CENTRAL BANK OF NIGERIA COMMUNIQUÉ NO. 131 OF THE 274th MONETARY POLICY COMMITTEE MEETING HELD ON MONDAY 20TH JULY 2020

The Monetary Policy Committee (MPC) met on 20th July 2020, amidst elevated uncertainties across the world. The projected global output contraction was revised downward, as many countries had to extend the lockdown period in the wake of a second wave of coronavirus infections, and continued lack of effective treatment or vaccines for the Novel Coronavirus disease. However, there is cautious optimism that the global growth contraction would reverse to positive growth path by 2021, as the pandemic is contained, potential treatment found, and restrictions on business activities are lifted by most economies.

The Committee reviewed developments in the global and domestic economic environment in the first half of 2020 and evaluated the monetary policy options to address these challenges.

Ten (10) members of the Committee were in attendance.

Global Economic Developments

Global output growth weakened further, as a result of the persistent headwinds from the COVID-19 pandemic. These headwinds comprised: persisting decline in global aggregate demand and supply; disruptions in global supply chain and

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trade; rising sovereign and corporate debts; heightened financial market vulnerabilities; low prices of crude oil and other commodities; and rising unemployment.

The Committee noted, with concern, the IMF's further downgrade of global economic contraction to -4.9 per cent from -3.0 per cent in 2020. The downward revision was based primarily on the amplified negative impact of COVID-19 pandemic on many advanced and emerging market economies, as they witnessed extended lockdown periods and restrictions on economic activities.

The Committee noted the general optimism of a V-shaped global growth trajectory due to the expected early abatement of the pandemic and the gradual resumption of economic activities. However, the Committee believes that global recovery, while assured for 2021, is more likely to be a U-shaped one. In this regard, it is not surprising that the recovery has been revised downwards from 5.8 per cent to 5.4 per cent in 2021.

The Committee observed the continued downward trend in inflation in most Advanced Economies, particularly below the 2.0 per cent long-run target, despite the huge monetary and fiscal stimulus injections during the period. The Committee, however, noted that as the lockdown eases across the advanced economies, aggregate demand is expected to strengthen and inflation would pick up to support the expected output growth. Across the Emerging Markets and Developing Economies (EMDEs), the Committee observed the divergent inflation trends, with most developing commodity-exporting countries recording increase in inflation compared with other more diversified economies. This development had inadvertently exerted significant pressure on the exchange rates of these economies as the pass-through to domestic prices has been amplified.

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The Committee observed that the unprecedented increase in public spending to support households and businesses, in the wake of the pandemic, may spur inflationary pressures in some economies, as the supply shortfalls struggle to meet up with the demand build up.

Domestic Economic Developments

Available data from the National Bureau of Statistics (NBS) showed that real Gross Domestic Product (GDP) grew marginally by 1.87 per cent in the first quarter of 2020 compared with 2.55 and 2.10 per cent in the preceding and corresponding quarters of 2019. The performance was largely driven by the 5.06 per cent growth in the oil sector and 1.55 per cent growth in the non-oil sector. The decline in output growth in the first quarter was largely attributed to the twin effect of the decline in oil prices and the shocks from the Covid-19 pandemic.

The Committee observed the gradual, but persistent decline in the Manufacturing and non-Manufacturing Purchasing Manager's Indices (PMI), below the benchmark. The Manufacturing PMI declined to 41.1 index points in June 2020 from 42.4 index points in May 2020. Conversely though, the non-manufacturing PMI improved to 35.7 index points in June 2020 from 25.3 index points in May 2020. The trend in the manufacturing and non-Manufacturing PMI was attributed, largely, to: slower growth in production levels; new domestic orders; employment rate; raw materials supply; and new export orders. The Committee noted the staff forecast of 1.03 per cent contraction in growth in Q2 2020, on the back of the continued adverse impact of the pandemic on the economy.

The Committee expressed concern over the persistent, albeit marginal, uptick in inflation for the tenth consecutive month, as headline year-on-year inflation rose to 12.56 per cent in June 2020 from 12.40 per cent in May 2020. The increase in headline inflation was largely driven by the increase in both food and core

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inflation, which rose marginally to 15.18 and 10.13 per cent in June 2020 from 15.04 and 10.12 per cent in May 2020, respectively. The Committee noted the contribution of the legacy structural factors in the persistent uptick in inflationary pressure. These factors included: disruptions to key supply channels due to security challenges from herder-farmer clashes, banditry/kidnapping, inadequate transportation outlay, epileptic power supply, and low technological adaptability. These factors have compounded the supply chain challenges.

The Committee reiterated the need for a robust fiscal policy strategy to attract private investment and capital, to finance the huge infrastructure deficit in Nigeria, and strengthen the existing initiatives by the federal government and the CBN in this direction.

The Committee recognized the supportive developmental roles of the CBN towards addressing some of these structural issues. The MPC specifically expressed optimism on the future impact of N50 billion Household and SME facility, out of which N49.195 billion has been disbursed, to over 92,000 beneficiaries. The N100 billion healthcare and N1.0 trillion manufacturing and agricultural interventions to support the rebound in growth from the impacts of the pandemic on the economy. The Committee further commended the CBN coordinated CA-COVID - Private sector intervention scheme - which had mobilized over N32 billion to support the economy, lives and livelihoods. The Committee noted that the CBN had disbursed over N152.9 billion to the manufacturing sector to finance 61 manufacturing projects and another N93.6 billion to the Healthcare sector, amongst many other sector-specific facilities.

The Committee is hopeful that upon further drawdown of these intervention facilities, the much needed reset and rebound of the Nigerian economy will become a reality.

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The Committee noted that broad money supply (M3) grew by 1.64 per cent in June 2020 from 2.72 per cent in May 2020, largely due to increases in Net Domestic Assets (NDA) and Net Foreign Assets (NFA). The growth in M3, however, remained well below the indicative benchmark of 13.09 per cent for 2020.

Aggregate domestic credit (net) grew by 5.16 per cent in June 2020 compared with 7.47 per cent in May 2020. The Committee commended the CBN Loan-to-Deposit Ratio (LDR) initiative to address the credit conundrum as the total gross credit increased by N3.33 trillion from N15.56 trillion at end-May 2019 to N18.90 trillion at end-June 2020. These credits were largely recorded in manufacturing, consumer credit, general commerce, and information and communication and agriculture, which are productive sectors of the economy.

Money market rates remained relatively stable in the review period, reflecting the prevailing liquidity situation in the banking system. The monthly weighted average Inter-bank call and Open Buy Back (OBB) rates increased to 5.75 and 11.31 per cent, respectively, in June 2020 from 5.22 and 5.80 per cent, respectively in May 2020.

The Committee welcomed the modest recovery recorded in the equities market as the All-Share Index (ASI) and Market Capitalization (MC) increased by 6.33 and 6.44 per cent, on April 30 and June 30, 2020, respectively. The modest improvement reflected the resumption of business activities which spurred market confidence, as Government commenced gradual ease of the lockdown.

The Committee noted the decrease in NPLs ratio to 6.4 per cent at end-June 2020 from 9.4 per cent in the corresponding period of 2019, on account of increased recoveries, write-offs and disposals. The Committee expressed confidence in the stability of the banking system and urged the Bank to monitor

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the compliance of DMBs to its prudential and regulatory measures to sustain the soundness and safety of the banking industry.

In light of the Bank's continued effort to find innovative ways of using local resources to diversify the sources of the country's Foreign Exchange Reserves, the Committee welcomed the decision of the Central Bank of Nigeria to develop a Gold Purchase Framework under the Federal Government's Presidential Artisanal Gold Mining Development Initiative. The standardised gold bars, which would be purchased in Naira from Nigerian miners and refiners would not only create thousands of jobs for the artisans, but would provide a new sources of foreign exchange accretion to our reserves, and ensure the strength and stability of the Naira.

The Committee also commended the Federal Government for the approval to establish a CBN-led Infrastructure Development Company, which will leverage local and international funds for rebuilding of critical infrastructure across the country. This entity, which will be wholly focused on Nigeria and Nigerians alone will be co-owned by the CBN, the Africa Finance Corporation (AFC) and the Nigeria Sovereign Investment Authority (NSIA), but exclusively managed by an Independent Infrastructure Fund Manager (IIFM) that will mobilize local and foreign capital to support the Federal Government in building the transport infrastructure required to move agriculture and other products to processors, raw materials to factories, and finished goods to markets. The sum of N15 trillion is projected over 5 years for the initial run. The Committee noted with satisfaction the CBN's immediate work on the updates and timelines for the establishment of this much-needed entity.

Outlook

The outlook for the global economy remains weak. The IMF's earlier expectations that the coronavirus pandemic will wane by the end of the

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second quarter of 2020, as economies implement the various prevention protocols, were not achieved. Several countries witnessed a second outbreak after the initial ease in lockdown. This necessitated the IMF's downgrade of output growth forecast for both 2020 and 2021.

The slow recovery in oil prices, and its attendant volatility, is projected to continue in 2020 and well into 2021. This would further dampen recovery prospects, particularly for most oil-exporting countries.

With many central banks, in the advanced economies, exhausting their conventional monetary policy headroom, unconventional monetary policy tools would trigger global liquidity surfeit, with consequences for many emerging market and developing economies, including, volatility in international financial system and markets.

Provisional data on key domestic macroeconomic variables indicate that the Nigerian economy may record negative quarterly GDP growth in the 2nd quarter of 2020, but there is cautious optimism that the year may end in marginal negative territory, with strong recovery prospects in 2021.

