CENTRAL BANK OF NIGERIA COMMUNIQUÉ NO 112 OF THE MONETARY POLICY COMMITTEE MEETING OF 20TH AND 21ST MARCH 2017

1.0. Background

The Monetary Policy Committee met on the 20th and 21st March, 2017, against the backdrop of persistent uncertainty in the global economy, stemming from economic and socio-political developments around the world. On the domestic front, while the Q4 2016 GDP figure was better than the last two consecutive quarters, the economy remained in recession with inflationary pressures continuing unabated. These adverse external and domestic conditions continued to complicate the policy environment.

In attendance at the meeting were 10 members of the Committee. The Committee assessed the global and domestic economic and financial environments in Q1 2017 as well as the outlook for the medium-term.

External Developments

The global economy witnessed greater momentum in Q4 2016, facilitated by gains in both developed, emerging markets and developing economies which propelled global GDP growth to 2.7 per cent year-on-year in Q4, 2016, a 0.2 percentage point improvement over Q3 2016.

In spite of this improvement, the external environment continued to be plagued by political, economic and financial market uncertainties, with the defining issues being: Brexit, growing protectionist and anti-globalization sentiments, divergent monetary policies of the advanced economies' central banks and volatile commodity price movements. The protectionist stance of the new U.S. administration could impact negatively on global trade and economic recovery.

The MPC noted the slip in oil prices against the backdrop of fears of a supply glut, fuelled by increased activities in US Shale oil production, which threatens to undermine the rebalancing effects of the last OPEC decision to cut output. The Committee also noted the increase in the target range of the US Fed funds rate at the last meeting of the FOMC and the potential spillover effects on global capital flows and interest rates, especially given the still tepid global economic activity and weak demand. Challenges in the emerging markets and developing economies persist, as they struggle with strong headwinds from low commodity prices, rising inflation, currency volatility, receding real income and capital reversals.

Overall, the Committee noted the dampening effects of economic stagnation and uncertainty on global trade and investment. In spite of these constraints, however, the IMF estimates that the global economy would witness a slight improvement in growth from 3.1 per cent in 2016 to 3.4 per cent in 2017.

Global inflation continued its moderate but steady rise against the backdrop of improved oil prices and depreciated currencies in several emerging markets. Amongst the major advanced economies, the U.S Fed maintained its tightening stance, with a further upward adjustment[1] in March 2017. Meanwhile the Bank of Japan (BOJ), Bank of England and the European Central Bank, maintained the soft policy stance at their most recent meetings.

Domestic Output Developments

Data released by the National Bureau of Statistics (NBS) in February 2017 showed that the economy contracted marginally by 1.30 per cent in Q4 2016, effectively remaining in recession since Q2 2016. Overall, in 2016, the economy contracted by 1.51 per cent, with the contraction in Q4 being the least since Q2 2016. The non-oil sector grew by 0.33 per cent in Q4, largely reflecting

[1] The Federal Reserve again raised its benchmark Federal Fund rate by 25 basis points in March 2017, to a range of 0.75 to 1.00 per cent, having raised rates by the same margin in December, 2016, and also provided indication of further rate hikes in 2017

the slowdown in the agricultural sector, which decelerated to 4. 03 per cent in Q4 2016 from the 4.54 per cent recorded in Q3 2016. The Committee remains of the conviction that fiscal policy remained the most potent panacea to most of the key negative undercurrents i.e. stunted economic activity, heightened unemployment and high inflation.

In spite of the recent moderate recovery in oil prices, the Committee approached developments in commodity prices cautiously. It noted that the era of high oil prices was over, thus making diversification away from oil more imperative today than ever.

Developments in Money and Prices

The committee noted that money supply (M2) contracted by 5.73 per cent in February 2017, annualized at -34.38 per cent in contrast to the provisional growth benchmark of 10.29 per cent for 2017. Similarly, Net Domestic Credit (NDC) contracted by 1.41 per cent in February, 2017, annualized to 8.46 per cent, being significantly below the 17.93 per cent provisional growth benchmark for 2017. Likewise, net credit to government contracted at an annualized rate of 49.74 per cent, representing 82.86 per cent below its programmed target of 33.12 per cent. In effect, all the major monetary aggregates contracted by end-February and underperformed their programmed provisional benchmarks for fiscal 2017.

Headline inflation (year-on-year), however, declined for the first time in 15 months, dropping by 0.94 percentage point to 17.78 per cent in February, from the 18.72 per cent recorded in January 2017, and 18.55 per cent in December, 2016 seemingly reversing the monthly upward momentum recorded since January, 2016. The moderation in headline inflation in February, 2017 reflected base effect as well as decline in the core component, which fell by 1.90 percentage points from 17.90 per cent in January to 16.0 per cent in February, 2017. The food index, however, rose to 18.53 per cent in February, a 0.71 percentage point increase over the 17.87 per cent recorded in January, 2017.

The Committee, similarly, observed a continuous upward trend in the month-on-month inflation rate in February, having slightly moderated between December 2016 and January, 2017. It noted the sustenance of the structural factors mounting pressures on consumer prices, such as the high cost of power and energy, transport and production factors, as well as rising prices of imports. Nonetheless, the Committee remains optimistic that the adopted policy stance and other ancillary measures directed at improving the agricultural and other relevant sectors of the economy would combine to restart growth and drive down prices in the short to medium-term.

Money market interest rates moved in tandem with the level of liquidity in the banking system. Rates were relatively stable during the review period, the interbank call rates opened at 6.25 per cent on January 25, 2017 and closed at 13.14 per cent on February 28, 2017. However, the average inter-bank call rate rose to 100.00 and 133.84 per cent on January 21 and January 23, 2017, respectively, following the withdrawal of liquidity from the banking system through the sale of foreign exchange worth N137.00 billion on February 21, 2017.

The Committee noted the decline in the equities segment of the capital market as the All-Share Index (ASI) fell by 3.07 per cent from 26,036.24 on January 31, 2017, to 25,238.01 on March 10, 2017. Similarly, Market Capitalization (MC) decreased by 2.68 per cent from N8.97 to N8.73 trillion during the same period. Relative to end-December 2016, the capital market indices, fell by 3.12 and 3.03 per cent, respectively, reflecting the challenges still confronting the economy.

Total foreign exchange inflows through the CBN decreased by 8.87 per cent in February, 2017 compared with the previous month, as foreign exchange market receipts were significantly lower. Total outflows, also declined by 7.32 per cent during the same period. The Committee noted that the average naira exchange rate remained stable at the inter-bank segment of the foreign exchange market in the review period.

2.0. Overall Outlook and Risks

Available data and forecasts of key economic variables as well as the newly released Federal Government's Economic Recovery and Growth Plan (ERGP), indicate prospects of output recovery in 2017. The Committee expects that the implementation of this plan, the new foreign exchange policy as well as the current effort by the Federal Government to restore peace in the Niger Delta region would help revive economic growth and stabilize prices. The Committee identified the downside risks to this outlook to include the possibility of a slower-than-expected rate of global economic activity, tight monetary policy stance by the U.S. Fed, resulting in strengthening U.S dollar, and low oil prices.

3.0. The Considerations of the Committee

The Committee re-evaluated the implications for Nigeria of the continuing global uncertainties as reflected in the unfolding protectionist posture of the United States and some European countries; sustenance of the OPEC-Russian agreement to cut oil production beyond July 2017; sluggish global recovery and the strengthening U.S. dollar.

The Committee also evaluated other challenges confronting the domestic economy and the opportunities for achieving price stability, conducive to growth in 2017. In particular, the Committee noted the persisting inflationary pressures; continuing output contraction; high unemployment rate; elevated demand pressure in the foreign exchange market; low credit to the real sector and weakening financial system indicators, amongst others. Nonetheless, members welcomed the improved implementation of the foreign exchange policy that resulted in naira's recent appreciation. Similarly, the Committee expressed satisfaction on the release of the Economic Recovery and Growth Plan, and urged its speedy implementation with clear timelines and deliverables. On the strength of these developments, the Committee felt inclined to maintain a hold on all policy parameters.

Nevertheless, the Committee noted the arguments for tightening policy which remained strong and persuasive. These include: the real policy rate which remains negative, upper reference band for inflation remains substantially breached and elevated demand pressure in the foreign exchange market. The reality of sustained pressures on prices (consumer prices and the naira exchange rate) cannot be ignored, given the Bank's primary mandate of price stability. It noted that the moderation in inflation in February was due to base effect as other parameters, particularly; month-on-month CPI continued to rise. However, tightening at this time would portray the Bank as being insensitive to growth. Also, the deposit money banks may easily reprice their assets which would undermine financial stability. Besides, the Committee noted the need to create binding restrictions on growth in narrow money and structural liquidity and the imperative of macroeconomic stability to achieving price stability conducive to growth.

