such as improving tax administration and broadening the tax base should be pursued vigorously. In addition, the on-going discussion on concessional borrowing with multilateral organizations should be intensified to increase capital expenditure to redress infrastructural deficits, improve the business environment and spur growth.

Headline inflation has remained elevated during period. Headline inflation further increased to 17.61 percent in August 2016, from 17.10 percent recorded in July. The increase in headline inflation in August reflected increases in both food and core components of inflation. Core and food inflation have increased from 16.93 and 15.80 per cent in July to 17.2 and 16.43 per cent, respectively, in August 2016.

However the rate of increase is declining, headline inflation index rose by 1.0 per cent in August from 1.3 per cent in July, 1.7 per cent in June; and 2.8 per cent in May 2016. Similarly, the core index has been increasing at a decreasing rate since May when it rose by 2.7 per cent. It moderated to 0.85 per cent in August from 1.22 per cent in July and 1.83 per cent in June. The rising inflationary pressure was largely a reflection of structural factors, including high electricity tariff, high transport cost as a result of higher fuel prices, high cost of inputs, low industrial activities as well as higher prices of both domestic and imported food products. The persistent upsurge in inflation calls for balanced monetary and fiscal policy intervention to mitigate the effect on the poor. Since high inflation hurts the poor as it erodes their purchasing power and affects investment decisions negatively, policy middle ground to achieve the objective of lower inflation and growth should be pursued.

The recently adopted foreign exchange regime is bringing more transparency into the foreign exchange market. After a period of

restriction in the foreign exchange market, a new market driven approach was adopted in June, 2016. This has brought the needed transparency, price discovery and greater participation in the market. In addition, the new framework is attracting inflows into the market, increasing supply and ensuring continuation of economic activities, although more should be done to further increase supply. In addition, the decision to increase the monetary policy rate will further help encourage foreign inflows, curb capital outflow and provide liquidity to the interbank market. At this time, monetary policy should be focused on restoring confidence in the domestic economy and increasing supply of foreign exchange to attract inflows.

Against this background, I support policy continuity by voting for a hold on the policy rate to gradually bring inflation under control and bring interest rate to a less negative territory. Decreasing rate at this time will make interest rate more negative which is bad for

investment at a time when the nation needs all the investment it can get to support growth.

I therefore support the retention of Monetary Policy Rate at 14 percent, the retention of Private Sector Cash Reserve Requirement (CRR) and Liquidity Ratio at 22.5 percent and 30.00 per cent respectively; and retention of the Asymmetric Window at +200 and -500 basis points around the MPR to help attract capital inflow and spur growth.

3.0 BALAMI, DAHIRU HASSAN

In the July 2016 World Economic Outlook, the IMF marked the global economic growth rate downwards from 3.2% in 2015 to 3.1%. The vulnerabilities and risks to global economic activities include: slowdown and rebalancing of the Chinese economy, decrease in investment and trade, deflation in Europe, monetary policy divergence between the US and other major economies, declining capital flows to emerging and developing economies, prolonged weak oil and other commodity prices, and regional political tensions. However, the global level of inflation is likely to remain subdued as a result of weak demand and negative output gaps as well as plunge in crude oil and other commodity prices.

These global shocks have effects on the domestic economy. The 2016 first quarter GDP growth rate has witnessed a downward trend of -0.36% while the second quarter rate was -2.06%, which is partly due to decline in industry, construction and services growth; technically confirming the Nigerian economy is in recession – a situation of severe contraction phase of the business cycle involving

high rates of unemployment, inflation and a decline in national income.

Inflation rate has increased sharply from 9.62% in January 2016 to 16.59% in July, and rose further to 17.6 % as at the end of August with a forecast of 18.37 per cent for mid September 2016. This rising trend, as stated earlier in my July statement, has been driven mostly by structural reforms such as the PMS subsidy removal which led to high cost of transportation, increase in electricity tariffs as well as liberalization of the exchange rate. The slide in the nation's external reserve from USD 28,207.64b in 2015 to USD 25.0b in September 2016 is not unconnected with the drop in global oil prices as well as the reduction in crude oil production due to the vandalization of oil pipelines and facilities by the Niger-Delta militants. This eventually has caused a depreciation of the naira with the attendant increase in risk weighted assets and drop in CAR to 14.56 per cent in August 2016, increase in the ratio of NPLs above the prudential limits of 5 per cent at 13.42 per cent as at August 2016, and a fall in the ROA and ROE to 2.03 per cent and 16.32 per cent in August 2016 as against

2.48 per cent and 20.55 per cent witnessed in June 2016. In addition, the depreciation has led to an increase in the cost of importing both producer and consumer goods. Also, the high lending rate has not been economically friendly either, which as a point of note, kills investment and stifles economic growth. The interest rate has ranged from 27% in December 2015 to 28.73% in May 2016.

The All Share Index (ASI) got to a low of 23,916.15 in January 2016 down from 28,642.25 in December 2015, before rising to 27,889.44 in July 2016. The performance of the capital market in Nigeria has not been very active due to exchange rate problems and hike in the US monetary policy rates that led to increase in the level of FDI outflow, while the ASI and market capitalization declined by 3.4% and 3.6% respectively.

It should be noted that domestic shocks are important as global shocks and the ability of the Nigerian economy to sustain future growth will depend on the domestic policy response to the global economic situation. So therefore, what monetary policy response can be put in place to get the economy out of the recession? How

do we increase the foreign exchange inflows and promote growth without jeopardizing price stability which is critical to growth?

This would require effective coordination between monetary and the fiscal authorities to stimulate the economy through diversification, providing credit at lower rates to the major growth drivers of the economy such as agriculture, manufacturing, and mining, raising liquidity in the economy to stimulate consumption, investment, and trade, as well as attracting capital inflows and taming inflation. On the basis of the analysis I vote to hold to:

- I. Retain the MPR at 14.00 per cent.
- II. Retain the CRR at 22.5 per cent.
- III. Retain the liquidity ratio at 30.00 per cent, and
- IV. Retain the asymmetric window at +200 and -500 basis points around the MPR.

This would allow the effects of MPC actions taken in July to fully manifest before other major policy options are considered.

4.0 BARAU, SULEIMAN

Background

My vote is to hold at this meeting, largely informed by the need to allow full transmission of the impact of the 200 basis points increase in the policy rate at the last meeting. Macroeconomic condition remains weak mainly on account of legacy factors, thus, inflation is still trending up albeit at a slower rate while the second quarter data on GDP growth confirmed the reality of recession. This, in essence, implies the economy is in stagflation phase. Beside the stagflation issue, the pressure in the interbank FX market remains elevated while the margin in rates between the interbank and the parallel markets continues to widen.