The Committee's Considerations

The Committee's considerations were guided by the developments in the global and domestic economic environment.

The MPC noted that the current coordinated efforts by the Federal Government to contain the COVID-19 pandemic would reposition the economy on a sustainable path of rapid recovery. The Committee welcomed the government's articulated fiscal stimulus to cushion the impact of the pandemic on households and businesses, through various palliatives and fiscal incentives and reiterated the need for effective and timely implementation.

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The MPC expressed the utmost need for both the monetary and fiscal authorities to collaborate, for the optimal synergy for measures targeted at reviving the economy. The Committee called on the government to sustain its efforts at diversifying revenue sources and ensure fiscal prudence, particularly, with the use of the recent grants and multilateral concessionary loans. The Committee encouraged the adoption of counter-cyclical fiscal policy framework to shield the economy from persistent revenue shocks.

The MPC noted the Bank's overarching commitment to maintaining price stability and encourage the Bank to sustain the current measures targeted at moderating inflation, including addressing some of the supply-side structural challenges.

The Committee urged the Bank to continue to give particular attention to its mandate of exchange rate stability, given the recent volatility in the international financial system, to avoid excessive demand pressures in the foreign exchange market.

The MPC commended the Bank on its efforts in sustaining the soundness and resilience of the financial system, particularly, in the face of severe economic challenges. The Committee noted the Bank's drive to accelerate credit growth to the private sector, especially to micro, small and medium scale enterprises and the recent monetary stimulus packages to households and businesses affected by the pandemic.

The Committee's Decision

The Committee reviewed the policy options before it and argued that the option of tightening at this time would contradict the noble initiative of expansion of affordable credit to the real sector, noting that this would heighten the cost of production which will translate to higher prices of goods and services and harder economic condition for people.

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On the other hand, loosening monetary stance would provide the desired succour for stimulating output growth and rapid recovery, but with implications for domestic private investment and capital mobilisation to support the huge domestic financing gap. Further cut in MPR may not necessarily lead to a corresponding decrease in market interest rate, considering the current economic challenges. The Committee was also mindful of the cut in policy rate at the last MPC meeting and the need to allow time for the transmission effect to permeate the economy.

Given the plethora of monetary and fiscal measures recently deployed to address the impending economic crisis, following the COVID-19 outbreak, it would be a relatively cautious option to hold, in order to evaluate the effectiveness of these tools at addressing the current challenges, particularly with the mounting uncertainties within the domestic economy, as well as the external vulnerabilities.

After reviewing the three options, the MPC noted that the imperative for monetary policy at the May 2020 meeting was to strike a balance between supporting the recovery of output growth and reducing unemployment while maintaining stable prices. The Committee noted at this meeting that the economic fundamentals have marginally improved by the end of June 2020, following the gradual pick-up of economic activities as the positive impacts of the various interventions permeate into the economy.

As a result, the Committee noted that the earlier downward adjustment of the MPR by 100 basis points to 12.5 per cent to signal the loosening monetary policy stance is yielding positive impact as credit growth increased significantly in the economy. The Committee also noted the positive impact of the various fiscal and monetary interventions on households, SMEs and manufacturing sectors. The Committee also noted that increasing MPR at this stage will thus be counter-

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intuitive and will result in upward pressure on market rates and cost of production.

In view of the foregoing, the Committee decided by a majority vote to retain the Monetary Policy Rate (MPR) at 12.5 per cent and to hold all other policy parameters constant.

The Committee decided by a vote of eight members to Hold and two members voted to Reduce MPR. All members voted to retain all other policy parameters.

In summary, the MPC voted to:

I. Retain the MPR at 12.5 per cent;

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

III. Retain the CRR at 27.5 per cent; and

IV. Retain the Liquidity Ratio at 30 per cent.

Thank you.

Godwin I. Emefiele

Governor, Central Bank of Nigeria

20th July, 2020

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PERSONAL STATEMENTS BY THE MONETARY POLICY COMMITTEE MEMBERS

1. ADAMU, EDWARD LAMETEK

The 274th meeting of the Monetary Policy Committee (MPC) held against the backdrop of sustained global economic and financial uncertainties. The economic setbacks arising from the COVID-19 pandemic have continued to linger, leaving both global aggregate demand and aggregate supply well below normal levels. At the end of Q2 2020, several economies were already in the contractionary phase of the business cycle. In June, the IMF further downgraded its global growth outlook by an extra 1.9 percentage points, implying a projected decline in world output of about 4.9 per cent in 2020. In the same vein, both the World Bank and the Organization for Economic Co-operation and Development (OECD) see global output slowing by about 5.5 and 6.0 per cent, respectively, in 2020. Global trade continues to be a major casualty of the COVID-19 pandemic and has been forecast to decline by as much as 20 per cent in 2020, which would be higher than observed during World War II. From accusations of espionage and concealment of COVID-19 to Hong Kong interference, the two global trade leaders, China and the United States of America (USA), have remained embroiled in geo-political controversies, putting at risk a sizeable share of global trade.

Confronted by the decline in activity and a weak medium-term outlook, most countries have continued the gradual easing of lockdowns, while also implementing various forms of economic stimulus. The size of stimulus continues to grow with some countries doing as much as 17 per cent of GDP. Meanwhile, global inflation has remained muted in the advanced economies, but rising in some emerging markets and developing economies (EMDEs). This divide has been blamed on exchange rate depreciation driven mainly by external capital retreat and low commodity prices. Yet, monetary policy continues to be

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generally accommodative across the advanced and EMDEs, aimed at limiting the damage to output and employment caused by the Pandemic. Eleven (11) out of thirteen (13) central banks routinely monitored by the CBN had reduced their policy rates at least once since March 2020. The remaining two, Bank of Japan (BoJ) and the European Central Bank (ECB), already had zero or almost zero rates prior to March 2020. Aligning the global trends with the domestic context increases my persuasion about the merit of prioritizing support for economic activity in the short- to medium-term. There is no doubt that the lingering external vulnerabilities would continue to pressure economic activity in Nigeria and most EMDEs especially through their impact on commodity prices and export demand.

It is not surprising, therefore, that the challenges facing economic growth locally have remained active. Low oil prices and the hangover effect of the lockdowns have meant a rather slow resumption of activity. The situation is clearly expressed by the outturn of key indices of domestic economic activity in the second quarter of 2020. Manufacturing and non-Manufacturing Purchasing Manager's Indices (PMIs) stood at 41.1 and 35.7 index points in June 2020, respectively, indicating contraction in both cases. In fact, most analysts believe that the economy contracted in Q2 2020. There are, nevertheless, reasons to expect improvement in the second half of the year. First, as from July, we expect the impact of the economic stimulus by the Federal Government and the CBN to start showing – in fact, the Bank's in-house business outlook survey has so suggested. Second, after hitting the floor during the lockdown, economic activity could pick-up much faster than currently estimated to compensate for loses in Q2, particularly as credit to the real sector continues to grow. Technically, the next 2 to 3 months should witness businesses racing to meet pent-up demand in many sectors of the economy. The third basis is seasonality -

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the period, August – October, traditionally witnesses substantial harvest of farm produce, which comes with increase in commerce and related activities.

Other than low economic activity, the domestic economy faces other important vulnerabilities to which monetary policy must respond at this time. First, consumer price pressures have remained. In June 2020, all measures of inflation (headline, food and core) increased. Headline inflation increased to 12.56 per cent from 12.40 per cent in May 2020. Food inflation increased marginally to 15.18 per cent from 15.04 per cent in May, while core inflation inched up to 10.13 per cent from 10.12 per cent. Since June 2019, inflationary pressures have been building particularly in the food segment, owing to persistent conflict in the major food-producing regions of North-East and North-Central geo-political zones of the country and other supply factors like the partial closure of the country's land borders. The COVID-19 supply disruptions aggravated the supply shortfall, stoking more consumer price pressures in the domestic economy as from April 2020. The increase in headline inflation in June 2020, like in the previous month, was largely driven by food inflation. Staff forecasts indicate that headline inflation could maintain an upward trajectory up to August, driven largely by food prices, but with earliest moderation coming in September 2020. Inflation risks in the economy are generally stemming from food supply bottlenecks, exchange rate pressure, energy cost and system liquidity.

Second, the country's Balance of Payments (BOP) remained in deficit in Q1 2020 but with some improvement in the current accounts where deficit narrowed to about US$4.9 billion from US$6.9 billion in Q4 2019. Weak external position, which means pressure on the naira exchange rate, has been aggravated by low oil prices and slowing global economy. The naira exchange rate depreciated at the I&E window by about 6.4 per cent, year-to-date, mainly due to the rate adjustment at the interbank window. Following a higher rate of depreciation at

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the BDC segment, the premium between the I&E and BDC rates had widen lately.

The depreciation pressure on the naira exchange rate combined with upward trending inflation creates complexity for monetary policy at a time when economic activity requires a boost. This complexity calls for a cautious approach that is underpinned by instrument diversity. The Bank's interventions in the real sector have remained robust and well-tailored to deliver speed in employment elastic sectors including agriculture, manufacturing and solid minerals.