The Committee also considered the arguments for loosening the stance of monetary policy, noting its desirability in stimulating aggregate demand if credit increased with lower rates of interest. It noted the arguments that loose monetary policy was capable of delivering cheaper credit, making it more attractive for Nigerians to acquire assets, thus increasing wealth and stimulating aggregate spending and confidence by economic agents, which would eventually lead to lower Non-performing loans in the system. However, the counterfactual arguments against loosening were anchored on the upward trending month-on-month inflation and its impact on the exchange rate. Loosening would thus worsen the already negative real interest rate, widen the interest rate spread and reverse the positive outlook for the current account position.

On outlook for financial stability, the Committee noted that the banking sector was becoming less resilient as a result of the adverse macroeconomic environment. Nevertheless, the MPC reiterated its resolve to continue to pursue financial system stability. To this end, the Committee enjoined the Management of the Bank to work with DMBs to promptly address rising NPLs, declining asset quality, credit concentration and high foreign exchange exposures.

The Committee also noted the benefits of loosening at this time which will be in line with the needs of fiscal policy to restart growth. The MPC, however, noted that loosening would exacerbate inflationary pressures, worsen the exchange rate and further pull the real interest rate into negative territory. Since interest rates are sticky downwards, loosening may not necessarily transmit into lower retail lending rates.

The Committee noted the consecutive positive contribution of agriculture to GDP in Q4 2016, a development partly traceable to the Bank's interventions in the sector. The Committee remains optimistic that, if properly implemented, the newly released Economic Recovery and Growth Plan (ERGP) coupled with innovative, growth-stimulating sectoral policies would help fast track economic recovery.

4.0. The Committee's Decisions

The Committee, in consideration of the headwinds in the domestic economy and the uncertainties in the global environment, decided by 9 out of 10 members to retain the MPR at 14.0 per cent alongside all other policy parameters. One member voted to raise the MPR. In summary, the MPC decided to:

(i) Retain the MPR at 14 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 corridor at +200 and -500 basis points around the MPR

Thank you for listening.

Godwin I. Emefiele

Governor, Central Bank of Nigeria

21st March, 2017

PERSONAL STATEMENT BY THE MONETARY POLICY COMMITTEE MEMBERS

1. ADELABU, ADEBAYO

Following the resolution at the last meeting to correct the wide distortion in the foreign exchange market, a remarkable improvement has been recorded as evidenced in the narrowing of the margin between the two markets. This is as a result of the new foreign exchange policy which now accommodates certain items previously excluded from the interbank market. From the real sector side, inflation at 17.78 per cent in February is still elevated but it is somehow soothing that a fair level of deceleration could be observed in contrast to the upward trend that persisted throughout fiscal 2016. The contraction in GDP continued up to the last quarter of 2016 but gradual recovery is anticipated in the current fiscal year given the increase in agricultural activities most especially rice production.

From a policy perspective, as it has always been due to the multidimensional nature of the challenges, the issue is not that straightforward given that the risk to the medium term outlook are from both the financial and real sectors. From the financial side, the major risk is the state of the foreign exchange market with the exchange rate occupying the front burner. Some degree of stability has been achieved in the last one month owing to the new measures introduced by the Bank but certain developments portend the capacity to trigger new pressures in the market.

Among others, the US Fed Reserve increased the policy rate at their meeting last week while analysts are of the view that further increases could still take place in the course of the year given the expansionary fiscal stance of the new administration in the US. This, in essence, could trigger capital outflow from emerging economies and ultimately strengthen the US dollar further against other currencies. Besides, I doubt if the issue of demand pressure in the foreign exchange market has been completely dealt with. The recent rally in the value of the Naira at the BDC's market is not necessarily due to reduction in demand for forex but mainly on account of increase in supply by the Bank, which to some extent has affected the rate of reserves accretion. The point here is that apart from transactions demand for forex, which the Bank is trying to meet through increased intervention, it is not unlikely that demand for forex as a store of value is equally increasing. This phenomenon could have only resulted from lack of confidence of economic agents with respect to the sustainability of the current appreciation in the value of the domestic currency, given that the US dollar is currently appreciating against most global currencies. Thus, some level of speculation could still heighten demand pressures and possibly lead to depreciation of the domestic currency. In light of the fact that much of the inflation in the last couple of months has been driven by the pass through effects of exchange rate depreciation, then, it could be reasonably assumed that inflation dynamics may still face upside risks in the medium term. This, invariably, should require some tightening measures.

Another emerging threat on the financial side is the rising NPLs of the banking sector. The sector has been severely hit by the combination of high lending rate, exchange rate risk, and contraction in economic activities, resulting in significant rise in the level of defaulting portfolios. Although it is comforting that the soundness of the banking sector has not been eroded to the level experienced in the aftermath of the 2007-9 global financial crisis, which elicited the CBN intervention, such level of erosion is a likely possibility if the trend in the last couple of years continues. The sector therefore deserves some form of attention. In as much as the three risk factors to the sector highlighted above are very important, the interest rate appears to be the only one under the complete control of the Bank. As such, I am of the view that the need to build a safeguard against the risk of another round of instability in the banking sector demands that the interest rate path should be closely guided.

From the real side, the contraction in output is projected to bottom out in the current year but not without some challenges. Most of the banks are wary of booking new credit as much effort is now placed on recovery. Obviously, credit growth, particularly to the private sector may slow down considerably thereby stifling the recovery process. This should naturally elicit easing of credit condition from the policy side. This position is further reinforced by a casual analysis of inflation dynamics. Core and food inflation remained fairly stable up to 2015 but the two of them trended upward in 2016 despite the fact that growth of agricultural GDP remained positive during the period. This, in essence, suggests that the current inflation trajectory is more of a cost-push phenomenon and less of demand pull, invariably, requiring easing of conditions in the business environment. On the other hand, gradual recovery from the recession is expected in 2017 but this would largely be propelled by agriculture as considerable drag could still be observed in some key sectors. Available statistics revealed that key sectors like mining and manufacturing contracted by 21.64 percent and 4.38 percent, respectively, in the third quarter of 2016. Going by the magnitude of contraction in these sectors, it would definitely take a while for the sectors to recover and in the light of the fact that these are major employment generating sectors, the impact of recovery on employment would be highly diminished. As a result, monetary policy still needs to play a critical role in propelling growth particularly in job enhancing sectors.

Other key challenges are the developments in the fiscal sector. The fiscal 2017 Appropriation Bill of about N6.0 trillion with about 26 percent allocated to capital project is a good step towards enhancing the recovery process. However, the key challenge remains the delay in passing the Bill into law. Under this condition, the constitution permits that certain portions of recurrent expenditure could be spent while no portion of capital expenditure is permitted. The implication is that the component of expenditure that could shift the supply curve to the right is impeded while the component that shifts aggregate demand to the right is not constrained thereby stoking inflation. This, invariably, shows that apart from the need to strengthen coordination between fiscal and monetary policies, all the various arms of government including the legislature need to work in concert in the process of addressing the current macroeconomic imbalance.

From the foregoing, the risks to the outlook appears fairly balanced, suggesting that further tightening or loosening may be a sub-optimal choice in the prevailing circumstance. Consequently, I would like to opt for retention of the current measures of monetary policy which specifically means that both the MPR and CRR be maintained at 14 and 22.5 percent, respectively. In addition, strong complementarity is required from fiscal and structural policies while both the executive and legislature need to deepen their relationship particularly on matters revolving around macroeconomic management.

2. ALADE, SARAH O.

This MPC meeting is taking place at a period of uncertainty in the global economy, stemming from economic and socio-political developments around the world, amid fragile domestic economic environment. While the domestic economy experienced a better 2016 fourth quarter GDP figure than the last two consecutive quarters, the economy remained in recession with inflationary pressures not moderate as expected. These adverse external and domestic conditions are continuing to complicate the policy environment in Nigeria, and would require delicate balancing to achieve both growth and stability in the country.