In terms of monetary policy measures at this meeting, it is well known that the task of managing stagflation cannot be shouldered by monetary policy alone, thus the strategy at this period should be a coordinated fiscal and monetary policy measures as I have expounded in a number of previous MPC statements. More fundamentally, I am convinced that the various monetary policy

measures taken so far are in the right direction and in fact, visible positive outcomes should begin to crystalize soonest. My assertion is based on the assessment of some underlying statistics which reveals the commencement of the process of correction in major imbalances of key macroeconomic sectors. Data on Balance of Payments shows that current account deficit reduced by about 80 percent in 2016Q2 compared to the corresponding period of 2015 and Month-on-Month measures of inflation are trending down while Year-on-Year measure is only increasing at a declining rate. These reflect ongoing adjustments in the economy in response to the various monetary policy measures particularly since the last quarter of 2014. The key issue therefore is to remain focused and be on track in our approach by not sacrificing long terms goals on the altar of short term often political gains while simultaneously collaborating with the fiscal authority for complimentary policies.

Thus in view of far reaching measures taken in the last couple of meetings and bearing in mind the relatively long transmission lag in monetary policy, I opt to vote for a hold in monetary policy stance.

Pressure Points

Global economic recovery still remains weak and the prospects of improvement is not only diminished but it equally exhibits considerable divergence across many developed and emerging market economies. Apart from the impact of well-known lingering challenges such as the softness in output of many big emerging economies, a worrisome evolving challenge is the rising tension in the global financial markets basically due to the current as well as the anticipated rally in the US dollar. In the EU, although the Pound Sterling is showing a gradual rebound from the initial sharp slump following Brexit decision in June, equity prices particularly for European banks are still lower than the pre Brexit period. Thus, a sizeable number of investors in the EU are reallocating their portfolio in favor of dollar denominated assets which may further strengthen the dollar. Another major force that is providing support for the US dollar is the action or anticipated action of notable global central banks including the US Federal Reserve System (Fed). The concern

about the stance of the Fed policy rate since the beginning of the year is not about imperativeness of further tightening but the appropriate time. Latest economic data particularly on inflation which is now close to the threshold of 2 percent suggests that the time is almost ripe. Probable reasons why the rate hike may not take place at the September's meeting of the FOMC are mainly softness in consumer demand, weakness in manufacturing and the attendant slowdown in job growth. Invariably, if the rate hike does not take place in September, it may not likely exceed December. The point here is that investors are already forming expectation along this scenario with implication of sharp increase in the demand for the dollar. Another central bank whose action will weigh heavily on global financial market is the Bank of Japan (BoJ). The concern about BoJ is heightened on the backdrop of its reputation of aggressive quantitative easing. Developments in Japan revealed that key macroeconomic indicators continue to deteriorate despite the massive stimulus program by the Government. This has compelled the BoJ to move its interest rate to a negative territory

with the intention to weaken the Yen but, obviously, this could also trigger investors' flight to safe haven which is mainly dollar denominated assets. Furthermore, some other central banks like Reserve Bank of New Zealand and Reserve Bank of Australia are contemplating further easing of monetary policy stance though for different reasons. Thus, it should be expected that the US dollar will continue to appreciate against many currencies particularly emerging economies currencies including the Naira. For Nigeria in particular, further rally in the US dollar poses additional risk to the external sector as crude oil becomes more expensive to economic agents that are holding other currencies thereby constraining demand.

Beside financial market issue, some political issues in the global environment are also exerting significant downward pressure on the prices of crude oil. The key concern now is oversupply as the market becomes cynical of the success of the deal on output cap between OPEC and Russia. In view of this development, OPEC has revised its

earlier forecast of drop in output as supply may receive significant boost from non-OPEC members.

Domestic Environment

The risk matrix in domestic macroeconomic environments has not been significantly altered from the condition that prevailed at the last meeting held in July, suggesting that legacy factors are at work. Headline inflation on year-on-year basis continued with the upward trend since January, increasing to 17.6 percent in August with the pressure emanating from both food and core components. The development is underpinned by the lingering effect of upward adjustment in the prices of fuel and electricity which took place in the early part of the year as well as exchange rate pass through occasioned by the depreciation of the Naira exchange rate.

Furthermore, as widely envisaged, the latest statistics by the National Bureau of Statistics (NBS) revealed that output contracted by 2.06 percent in 2016Q2, confirming that the economy is in recession. The issue is a bit worrisome given that the contraction is from both the oil and non-oil sectors. Projections from some sources, including the IMF,

show that the economy would remain in recession up to the end of 2016 while some recovery could be expected in 2017. Invariably, this challenge has taken its toll on critical developmental indicators particularly employment with the latest data showing that unemployment rate accelerated from 12.1 percent in the first quarter of the year to 13.3 percent in the second quarter, while underemployment increased from 19.1 to 19.3 percent during the same period. Besides, the banking system is just recovering from the adverse impact of the shock to oil price, thus continuing deterioration in economic activities may pose considerable threat to the quality of banking system assets.

Another key challenge is the lingering demand pressure in the foreign exchange market which continues to widen the margin between the interbank and the BDC's rates. It is noteworthy that the adoption of flexible exchange rate model is enhancing the process of price discovery in the interbank market but the current margin of about 30 percent between the interbank and the BDC rates is clearly above the tolerable limit. The threat to stability in rates would

be from both demand and supply sides. On the demand side, among other factors, the huge margin between the two markets, obviously, creates strong incentive for agents in the interbank market to exploit the arbitrage opportunities. From the supply side, global developments as discussed above as well as recurring crisis in the Niger Delta region, constitute key challenge.

Discussions/Way Forward

Contemporary discourse on our current economic predicament (recession and stagflation) has largely been by commentators who are not well informed. Booms and Busts are cycles that characterize open market macro-economies, often with short term time span. Stagflation is the less common and more complicated economic scenario where there is declining growth and heightened inflation. We have not witnessed Boom-Bust cycles in a measured way in Nigeria largely because our economy is not matured and also because developments in the external environment for a mono-product economy have largely been favourable. In my view we are in a recession now for the following reasons;

- Sustained decline in the price of oil
- Severe reduction in production and export due to militancy in the Niger Delta
- Fiscal indiscipline – poor system of revenue generation and terrible culture of high recurrent and low capital expenditure
- Lack of a disciplined implementation of oil price based fiscal rule. Expenditure pattern has always been pro-cyclical
- Lack of domestic savings and willingness to embark on structural reforms to diversify the economy in a disciplined and sustainable manner.
- Aggressive easing of monetary policy since the collapse of Lehman Brothers in 2008 – this has severely curtailed the efficacy of monetary policy.
- Poor handshake between fiscal and monetary authorities.