It is gratifying to note that the economy has received and continues to receive substantially higher amounts of credit compared with periods of similar crisis in the past. Between June 2019 and June 2020, total credit rose by N3.46 trillion (about 22 per cent), of which new credit in June 2020 alone accounted for N773 billion, up from N412.7 billion in May 2020. The number of new credits (recipients) similarly rose by about 42,000 to 93,578 from 51,700 in May. The huge credit output in the economy was underpinned by improved resilience of the banking system. As at end-Q2, most financial soundness indicators (FSIs) performed well relative to regulatory benchmarks. In spite of macroeconomic challenges, banking industry tier one capital accounted for 87.22 per cent of the total qualifying capital at end-June 2020; capital adequacy ratio (CAR) stood at 14.96 per cent with non-performing loans (NPLs) ratio of 6.4 per cent and provision ratio of 118.9 per cent.

The surge in new credit and its major destinations including agriculture and manufacturing in recent months, obviously lend credence to the efficacy of extant real sector support (policy) initiatives of the Bank - the minimum loan-to-

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deposit ratio (LDR), the differentiated cash reserves requirement (DCRR) and the development finance interventions.

Having signaled an easy direction for monetary policy in support of economic activity at the May 2020 meeting of the Monetary Policy Committee, I felt persuaded to vote for a hold on all policy parameters at the July 2020 meeting. I did so with the understanding that the Bank's routine sterilization actions will be sustained to keep system liquidity as close as possible to its optimal path. I also saw a compelling ground to wait and see more of the impact of the previous 100 basis points policy rate cut and the stimulus packages most of which will continue to run through the second half of the year.

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2. ADENIKINJU, ADEOLA FESTUS

International Economic Development

COVID-19 pandemic continues to exert a cloudy and uncertain effect on the global economy. The possibility of a second wave of infections from the virus, given the recent spikes in some countries is casting a doubt on expected 'V' shape recovery of the global economy. While oil prices continue to be strong and equity markets rebound in many advanced and emerging economies, the rise in unemployment and weak economic growth for Q2 2020 in many countries are major challenges. Aggregate demand and aggregate supply remain weak and volatile. In short, the immediate outlook of the global economy is still tenuous and volatile. The trade tensions between the USA and China, and the lack of clear guidance on the nature of exit agreement between the UK and EU at the end of 2020 will also affect global recovery. World trade is already projected to contract by -11.5% in 2020. The recovery in 2021 will be influenced by how existing geopolitical issues are resolved and the emergence of an effective vaccine for the coronavirus. Central banks in most countries continue to implement quantitative easing to support economic growth, restore market confidence and boost aggregate demand.

Domestic Economic Development

The presentation by the Bank's Staff on the Banking System Stability shows that the banking system remains resilient, strong, and coping well under the current challenging environment. The Financial Soundness Indicators (FSI) remain solid. The Capital Adequacy Ratio (CAR), and Non-Performing Loans (NPLs) ratio are trending in the right direction. The Loan to Deposit Ratio (LDR) policy has boosted aggregate credit to the economy without impacting negatively on the NPLs ratio. Measures of bank performance like assets, deposits and credits to the economy also continue on a northward trajectory. Banking credit grew, albeit

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marginally, between May 2020 and June 2020. The increase in aggregate credit to the economy in spite of the pandemic suggests that the economy is responding well to current policy measures. Stress tests on the banking industry also confirms a resilient sector that is able to survive the effects of COVID-19 pandemic and volatility in the oil market.

The Economic Report showed the domestic economic performance since the last MPC Meeting in May, 2020. Although, the real GDP growth for Q2 2020 was not available as at the time of the July Meeting, however, the Q1 2020 real GDP growth rate of 1.87% was quite impressive against the background of Covid-19 challenges and the volatility in the oil market. Staff estimates shows that the annual real GDP growth for 2020 would lie between -1.31% and -1.65%. This is significantly higher than the World Bank, IMF and even the National Bureau of Statistics (NBS) projections for Nigeria for 2020.

Headline inflation rose to 12.56% year-on-year in June 2020 from 12.40% in May 2020. Food inflation and core inflation also rose over the same period. The growth in composite prices were driven by monetary and structural factors. The outlook for inflation for medium term remains elevated due to constraints in global and local supply chains arising from the effects of the COVID-19 pandemic as well as Nigeria's idiosyncratic factors.

Total banks credit to the economy increased marginally from N46,600.82 billion in April 2020 to N46,710.68 billion in May 2020. Equity market indicators, like market capitalization increased by 5.83% from N12.0 trillion at end-April 2020 to N12.7 trillion on July 17, 2020.

The foreign exchange market continues to experience significant pressures as the exchange rate of the naira to the US dollar rose from N443.89/US$ in May 2020 to N447.71/US$ in June 2020 at the BDC window, and from N386.17/US$ to N386.39/US$ at the Investors' and Exporters' (I&E) window. The depreciation in

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both markets are driven by both fundamental factors and speculative activities of economic agents. External reserves decreased from US$36.49 billion in May 2020 to US$35.77 billion by end-June 2020, also current account balance as a share of GDP stood at -4.25% in Q1 2020.

The fiscal operations of the Federal Government from January to May 2020 indicated that revenues underperformed with negative variance of -48.8% and expenditure by -4.89%. Rising share of debt service in government expenditure is worrisome and would expectedly worsen due to the impact of COVID-19 pandemic and the downturn in the global oil market.

Decision

In my view we may have passed the most serious period of the pandemic, though significant headwinds remain. However, recent resurgence of the virus in several countries implies that sustained global recovery will very much dependent on the discovery and wide application of effective vaccines against the virus. Rising inflation limits the policy options available to address the current headwinds in the economy. It also limits the extent to which Nigeria can retain and attract foreign capital as rising inflation erodes the real interest gap between Nigeria and advanced economies. The high fiscal deficit and the negative accretion to foreign reserves are challenges the economy has to overcome in the medium to long term.

However, there are positive developments in the economy. The price of oil stands at over US$40 per barrel. This is above the benchmark price in the revised 2020 budget. The economy and economic agents are responding positively to the current intervention programmes of the Central Bank and the Government. Regulatory measures to protect the financial sector are working well and should be monitored continuously. The Central Bank should top up the Target Credit

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Facility (TCF) of N50 billion for households and SMEs to meet increasing demand for the Fund.

The economy is slowly recovering from the effects of lockdown. It is also responding well to the various supportive programmes. Current and planned intervention programmes will help to expand aggregate supply and mitigate inflationary pulses. Government must use the challenges presented by Covid-19 to deliberately support sectors that will be critical to the Nigerian economy of the future. We need to allow existing measures to work themselves through the economy before considering further policy changes.

Decision

On the basis of above considerations, I cast my vote as follow:

i) Maintain MPR at 12.5%
ii) Retain Asymmetric Corridor around the MPR at +200/-500 bases points
iii) Retain CRR at 27.5%
iv) Maintain Liquidity ratio at 30%.

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3. AHMAD, AISHAH N.

At the July 2020 Monetary Policy Committee meeting, I voted to reduce the MPR by 50 basis points from 12.5 per cent to 12.0 per cent; and maintain other parameters at existing levels - the asymmetric corridor at +200/–500 basis points; CRR at 27.5 per cent; and liquidity ratio at 30.0 per cent. Data presented at the meeting, which highlighted rising global and domestic uncertainties due to COVID-19, provided justification for further loosening of the policy stance.

Coronavirus pandemic: uncertain but pervasive impact on the global economy. Whilst its effect continues to unfold, COVID-19 has clearly had more negative implications on global economic activities in the first half of 2020 than earlier anticipated, with significant contraction in output, sharp slump in aggregate demand, plummeting trade amidst escalating public and corporate debts as evidenced. These adverse developments are partly reflected in the IMF's revised global growth projection of 4.9 per cent contraction in 2020 in its June 2020 World Economic Outlook update, 1.9 percentage points lower than the April 2020 projections; solidifying the COVID-19-induced economic shock as the worst experienced in several decades.

Although significant fiscal and monetary stimulus, and gradual reopening of economies has helped drive some modest recovery, (unemployment rate in the US dropped to 11.1 per cent in June 2020 compared with 13.3 per cent in the previous month; China's output grew quarter-on-quarter by 11.5 per cent in Q2 2020, compared with 9.8 per cent contraction in Q1 2020), reports of rising COVID-19 infections in several countries, raises fears that a second wave of infections would further hamper economic activities over the medium-term. As at July 20, 2020, the World Health Organization reported total COVID-19 infections of over 14.5 million, including over 607 thousand deaths, up from 5.5 million infections and 350 thousand deaths as at May 28, 2020.

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Domestic economic momentum requires further support to forestall contraction. While the Q2 2020 GDP numbers are being expected, leading indicators of output growth signal significant decline in economic activity. For instance, the Manufacturing and non-Manufacturing Purchasing Managers' Indices were below the 50 index-points benchmark with Manufacturing PMI declining to 41.1 index points in June 2020 from 42.4 index points in May 2020, largely attributed to slower growth in production levels, new domestic orders and employment. Staff forecast of a 1.03 per cent contraction in output for Q2 2020, on the back of continued adverse impacts of the pandemic on economic activity, presses home the urgency to build economic resilience and forestall a recession.

Although **headline inflation (year-on-year) increased** for the 10th consecutive month, **rising to 12.56 percent** in June 2020, the rate of acceleration is relatively slow, and hopefully may be reaching its peak as the food supply gap – a key driver of inflation – is being contained via interventions by the CBN and other complementary fiscal measures designed to boost domestic food production. Monetary induced inflation also appears to be under control as money market rates remain fairly stable, with growth in broad money supply at 1.64 per cent in June 2020, well below the indicative benchmark of 11.74 per cent for 2020.