The growth momentum is improving for the global economy; however, more needs to be done to sustain the momentum. The global economy witnessed greater momentum in Q4 2016, facilitated by gains in both developed, emerging markets and developing economies which propelled global GDP growth to 2.7 per cent year-on-year in Q4, 2016, a 0.2 percentage point improvement over Q3 2016 with the United States economic recovery. The Federal Reserve raised its key interest rate by 0.25 percentage point on Wednesday, March 15, 2017 on the back of strong jobs report and Fed confidence about the pace of growth in the U.S. economy. The Fed placed its key interest rate at 0% in December 2008 to resuscitate the collapsed housing market. But a little over eight years later, the U.S. economy is in much better shape and has grown, albeit slowly. The IMF estimates that the global economy would witness a slight improvement in growth from 3.1 per cent in 2016 to 3.4 per cent in 2017. However, this forecast will be determined by a number of factors including the rising wave of populist and anti-globalization sentiments and divergent monetary policy stance of the central banks in advanced economies which will ultimately impact the Nigerian economy.

Gross Domestic Product (GDP) is still negative although with marginal improvements: The most recent data indicated that the economy contracted marginally by 1.30 per cent in the fourth quarter of 2016, effectively remaining in recession since second quarter of 2016. The contraction in the fourth quarter growth was the least for the year, as the economy contracted by 1.51 per cent overall in 2016. The non-oil sector grew by 0.33 per cent in the fourth quarter largely reflecting the slowdown in the agricultural sector, which recorded a 4. 03 per cent growth down from 4.54 per cent recorded in third quarter of 2016. The cumulative effect of energy shortages, high electricity tariffs, fuel price hikes, scarcity of foreign exchange and depressed consumer demand continued to dampen growth throughout the year. The negative growth in GDP under normal circumstances would have necessitated a reduction in monetary policy rate, however recognizing that the conditions which precipitated the current economic downturn were not sensitive to monetary policy interventions, a cut in policy rate would not be appropriate at this time. Therefore, given the rising inflation and the reversal of capital inflows the current stance of monetary policy should remain at current level to reverse the situation. Money supply (M2) contracted by 5.73 per cent in February 2017, representing an annualized growth of 34.38 percent against the provisional growth benchmark of 10.29 per cent for 2017. Similarly, Net Domestic Credit (NDC) contracted by 1.41per cent in February, 2017, with an annualized growth of 8.46 per cent and significantly below the17.93per cent provisional growth benchmark for 2017. Although growth in monetary aggregates contracted at end-February, excess liquidity still remain in the system, making monetary policy stance not as tight as the policy rate would suggest. The challenge for the committee as in 2016 is how to address growth concerns without escalating inflationary pressures. Efforts to spur economic growth will therefore require the cooperation and collaboration of monetary and fiscal policy and delicate balancing of both global events and domestic risks.

Inflationary pressure slowed marginally, but still at upper double digits. Headline inflation declined by 0.94 percentage point to 17.78 per cent in February, from the 18.72 per cent recorded in January 2017, and 18.55 per cent in December, 2016. This marked the first time in 15 months, that headline inflation has declined reversing the monthly upward momentum recorded since January, 2016. The moderation in headline inflation is as a result of base effect as well as decline in the core component, which fell by 1.90 percentage points from 17.90 per cent in January 2017 to

16.0 per cent in February, 2017. However, food inflation rose to 18.53 per cent in February, from 17.87 per cent recorded in January, 2017. While some structural factors such as the high cost of power and energy, transport, production factors, as well as rising prices of imports are responsible for the high inflation, inflationary pressure is also being driven by excess liquidity in the system. Against this background, it is necessary to start the rolling back of some of the intervention programs of the Bank and refocus monetary policy on price stability by lowering inflation. Monetary policy must keep a close eye on inflation to avoid it overshooting and further eroding purchasing power of the poor.

Better management of the foreign exchange policy and the unification of multiple exchange rates is required. Further reform in the interbank foreign exchange market is needed to allow for transparency and price discovery in line with the policies released in June 2016. This will attract the much needed capital into the economy and liquidity into the market and unify the multiple exchange rates.

Therefore, based on the above, I support the retention of the current stance of monetary policy. I vote for no change in Monetary Policy Rate at 14 percent, retain Private Sector Cash Reserve Requirement (CRR) at 22.5 percent, and retain Liquidity Ratio at 30 percent to address both growth and macroeconomic concerns.

3. BALAMI, DAHIRU HASSAN

The data available at the March MPC meeting revealed a deteriorated situation of the financial system stability in Nigeria with capital adequacy ratio of 13.36 percent; NPLs of 13.59 percent; and liquidity ratio of 46.61 percent all lower than the last month's figures depicting poor performance of the Nigerian financial sector. The ''big elephant in the room'' is the foreign exchange rate in the market. Ordinarily, the parallel/black foreign exchange market is where the forces of demand and supply determine the exchange rate. However, in Nigeria, the black market which constitutes only about 5% of the total size of the foreign exchange market is the most quoted. The black foreign exchange market has been a threat to the stability of the Naira exchange rate particularly at BDC's. Evidence shows that the exchange rate for the Naira to the dollar has stabilised around ₦305-₦307 for the months of February and greater part of March 2017 at the interbank rate. However, the black markets have been witnessing price discoveries ranging from ₦445-₦ 505 between the same period. The parallel market in Nigeria is seen as the 5% ''noisy market'' because even at the official level, the stakeholders quote black market rate as the most realistic rate. The rate is not determined by the forces of demand and supply and that is why the value of the naira was undervalued to date. This has created instability in both the foreign exchange market and prices in the commodity market leading to inflationary pressures in the economy. The black market rate does not reflect any market mechanism as the naira is currently undervalued leading to distortion thereby affecting growth and encouraging round tripping. However, in Nigeria, the stakeholders continue to accept the black market rate as the naira exchange rate between the dollar and the naira. The formalisation of the market would appreciably facilitate the channelling of available foreign exchange to productive sectors of the economy as well as promoting price stability in the economy. The black market rate and the depreciation of the naira have indeed distorted price stability and economic growth.

To achieve this, there is need or it is expected to trace the historical development of the foreign exchange market in Nigeria. The pertinent questions are: Who are the economic agents that patronise the market? What role had the 1995 Foreign exchange management Act played in promoting the black market? Is there need to repeal the act? What has been the role of the black market in promoting and facilitating cross-border trade particularly in the Eastern sub-region of West Africa including Nigeria and her immediate neighbours? How is price determined in the black market? How can the black market be reduced to its barest minimum to facilitate release of foreign exchange for productive purposes and also to stabilise the economy? To answer these questions, it is important to trace the origin of black forex market in Nigeria.

The black market in Nigeria began operating largely after Nigeria moved from the pound sterling era which was convertible to a non-convertible currency (i.e. the naira) during the civil war. This led to some documentation which was introduced in order to allocate the foreign exchange. Those who could not access the foreign exchange began to create their own market. The major customers or clients are cross-border traders, students and parents for BTA and oversea school fees, medical tourism settlements, and those who want to avoid documentation. Today the exchange rate in the black market is usually not determined by the interaction of the forces of demand and supply but by order that control huge amount of "unearned income." The CBN can help create a market to take care of the customers of black market where there are price discoveries. For the market to be effective, the CBN should fund the window effectively by also reducing the level of documentation to create confidence and credibility in the market. In managing the foreign exchange rate, there is need to re-examine the role of the BDCs in exchange rate management in the economy. This will help achieve price stability. If exchange rate is stable, it would boost growth. It should be noted that depreciation of the naira affects inflation and that inflation hurts growth and promotes poverty in the economy. Monetary policy can assist in regulating inflation partly through managing the exchange rate. The pathway to price stability which is conducive to growth is necessary. Since partly inflation has been triggered by exchange rate volatility, rising level of M1,and other structural factors like increase in the price of PMS,AGO, and LNG, Electricity tariffs, the CRR should not be released into the economy through the back door due to its inflationary effect. Adjustment is needed in the management of the economy. At the international level, hike in interest rates in the US, uncertainty in the oil market and increasing level of protectionist policies by major trading partners will impact on the economy. The challenges at the domestic level include the following: output contraction, weakening financial system indicators, increased demand pressure in the foreign exchange market and external uncertainties and possible capital flight due to hike in interest rates at the international market. However, the recession is backtracking; inflation has shown some slowdown for the month of February 2017. The balance sheet of the CBN needs to be appropriated and this requires that the ways and means of funding government should be resisted to safe guard the economy. Given the above scenario to protect the economy, i proposed to hold and allow the operation of the previous actions such as new FX policy, to support output growth and to bring down the ratio of NPLs closer to the prudential threshold.

I therefore vote to hold the following:

i. Retain the MPR at 14 per cent ;
ii. Retain the CRR at 22.5 per cent;
iii. Retain the Liquidity ratio at 30 per cent ; and
iv. Retain the Asymmetric Window at +200 and -500 basis points around the MPR.