In addition, there has recently been uninformed view that the Central Bank of Nigeria and by implication, the Monetary Policy Committee should take measures that should bring Nigeria out of recession. Can monetary policy alone take the country out of

recession? No. Indeed as a result of unprecedented structural liquidity, we have almost reached the limit of the efficacy of traditional tools of monetary policy formulation and implementation.

Manage the Exchange Rate: Current inflationary trend is driven by both legacy factors and exchange rate depreciation but there is high likelihood that the effect of legacy factors would wane in the near to medium term. In essence, the drivers of the uptick on-year-on year basis could be attributed to the legacy factors while the exchange rate is the single factor that has been unstable on monthly basis. Thus, efforts should be made to stabilize the rate in this market in order to effectively anchor the expectation of economic agents. The major challenge in the foreign exchange market at the moment is largely from the supply side. It is noteworthy that the various measures taken so far have moderated the rate of forex outflows but the rate of inflow has decelerated faster than outflow. For example, available data shows that average outflow in the first half of 2016 decreased by about 37 percent compared to the trend in the second half of 2015 while inflow decreased by about 46 percent

during the same period, suggesting the need to improve the supply side of the forex market. It is on this basis that I would advocate for the retention of the current tight stance of monetary policy with particular emphasis on the maintenance of current level of the MPR while not ignoring further administrative measures that could reduce demand pressure.

Special Credit Schemes: As mentioned in my statement of last meeting, the present economic phase requires a lot of innovations in policy arena to address the multifaceted challenges. Broad money supply (M2) increased by mere 8.08 percent in the first eight months of the year. In light of the growth challenges, some form of arguments may be canvassed for reduction in monetary policy rate but I clearly do not see any need for this. Firstly, stability in macroeconomic environment is required to foster growth sustainably. Second, in view of the oligopolistic structure of the country's banking system, pricing of credit is more of supply than demand driven, and as a consequence, a reduction in the policy rate may not necessarily translate into reduction in lending rate

particularly when other binding constraints to improvement in asset quality of the banking systems are yet to be addressed. Thirdly, Interest rate is a problem but is not the key problem of manufacturers. Fourthly, studies have not established a clear correlation between MPR and lending rates. Fifthly, MPR adjustment has not necessary led to private sector credit growth. Therefore, a pragmatic approach towards addressing the growth challenge should be based on identification of certain critical sectors that must be supported through intervention.

A careful diagnosis of the inflation dynamics reveals that the major drivers particularly on monthly basis are imported food items such as rice and vegetable oil. I would therefore emphasize the need to strengthen the special intervention of the Bank with a view to building the progress made in the production of these food items. Such approach would not only address growth but inflation challenge would equally be substantially addressed.

Strong Sectorial Policies: The need for the diversification of the economy has always been identified but this has not been pursued

with discipline. The current challenges are indication that the era of treating diversification related issues with levity is over. The good news however is that considerable space exists for diversification even within the oil sector. The import bills on refined petroleum products currently constitutes over 60 percent of total import bills, thus a major source of demand pressure in the interbank foreign exchange market, in addition to the fact that frequent removal of subsidy on imported petroleum products continue to trigger inflation pressure. As a result, there is a compelling need to address all impediments on the path of downstream investments in the oil and gas sector and provide support towards the establishment of a local refining capacity that is private sector driven.

Solutions to recession: Some thoughts; Some of the short term solutions include firstly - short term efficient borrowing (FCY) – largely in foreign currency because they are cheaper, Federal Government balance sheet is exchange rate lodged and will elicit the least inflationary impact. Secondly, fiscal spending and not monetary fiat;

Thirdly, fixing the Niger Delta problem; Fourthly, price stability – low and stable inflation and exchange rate (given its pass through).

Some of the long term solutions we have been harping on include; Firstly, structural reform; we need to say less here; Secondly, effective diversification to have dominance of non-oil export as source of revenue via foreign exchange earnings and taxes. Currently oil accounts for about 10% of our GDP directly and analysts argue that it indirectly accounts for over 60% of our GDP growth. This scenario has to be consciously reconstructed to elicit less dependence on oil. The current recession provides the opportunity for us to do this; Thirdly, fiscal discipline/consolidation. Earnings from oil should largely be saved or used to diversify the economy. We must streamline recurrent expenditure and ensure that more resources are elicited from other sectors of our GDP apart from oil; Fourthly, anti-cyclical fiscal policy in order to elicit savings from windfall which, if we done, in the past would have been a source of counter recessionary of spending.

Decision

In light of the issues discussed above, I am of the view that the subsisting monetary policy measures are on the right track and more fundamentally there is a need to allow the hike in policy rate at the last meeting to fully transmit through the economy. In addition, the monetary authority should direct its intervention schemes towards critical sectors that have impact on both output and inflation.

I therefore propose for the retention of all measures of monetary policy currently in place.

5.0 GARBA, ABDUL-GANIYU

Context

The problem with the Nigerian economy is not recession! Neither is it stagflation. Both are effects, not causes. The principal problem I believe is **a persistent and long standing unwillingness** to urgently “harness, direct and put to effective use the best available intellectual and political resources” to develop a forward looking medium to long term strategic macroeconomic management framework for Nigeria with the wellbeing of Nigerians as its principal end. The shock (oil price and quantity) is also, not the problem. It is the failure to anticipate and consistently and effectively respond to shocks within a medium to long term framework that is the problem.

For every building, the foundation is critical. If the foundation is deep and master builders use superior materials to expertly build the foundation suitable for the location and the building, the foundation will carry the weight of the building and withstand stresses including earth tremors. However, when inferior materials are used, the

building will crumble when subjected to even the most minimal stress.

Before the GDP growth turned negative in the first two quarters of 2016, the path of the economy had turned southwards many quarters before then. Growth peaked in the third quarter of 2013 and began to steadily decline from the fourth quarter of 2013 with industry the worst hit; unemployment has been trending upwards for more than a decade; national savings and real investment has been receding as part of sustained trend of public and private dis-savings for many years; reserves of over \$65 billion in 2008 was steadily depleted by the funding consumption goods and services, fuel import games and capital flight; **the public debt is almost twice its level before Nigeria used more than \$18 billion to free itself from the sovereign creditor cartel**; the problem of twin deficits gradually crept upon us in 2014 as the inevitable negative oil price shocks followed the events associated with tapering and the misalignment of policies between the US and the EU; cost-push inflation began creeping in in

the aftermath of the devaluations of November 2014 and gathered steam as exchange rate spread widened from February 2015.