Slight recovery in crude oil prices from $34.8/b to $43/b between May 28 and July 18, 2020, provide a little bright spot, although it remains low and volatile, with negative implications for exchange rate stability and fiscal consolidation. It will be important going forward, to improve supply and liquidity in the foreign exchange markets to preserve price stability. Fiscal initiatives such as the Economic Sustainability Plan and National Gold Purchase Program are steps in the right direction.

Thankfully, the financial system has remained resilient albeit with regulatory support. Staff reports presented at the meeting show marked increase in the number of loans restructured; as at July 20, 2020, 22 banks submitted requests to

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restructure 35,639 loans of businesses impacted by the pandemic, representing 41.92 per cent of the total industry loan portfolio. This has partly reflected in improved industry risk profile, as Non-Performing Loans ratio declined from 6.6 per cent in April 2020 to 6.4 per cent in June 2020. Net interest margin remains robust despite lower interest income, perhaps due to much lower industry interest expense, as market deposit rates continue to decline.

The Loan-to-Deposit Ratio (LDR), Global Standing Instruction, streamlining of access to Open Market Operations securities and other complementary measures have been strong tail winds which have strengthened intermediation – via increased lending to the key sectors such as manufacturing, agriculture and consumer markets (gross credit grew by an additional N300billion from N18.6 trillion to N18.9 trillion between end-April and end-June 2020, respectively) and lower market lending rates, which have insulated the financial system from the worst impact of the pandemic.

These efforts are being supported by ongoing CBN interventions – the N50 billion household and SME facility, out of which N49.195 billion has been disbursed to over 92,000 beneficiaries, N100 billion healthcare and N1.0 trillion manufacturing and agricultural interventions alongside significant interventions in other growth enhancing sectors, with remarkable implementation success.

Sustained credit to the real economy – particularly for SMEs and households - will be crucial to economic recovery, therefore maintaining banking industry liquidity will be paramount. Thankfully, healthy industry cash reserve levels provide adequate ammunition in this regard. Support for these important sectors, responsible for about 48 per cent of GDP (according to NBS), will be crucial to boost aggregate demand and bridge the existing negative output gap, which will also help temper inflation.

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Overall, the key challenge remains preserving the positive industry performance in the light of spillover effects from the pandemic. Given uncertainty about the length and depth of the crisis, particularly without a vaccine and worries about a second wave of infections, the Bank must remain vigilant for any changes in the macroeconomic environment that pose a threat to resilience and financial stability.

Given moderated inflation expectations, and in view of heightened global and domestic uncertainties, the Committee has room to focus on output growth in addition to its primary mandate of price stability, in the medium-term. In that regard, the Committee advised the Bank to retain the LDR and Differentiated Cash Reserve Requirement policies, while sustaining interventions in critical sectors of the economy, given their relative successes, to help boost domestic output and support the economic sustainability agenda of government.

A further rate cut in my view, relatively early as the economic impact of the pandemic unfolds, will complement ongoing efforts to stimulate the economy, providing further impetus for recovery to mitigate a recession in 2020.

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4. ASOGWA, ROBERT CHIKWENDU

Background:

At this July MPC meeting, the global economic outlook remains uncertain and split between early recovery from the COVID-19 pandemic and the possibility of a second wave of the pandemic in the third quarter of 2020. Albeit this uncertainty, the focus is on recovery, but this may still be very slow as the lingering effects of the pandemic will severely limit growth and surely, many countries are expected to plunge into recession in 2020. The most significant contractions may be in the developing economies as countries that rely extensively on commodity exports and tourism are bound to suffer disproportionately. Generally, the global outlook may face considerable challenges in the long term especially with new fears of another wave of COVID-19 and the uncertainty about when an effective vaccine will be readily available. For policymakers, the urgent task is how to ensure that current fiscal and monetary policy responses succeed in supporting consumer and investor confidence which can lead to a speedy normalization of both the commodity and financial markets.

For Nigeria, fiscal balances seem deteriorating, but recent marginal uptick in oil prices provides some hope. Inflation has been sticky upwards, but reflect more of temporary supply shortages and structural bottlenecks. The several support policies initiated by the Central Bank to promote lending especially for distressed firms and households are particularly timely and may help in mitigating the supply and demand shocks, but need some tricky balancing. Future monetary policy actions should, therefore, seek to deepen the recovery support policies along with dedicated monitoring to ensure quick results, and also not to worsen the domestic inflationary outlook or jeopardise the future stability of the financial sector.

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The Global Economic Outlook and the Recovery from the Effects of COVID-19

In the first and second quarters of 2020, the COVID-19 pandemic caused unprecedented declines in economic outcomes across the globe. CBN staff report shows that output growth in the US by the first quarter of 2020 contracted by -5.0 percent compared to a growth of 2.1 percent in the preceding quarter. In the Euro Area, growth also contracted by -3.6 percent in the first quarter of 2020 compared to 0.1 percent in the previous quarter. There were similar first quarter contractions in the UK and in Japan. Recent downgrades to economic growth forecasts in most countries across the globe reflect the lingering adverse effects of COVID-19 on supply chain disruptions, tightening of financial conditions, private sector uncertainty, drops in trade and commodity prices, as well as, falling household disposable incomes. Overall, global growth in 2020 is now projected at -4.9 percent, which is a further 1.9 percentage points downgrade from earlier forecasts. For the advanced economies, the output growth dropped from an earlier forecast of -6.1 percent to -8.0 percent in 2020 and the worst hit economies according to CBN staff report included Italy, Spain, France, UK, USA, Germany and Japan. For the advanced economies, GDP is expected to rebound by 4.1 percent in 2021. There have also been significant downward revisions for developing economies reflecting the strong spread of the pandemic in places such as Latin America and the lockdown effects in India. In Brazil and Mexico, the GDP declines is now forecast at 9.0—10.0 percent while for India it is also expected to fall by more than 4.0 percent in 2020. The collapse in commodity prices coupled with the slowdown in tourism has affected several other developing economies especially in Africa.

On inflation, there have been diverging trends across countries of the globe. Several middle and low income countries including Argentina, Iran, South Sudan, Venezuela, Ghana have been experiencing rising consumer prices since the onset of COVID-19 pandemic. By contrast, consumer prices have declined

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in the US, UK, China and other high income countries. For those countries experiencing price declines during this COVID-19 pandemic, the dynamics reflects the plunge in international energy prices and the relatively stable prices of food items. In the low and middle income countries, increased food prices mostly arising from supply disruptions due to COVID-19 have been the key factor driving the rising inflation rates. In few countries however, the rising price of imports and the monetization of fiscal deficits may also have impacted inflation during this period.

A variety of far reaching fiscal and monetary support policies have been deployed in many countries across the globe in response to the economic and social shocks from the pandemic. In the US for instance, the government has so far provided fiscal support approaching US$3trillion including loans to firms, States and Local governments as well as direct transfers to households. Besides, the US Federal Reserve cut policy rates to near zero with several other non-conventional monetary accommodation measures including large scale purchases of government debt, mortgage backed obligations and corporate bonds of lower levels of government. In the Euro Area, several governments have initiated significant fiscal support programmes to complement the European Central Bank's offer of low interest loans to banks and its assets purchase programme. In Germany for instance, the government provided fiscal stimulus worth of 4.5 percent of GDP in addition to an envelope of over 20 percent of GDP in loan guarantees for the corporate sector, while Italy introduced a fiscal stimulus plan in excess of 4 percent of GDP. In China, the fiscal and monetary stimulus worth over 2.8 percent of GDP included several liquidity injections, tax relief and special bond issuances. A large number of countries in Africa have also implemented several fiscal and monetary support measures in addition to cuts in interest rate as a way of cushioning the effects of COVID-19 pandemic on growth. In Egypt, in addition to the Central Bank's slashing of policy rates by 300 basis points on March 16, 2020, the government is

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also implementing a fiscal stimulus package of approximately 1.8 percent of GDP which includes an extended social transfer schemes including monthly grants to irregular workers in the worst hit sectors such as tourism. In South Africa, CBN staff report showed that the government temporarily expanded support to the unemployed through transfers to vulnerable households.

In many countries, these initial fiscal and monetary policy responses to the COVID-19 crisis have been successful at least in protecting worker's jobs and ensuring that firms have access to liquidity. There are however suggestions that once economic activities begin to normalize, there will be additional need to prudently withdraw the large scale fiscal and monetary stimulus provided during the crisis without endangering the recovery process. This will at least ensure that future stability of the financial systems across the globe is not threatened.

The Domestic Economic Outlook:

It is clear that the COVID-19 pandemic caused declines in economic activity in Q2 2020 compared to the first quarter of 2020, eventhough official GDP figures are yet to be released at the time of the July MPC meeting. The contraction of both the manufacturing and non-manufacturing PMIs between April and June 2020 showed that production levels and business activities have remained low since the crisis. There are three key downside risks which have generally characterized Nigeria's domestic economic outlook since the COVID-19 crisis. First, fiscal deficits have been widening as revenue declined because of the pandemic. Second, inflation rates have been sticky on the downwards side as supply disruptions affect prices of food and non-alcoholic beverages. Third, tightening balance of payments have been threatening the stock of foreign reserves thus creating pressures on exchange rates.