4. BARAU, SULEIMAN

Background

One of the key resolutions in the last meeting was the imperative of improving the condition in the foreign exchange market particularly in narrowing the premium between the interbank and the BDCs markets. A giant stride has been taken in this regard through the new foreign exchange policies which makes provision for the funding of certain excluded activities from the interbank market. These measures have fairly eased the pressure in the markets and I think it is worth commending. Equally impressive is the gradual reduction in the imbalances of the external sector as the current account of the balance of payment recorded a surplus in the latter half of 2016 as against trade deficit of the preceding two halves. Although inflation is still elevated, it is somehow comforting that a downward trend was recorded in February relative to the upward trend that persisted in fiscal 2016. These positive developments notwithstanding, the well-known challenges are still lingering. The softness in output has not shown any noticeable improvement while the pressure in the foreign exchange market is still relatively elevated. The risks in the global environment have equally shown no sign of waning. The new administration in the US continues to forge ahead with its protectionism and nationalism policies as major EMEs countries continue to grapple with different kinds of challenges such as geo-political strife even as an array of non-economic factors continue to pull a drag on growth prospects in many regions. On the whole, the balance of risks appears to skew domestic growth downward but my vote is to hold at this meeting, mainly informed by the need to maintain the prevailing tight stance of monetary policy which is germane to sustaining the modest gain in the foreign exchange market and by extension, the stability in the overall macroeconomic environment

Pressure Points

Global Environment

Based on the latest projection of the IMF, global economy would expand by 3.4 percent in 2017, representing substantial improvement over the less than satisfactory outturn of 2016. The projection equally suggests a steady recovery in the global economy after the slump of about three years ago due majorly to recession in Euro area. In my view, I may subscribe to the likelihood of improved global economic activities in 2017 but I hold a great deal of reservation about the magnitude of expansion as currently projected. My view is hinged on the ground that there has been no significant alteration to the risk matrix in the global environment since the latter half of 2016 rather a little more complication has evolved. Among others, the new administration in the US continues to show unwavering commitment to its protectionism and nationalistic polices. With the spate of executive orders on travel ban in recent times and the attendant rising global resentment, it is without doubt that I submit that the world may need to contend with a new challenge relating to immigration, refugees, and increased social tension with potential negative spillover to global trade. Besides, most EMEs are still grappling with quite a number of non-economic challenges, including geo-political conflict in the Middle East. For me, the current global growth projection seems not to have captured these risks and therefore appears highly vulnerable to downward revision. When these issues are put in context, it is much likely that the external sector of the domestic economy may still face considerable pressure.

Another major issue in the global arena is the financial market condition with particular reference to the strengthening US dollar. The new trend in the value of the dollar would be much more bolstered by the anticipated stance of the US Fed's policy in the near to medium term. The short term interest rate was increased by 0.25 points by the US Fed in December 2016 and complemented by another increase at their last week's meeting. The increase was not much of a surprise to me but an unusual dimension to the process was the uncommon consensus over the decision as some avowed dovish members dramatically turned hawkish. This phenomenon, on its own, is a strong signal to the market which is a likelihood of additional two or three hikes in the current year. My view is informed by the body language of most members, suggesting that a one-time hike is not enough to stabilize the dual variables of inflation and unemployment around their long run trend. Besides, there is another compelling reason which is the strong desire to revert to normal monetary policy. The current Fed Balance sheet of over US$4 trillion is excessively out of normal and most officials have expressed strong concern in respect of this. Certainly, the current level of policy rates, even with the current increase, is not enough to contract the balance sheet to the normal size. In light of these anticipated developments, the US dollar may consistently strengthen over major currencies particularly the EMEs currencies. These developments point to the fact that recent improvement in the external sector of the domestic economy particularly the improvement in accretion to external reserves require maximum protection.

Domestic Environment

A number of positive developments have been observed in the domestic environment but the medium term outlook is still fraught with some risk factors, notably, the following.

Inflation Risk: Headline inflation at 17.3 percent in February 2017 represents a deceleration in contrast to consistent upward trend which prevailed through the entire 2016. This, to some extent, could be interpreted as the commencement of a downward trend but I am of the view that the seeming improvement should be celebrated cautiously. This is based on the fact that the month-on-month inflation still showed semblance of acceleration as at February, suggesting that the year-on-year deceleration was due to base effect. A month-on-month increase in inflation is indicative of persisting underlying pressure with the only plausible explanation being the dynamics of the exchange rate, given that this is the only variable that has been less stable in recent times. The concern here is that in as much as actual depreciation of the Naira would trigger inflation pressure, the expectation of economic agents in terms of the ability of the Bank to maintain stability in the exchange rate could act faster on inflation dynamics than the actual movements in exchange rate. To say the least, the confidence of economic agents in the ability of the Bank to maintain the current exchange rate is still at the lowest ebb.

Possible Resumption of Pressure in the Foreign Exchange Market: As noted above, the pressure in the foreign market has eased considerably with the margin between the two markets narrowing to about 29 percent from as high as 60 percent. Although the new trend is a significant milestone, the margin is still high with the likelihood of getting higher if not well managed. A likely risk factor is the evolving stance of the US Fed which would significantly increase the flow of capital to the US to the detriment of most emerging economies. Presently, the US dollar has commenced a rising trend against most currencies with little regards to countries or regions as notable currencies like Euro and Pound Sterling are falling relative to the US dollar. With respect to Nigeria, the recent measures by the CBN may ease pressure on the dollar from the perspective of reduction in transaction demand but the demand for dollar as a store of value could still show considerable elevation in view of the new direction of monetary policy in the US.

Reduced Banking Sector Resilience: The banking sector has been extremely challenged by a number of risk factors which are not likely to diminish in the near term. The benchmark interest rate has been fairly high for a relatively long period and this, invariably, has started taking its toll in the asset quality of the banking system. Besides, the rapid depreciation in domestic currency has triggered another risk in terms of currency mismatch as a number of domestic firms with foreign currency denominated liabilities find it increasingly challenging to meet their repayment obligations. Another major issue is the huge indebtedness of the public sector. Recently, the electricity distribution companies (DISCOs) have raised alarm about the rising rate of default, most especially from the public sectors as most government agencies are owing the DISCOs. This has equally affected the ability of these companies to meet their contractual obligations to numerous contractors who in turn depend on the banking sector. The cumulative effect of these issues is reduction in resilience and increase in vulnerability of the banking sector.

Way Forward

Sustain Liquidity in the Forex Market: One important parameter that determines the direction of price in the foreign exchange market is the level of confidence by economic agents, which in turn depends critically on the level of liquidity in the market. The

Bank has recorded significant progress in the last one month with the rates in the two markets moving towards convergence zone. This has been possible on account of increased funding of the interbank market as well as the re-admission of certain activities for eligibility in the interbank market. Any event that leads to reduction in the level of liquidity support for the interbank market could be wrongly construed by economic agents as lack of capacity on the part of the Bank to meet the demand in the market with severe consequence of erosion in the level of confidence. As such, appropriate framework should be in place to ensure timely intervention in the market in order to eliminate undue friction from insufficient liquidity.

Maintain the Current Tight Monetary Policy Stance: It is remarkable that monetary policy has started recording some gains notably in the areas of slight moderation in inflation and modest rally in the exchange rate. It is fairly obvious that these indicators are still far from the comfort zone and thus the key issue at this meeting is not just sustaining the gain but to improve on them. This could only be achieved by striking the relevant balance with the issues in both the domestic and global environments. The issues in the domestic economy are threefold, namely, output stimulation, exchange rate stability and moderation in inflation. Based on the structure of domestic economy, exchange rate stability is critical to both output stimulation and inflation control. If stability of the exchange rate is paramount, then easing of monetary policy stance could be counter-productive as some arbitrage outlets would be created in the financial markets. In other words, economic agents can borrow cheaply in the domestic money markets and invest such fund in the foreign exchange market, heightening the pressure in that market. Furthermore, exchange rate stability is equally dependent on the level of capital flow. In the light of the fact that the effect of globalization on monetary policy is being strengthened on daily basis and viewed within the prism of the famous concept of Trilemma which posits that the three variables of capital account liberalization, domestic interest rate, and exchange rate stability could not be held by domestic monetary authority simultaneously, I think it would be in order, under our present circumstances, to allow interest rate to move in tandem with developments in the global economy. This would logically require an increase in the MPR but in order to strike a balance between output concern and financial sector stability, I would prefer that the current level of the policy rate be maintained.