The “loud noise” about recession and stagflation is distracting from a deeper and clearer focus on the real problem: a perverse model of development driven by consumption of imported goods and services, fuel imports, low-value added primary exports, sustained de-industrialization; capital flight masquerading as financial flows and the creation of **rent havens** in both the real and financial sectors which distorts access, pricing and allocation and undermines growth and employment generating innovations.

The dominance of the policy discourse by “recession or stagflation diagnostics” is dangerous because it has elevated shallow, superficial and misleading conversations into national prominence with a **present hedonistic orientation** that puts the future at great risks. Inevitably, the misdiagnosis is narrowing conversations to **dangerous quick fixes** that could potentially do great harm to the future capacity of government and citizens to leverage on endowments to build sustainable value adding economic systems.

When the federal government was advised more than a decade ago to reduce investments in oil and gas (a cash cow) and to sign production sharing contracts, the negative effects on the structure of government expenditure and on future flows of revenue was discounted. Yet, the structure of contracts is having a powerful impact on government finances. When states were empowered to borrow outside the framework of the Fiscal Responsibility Act of 2007 and repayments locked-in to future revenue allocation, the effects on the future of state finances and governance were discounted. When the refineries are not delivering values that will reduce the demand for US\$, they hurt employment, growth and the stability of the Naira. Savings from domestic refining will generate far more positive current account balance than what government could raise from the Eurobond markets or from sale of assets. Reversing the disincentives to remittances by giving beneficiaries access to their resources in the currency of origin will generate far more financial inflows than portfolio flows or any similar “tapeworm remedies”.

Quick fixes in **strategic vacuums** such as selling national assets to fund consumption of imported goods and services, fuel imports and to attract foreign investment and support the value of the Naira; the selling of US\$ to BDCs, borrowing and spending to dig the economy out of a hole, adopting accommodative monetary policies to stimulate growth, raising interest rates to attract portfolio flows to support the Naira cannot fix the weak foundations of the economy. On the contrary, they will deepen the hole and weaken the foundations further.

It is important to remember that Nigeria has been selling its national assets since 1986-88; that it has willfully promoted financial contagion, asset price bubbles, capital flight and instabilities through capital account liberalization and de-industrialization that have harmed long term growth by expending its savings on the consumption of imported goods and services, fuel imports and capital flight; through de-industrializing policies (various episodes of generalized increases in supply prices; deterioration in public infrastructural assets; public bias against locally manufactured cars,

furniture and consumables and the budget effects of unequal income distributions which favour imported goods and services and capital flight).

Students of economic history will know that no nation successfully digs itself out of the depth and breadth of economic decline that is Nigeria's situation in the short term. There are sufficient examples: United States and the global economy (1973-86); Japan (1990-date); Eurozone (2008-date); Brazil (2013-date) just to mention a few.

Decision

I vote to hold. The primary reason for my vote is that monetary policy rate has lost its potency for stimulating growth and employment and for reducing domestic prices and the pressure on exchange rate which passes through to prices directly and indirectly through high inflation expectations.

The interest rate corridor used as the signaling device for influencing the interbank rate has long collapsed. Lower rates have been undermined by conflicting movements in money supply and by the

interest rate asymmetries institutionalized by deposit money banks who pass-on lower rates to borrowers with high interest rate elasticities (the big ticket borrowers who account for most of borrowed funds) and pass-on higher interest rates quickly to borrowers with low interest rate elasticities (retail borrowers who have higher output and employment elasticities). The favoured sectors are the rent havens (oil and gas, general commerce, utilities, etc.) that have low growth and employment elasticities. The unfavoured sectors are not only constrained by costs, they are also constrained by access and by policy bias. The AMCON effect has created a liquidity challenge that has weakened the effectiveness of monetary policy since 2012. Fixing the malfunctions in the forex, money, stock and security markets to minimize the predominance of rentier activities are far more important than changing interest rates.

The state of the economy, believe me, does not need any policy dissonance between monetary and fiscal authorities. I have repeatedly argued that neither fiscal nor monetary policies could solve the problem. I had emphasized that “the cross-cutting causes

of the stagflation demands analytical breadth, depth and clarity well beyond the typical requirements for monetary policy because the networks of cause-effect relations that produce stagflation extend far beyond the domain and reach of monetary policy.” I have also argued that “it is a potentially disastrous error to expect and to demand that monetary policy carries the economy either through traditional instruments or in combination with expansions in its balance sheet.” It is far more dangerous to anchor policy on the savings of foreign nationals in a global economy where only the **risk lovers** are more likely to be attracted at unusually high and harmful premiums.

I am still convinced that there is an “urgent need to harness, direct and put to effective use the best available intellectual and political resources” by both the fiscal and monetary authorities to develop a forward looking strategic macroeconomic management framework for Nigeria.” This is the critical foundation upon which medium to the long term effectiveness of macroeconomic management compatible with the long term wellbeing of Nigerians could be built.

It ought to be clear to all stakeholders that the economic and welfare costs are growing every second as the *recognition, consensus* and *action* lags by the relevant actors in the macroeconomic policy space are lengthening!

6.0 NNANNA, O. JOSEPH

MAJOR GLOBAL ECONOMIC DEVELOPMENTS:

The review of global macroeconomic indicators suggests that the uncertainties that characterized growth in 2015 have continued to persist during the third quarter in 2016. The International Monetary Fund has downgraded 2016 global growth forecast from 3.2 percent to 3.1 percent. The key macroeconomic headwinds acting as push factors include increased financial market volatility, labor market rigidity, weak oil price and declining capital flows into emerging markets. Overall, a tepid recovery has been recorded in the advanced economies – especially, in the United States and the United Kingdom.

However, in Sub-Saharan Africa, growth has declined driven by persistent commodity price shocks and lingering effects of Brexit. Similarly the aftershocks of growth rebalancing and uncertainties surrounding the Brexit vote may have contributed to growth slowdown in China and some countries in the Eurozone respectively.

Given the asymmetric effect of global macroeconomic fragilities on growth performance across regions, there is need to exercise caution in considering policy choices in addressing its consequences on the domestic economy.

Recent domestic macro-economic developments:

The emergence of: twin deficits, rising inflation and unemployment, negative output growth, illiquid foreign exchange market and exchange rate volatility characterized the major adverse developments during the review period.

Data from the National Bureau of statistics revealed that growth further contracted sharply from -0.36 percent in Q1 to -2.06 in Q2 of 2016. Both oil and non-oil sectors contributed to the negative growth in the Gross Domestic Product (GDP), as business confidence declined to all time low. The overall “Confidence Index” registered negative -24.1 percent, indicating respondents’ pessimism on the macro economy during the period. The combinations of infrastructure deficits – especially, electricity supply; external reserves constraints and exchange rate volatility impacted adversely on the

manufacturing sector. Consequently, factories operated at below capacity, workers were laid off and unemployment worsened.