On the fiscal deficit, the depressed oil export earnings amid the COVID-19 pandemic has weighed in heavily on the fiscal revenue for 2020. Generation of

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non-oil revenue is also facing considerable challenges in 2020 because of the low level of domestic economic activities even with the recent increases in the rate of VAT from 5.0 percent to 7.5 percent before the COVID-19 pandemic. Government's recent efforts have been to marginally reduce the expected recurrent expenditures in 2020, whilst increasing borrowing so as to maintain current capital spending. There are however concerns that increased dependence on borrowing with oil prices still at low levels will see the already elevated debt servicing costs soar in the coming years. On the inflation rate which has consistently increased month-on month even before the COVID-19 outbreak, a key concern is the effect of a prolonged regime of negative real interest rates on the economy especially as the recovery process evolves. In the coming months, we expect modest recovery especially as oil prices pick up and the effect of government's fiscal stimulus and various Central Bank's support measures shore up consumer demand and firms' capacity to invest. This recovery will, however, remain fragile given the high uncertainty of the pandemic and the growing possibilities of a second and even third wave of outbreaks.

On the banking sector, the outlook is similar to the position at the last MPC meeting in May 2020 as the balance sheets of most banks remain strong with marginal increases in the key profitability indicators (ROE and ROA) in June 2020. CBN staff report also show monthly successive increases in the banking industry's deposit, credit and overall assets size, while the Non-Performing Loans ratio declined between April and June 2020. As I suggested in my last MPC statement of May 2020, it is necessary to have standby macro-prudential support policies which will be ideal to maintain banking sector resilience at this crisis period whilst promoting further lending by banks to support the economic recovery process.

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Decision:

The outlook of the Nigerian economy remains split between gradual recovery from the third quarters of 2020 onwards if the pandemic stabilizes, and a delay in economic recovery up to 2022 if a second or successive pandemic waves occur. The reality, however, is that countries with stronger fiscal and monetary policy support will have smaller permanent GDP losses than for those where policy support has been limited or ineffective. For now, the initial monetary policy response in Nigeria has been quite strong. Besides, cutting policy rates in May 2020, the loan restructuring forbearance granted to banks, as well as, the targeted credit intervention for healthcare, manufacturing, creative industry, SMEs and households will be key for a reasonably strong bounce in the third and fourth quarters of 2020. The challenge is to ensure that these facilities are disbursed in time and are effective in accelerating consumer demand as well as firms' survival and capacity to expand which will guarantee early economic recovery.

My preference is to allow the effects of the recent policy rate cut to gain traction, whilst sustaining the ongoing Central Bank credit intervention activities for some time, because removing the support too early could also stop the recovery process in its tracks. I thus voted to:

- Retain the MPR to 12.5 %
- Retain the CRR at 27.5%
- Retain the Asymmetric Corridor at +200/-500 basis points
- Retain the Liquidity Ratio at 30.0%.

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5. ISA-DUTSE, MAHMOUD

A. INTRODUCTION

The earlier expectation that the Covid-19 pandemic would be contained by end-June 2020 has faded following the continuing battle to arrest the spread of the virus in many countries. Moreover, the fear of a second wave of infection only serves to aggravate the problem. This scenario has significantly slowed down the pace of global economic recovery as business confidence wanes. On this account, the International Monetary Fund (IMF) recently downgraded its growth forecast for the second time in three months to underscore the un-abating uncertainties in the world economy.

Given the interconnectedness of economies around the globe, Nigeria will continue to reel from the effects of the global pandemic, particularly as policy headroom gets tighter. Therefore, it becomes necessary for the authorities to intensify effort aimed at addressing security challenges and other headwinds constraining the country's growth and development.

B. EXTERNAL ECONOMIC CONDITIONS

The global economy is expected to shrink further in 2020 due to the unrelenting pandemic and slower than expected pace of re-opening of economies. Thus, the IMF projected that global output would now contract by -4.9% in 2020 – a downgrade of 1.9 percentage points from the forecast of -3.0% in April. The revised forecasts cut across all regions of the world. In particular, growth in the advanced economies is forecast to contract by as much as -8.0% in 2020, while emerging market and developing economies (EMDEs) are expected to witness a -3.0% contraction in output. Sub-Saharan Africa is expected to witness a "nose-dive" with growth of -3.2%.

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Broadly, global inflation is projected to decelerate in both the advanced economies and EMDEs on account of the persisting demand and supply shocks. However, mild inflationary pressures have continued on an upward trajectory in Nigeria due largely to endemic structural factors that constrain domestic production.

Taking into cognizance the production cuts by OPEC+ members, the drop in US crude inventories and the gradual opening of economies from long periods of lockdown, crude oil price is projected to hover around US$40/barrel for the rest of 2020. Although price recovery is sluggish, yet the current trend seems to provide some assurance that the Nigerian Government's fiscal policy as contained in the revised 2020 budget will be implementable given the oil benchmark of US$27pb. The stabilization of oil prices at low levels has serious consequences for portfolio flows, external reserves and foreign exchange rate management. The IMF (June 2020) observes that portfolio flows into emerging markets have recovered after the record outflows in the first quarter for countries with stronger credit ratings. Thus, it becomes imperative to strengthen effort at improving the investment climate in Nigeria.

Major financial markets around the world have commenced an upward trend on the back of gradually rising economic activities. However, the subtle fear of a second wave of pandemic may constrain faster recovery of markets as the downside risks to full economic activities linger. In Nigeria, a similar trend is evident as both the All Share Index (ASI) and Market Capitalization increased by 5.50% and 5.85%, respectively, between April 30 and July 17 2020, but are yet to fully climb back to pre-crisis level.

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C. DOMESTIC ECONOMIC CONDITIONS

Although the growth data for Q2 2020 is still being awaited from the National Bureau of Statistics (NBS), in-house projections by the CBN indicate that real GDP is expected to contract by -1.03% in Q2 2020 which translates to a reduction of 2.9 percentage points when compared to the actual growth rate of 1.87% obtained in Q1 2020. However, the annual real GDP predictions from multiple sources are grimmer for 2020. The World Bank and IMF project that the Nigerian economy will contract by -3.0% and -5.4%, respectively, in 2020, while CBN forecast suggests a possible contraction not exceeding a magnitude of -1.65% in 2020. Moreover, the World Bank avers that the pandemic may throw as many as five million Nigerians into poverty. Therefore, the goal of growth with equity should be pursued relentlessly by both the fiscal and monetary authorities to scale down the projected negative impact of the pandemic on the Nigerian economy.

The continuing uptick in the general price level has resulted in a negative real interest rate as headline inflation, year-on-year, stood at 12.56% in June 2020 compared with 12.40% in the preceding month. On a month-on-month basis, headline inflation also rose to 1.21% from 1.17% during the review period. Between May and June 2020, both food and core inflation (year-on-year) rose from 15.04% and 10.12%, to 15.18% and 10.13%, respectively but on a month-on-month basis, core inflation declined, while food inflation inched up. The month-on-month decline in core inflation points to the fact that Nigeria's inflationary challenge is more of a structural phenomenon than monetary. A closer analysis shows that the key contributor to annual headline inflation is the food and non-alcoholic beverages component. In particular, there is need for more investment in the domestic production of wheat, rice, milk products and fishery resources to douse the momentum of imported inflation. Consequently, a major

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imperative is the creation of a secured environment to boost agricultural production.

The forbearance measures deployed by the regulatory authority have promoted confidence and stability in the Nigerian banking system as the risk of short-term losses has been curtailed through the restructuring of loan terms and conditions in response to Covid-19 pandemic. At the same time, new credit continues to find its way into businesses and households. This scenario should not only be sustained but further proactive measures should be designed to facilitate continued smooth operations in this critical period of seemingly unavoidable recession may be Nigeria's worst since the 1980s.

D. VOTING DECISION

A tightening policy option may dampen inflationary pressures, promote portfolio flows and reserve accretions but it may also constrain credit extension and worsen the pandemic - induced slump in output. A loosening stance of monetary policy on the other hand may be considered appropriate in view of the current recessionary quagmire confronting the country. However, the economy is already in a loosening mode given the recent policy rate cut in May 2020. Moreover, the huge monetary and fiscal stimulus being pumped into the economy has increased liquidity. Therefore, it is reasonable to maintain a policy status quo to allow enough time for recent initiatives to permeate the economic system. In view of the foregoing, I voted to hold all policy parameters as follows:

- MPR at 12.50% per annum
- The asymmetric corridor at +200/-500 basis points around the MPR
- Liquidity ratio at 30.0% per annum
  CRR at 27.5% per annum.

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6. OBADAN, MIKE I.

INTRODUCTION

With the coronavirus pandemic not showing signs of early containment in most countries, the global economy has continued to exhibit uncertainties and vulnerabilities. In the United States which boasts of the largest economy in the world, a second wave of covid-19 infections has been raising great concerns leading to threats by a number of states to re-lockdown their economies. The same scenario is playing out in several other countries which had re-opened their economies rather pre-maturely. Generally, the pattern in some countries has been lockdown of economic activities, easing of lockdown, fresh wave of infections and lockdown/threats of return to lockdown due to spikes in COVID-19 infections. These create uncertainties and continue to have serious implications for recovery of the global economy and individual economies. For Nigeria, in particular, whose economy is not diversified and continues to rely precariously on crude oil for domestic revenue and foreign exchange earnings, the implications of a weak global economy remain highly worrisome.