Strengthen Prudential Measures in the Banking Sector: A number of issues such as the elevated interest rates have increased vulnerability and reduced resilience in the banking sector. In as much as easing monetary policy stance does not appear a desirable option at the moment, measures need to be taken to overcome some of the anticipated negative consequences. Apart from pressure on banking system stability through elevated interest rate, other issues in the global environment constitute significant challenges. One major evolving source is currency mismatch. As such, I would strongly advocate for increased regulatory surveillance on the banking sector. Special attention needs to be paid to issues bordering on risk of currency mismatch as well as loan concentration particularly in weak and vulnerable sectors.

Decision

Concern for the lingering softness in output as well as reduction in resilience of the banking sector probably suggest reduction in the policy rate while the issues of inflation and exchange rate may demand increase in the policy rate. To strike a balance, I would opt for retention of the Monetary Policy Rate at the subsisting 14 per cent as well as other monetary policy measures currently in place.

5. GARBA, ABDUL-GANIYU

Context

The MPC held after a fruitful MPC retreat in which for the first time, members of the MPC met with Ministers of the key Economic Ministries (Budget and Planning, Finance and Trade and Investment). I believe we agreed on the principles for fiscal-monetary policy coordination: humility, sincerity and integrity. I also believe it was clear to us that monetary, fiscal and prudential policies are organically linked and that there are grave dangers of costly policy errors if we act as if they were independent. Finally, I believe that we recognized that a pathway to price stability with growth and employment is a medium to long term one and success depends on pathways to fiscal prudence and sustained financial system stability.

A historical analysis of the data and national experiences of recurring recessions and stagflation makes it clear that a return to price stability and growth takes several quarters and that a return to "normal employment targets" takes even longer. Further, the costs of adjustments depend on the timeliness and effectiveness of fiscal and prudential policies. Economic history teaches us that effective policy coordination minimizes the response lag and the associated costs.

The mandates of the MPC since 2007 remains to: (a) **ensure monetary and price stability;** (b) issue legal tender currency in Nigeria; (c) maintain external reserves to safeguard the international value of the legal tender currency; (d) promote a sound financial system in Nigeria; and (e) Act as banker and provide economic and financial advice to the Federal Government. Unless these are changed, confidence in Nigeria's macroeconomic management could not be restored if monetary policy is detached from the enabling legislations to accommodate incompatible levels of expansions in spending and balance sheets. Conversely, the confidence in Nigeria's macroeconomic management would be much enhanced if fiscal policy is strongly rooted in the Fiscal Responsibility Act of 2007 and a pathway to fiscal prudence and discipline and effectiveness is found in the shortest possible time.

The current national and global challenges are significant enough to warrant greater attention to enabling legislations and the unfolding global political economy. How the global political economy continually affects the economy as well as expectations about how it will evolve influences Nigeria's policy options –fiscal, monetary and prudential. Macroeconomic management has to contend with (i) four quarters of negative growth; (ii) price inflation that is more than twice above the upper bound of the target of 6-9%, (iii) exchange rate pressures, (iv) AMCON liquidity, "liquidity-mop- up liquidity (each round of tightening expands liquidity by the rate of returns on treasury bills) and "monetization liquidity"; (v) destabilizing effects of "FAAC Effects" on the call money and open buy back rates and (vi) fiscal challenges: efficiency and effectiveness, growing public debt and its financing implications for structure of expenditure (debt service is crowding-out non-debt expenditure) and (vii) current account deficit.

It is important particularly given the expansion in the Consolidated Balance sheets of the financial system to significantly limit the "noisy liquidity" particularly, the monetization of oil revenue and other fiscal liquidity. I believe there is consensus on the right strategies and the macroeconomic benefits particularly with regards to enhancing confidence in the macroeconomic management and prudential policy of the monetary and fiscal authorities.

The global outlook remains tenuous. The crystallization of "Brexit effects", "Trump-win effects" and the unfolding "discontent votes" across the world and the mavericks they are turning up are more likely to heighten uncertainties as well as political and economic risks worldwide. Already, the rising interest rates in the United States and rise in global inflation may cause an expansion in deflationary policies (more central banks raising rates). Higher US rates may strengthen the US$ and alter financial flows further in favour of the US. Monetary policy pivoted on portfolio flows is not realistic. Neither is it appropriate. There is a greater chance of attracting flows through the appropriate incentives for our nationals that have surpluses to remit back home. However, beyond attracting the flows, the issue of appropriate use of such flows is important. It is wasteful to use them for consumption or to create rent for currency traders.

Unresolved Issues

A number of longer term issues which remain unresolved that need urgent resolution to enhance policy efficiency and effectiveness include (a) the lack of forward looking medium to long term strategic macroeconomic management framework for Nigeria as the context for policy analysis and choice; (b) the continuing malfunctions in the credit market which tends to allocate credit to sectors with traditionally high NPLs and low output and employment elasticities as well as a tendency to restrict access and to charge maximum rates on credit to sectors and economic agents with traditionally lower NPLs and higher output and employment elasticities; (c) the conversion of **rent havens** in both the real and financial sectors to efficiency and effectiveness centres; (d) a shift from a **present hedonistic orientation** to a longer term commonwealth-oriented perspective; and (e) the elimination of **strategic vacuums** for policy analysis and choice that increase costs of policy failures.

There is also the debate about (a) what level of inflation is good for the economy (the threshold debate); (b) what cost can the economy bear to pursue deflationary policies (the sacrifice ratio debate) and (c) whether inflation is caused by monetary or structural factors.

I see inflation as a problem of rising prices because of its effects on relative prices, income, aggregate demand and aggregate supply even if it is a one period change. Therefore, it is desirable that inflation is kept as low and as infrequent as possible. The target of 6-9% remains the target for monetary policy and it is important to have a clear path to price stability. I also am convinced based on discussions at the retreat that a pathway to price stability passes through the pathway to fiscal prudence, efficiency and effectiveness as well as a sustainable pathway to financial system stability.

The pursuit of deflationary policy has negative real effects which has crystalized into the negative growth in 2016. The data is clear that the economic slow-down began many quarters before 2016:Q1. Even before then, unemployment had been increasing even before the aggregate economic slow-down because industry and other real sectors particularly construction and oil and Gas had slowed long before the recession began. Part of the slow-down is accounted for by private and public dis-savings and the effects of the dis-savings on growth in "available capital stock". The decline in public and private income and savings has had long-term adverse effects on capital accumulation. The adverse effects are visible in the degeneration in the quality and quantity of public infrastructures and private capital. Such degenerations have dire consequences for investment, employment, growth and macroeconomic stability.

A careful analysis of the data on inflation, monetary survey and real variables (GDP, unemployment, fiscal and external balances) using macroeconomic frames and general equilibrium frames will caution against categorical statements such as: (i) inflation is always a monetary phenomenon or (ii) inflation is purely a structural phenomenon in Nigeria.

I believe based on historical evidence that both categorical statements are false and misleading! The historical data and its analysis show that monetary and structural factors affect inflation in Nigeria but not always in equal proportion at all times. The structural factors work mostly on the supply-side. Yet, since 2015, we have seen moderating structural effects on the demand side with the non-payment or delayed payments of the salaries of many civil and public employees. Despite the forced dis-savings and borrowing, expenditure adjustments have been necessitated by the uncertainties in income flows and the budget effects of inflation. Thus, the repression of demand is having a moderating effects on inflation (with adverse welfare consequences) while the leftward shifts in real supply caused by the cost push effects of exchange rate depreciation on production costs and supply prices is driving prices up and driving down investments, growth and employment. It is obvious that the cost effects have been stronger than the repressed demand effects.

A plot of monthly M1 and monthly inflation rate with appropriate base, one observes a high co-variation between December 2012 and October 2015 (fairly flat) and between November 2015 and February 2017 (significantly positive growth of 62% (M1) and 99% (Inflation rate). Clearly, it would be unwise to discount the data and argue without empirical foundation that a rapid expansion in M1 is not inflationary especially when output and employment are receding and when the economy faces exchange rate pressures; twin deficits (fiscal and current account), rising public debt problem and is proposing a highly leveraged expansionary fiscal spending.

As the monetary and fiscal authorities consolidate on the foundations laid at the retreat, it would become clearer to both sides that "**capping the growth of money supply and eliminating price and allocative efficiencies of the extant foreign exchange mechanisms are critical to the success of monetary policy in 2017 and indeed; to the overall health of the economy**." Also, that agreeing on clear paths to fiscal prudence, discipline, efficiency and effectiveness is foundational in building a growth path that creates decent jobs and good value-additions for Nigeria and Nigerians. It is also important to learn the right lessons from the three metaphors: "medical diagnostic", "tapeworm" and "recovering addict".