Generally, the headline inflation had been on an upward swing since June, rising from 17.1 percent in July to 17.6 percent in August and forecasted to rise even further - driven by rising food inflation and the pass through effect of exchange rate depreciation. Other contributing push factors include: rising petroleum products prices, and increase in electricity tariff.

The monetary policy of the Central Bank of Nigeria during the period was expansionary, deliberately designed to accommodate the challenges faced by the fiscal authorities. And as such, Credit to the Government rose by 151.6 per cent on year-on-year basis; representing 115.5 percentage point increase above the programmed target. The Government's fiscal operations during the period was generally, weak and characterized by huge expenditure overruns and dwindling revenue collection, and resulted to substantial overall deficit of -2.8 per cent of GDP. This deficit was largely financed by the Central Bank and the deposit money banks.

Developments in the balance of payments (external sector) were generally disappointing. In US dollar terms, the provisional visible imports value as at Q2 2016 was \$11.2 billion, while exports stood at \$9.3 billion, resulting to a current account deficit of some \$404.7 (-0.88 per cent of GDP).

The Stance of Monetary Policy – CBN's Core Mandate:

The recent adoption of flexible exchange rate regime and time consistent monetary policy rate (MPR) coupled with mix of demand management strategies have contributed to the gradual accretion to reserves, and improved portfolio inflows due to high asset yields and stable macro- economic outlook.

In its 251st Meeting held on July 25-26th 2016, the Monetary Policy Committee after its thorough review of macro-economic developments during the period decided to abandon its fixed exchange rate regime for a flexible regime and to adopt: (1) An MPR of 14.0 per cent (2) A CRR of 22.5 per cent (3) A liquidity Ratio (LR) of 30 per cent and (4) An asymmetric corridor of +200 and -500 basis points around the MPR. It should be recalled that these policy

targets were adopted against the backdrop of rising inflationary pressures and foreign exchange market illiquidity. To be sure, the major objective of this policy stance was to achieve the CBN's statutory mandate of price stability and to induce foreign portfolio inflows in the face of weak commodity prices. Surely, the socio-economic milieu under which the 252nd MPC Meeting met and deliberated was not different from that of the 251st MPC Meeting. Specifically, the sustained weakness in the global oil price has continued to impact negatively on Nigeria's external reserves in particular, and the macro-economy as a whole. Thus far, the external reserves have decreased from US\$27.756 in March 2015 to US\$24.53 as at September 15, 2016. The heightened demand pressure in the forex market has led to a substantial depreciation of the naira exchange rate and stagflation. These developments clearly undermine the achievement of the statutory mandate of the CBN, if left unaddressed.

Conclusion

Against this backdrop, notwithstanding the seeming apprehension the temporary negative impact which the recent adoption of a flexible exchange rate regime and the pegging of the MPR at a comparatively high rate, might have caused, nevertheless, the consequence of this decision has started to yield visible positive results, as inflows through the Central bank increased by 89.14 percent, from US\$1,092.21 million in July to US\$2,065.79 million in August, 2016. With liquidity slowly but steadily returning to the market, I see merit in sustaining the MPR rate 14.0 percent at a time when inflation is running at above 17.0 per cent. With the restoration of liquidity in the forex market, the naira exchange rate is bound to stabilize and inflation will be restrained. Furthermore, I see merit in sustaining the Cash reserve requirement at 22.5 per cent and the Liquidity Ratio at 30.0 per cent and keeping the asymmetric corridor unchanged, in order to safeguard the safety and soundness of the financial system.

7.0 SALAMI, ADEDOYIN

The screaming news headlines announcing the call for reduction in policy interest rates by the Hon. Minister of Finance provided an interesting backdrop for this meeting of the Monetary Policy Committee (MPC). Whilst less public channels of communication may have been preferred, the seeming tension between Monetary and Fiscal Policy reflects the challenging nature of Nigeria's present economic circumstances.

With other members, I voted at the end of discussions to hold the Monetary Policy Rate (MPR) at its current level of 14percent.

In the run-up to this meeting, the National Bureau of Statistics (NBS) released figures for both inflation and output. Overall or 'Headline' prices were reported to have risen by 17.6 per cent in August when compared with the same month a year ago – the tenth consecutive monthly increase since October 2015. Similar to Headline Inflation, both Food and Core Inflation rose to 16.43percent and 17.20percent respectively.

Whilst year-on-year inflation remains high and rising, the rate of increase has however continued to slow when prices are measured on a Month-on-Month basis. Available figures show that Aggregate or 'Headline' Inflation rose by 1percent in August when compared with the previous month – the slowest rate of increase since Feb., 2016. The same measure shows that the increase in food price, at 1.2 per cent, remains unchanged when compared with July 2016. The rate of increase in Core inflation also declined to 0.9 per cent in comparison to the increase of 1.2percent the previous month.

The measure of Output, Gross Domestic Product (GDP), for the 2nd quarter of the year (Q2-2016) showed that the production had shrunk further thus providing official confirmation that our economy had tipped into a recession. Worse still, the data shows widespread and long-lasting contraction amongst some of the biggest sectors. While Agricultural sector grew quite robustly, other major sectors either contracted or slowed quite sharply.

Coupled with rising inflation, it is quite clear that the Economy is in a place worse than the professional Economist's nightmare of stagflation!! Bank Staff presentation on Banking System Stability (BSS) rounded-off a dismal picture of economic and business conditions. The BSS presentation showed the non-performing loan (NPLs) portfolio of banks in Nigeria had risen to 13.42 per cent – to think it had been officially recorded at 4.88 per cent at the end of 2015! Not only is the 'official' figure now a multiple of the regulatory threshold of 5percent, I continue to be very fearful that the figures on offer may not represent the full extent of the balance sheet weakness of the Nigerian Banking System.

Theory and evidence around the world is clear that the Regulator is 'always the last to know'. Indeed, the Regulator only catches up with Sector Operators when a crisis blows open. Given the fundamental weakness of the Balance Sheet of the Central Bank of Nigeria, the prospect of a banking system crisis doesn't bear thinking – yet, despite the assurances of Bank Staff and Management, I remain concerned.

Given the foregoing, it was quite clear that colleagues and I would have our work cut-out trying to respond appropriately to the cocktail of challenges.

In voting to hold the MPR unchanged, I take the view that raising interest rates cannot solve any of the challenges by which we are confronted. Reducing rates will, given the present circumstances, also not address the issues identified in previous paragraphs.