GLOBAL DEVELOPMENTS

Against the backdrop of poor growth performance of most economies in the first quarter of 2020, there are doubts about global economic growth and trade prospects. In the first quarter, most advanced economies contracted and could go into recession in the second quarter. Against expectations, the COVID-19 pandemic has not been contained in a satisfactory way and the development and availability of a vaccine considered as the possible cure appears not to be insight. Consequently, the IMF has downgraded its 2020 growth forecast for the world economy from -3.0 percent in April, 2020 to -4.9 percent in June. The output forecast for the advanced economies has also been downgraded from -6.1 percent to -8.0 percent in 2020. Indeed, the major international organisations

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– IMF, OECD, World Bank – and national regional central banks have forecast negative growth for the world major advanced and Emerging Market Developing Economies (EMDEs) except China in 2020. The global economy and most national economies had been forecast to grow strongly in 2021, for example, the global economy by 5.4 percent. But this is no longer certain as covid-19 seems not to be in a hurry to go away.

Like global growth, global trade has continued to perform poorly due to international trade and travel restrictions, weak global aggregate demand, lockdown of economic activities, notable supply chain disruptions, among others. In the first quarter of 2020, global trade contracted by 3.9 percent. In 2020, international organisations – World Trade Organisation, UNCTAD, IMF, World Bank and OECD – have projected global trade to decline by between 11.0 and 20.0 percent. Weak growth and trade increase poverty and impact negatively on citizens' welfare.

The oil market has continued to experience uncertainties and volatility amidst concerns over a second wave of the covid-19 pandemic. It remains vulnerable to several shocks – supply, demand, economic lockdowns, etc. The impact of the pandemic and disagreement between Russia and Saudi Arabia on oil supply was very pronounced. Consequently, the average monthly oil price declined steadily from US$66.7 per barrel at end-January 2020 to US$32.3 per barrel at end-March 2020 and further to US$14.3 per barrel at end-April 2020. Thereafter, oil prices witnessed slow recovery following agreements on oil production cuts by OPEC+ countries and gradual easing of lockdowns by most countries. At end-May 2020, prices improved to US$27.9 per barrel and was US$44.7 per barrel on July 17th, 2020. Although the recent rebound is encouraging, uncertainties remain on the future direction of oil prices.

In Nigeria, the volatile nature of oil prices will continue to have implications for the country's macroeconomic aggregates: domestic revenue, foreign

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exchange earnings, exchange rate development, price formation, capital inflows, external reserves, balance of payments position, etc. Besides, the impact of continued lockdown of major economies and restrictions on travel and trade will continue to be felt by the Nigerian economy through: short-supply of essential imports; rise in inflation through high import prices and exchange rate depreciation; and impact of continued uncertainties and volatility of the oil market on macroeconomic stability.

Also, developments in the global financial markets are not helpful to the Nigerian economy. For example, the volatilities in those markets amid lockdown of economic activities has resulted in dwindling net capital flows to Nigeria. And as global sovereign and corporate debt is forecast to rise in 2020, for both advanced and emerging market and developing economies, Nigeria may face the challenge of servicing external debt due to low accretion to external reserves and exchange rate depreciation.

The major advanced countries have responded appropriately to the impact of COVID-19 with robust fiscal and monetary stimulus packages. Large-scale fiscal and monetary injections have been implemented to stimulate recovery of output growth and/or mitigate recession in individual economies and the global economy. With central banks of several advanced economies having moved into the zero-lower bound with respect to their policy rates, they have resorted to increased use of unconventional monetary policy measures, especially quantitative easing, to inject liquidity directly into their economies. This vindicates the stance of the Central Bank of Nigeria in its use of unconventional monetary measures in support of fiscal policy to address the challenges of growth and development in the country.

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DEVELOPMENTS IN THE NIGERIAN ECONOMY

The Nigerian economy has continued to feel very strongly the adverse impact of COVID-19 because of its heavy inter-dependence with the global economy, undiversified economy, and rather precarious dependence on crude oil earnings from exports. But the impact on food security is moderated by the Government and CBN's successful interventions in the area of food production. With international restrictions on trade in an era of economic lockdowns, the story could have been different. However, the aggregate economic growth position remains weak.

The oil sector contribution to real GDP growth is significant: 5.6 percent compared to 1.55 percent for non-oil GDP in the first quarter of 2020. Growth in the second quarter may be worse than the 1.87 percent recorded in the first quarter, while a contraction is likely in the third quarter due to; lockdown/partial lockdown of economic activities as the number of COVID-19 cases maintains an upward trend in the country, low oil prices and earnings. However, the containment of the pandemic and effective implementation of the COVID-19 response packages of Government, CBN and private sector-led initiatives could limit the extent of possible output contraction and/or avert a recession.

Emerging stagflation. The country appears to have returned to a stagflationary era with sharp reduction/contraction of economic activities/shrinking growth and rising inflation. In June 2020, all measures of inflation (headline, food and core) increased, moving headline inflation further away from the implicit target corridor of 6.0 – 9.0 per cent. Headline inflation (year-on-year) increased to 12.56 per cent in June 2020 from 12.40 per cent in May 2020 maintaining a trend which has been on for about ten months. Inflation has continued to inch up despite weakening aggregate demand and rising unemployment due to both structural and monetary factors. Normally, stagflation creates a policy dilemma which would be addressed with monetary policy focusing on price stability,

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while fiscal policy addresses the growth challenge. However, the fiscal space is very limited to address the growth objective alone. Hence, while monetary policy may remain relatively tight, unconventional monetary measures should continue to support fiscal policy. Increased production of output/supply by the sectors supported should moderate the inflationary effects from the monetary injections.

In the external sector, vulnerabilities have heightened while the key variables have deteriorated in the COVID-19 environment of a health shock and oil price shock: weak trade and balance of payments position, limited accretion to external reserves, capital flows reversal and external debt build-up. Without containment of the coronavirus the prospects of these aggregates improving do not seem to be bright.

It is not all bad news at this point in time. The financial sector has cheering news suggesting resilience. The financial soundness indicators as at July showed improvements: non-performing loans ratio, capital adequacy ratio, return on earnings and assets, and ratio of operating costs to income. Also, bank deposits, assets and gross credit improved in terms of upward trend and growth. There is a drastic change in the composition of banking assets in favour of loans and advances as opposed to safe government securities which had elicited strong concerns hitherto. This, combined with the priority sectors of manufacturing, agriculture, oil and gas attracting a significant proportion of the increase in credit, indicates that CBN's policy of Loan-to-Deposit ratio is working. There is need to sustain the effective implementation of this and related policies by the CBN.

Fiscal operations of Government. The fiscal operations have come under much more pressure under the COVID-19 environment. With declining revenues and absence of fiscal buffers, fiscal deficits and public debts have continued to rise. Federation Account Allocating Committee (FAAC) allocations to the three tiers

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of government have reduced significantly since early in the year due to the challenges in the world oil market. The Federal Government fiscal operations, as at May 2020, recorded a deficit of N2.4 trillion, while the projected fiscal deficit in the revised Federal Government budget is over N5.0 trillion. Nigeria's public debt stock as at March 31, 2020 stood at N28,628.49 billion with external debt representing 34.89 per cent, while the Federal Government's projected debt service is about 50.0 percent of expected revenue. The public debt build-up poses a significant threat to debt sustainability.

Now, two things are clear. First, in the present environment of weakened economic activities and provision of tax reliefs by the Government to SMEs to bolster economic activities, the space for enhanced non-oil revenue is limited. However, one area of reform that the government needs to look into seriously relates to remittances from the operating surpluses of government departments and agencies which at present are underestimated by the agencies.

The government should initiate actions to amend the Fiscal Responsibility Act (FRA) 2007 to provide for an effective method of determining remittances by MDAs to the Consolidated Revenue Fund (CRF). To this end, one suggestion is to amend Section 22(1) and (2) of the FRA to require Ministries Departments and Agencies (MDAs) to deposit at least 25 percent of their revenue into the CRF instead of 80 percent of their operating surplus which they arbitrarily determine. This will improve availability of funds for financing government activities and reduce fiscal deficits and massive borrowings.

Secondly, the reforms to reduce fiscal deficits must especially be on public expenditure. This is one key driver of the high cost of governance which stakeholders have continued to decry. The issue of inefficient spending and high cost of governance needs to be frontally addressed by the government.

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The fiscal and monetary stimulus packages. The array of interventions and measures of both the fiscal authority and the CBN to contain the coronavirus pandemic, stimulate economic recovery/avert recession, improve livelihoods and mitigate the adverse effects of the pandemic are very encouraging under the circumstance of serious financial resource constraint. Notable among Government's measures is the N500.00 billion Intervention Fund to upgrade Federal/states healthcare facilities and finance a Special Public Works Programme, and the N2.3 trillion Economic Sustainability Plan which covers virtually all the sectors including payroll support to SMEs. Also of note is the tax relief to SMEs. On the part of the CBN, besides the extant interventions on which more reliefs have been provided and regulatory forbearance to banks to restructure facilities across sectors, it has an array of new interventions. These include: the N50.00 billion Targeted Credit Facility for COVID-19 affected households and SMEs, N100.00 billion intervention to the healthcare sector, and N1.0 trillion loan facility to boost manufacturing and production across critical sectors. It is also leading a N15 trillion Infrastructure Company (InfraCo) Project for building critical infrastructure.

Implementation of most of these policies, measures and interventions have begun. In the case of the N50.0 billion Targeted Facility, it has been over-subscribed by households and SMEs. This will need to be augmented by the Bank while implementation of all the policy measures should be vigorously pursued in order to realise the set objectives.