Decision

I vote to hold. As in my previous votes to hold at MPC meetings in November 2016 and January 2017, I considered voting for loosening the monetary policy stance to ensure that monetary policy is consistent and credible: an expansion in money supply should always be followed by reduction in the MPR and vice versa. However, voting to hold is based on the consensus to work out a clear path to price stability conducive to growth which is the goal of MPC consistent with its mandate.

The path requires a cap on money supply, a resolution of the "AMCON liquidity" problem, a reduction in "mop-up liquidity" and end to monetization of the crude export income as well as moderation of "FAAC effects" on the stability of Call rate and OBB. A rules-based option to money supply growth and indeed to exchange rate determination is compatible with a rules-based fiscal policy envisaged in the Fiscal Responsibility Act of 2007. I remain "convinced that a cap on the growth of money supply would free monetary policy to be more effective. It would help to limit the costly mop-ups that generate excessive rise in interest rates, create new liquidity proportionate to the interest rate, reduce the pressures on the domestic and international value of the Naira and minimize the negative effects of exchange rate volatility on real activities and on financial system stability.

I am also convinced of a need to harness and put to effective use the best Nigerian minds and talents in the analysis of national and global political economy from a diverse set of perspectives and skills sets to arrive at the best dynamic strategic context for macroeconomic management in Nigeria compatible with our national aspirations.

6. NNANNA, OKWU JOSEPH

Macroeconomic developments in 2016 and during the first quarter of 2017 were generally fragile. In Nigeria, the fragility was caused by both external and internal economic headwinds, of which the decline in commodity price, fiscal drag and foreign exchange illiquidity were the major contributing factors.

Global growth was revised upwards by the International Monetary Fund (IMF), from 3.1 percent in 2016 to 3.4 percent in 2017; despite the downside risks of Brexit uncertainties and the USA protectionist policy stance.

Overall, it is expected that the global economy will, all things being equal, leverage on the anticipated near-term fiscal stimulus in the advanced market economies and the marginal recovery in commodity prices. However, global growth was projected to remain largely asymmetrical in the short-term in the advanced, emerging and frontier economies in 2017.

At the home front, macroeconomic development has started showing positive signs, as the deep decline in output growth of -2.24 percent in Quarter Three has slightly improved to -1.30 percent in Quarter Four of 2016. Similarly, inflation has also declined to 17.8 percent, in February 2017, from 18.72 percent in January.

Fiscal surprises have continued to undermine the effectiveness of monetary policy, to wit, the economy is yet to witness an effective coordination of fiscal, monetary and structural policies that will drive sustainable non-inflationary growth.

Empirical studies have confirmed that the pass through effect of exchange rate depreciation on domestic price level is very severe and disproportionate. Consequently, the need to bring stability in the foreign exchange market cannot be overemphasized. The FX market is in need of liquidity, while a call for fiscal consolidation may not be politically appealing during the period of deep recession, nevertheless, monetary financing of the twin deficits, will not produce the desired quick fix; in the absence of complimentary structural reforms and targeted expenditure aimed at addressing the palpable infrastructure deficits. We are optimistic that the Nigerian economy shall surely rebound with proper coordination of fiscal, monetary and structural policies, in 2017.

Conclusion

Against this backdrop, I voted to:

1) Retain the MPR at 14.0 percent
2) Retain the CRR at 22.5 percent
3) Retain the Liquidity Ratio at 30 percent and,
4) Retain the asymmetric corridor at +200 and -500 basis points around the MPR

7. SALAMI, ADEDOYIN

This meeting comes in the wake of publication of our national Economic Recovery and Growth Plan (ERGP) and on the eve of publication of the IMF's report in respect of its Article IV Consultation earlier in the year. This meeting was preceded by a retreat at which MPC members and other stakeholders reflected on the possible role of Monetary Policy in resolving challenges facing the Nigerian economy.

At the end of the meeting, I voted in a minority to raise interest rates. In voting as I did, I am clear in mind that it is time to tighten Monetary Policy. The following reasons which I will discuss shortly inform my view: (i) loose policy which we had pursued had yielded only higher prices and shrinking output; (ii) the adverse impact of inflation on the most vulnerable should not continue to be ignored; (iii) the threshold beyond which rising prices lead to shrinking output has been exceeded.

Ahead of discussing the reasons which guided my vote, it is pertinent to emphasise the attention which the MPC, in its communique, drew to the declining resilience of the Banking Sector. I have in many of my personal statements expressed unease about the Banking Sector. The Report provided by Bank Staff at this meeting did little to assuage my unease. Non-Performing Loan Ratio (NPL) which had dropped from 13.24 per cent in Sept., 2016 to 12.80 per cent in December 2016 rose to 13.59 per cent in February 2017. This, as we know significantly exceed the regulatory maximum of 5 per cent. Whilst Bank Staff assure that when adjustment is made for '3 Outlier Banks' the size of NPL ratio drops to 7.45 per cent, I remain unease especially when anecdotal evidence suggests that the figures provided by the banks are likely to be understatements and we also note that this is an industry with extensive customer overlaps which heighten adverse network or contagion possibilities.

Returning to my vote, my assertion that the stance of Monetary Policy had eased considerably may appear to be counterintuitive. After all, the MPC tightened monetary policy by raising the Monetary Policy Rate (MPR), on two occasions, from 11 per cent in November 2015 to 14 per cent in July 2016 where it has remained since. As I have noted in a previous MPC Statement, despite higher MPR, transactions liquidity or the narrow definition of Money Supply (M1) rose from ₦6.9trn to ₦11.3trn in the same period even though output growth was rapidly weakening.

The seeming satisfaction with slower rate of price increase needs, in my opinion, to be tempered with a dose of caution. Yes the data shows that adjusting for seasonality, overall inflation in Feb. slowed to 17.78 per cent compare with 18.72 per cent and 18.55 per cent in January 2017 and December 2016 respectively. The slowdown in February being the 1st in more than a year! Better still, like aggregate inflation, Core inflation also slowed to 16.01 per cent from 17.87 per cent in the previous month, Food inflation however continued to rise. In Feb., 2017, food prices rose by 18.53 when compare with the same period in the previous year.

Inflation data however requires reflective interpretation. The improvements signalled by seasonally adjusted inflation are disputed by data which shows that between January and February, prices increased by 1.49 per cent – the highest such rise between two months since June 2016. Some would argue, with justification, that recent developments – measured by the month-on-month values – deserve greater attention. Indeed, by this measure, all three measures of inflation – aggregate, core and food - continue to increase sharply. What we are seeing in the year-on-year data is the impact of base effects. Left unattended, the month-on-month data already points to heightened inflation in 2018!!

Staff forecasts also don't provide much room for comfort. Whilst the 6mth ahead forecast show Core inflation declining to 12.8 per cent in August 2017, both aggregate and food inflation will remain above 16 per cent.

While Economics is clear that low-to-moderate inflation can and does stimulate output, it is just as unambiguous that there exists a level, different across countries, beyond which inflation is harmful to output. When inflation adversely affects production, its effect is felt in the form of rising unemployment. For Nigeria, various studies have sought to establish the threshold beyond which rising inflation adversely affects output. The most recent exercise with which I am familiar was undertaken by Dr. Sanni Doguwa, previously of the Central Bank of Nigeria, in 2012. He estimates that beyond 12 per cent, the effect of inflation serves to reduce output. We are clearly beyond this threshold.

For me, inflation, at these levels, continues to worsen socio-economic conditions as it erodes the value of income especially for the vulnerable. The N18,000 minimum wage announced in the run-up to the 2011 General Election, is now worth N9,000 when adjusted for the impact of inflation. Real families and people, least able to protect themselves, continue to be impoverished by rising inflation. In other words, by undermining purchasing power of income, rising prices emasculates and kills the dreams of fellow citizens. Given the need for social cohesion, this challenge to moderate inflation is not to be ignored.

Based on the foregoing, I cast my vote to tighten monetary policy by increasing interest rates and hoping that colleagues on the management of the Central Bank will resist pressure to continue to expand liquidity as has happened in the recent past.

8. UCHE, CHIBUIKE U

During the MPC meeting, it was refreshing to note that inflation had started to inch slowly downwards. Although this is cheering news, I still think that we are not out of the woods yet. My position is in part based on the fact that the 2017 budget is yet to be passed. Government's current fiscal policies have also further complicated the problem.