In a recession, raising interest rates will further damage the economy by reducing much needed investment. Furthermore, the financial stability issues identified will also worsen as the higher cost of credit, arising from raising interest rates, undermines the ability of borrowers to repay outstanding loans. The prospect of attracting foreign capital inflows represents perhaps the only reason which can be advanced for a higher Policy rate. This prospect, as I will now argue, is an exercise in futility.

As I argued at the meeting in July when a majority of MPC members decided to raise MPR, the fundamental misalignment of Nigeria's Policy Stance made Nigeria an unattractive destination for any but those with extreme risk appetites to invest. I haven't changed that view. Indeed, it was strange – almost macabre - to witness a Central Bank which had spent much time disavowing foreign capital reverse itself and expect to be credible. Since that meeting, the Central Bank has proceeded to picking winners and losers; micro-managing all aspects of forex market activity. This position is unsustainable. In addition to continuing to severely erode confidence in Nigeria's policy making, manipulating the market in this way will eventually breed sharp practices.

The current scarcity of Forex will not be resolved by the current tactics. Resolving the Forex scarcity will require either borrowing what is needed or inducing flows through fiscal measures – especially in the oil sector.

The option of reducing interest rates also does not apply. Economic theory suggests that reducing the cost of borrowing will stimulate investment. This process assumes the absence of concerns around Financial System Stability. Prior to August, despite banking sector liquidity of almost 47percent - significantly above the 30percent regulatory requirement - credit to the 'Core Private Sector' had been growing slower than inflation – in other words, contracting when adjusted for rising prices. This situation is unsurprising given the worsening portfolio of non-performing loans.

In other words, releasing additional liquidity to reduce lending rates in the face of the unwillingness of banks to lend simply provides banks with resources that won't be devoted towards productive sector lending. In the best case scenario, Government Treasuries will be the destination for any injection of liquidity as banks seek to strengthen weak balance sheets. The worst case scenario has easing liquidity conditions simply provide further ammunition to destabilize a Forex market already reeling!!

What the foregoing illustrates clearly is that without reform, we are at the limit of the effectiveness of Monetary Policy.

The present conditions call for a fundamental review of fiscal and monetary policy interventions. With regard to liquidity management, I have raised the possibility of variable Cash Reserve Ratio (CRR). This may be instituted by moving CRR from being a lever of regular Monetary Policy management to become a Macro-Prudential Lever. If for example, 3-bands are set, Banks know well in advance what CRR will apply as their Balance Sheet changes. This not only removes some of the uncertainty which attends the run-up to MPC meetings, it also provides a greater measure of freedom to Banks in managing their affairs – that can't be a bad thing!!

8.0 UCHE, CHIBUIKE U

The current state of the Nigerian economy clearly highlights the urgent need for fiscal and monetary authorities to work more closely together. With the economy in recession, industrial production declining, unemployment and underemployment on the increase and inflation and bank NPLs in double digit territory, it is clear to all stakeholders that there is very little monetary policy, on its own, can do to change the direction of the Nigerian economy. Tightening money supply by raising interests rates, for instance, is unlikely to contain the current inflationary pressures. This is especially so given the structural nature of inflation in Nigeria. It is for instance public knowledge that fuel and energy prices which have more to do with exchange rates are important determinants of inflation in Nigeria.

With the troubling developments in the parallel market exchange rate for the Naira, it is not surprising that the prices of petroleum products in the country has come under pressure. There are for instance, reports that petrol is now being sold above the official price of N145 per litre in more than half of the states. This certainly is

not good news for inflation in our country. On the positive side, it is pleasing to note that the view that MPR should be raised mainly because it will encourage foreign portfolio inflows is gradually losing currency within MPC. Any such inflows that do little to influence the development of the real sector is at best speculative capital.

The alternative strategy for MPC is to reduce MPR with the hope that it will help promote real sector development. This however makes little sense at the present time. This is partly because real rates are already in negative territory. Any move in the above direction will therefore further discourage savings and impede bank intermediation. Perhaps more important is the fact that perennial structural problems with our economic production infrastructure has consistently made it difficult for banks to narrow the variance between their lending and deposit rates. In the present situation where banks are forced to provide their own electricity, security, water supply and sometimes roads, it would be foolhardy to expect the interest rate variance of such banks to reduce materially simply by reducing MPR which is already in negative territory in real terms.

In the light of the above, it is clear that there is a limit to what monetary policy can do. There is therefore need for more strategic cooperation between the monetary and fiscal authorities if we are to stand any chance of getting out of this recession. With the possibility of a dramatic rise in both oil prices and quantities produced in Nigeria greatly diminished, the above need for cooperation is even more urgent.

Bluntly put, unless we are able to diversify our economy away from oil rents, there may be no other viable path out of our current recession. It is in the light of the above reality that I believe that the current talk about Nigeria borrowing and spending its way out of this recession needs to be contextualized. In recent times, for instance, we have seen the Nigerian debt profile rising unenviably with very little, in terms of economic growth, to show for it. It is for instance, fair to state that Governments, at various levels, have mostly been borrowing to meet recurrent expenditure. Without materially improving the infrastructure necessary for real sector development and economic growth to take place, the idea that our country

would borrow and spend its way out of this recession will remain an illusion. The obvious pressure to continue in our bad habit of borrowing simply to meet recurrent expenditure must be resisted.

Given the current level of oil prices, it is clear that we do not have any obvious cash flow streams that can help repay our currently ballooning national debts. It is therefore safe to conclude that these debts will increasingly constitute a problem for our economy, which is already in dire straits, at least in the short and medium term.

In the light of the above, the view that we can spend our way out of the present recession needs to be carefully rethought and rephrased. This can only make sense if recurrent expenditure of government is drastically curtailed. For this to happen, the over bloated size of government, which is the elephant in the room, has to be addressed. This will create the conducive environment required for government to pay more attention to capital expenditure. This will help promote the development of the necessary developmental infrastructure that is critical to real sector

development and the diversification of our economy away from oil rents.

Based on the above arguments, I have come to the careful conclusion that the best line of action for MPC at the present time will be to maintain status quo. It is my hope that we will in future see more cooperation between the fiscal and monetary authorities. While it is possible for us to borrow and spend our way out of the current recession, this can only be possible if government recurrent expenditure is drastically reduced. The focus of Government must be the development of infrastructure necessary for the promotion of real sector development.

I therefore vote as follows: (i) to retain the MPR at 14.00 per cent; (ii) to retain the CRR at 22.50 per cent; (iii) to retain the Liquidity Ratio at 30.00 per cent; and (iv) to retain the Asymmetric Window at +200 and -500 basis points around the MPR.