OPINION

This is formed against the backdrop of the foregoing issues of the domestic economy: weak and fragile growth situation, stagflation, and challenging external sector, the fairly robust fiscal and monetary policy measures and the

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monetary policy stance at the last MPC meeting. Even with the cut in the monetary policy rate at the last meeting, the monetary policy stance is still relatively tight. But given the need for monetary policy actions to complement fiscal actions to prevent recession during the year, monetary policy should not be tightened further. A dose of monetary inflation can be tolerated for now. Reducing the MPR is desirable. But it could worsen the liquidity problem especially when combined with the huge fiscal and monetary injections in the stimulus packages. Importantly, the response of the deposit money banks to the last MPR cut as to whether they reduced the lending rates and increased lending is not yet clear in the general environment of reduced economic activities. Therefore, it will be necessary to further monitor the situation to be able to assess the effectiveness or otherwise of the last monetary policy decision. Accordingly, my vote is to hold the monetary policy parameters at their extant levels:

MPR: 12.5%

CRR: 27.5%

Liquidity Ratio: 30.0%

Asymmetric Corridor: +200/-500 basis points around the MPR.

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7. OBIORA, KINGSLEY ISITUA

In light of the continued pernicious impacts of the COVID-19 pandemic, I voted to reduce the MPR by 100 basis points to 11.5 percent, while retaining the CRR at 27.5 percent, the LR at 30.0 percent and the asymmetric corridor of +200/-500 basis points around the MPR. I believe this stance would further support a robust recovery of economic activity and growth, in the face of significant and persistent headwinds.

The spread of the Novel Coronavirus Disease (COVID-19) has intensified in many parts of the world. Since the last MPC meeting in May, global cases have risen from 5.6 million confirmed cases and 350,000 deaths to over 14 million confirmed cases and 600,000 deaths, according to the World Health Organization. Globally, the stringency of lockdown restrictions has eased, with many countries reopening and global travel beginning to pick up. Consequent upon these relaxations in lockdowns, we have seen a resurgence of cases in a number of locations, including some States in the U.S., parts of Europe and even in Japan and Australia. This has forced several governments to re-impose certain restrictions and roll back re-opening plans. Accordingly, in June, the IMF revised downwards by 1.9 percentage points its World Economic Outlook forecasts for global growth to a contraction of 4.9 percent in 2020. This includes contractions of 8.0, 10.2 and 10.2 percent in the United States, the United Kingdom and the Euro area, respectively; and contractions of 6.6, 9.0 and 5.4 percent in Russia, South Africa and Nigeria, respectively.

Nevertheless, the global economy has begun to rebound, supported by strong policy responses from monetary and fiscal authorities. J.P. Morgan's Global Manufacturing Purchasing Manager's Index (PMI) rose by a record of 5.4 points from 42.4 in May to 47.8 in June 2020. Although this remains a contraction (below 50.0), it exceeds levels in February and March this year before global

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lockdowns were imposed. China's economy rebounded in the second quarter of 2020, with year-on-year headline growth of 3.2 percent. Global financial conditions have also eased, even for emerging markets, following unprecedented actions taken by central banks across the world. As an example, the US Federal Reserve has continued to build up its outright holdings of securities, which have increased from US$5.9 trillion on 27 May 2020 to US$6.2 trillion on 16 July 2020.

Following these trends, Nigeria's economy has also started to recover, as lockdown measures have been eased. According to the National Bureau of Statistics' COVID-19 National Longitudinal Phone Survey (NLPS), the proportion of people working rose from 43 percent in April/May 2020 to 71 percent in June 2020, driven particularly by commerce, services and agricultural sectors. Since the last MPC, oil prices have continued to rise, from US$36 per barrel to US$43 per barrel, although it must be noted that oil price changes transmit to Nigeria's economy with about a 90-day lag. A further boost to economic activities has been the resumption of domestic flights across the country, as evidenced by higher occupancy rates in hotels and pick-up in taxi activities in major cities.

Under the circumstances, the financial system has maintained a sound and stable position, following effective interventions by the Central Bank. Net aggregate domestic credit grew by 5.16 percent in June 2020, compared to the previous month. Stimulated by the policy on Loan-to-Deposit Ratio (LDR), the past year has seen total gross credit increase from ₦15.56 trillion at the end of May 2019 to ₦18.90 trillion at the end of June 2020. This has been driven especially by manufacturing, consumer credit, general commerce, information and communication, and agriculture. Short-term interest rates continue to suggest some surfeit in the system with average Open Buy Back (OBB) and inter-bank call rates rising to 5.75 and 11.31 percent in June 2020, from 5.22 and 5.80 percent in May 2020, respectively. Non-performing loans (NPLs) decreased to 6.4

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percent at the end of June 2020, compared to 9.4 percent in the corresponding period of 2019, reflecting recoveries, write-offs and disposals.

Notwithstanding these improvements, the economy continues to face significant headwinds to a robust recovery. The number of COVID-19 cases now exceeds 36,000, cumulatively, and continues to rise. The headline inflation rate increased slightly to 12.56 percent in June from 12.40 percent in May, with food inflation at 15.18 percent. The share of COVID-19 National Longitudinal Phone Survey respondents who are working remains below pre-pandemic levels of 85 percent. Furthermore, 87 percent of households owning non-farm businesses have highlighted difficulties in raising money for their enterprises.

Globally and locally, it is clear that the economy faces an uncertain path, with long-lasting consequences for the livelihoods of many. The decisive efforts of governments and central banks across the world have provided a strong foundation for the current recovery. However, it would be remiss to assume that the crisis is now over, especially as there remain many unknowns regarding the virus. In Nigeria, the Central Bank has acted proactively and forcefully through numerous successful interventions. To highlight a few: so far, 92,000 household and SME beneficiaries have received financial support to the tune of ₦49.2 billion and 61 manufacturing projects have been catalysed by injections of ₦152.9 billion, whilst the healthcare sector has been strengthened by support of ₦93.6 billion. However, these disbursements are rapidly approaching the limits of these respective funds. Whilst the impact of these policies on the economy is undeniable, even more action is required to truly match the scale of effect of the pandemic.

It is in light of both the depth of this crisis and the unexpected prolongation of the virus's spread that I voted to reduce the MPR. The economic fallout from COVID-19 has proven to be more pernicious than initially foreseen, and we must seize the opportunity to further act. Whilst the outlook has improved somewhat,

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the full recovery and transformation of Nigeria's economy will continue to face significant resistance. The recent improvement in global financial conditions has provided a window for aggressive monetary policies, as exemplified by certain emerging market central banks even embarking on their own forms of quantitative easing. This reprieve in the markets could be temporary, especially if COVID-19 takes a turn for the worse.

On this basis, I voted to:

- Reduce the Monetary Policy Rate (MPR) to 11.5 percent from 12.5 percent;
- Retain the Cash Reserve Requirement (CRR) at 27.5 percent;
- Retain the Liquidity Ratio (LR) at 30.0 percent; and
- Retain the Asymmetric Corridor of +200/-500 basis points around the MPR.

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8. SANUSI, ALIYU RAFINDADI

1.0 Decision:

In today's meeting, I voted to hold on all the parameters to allow for the combined effects of the COVID-19 intervention funds, reduction in the MPR as well as the heterodox policy interventions to work themselves out. At least two reasons informed this decision: First, although as I argued in my Personal Statement of May 2020 that the optimal monetary policy response to an impending recession is easing of the monetary policy stance, the current threat of inflation amidst rising exchange rate pressure suggests that such policy must be cautiously executed. Secondly, I feel it is optimal to hold all the parameters given the encouraging report from the banking system stability review, including the increased credit flows.

2.0 Background and Justification

2.1 Global Economic Developments

The worst global economic recession since the Great Depression, triggered by the COVID-19 pandemic, is expected to be followed by a slow recovery in 2021. Possibly another lockdown, due to a possible second wave of the COVID-19 pandemic, could further threaten the slow recovery expected in the global output growth, international trade and oil prices.

The effect of the containment measures against the spread of the highly infectious coronavirus disease (COVID-19) on the global economy is the worst economic recession the world has seen since the Great Depression of the 1930s. As of June 2020, the IMF has estimated that the output lost by the world economy between January and June 2020 is US$12.5trillion, and most economies are drifting into recession. Global output, which grew by 2.9% in 2019, is forecasted to decline by 4.9% in 2020 (revised from the -3.0% projected

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in April), but grow at the rate of 5.4% in 2021 (IMF's projections). Given the impact of the pandemic, the strength of the expected recovery in 2021 is uncertain. Even as economies start to ease restrictions and open up, sectors whose activities require physical contacts such as hospitality, travel and tourism continue to face depressed demand. Also, there are serious concerns about a possible second wave of the COVID-19 infection this Fall, between September and December as the winter approaches, which may necessitate another lockdown. As output growth for the year 2020 is expected to be mostly negative in both the Advanced Economies and in the Emerging Markets and Developing Economies (EMDEs), uncertainties in the international oil market are also expected to continue, keeping global oil demand moderated amidst concerns about a global supply glut.