Government borrowing to supplement dwindling oil rents, has continued unabated. What is however less clear is whether indeed these new loans are being applied to develop productive assets and from which cash flows such debts will be repaid in future. The result is that the sustainability of Nigeria's mounting debts is increasingly being questioned. The growing agitation for salary increases across the entire country can only help to complicate the above scenario. It is also obvious that the contentious issue of petroleum subsidy reform is yet to be laid to rest. It is a shame that we seem to have learnt nothing from history.

Equally troubling is the diverse impact of the current economic recession on the various sectors of our economy. In this direction, the banking sector has consistently been of concern to MPC. Banks are important because not only do they play an important role in the diverse sectors of our economy, they are, if well regulated, also a good barometer for measuring the general health of our economy. This is because banks are primarily financial intermediaries that intermediate between surplus and deficit units of the economy. The health of the banking sector, at least in the long run, is usually entwined with the health of the entire economy.

Given the current economic situation in the country, it is perhaps not surprising that there is need for the CBN to continue to closely monitor these banks. The fact that the NPL ratio for the Nigerian banking system is already above the threshold of 5 percent and rising in my view limits the choices MPC can boldly make. It is for instance, difficult for MPC to recommend monetary policy tightening at the present stage. This is because such a move will impact negatively on our fragile banking system.

The impact of any such increase to the manufacturing sector will also be negative. Admittedly, high interest rates is only one of the numerous challenges the sector is facing. Without addressing our country's huge infrastructure deficit, governance challenges, multiple taxation and inconsistent industrial policies, the terrain ahead for our industrial sector will remain difficult.

I am also aware that the dwindling oil revenues has also put the CBN under pressure to shore up its reserves. A popular argument is that such reserves will be needed to protect the value of our currency. A tempting but dangerous strategy for achieving the above objective is to raise MPR so as to make our country more competitive in its bid to attract foreign portfolio flows. Like in every coin, financial flows have two sides: inflows and outflows. While inflows can help ameliorate foreign exchange difficulties in the short run, one must think about the foreign exchange denominated cash flows that will help facilitate the outflows (which will include interests). It is because of the above that I have always advocated that at our stage of development, we should only allow foreign capital inflows that are tied to productive assets. Unless we do this, we will simply be encouraging the inflow of speculative capital. Our shallow capital and money market make us an excellent destination for such speculative capital.

The reality is that we cannot be able to defend the value of our currency in any sustainable manner if we continue to depend on oil rents. Unfortunately, I am not convinced that there is a credible plan in place to change our oil rent dependence trajectory. It appears, in my opinion, that hoping for a return to the high oil price days has been prioritized over the need to strategically diversify our mono product oil rent economy.

Based on the above multiple problems and misplaced priorities, one can fully understand the pressure on the management of the CBN to intervene in diverse sectors of our national economy including paying salaries on behalf government entities some of which are very poorly run and lack financial transparency. The reality however is that there is little the CBN can do in the above direction without either contravening the legal instrument that established it or flouting national appropriation rules or sabotaging its own balance sheet. Perhaps more dangerous is the fact that the action of the CBN can actually undermine its monetary policy role and weaken the efficacy of its monetary policy tools. It is therefore, in my humble opinion, prudent for the CBN to do all within its power to resist any pressure to intervene in diverse sectors of our economy.

Another CBN practice that I find troubling is the continued existence of multiple exchange rates. While I appreciate the argument that such practice are historically not new in Nigeria, it is however important for us to realize that it is an abnormal and destructive practice. We should therefore do all in our power to eliminate it.

In conclusion, I strongly urge the CBN management and the fiscal authorities to rethink the above issues raised. This will greatly help to improve the efficacy of monetary policy in Nigeria.

I therefore vote as follows:

(i) To retain the MPR at 14.00 per cent; (ii) To retain the CRR at22.50 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. YAHAYA, SHEHU

I vote to maintain the current monetary stance due to the reasons provided below

Developments in the Global Economy

The effects of the new Trump government are still unfolding on the world economic and financial system. GDP growth rate in the US has slowed down in Q4 2016 to 1.9%, bringing GDP annual growth rate for 2016 to 1.6% as compared to 2.6% in 2015 and 3.5% in Q3 2016. There were also slight declines in output growth rates in UK, China, India, France and Japan. Growth in Sub-Saharan Africa fell to less than half the level for 2015. Overall, the world economy grew at 3.1%, slightly lower than 2015.

Expectations are that growth will pick up a bit in 2017, especially with prospects for a higher growth rate in the US due to announced economic and infrastructure programs and due to the expected tightening of monetary policy which is likely to attract substantial investments. On the other hand, the multilateral system is being weakened; trade protectionism is being promoted and competitiveness undermined, especially considering, in addition to the pronouncements of President Trump, the statement of the G20 to withdraw full commitment to anti-protectionist measures. These factors may have the opposite effect of undermining growth prospects in the global economy.

Early signs in the first quarter of this year seem to indicate that inflationary pressures in the global economy are likely to be higher than for 2016: The US, EU and UK may experience higher inflationary levels than their policy objectives.

With respect to oil prices: the prospects are more likely to go in the direction of price weakening in 2017, mainly due to relatively lower global growth, possibility of higher output from Iran and Libya and higher stock levels. The rising levels of shale oil production in the US may also put OPEC production cut agreements under considerable pressure.

Considering the above, global demand for Nigeria's exports, including petroleum exports, may be uncertain, while prospects for imported inflation are higher than for 2016. This calls for greater efforts to be made with respect to policy creativity, better medium and long term planning

The Domestic Economy

It would seem to appear that the current recession is slowly bottoming out. GDP fell by 1.3% in Q4 2016 (as compared to a decline of 2.24% in Q3 2016), bringing the annual figure for 2016 to -1.5%. Many sectors still recorded negative growth rates. There was a substantial decline in the output of Petroleum and Natural gas of 12.4%. Manufacturing, construction, services, trade and the non-oil sector all experienced negative growth rates. The rate of decline was moderated by a significant increase in agricultural production of 4%, mainly led by crop production. Solid minerals, finance and insurance and Information & Communication had positive growth rates and helped to moderate the rate of GDP decline in Q4.

In 2017, there are prospects of gradual recovery as Q1 output of Petroleum and natural gas is likely to experience some recovery, while the policy support being provided to crop production, if accompanied by favourable weather conditions, is likely to facilitate continued growth in agriculture sector output, which accounts for about one quarter of GDP.

A big step has been taken by the government to develop the much awaited medium term plan in the form of the Economic Recovery and Growth Program 2017-2020. Despite some limitations to the plan and the delay in developing it, and despite the fact that a coherent implementation strategy is yet to be articulated, it is still an important positive step and provides a broad framework within which monetary policy can be situated.

For the first time in more than one year, headline inflation slightly declined, **year on year** to 17.78% in February 2016 (from 18.72% in January). Core inflation contributed relatively more to the deceleration in CPI, especially imported food, processed food, clothing and footwear, housing, electricity and transport. However, food prices have gone up, year on year, despite the increase in food crop output. This may be due to seasonal factors.

There is an important wrinkle in the story however. The year-on-year fall in CPI is largely attributable to the base effect as the current inflationary pressure had commenced in February 2016. Month-on month, the CPI rose by 1.49% in February 2017 as compared to January 2016, an increase which is even higher than that of January 2017 over December 2016. Food inflation rose in February, mainly due to the inflationary effect of farm produce. Core inflation, month-on-month also rose. This indicates that the challenge of inflationary pressure is still potent.

The foreign exchange market was also characterized by a number of positive developments. The value of the Naira at the inter-bank market has remained stable. External reserves also increased significantly to over USD30 billion, a level last achieved in Q4 2014. With the recent injections of dollar liquidity into the forex market by the CBN and the re-admission of some categories of demand into the inter-bank market, the inter-bank/parallel market rates premium have narrowed significantly. This should have a positive pass-through to help reduce inflationary pressure in the coming months.

Macro-environmental pressures on the financial sector are still significant. Capital adequacy, liquidity and non-performing loans for the DMBs have all deteriorated. Nevertheless, ROE and ROA have improved as compared to Q4 2016. Total assets and deposits have been fairly resilient, while credit supply has increased by around 2.3% over the last year, even after taking into account the effects of Naira depreciation. The main challenges that need to be addressed by the DMBs relate to loan concentration and NPLs. The monetary authorities are taking the necessary steps to ensure that the challenges are being adequately addressed to keep the financial sector healthy.