9.0 YAHAYA, SHEHU

The Domestic Economy

With a GDP fall of 2.06% in Q2 2016 year on year, the reality of a recession has hit the Nigerian economy, but a recession that is combined with considerable inflationary pressure. The effects of the disruptions in oil production, gas output that have been experienced in the last few months have combined with the consequent reductions in electricity production and forex shortages to impact significantly on the GDP of the country. The most significant contraction came from the oil sector, where output fell 17.5%, and this obviously had a big effect on oil-related or oil dependent sectors that are nominally classified as non-oil. Hence the industrial sector output fell by 2.03%, with the sharpest decline occurring in the food, beverages and tobacco sub-sector. Construction also declined by 0.28%. Worryingly, disruptions to oil output persisted into the third quarter. This means that the fall in GDP may not yet have bottomed out. Only domestic food output presents a bright figure, with output increasing by nearly 1%, led by increases in cassava, yam and

livestock- and this is before the harvest season in the northern part of the country. This, along with the policy measures being implemented by the government and the Central Bank to stimulate agricultural production, gives a basis for some guarded optimism.

The delay in implementing the budget, particularly capital expenditure, has meant that the stimulatory objective of the budget is yet to kick in. The government is currently making efforts to speed up the implementation of the capital budget, but this will not come in time to have the desired positive impact on third quarter growth.

One of the more far-reaching consequences of the economic recession and the delayed budget implementation is the steady increase in the rate of unemployment for each of the last six quarters since Q4 2014, at a time when it is more difficult to evolve alternative survival measures.

The rise in price levels are also persisting, with the headline inflation at 17.61%, year on year, in August. Food inflation was at 16.43%, while core inflation was 17.21% during the month. Imported food, bread and cereals (due to cost of rice and wheat imports)m made

a substantial contribution to the inflationary pressure in August and this is largely attributable to the naira depreciation effect. Despite the rise in general price levels, it is pertinent to note that the month-on month increase in headline inflation for August 2016 is 1%, which is the lowest since February 2016. It is therefore hoped that the inflationary pressure, though likely to increase in the next few months, may be beginning to slightly taper off, unless fresh shocks hit the economy. It is also pertinent to note that the inflationary pressure was mainly (but not exclusively) stoked by the increase in fuel prices and the depreciation of the Naira.

With regard to the foreign exchange market, there is still substantial pressure on the value of the Naira, despite the many measures that are being deployed by the Central Bank to address this challenge. Firstly, non-oil exports have not been able to ameliorate the fall in foreign exchange earnings due to the fall in output and price of oil. Non-oil exports are estimated to have fallen by 27% between June and July 2016. Secondly, the liberalization of the foreign exchange market, the managed float and the innovative use of futures markets

have rationalised the market, but have not yet attracted sufficient levels of foreign portfolio investments into the country or sufficiently closed the gap between the inter-bank and parallel foreign exchange markets. One of the key factors is the uncertainty over the level of oil output, which has compounded the low prices. Hence the level of foreign reserves continues to fall steadily. In this regard, it will be difficult to significantly increase confidence in the foreign exchange market until the supply disruptions have been curtailed.

Although the banking and financial sector is still robust, it is obviously coming under increasing pressure. It is coping with the depreciation in the value of Naira because of the net positive foreign assets position of the DMBs, but there are increasing challenges with respect to non-performing loans, especially in sectors such as oil and gas due to foreign exchange exposures, and in power and energy. ROEs and ROA are also suffering, but deposits and assets are still rising. While vigilance must remain high, there is no immediate threat to the sector.

The Global Economy

Prices in the economies of Nigeria's main trading partners are low and there is little chance for any price surges. Oil prices are also likely to remain weak over the medium term, despite occasional short term surges driven by specific events, mainly due to over-production, uncertainties over OPEC output controls and weak growth in the global economy. Growth in the US is positive, but still relatively low, growth in EU countries is quite weak. Brazil, Japan are faced with very low or negative growth rates in the medium term and the effects of Brexit are still generating uncertainties in the global economy. While growth is still high and stabilizing in China and expanding in India, the overall picture is such that there is unlikely to be a major impetus to growth in Nigeria from substantial demand increases in the global economy in the near term.

Summary and Conclusion

There are clearly many factors combining to determine the current dynamics of the Nigerian economy. At this moment however, the main nexus for the short term appears to be the foreign exchange

market. Following the liberalization of the market, it is necessary to stabilize the value of the Naira. This will help provide the right signal to allow better planning for domestic investments, give an incentive to foreign investors, stabilize PMS prices, thereby stemming any additional inflationary pressures therefrom and help alleviate speculative pressures in the market. The key thing is to augment the supply of foreign currency in the market and stabilize reserves. This must be done in the short term to allow time for the various policy measures articulated by the government to be implemented and have some impact on diversification and local value addition, which will mainly be visible only in the medium and long term. This must be done without undermining efforts to re-generate growth. At the same time, it is necessary to maintain stability in the financial sector and avoid compounding the challenges facing financial institutions. Much of what needs to be done has to come from the fiscal authorities. Monetary policy instruments can only play a minor role as they will have very limited effectiveness at this particular juncture.

At the last MPC meeting in July, the monetary policy rate was raised by 200 basis points in an effort to stave off inflationary pressures and to attract foreign portfolio investments. Capital importation in the last 3 months has risen to just over US\$1 billion, much higher than in the previous months. However, about two-thirds of that occurred in June, before the last MPC meeting, raising questions as to whether the primary impetus for this was the increase in rate or simply the effect of the liberalization of the forex market. Also, as mentioned above, although headline inflation rose in August as compared to July, the rate of increase was lower than in the previous 5 months. How much this is attributable to the policy rate hike is not clear, especially since a close look at the components contributing to the headline inflation reveals that they are largely related to Naira depreciation and PMS de-regulation effects.

In consideration of the above therefore, it is important to have a clearer picture of the effects of the last policy rate increase before additional measures in that direction could be taken. Another policy raise at this time should not be contemplated as it would be

counter-productive in a situation of deepening recession. It would also make public debt service more difficult as well as complicate the challenges facing the financial sector without necessarily delivering a substantial increase in PFI. Yet, lowering the policy rate is not appropriate, not just because the effects of the last raise are yet unclear and a complete reversal within 2 months would be unwise, but also because price levels are still rising and are forecast to continue rising until the end of the year

I therefore vote to maintain the current policy stance with respect to MPR, the corridor, CRR, liquidity ratios.

10.0 EMEFIELE, I. GODWIN, GOVERNOR OF THE CENTRAL BANK OF NIGERIA AND CHAIRMAN, MONETARY POLICY COMMITTEE

Global economic conditions remained weak in the first two quarters of 2016 as short-term outlook dampened. Consequently, the 2016 global growth forecast was downgraded to 3.1 percent and 2.4 percent by the IMF and World Bank, respectively. These reflected the weak demand, fragilities and uncertainties in both developed and developing economies. Recovery in the United States, though positive, remains marginal, while the palpable fear of deflation continued to threaten productivity and demand in the Euro Area and Japan. With the June 2016 vote to exit the European Union, prospects of the UK economy seem to have been undermined. The ongoing rebalancing and slowdown in China together with the weak performance of the most emerging markets and developing economies further complicated the state of the global economy, worsened the volatilities in the financial markets and diminished short- to medium-term outlook.

Altogether, the weak global conditions are having protracted adverse effect on the Nigerian economy as they expose the deep structural weaknesses that are inherent in the macroeconomy. Recent data indicate that Nigeria tipped into technical recession in the first of 2016 with two consecutive quarters of contraction. From an output growth of 2.1 percent in 2015Q4, the economy contracted by 0.4 percent in 2016Q1 and 2.1 percent in 2016Q2 despite a quarter-on-quarter growth of 0.8 percent. The 2016Q2 contraction reflected the 17.5 and 0.4 percent decline in oil and non-oil GDP, respectively; with the latter accounting for 91.7 percent of overall performance. The moderate contraction of the non-oil sector was cushioned by positive growths in: agriculture; information & communication; water supply; arts, entertainment and recreation; professional, scientific and technical services; and Education and Other Services.

As I noted in my earlier statement, the contractions during in the first half of 2016 were traceable to the legacy shocks experienced since 2014. Noticeably, the spill-over effect of lower oil prices on foreign

exchange availability and constricted fiscal space was reinforced by acute energy shocks (fuel and electricity), weak domestic demand and poor financial markets sentiments to weaken the performance and prospects of the domestic economy. As the effects of the underlying shocks lingers, I cautiously sense that the contraction may persist, *albeit* at a reduced pace, throughout 2016. I note that overriding weight of foreign exchange in the economic performance reflects the high propensity of Nigerians to import. Throughout the first six months of 2016 trade balances were negative as year-on-year imports grew by 21 percent in 2016Q2 while exports fell by 29.4 percent. A cursory analysis suggests that rising imports may reflect aversion for substandard domestic products rather than an innate taste for foreign goods. Hence, effective diversification of the economy may require quality assurances, standards enforcement and consumer protection in Nigeria. Nonetheless, I maintain that a broad-based diversification of the economy remains non-negotiable, incontrovertible and exigent at this time.

Nigeria's economic performance in the first half of 2016 was compounded by ascending inflation rate. From a single-digit rate of 9.6 percent in January 2016, year-on-year headline inflation grew to 17.1 percent in July 2016 and 17.6 percent in August 2016. The rising inflation does not only reflect the ascents of both food and core components of inflation, it more critically underlines the imperatives of imported inflation which rose from 11.2 percent in January 2016 to 20.7 percent in August. Again, this typifies the undue influence of foreign exchange on the every aspect of the Nigerian economy and the urgent need to delink the country from these influences. I note that although inflation rose in August, it is decelerating. Similarly, month-on-month rates are steadily declining with headline growth falling from 1.3 percent in July to 1.0 percent in August. This can be attributed to the moderating impact of some of our past actions to curb inflation.

Monetary and financial data shows an annualised growth of 12.1 percent for broad money supply (M2) in August 2016 relative to the target of 10.9 percent. At annualised rates of 30.1 and 31.6 percent,

apiece, net domestic credit and private sector credit exceeded their benchmarks of 17.9 and 13.4 percent. However, analysis of money market interest rates showed that average interbank rate stood at 25 percent between July and August 2016. I remain of the view that rising private sector credit, irrespective of the interest rates, needs to be properly channelled productive sectors with high level local content of raw materials. I believe that this will have significant multiplier effects on output and employment without amplifying pressures in the foreign exchange market. This is especially important as the naira-dollar exchange rate depreciated from ₦292.90/US\$ on 19 July 2016 to ₦305.5/US\$ as at 16th September 2016.

Overall, I note that as the impact of the shocks persists, the challenges of the Nigerian economy will continue into the third quarter. In-house analysis suggests high likelihood of growth contractions, rising inflation, high unemployment rate and the twin deficits lingering into quarter three. However, following our recent policy decisions and as the legacy effects of the energy price shock

(fuel and electricity) dissipates; I expect key economic indicators will improve in the near-term, in the absence of further adverse shocks. We expect that as the effect of past policy decisions to begin to touchdown fourth quarter outcomes may start improving. Hence, it is genuinely likely as the base effect wanes, inflation rate may begin its return to single in the first quarter of 2017. It is also highly probable that the contraction would have reversed and the technical recession ended at that date.

However, whereas we cannot fine-tune monetary policy endlessly, it is imperative to understand the core of our economic challenges. I note that Nigeria's marginal propensity to import, at between 0.7 and 0.8, is significantly high. These figures imply that about 70 to 80 percent of every extra naira to economic agents in Nigeria will find its way to the foreign exchange market to seek imports. Expansionary macroeconomic policy, if not properly targeted, will export jobs and debilitate Nigeria's economy. I reiterate the need to identify high impact productive ventures in Nigeria with near-zero import content to benefit from fiscal stimuli. This will ensure that the

multiplier effect of the extra spending is maximised locally with minimal leakage abroad.

In conclusion, I note that the choice before us today remains intricate as it revolves around the trade-off between inflation and growth in a stagnating economy. Though inflation remains largely structural, evidence suggests that our bold policy decisions are beginning to slow it down. Month-on-month rates are falling across all components while the year-on-year rates are decelerating. It is crucial to ensure that inflation rate in medium-term is effectively curtailed.

Nonetheless, it is also important that we allow the effect of past policy shocks to asymptotically dissipate in order not to subvert the natural trajectory of impulse-response relationships. In addition, on the balance of evidence, I assert that the current level of the monetary policy rate is optimal and appropriate. Attempts to reduce the rate at this time will be counterproductive as it goads the time inconsistency problems associated with macro-policies. It

may also have tangential adverse effects on the foreign exchange market if it deters inflows. The level of liquidity in the system is adequate to drive growth if appropriately channelled. In this regard, there is no need for the central bank to create new liquidity as this may complicate inflation without benefiting growth.

The task now is to ensure that fiscal stimuli are creatively transmitted to productive ventures with near-zero import content, if the multiplier effect of the marginal spending is to be maximised.

Based on the foregoing, I vote to:

1. Retain the MPR by 200 basis points to 14.0 percent;
2. Retain the CRR at 22.5 percent;
3. Retain the asymmetric corridor at +200/–500 basis points; and
4. Retain Liquidity Ratio at 30 percent