Although the 2017 budget has not yet been approved, the government has reiterated its intention to pursue an expansionary fiscal program. This is also encapsulated in the Economic Recovery and Growth Program. While this should help to reflate the economy, it will also contribute to expansion of money supply and put pressure on price levels. The monetary authorities obviously need to pay attention to this issue.

Conclusion and Recommendations

As discussed above, there are a number of challenges on the Nigerian economy emanating from developments in the global economy. Due to the tepid growth rates in most of the major trading partners of the country, there is little to expect in terms of increased demand for Nigerian exports. The prospects for normalization of monetary policy in the US threatens to choke off foreign portfolio investments to emerging and developing markets and complicate the task of maintaining stability in the foreign exchange market. Prices appear to be moving upwards in Europe, US and UK, raising the possibility of some imported inflation. Yet, oil price recovery may be undermined by increased output and stocks. Everything therefore needs to be done to stabilize or increase production in the country in order to moderate the possible effects of weak international oil prices.

Price developments in the Nigerian economy will appear to support a policy of monetary tightening. This is because, despite the slight dip in the CPI in February, the rate of inflation is still too high- impacting negatively on real incomes, undermining growth efforts and business confidence. In addition, month on month prices are still rising.

However, this is not the right direction to take at this time. The inflationary pressure is essentially emanating from four sources- structural (such as infrastructure deficits); policy induced (such as reduction or elimination of subsidies on petroleum price, increase in electricity tariffs); Naira depreciation pass-through effect; and, liquidity in the economy.

Structural and policy induced sources are the purview of the fiscal authorities. The exchange rate issue is being tackled by the monetary authorities through the injection of dollars into the market- which is already succeeding in reducing the margin between the inter-bank and parallel markets. It would be important to find a way of stabilising the supply of foreign exchange and maintaining a robust level of reserves in the face of challenges to the price of oil. It would be necessary to manage the demand for foreign exchange so as to facilitate access for uses which will enhance and support the growth and job creation strategy, since it would be extremely difficult to provide unfettered access to everybody in such an import-dependent economy and yet maintain exchange rate stability. Excess liquidity in the economy can be curtailed through better management of ways and means advances and rationalizing interventions. We also support various schemes aimed at providing incentives, through the creative use of Cash Reserve Requirements, to DMBs to give greater support to the more productive sectors of the economy in line with the extant medium term plan. These are the areas to which the efforts to control inflationary pressures should be directed, which can have a much bigger impact than raising the MPR, and yet be able to support the growth impetus.

On the other hand, much as loosening monetary policy may appear to help support growth, it is also not the right thing to do. The reasons have been adequately explained in the Communique from the MPC meeting and it is not necessary to repeat them here. What is important is to build on the positive collaboration between the monetary and fiscal authorities which has been promoted at the highest level in the last week, maintain constant communication, interaction and collaboration so that the twin objectives of equitable growth and financial stability can be attained.

I therefore vote to maintain the current policy stance with respect to the MPR, corridors, liquidity ratios and CRR, while some additional thinking is being undertaken to find an optimum way of deploying the CRR in such a way as to provide an incentive for DMBs to lend a larger proportion of their portfolio to sectors that are critical to growth, employment generation and improved productivity.

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

I note with some reassurance the benign developments in the Nigerian economy as GDP growth, though still negative, seemed to have turned the corner during the last quarter of 2016 while inflation, which remained high at double digit, slowed somewhat in February 2017. In the same vein, the ongoing tapering premium between the interbank and the BDC exchange rates, which started within the last few weeks, is indeed heartening. Barring any further adverse global shocks, and if the recent rallying continues into the future, we expect the prevailing inclement domestic economic conditions to dissipate within the short-term.

However, global macroeconomic outlook remained hazy in the near- to short-term, with escalating uncertainties and elevated risks. Whereas global output growth accelerated by 0.2 percentage points to 2.7 percent in 2016q4 vis-à-vis 2016q3, the changing political dynamics underlined by increased protectionism, populism and distrust threatens the prospect of a full global recovery. These, in conjunction with volatile commodity prices and divergent monetary policy among key advanced economies, are heightening financial market vulnerabilities especially in emerging markets and developing economies.

Recent data indicate a softening of crude oil prices as Bonny light dropped from US$57.2 per barrel on 21st February 2017 to US$50.7 per barrel as at 21st March 2017. This has implications for inflows into the fiscal treasury and the FX reserves even as the Nigerian economy remains set to exit the recession in 2017. On domestic output, the 1.3 percent contraction in GDP in 2016q4 relative to the 2.1 percent and 2.2 percent contractions in the preceding two quarters is a turning point somewhat indicative of an impending rebound. With overall GDP growth at -1.5 percent for the entire 2016 vis-à-vis the 2.8 percent recorded in 2015, the agriculture GDP exhibited the strongest outturn with a growth rate of 4.1 percent in 2016 from 3.7 percent in 2015. Accordingly, the Nigerian economy remains on track to grow by 0.8 percent in 2017 and 2.3 percent in 2018 as projected by the IMF. In furtherance, the Nigerian Government, in its newly released Economic Recovery and Growth Plan (ERGP), projects enhanced growth rate of 7 percent by 2020. To insulate Nigeria's recovery plan from emerging global dynamics, it remains imperative that the ERGP is assiduously implemented.

I reiterate once again that Nigeria's economic challenges are essentially driven by foreign exchange scarcity (due to low crude oil receipts and inadequately diversified economy), constrained fiscal space, high energy prices and depressed domestic demand (partly attributable to sizeable salary arrears owed to some civil servants). These factors, which are largely structural and exogenous to monetary policy, permeate the trajectory of domestic prices. Consequently, inflation rate, at double digit, continued to be high and outside the CBN's tolerance range. Available data on domestic prices indicate a high but slightly moderated inflation outcome as the rate slowed from 18.7 percent in January 2017 to 17.8 percent in February 2017; the first decline in 15 months. A breakdown indicates that, during the same period, core inflation declined by 1.9 percentage points to 16.0 percent while food inflation ascended 0.7 percentage points to 18.5 percent.

The recent inflationary trend, though largely structural, is reinforced by the outcomes of monetary aggregates. Broad money supply (M2) shrank by 5.7 percent in February 2017 away from the 10.3 percent expansion targeted for 2017. This was underpinned by the contraction in net domestic credit, which decreased by 1.4 percent as against the programmed growth of 17.9 percent. Accordingly, the relative tight condition reflected in money market interest rates which rose from 6.3 percent as at 25 January 2017 to 13.1 percent by 28 February 2017.

Against the backdrop of the foregoing, I note that the Nigerian economy may already be on the course of recovery, though much still needs to be done. I am staunchly of the stance that macroeconomic policies should not just concentrate on short-term goals of overcoming the current challenges; but should rather be instituted to correct the structural imbalances that undermined the resilience of the economy. In this regards, the outlook of the ERGP is a step in the right direction. The monetary policy committee and indeed the CBN will continue to ensure that policy decisions are delicately balanced to support

Government's growth objectives without jeopardising price stability.

I note in this respect the need for increased credit to strategic private sector ventures. In my previous statements, I asserted the imperativeness of ensuring that critical funding is directed to labour-intensive high employment elastic real sector ventures. This is because the marginal benefit of an extra fund will generate more employment in this sector than in others. With the high marginal propensity to consume in Nigeria, the extra income due to the increased employment will boost domestic demand, support aggregate supply and quicken our exiting the prevailing recession. I therefore continue to enjoin banks to provide credits to strategic real sector activities.

With respect to decisions at this MPC, I recognise the constraint within which we operate. We will nonetheless continue to pursue our price stability mandate with a renewed vigour at ensuring exchange rate stability. Although the heartening outcomes of GDP growth and inflation rates as well as the narrowing of the interbank-BDC exchange rate premium could be considered as arguments for easing the monetary stance. Yet, the fact that these metrics remain outside acceptable levels provides reasons for further tightening. In our decisions, we must position ourselves to brace impending global shocks both politically (as protectionism and anti-globalisation rhetoric increase) and economically (as the US Fed is poised for another rate hike).

Conjointly with the volatile crude oil price, these will affect FX inflows to the country. We must not only mitigate these risks, our decisions must also not distort the wide-ranging recovery of the Nigerian economy.

In consideration of both global and domestic developments, and given that the effects of the past policy decisions are still unfolding, it is my view that the current position is maintained. Decisions to adjust any of the policy variables might just be too soon and may destabilise the traverse of economic recovery. Such adjustment, at this time, will be impulsive, detrimental and will lead to indeterminate outcomes.

Based on the foregoing, I vote to:

1. Retain the MPR at 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 30.0 percent