Consequently, oil price, which was US$43.80/b (OPEC Basket) as at 17th July, 2020, is forecasted to average US$41/b in 2020 and rise slightly to US$50/b in 2021 (US Energy Information Administration, EIA). Global trade volumes, which has started to recover, is projected to decline by between 11.4% (OECD's forecast) and 20% (UNCTAD's forecast) in 2020. Global exports and international travels are likewise expected to decline by 11.5% in the possible event of a second-wave of the COVID-19 infection. *Key implications of this development for the domestic economy includes lower fiscal revenue, current account balance and foreign exchange receipts, with a potentially adverse effect on public debt, exchange rate stability and external reserves accretion.*

Inflation in the Advanced Economies has remained very low and well below their long-term target of 2% since March 2020. As a group, inflation in the Advanced Economies is expected to fall to 0.5% in 2020 from 1.3% in 2019. In June 2020, inflation in the US declined to 0.1% from 0.6% in May. In the Euro area, inflation rose to 0.3% in June 2020 from 0.1% in May 2020. In the UK, inflation increased to 0.6% in June 2020 from 0.5% in May 2020. In the EMDEs, inflation is

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forecasted to decline slightly to 5.1% in 2020 from 6.5% in 2019. In China, Ghana, Egypt and Nigeria, however, inflation increased in June 2020. Consequently, global monetary policy has continued to be generally accommodative to provide liquidity to businesses. At the same time, fiscal injections target households to provide relief against the job and income losses.

2.2 Domestic Economic Developments and their Implications

Although new data is not available yet, the monthly Purchasing Managers Index (PMI) and Industrial Production Index (IPI) for April, May and June 2020 suggest that output is expected to fall during the second quarter of 2020. The Manufacturing and Non-Manufacturing PMIs, for instance, fell below the break-even benchmark of 50 points in April for the first time in 36 months. In May 2020, the Manufacturing PMI stood at 42.4 index points. The Non-Manufacturing PMI, which was worse hit by the lockdown, improved slightly from 25.3 points in March 2020 to 35.7 in June 2020 as some restrictions were eased. Although below the break-even point of 50, the monthly Manufacturing and non-Manufacturing Employment Level indices have both improved in June 2020. The IPI for 2020Q2 declined by 8.8% compared with 2020Q1 due to contraction in manufacturing, mining, and electricity production. Staff estimates show that the domestic output gap continues to be negative at 2.35% in 2020Q1, indicating room for non-inflationary output growth.

Although the international price of crude oil increased steadily since April 2020, domestic oil production declined by 13.14% from 1.75 mbpd in May 2020 to 1.52 mbpd at the end of June 2020 in compliance with the OPEC+ production cut agreements and the shutdown of Offshore Bonga oil field. Available data showed that while the actual oil price was above the revised fiscal benchmark of US$28pb, the actual production during the quarter remained below the revised fiscal benchmarks of 1.8 mbpd. *Consequently,* fiscal *(oil) receipts for the quarter are likely to fall below the budgeted, with possible adverse implications*

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on the level of public sector borrowing requirements amidst a rising public debt. Also, accretion to external reserves and excess crude accounts would be adversely affected.

Inflation data from NBS shows that the upward trend in the headline inflation (y-o-y), which started since September 2019 when all the land borders were closed, had continued. In June 2020, headline inflation rose to 12.56% (y-o-y) from 12.4% in May 2020 due to increase in both food and core inflation. These increases are the highest since April 2019, reflecting the effect of the COVID-19 containment measures. Food price inflation (y-o-y) rose from 15.04% in May 2020, to 15.18% in June 2020, driven by prices of farm produce. Core inflation (y-o-y) rose from 10.12% in May 2020, to 10.13% in June 2020, due to the rise in prices of furnishings, household equipment & household maintenance.

Data on the monetary aggregates shows that Broad Money Supply, M3, grew by 1.64 % in June 2020 (3.27% annualized), below its provisional benchmark of 11.74% for 2020. Aggregate credit to the economy grew by 5.16% in June 2020. Credit to the private sector grew by 9.32%, annualized as 18.65%, which is well above its programmed target of 14.94% for 2020. Reserve Money, however, grew by 52.91% to N13,257.04 billion in June 2020, which was 6.31% above its provisional target of N12,470.52 billion for Q2 2020. This increase was due to the implementation of the recent increase in CRR.

Report on the Banking System Stability Review shows that despite the challenges posed by the COVID-19 lockdown, the banking system remained sound and resilient. The industry capital adequacy ratio had increased to 15% in June 2020, which meets the industry prudential benchmark. The Non-performing loans ratio (NPL) has declined to 6.4% in June 2020 from 6.6% in April 2020 and 9.36% in the corresponding period of 2019. Total Assets of the industry has continued to rise, standing at N47.82 trillion as at end-June 2020. Total banking industry credit to the economy has continued to increase even during the months of the

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lockdown, standing at N18.9 trillion as at end-June 2020. Following the introduction of the LDR policy, total gross credit increased by N3.33 trillion between May 2019 and June 2020. Most of this increase in credit was extended to manufacturing, consumer credit, general commerce, ICT and Agriculture.

Reports of the implementation of the CBN's COVID-19 intervention shows significant progress in disbursements. Over 152.9 billion (or 15.2%) of the N1 trillion targeted support for the Manufacturing sector has been disbursed. Out of the N100 billion Healthcare funds, N26.278 billion (or 26.3%) have been disbursed to fund 20 projects in the healthcare sector. Additional 16 applications totalling N67.413 billion were under processing. Out of the N50 billion Targeted Credit Facility for Households and MSMEs, N49.195 billion have been disbursed to 91,736 beneficiaries, and N1.5 billion was disbursed to 169 beneficiaries under the Creative Industry Financing Initiative. Under AGSMEIS, N41.41billion has been disbursed to 11,613 beneficiaries.

Given that these facilities were given at 5% interest rate, successful and timely disbursement of the entire N3.5trillion will go a long way in providing the needed low-cost liquidity to businesses and households as the economy gradually re-opens. Staff projections suggest that, with a successful implementation of the Federal Government's Economic Sustainability Plan, real output growth is expected to range between -0.39% and -0.16% in 2020, and between 0.7% and 1.48% in Q1 2021 depending on the level of oil price. Inflation is forecasted to continue on its upward trend throughout 2020 due to the rising exchange market pressure, higher food costs due to the supply chain disruptions, the continued closure of all land borders, insecurity in the food-producing areas, and higher transport costs. *Review of the domestic economic developments suggests that the heterodox policies and the COVID-19 interventions are showing good signs of effectiveness as credit flows to the private sector continue to increase despite the lockdown.*

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3.0 The Basis for My Policy Choice

While I believe monetary policy must be eased in the face of an impending recession, a key consideration is the threat of inflation. Also, the various heterodox policies and COVID-19 intervention funds have significant potential for injecting the needed liquidity at a relatively low cost. Although the monetary aggregates under-performed in the quarter, the potential liquidity injection from the implementation of these policies in the face of rising inflation calls for caution in the execution of the needed policy easing. I, therefore, voted to hold all policy parameters, for now, to allow for the combined effects of these policies to work themselves out.

Consequently, I voted to:

Retain the MPR at 12.50 per cent;

Retain the CRR at 27.5 per cent;

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

Retain liquidity ratio at 30.0 per cent.

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9. SHONUBI, FOLASHODUN A.

Uncertainties about the timing and path of recovery of global economy from the disruptions of Covid-19 pandemic, have heightened, due to swelling cases of infection around the world. The spill over strain on the domestic economy is further aggravated by price instability in the global oil market, amidst output reduction, in compliance with the OPEC+ oil production quota cut deal. Even as emerging data on actual output loss in few jurisdictions are less than projected, the overall negative impact of the pandemic has surpassed anticipated levels, on account of deeper disruptions in most economies. **Imminence of an unprecedented global economic recession notwithstanding, muted initial impact in the first half of 2020 amidst sustained largescale monetary and fiscal interventions in critical sectors provide a glimpse of hope for a less damaging effect on the domestic economy.**

Global and Domestic Economic Developments

The global economy continued to experience significant downturn as a result of widespread shut-ins, induced by extended lockdowns and continued disruption to the global supply chain, due to Covid-19 containment measures. Worsening sentiments and difficulty of navigating the aftershock of the health crisis across many jurisdictions, as well as, near total freeze of global trade, have further deepened output loss in the first half of 2020. Despite the preliminary indication of gradual resumption of activities in some advanced economies, cautious restart by enduring businesses trying to implement workplace safety practices and slower recovery in economies with decreasing infection rates have dimmed hopes for quicker recovery. The IMF, in its latest forecast, predicated on higher-than-usual uncertainty, projected a global economic contraction of 4.9 per cent in 2020.

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On the domestic scene, accelerated increase in general prices continued for the 10th consecutive month, with domestic headline inflation at 12.56 per cent in June 2020, compared with 12.40 per cent in May 2020. Food inflation rose to 15.18 per cent, from 15.04 per cent in the preceding month, as persisting shortage in supply of imported food, as well as, disruption to production and distribution of local food push prices up. Core inflation rose marginally to 10.13 per cent in June 2020, from 10.12 per cent in May 2020, possibly indicating dissipating exchange rate pass through effect to prices.

Slowdown in output growth to 1.87 per cent in the first quarter of 2020, on account of moderated expansion in both the oil and non-oil sector reflected the impact of disruption to economic activities due to measures to contain the pandemic, and low oil price. Though employment level index for manufacturing PMI impressively to 38.8 per cent in June 2020, from 24.5 per cent in May 2020, other indicators of production activity, including composite manufacturing PMI and index of mining production declined, relative to the levels in May 2020.

Major prudential indicators in the banking sector were within acceptable levels, underscoring the resilience of the sector. Growth in the size of the sector continued, as total assets, deposits and credit maintained their upward trend. Industry capital adequacy ratio was at 15.0 per cent, same as the minimum prudential requirement, while liquidity ratio moderated to 37.0 per cent but was above the 30.0 per cent regulatory threshold. Non-performing loans ratio improved marginally to 6.4 per cent in June 2020, from 6.6 per cent in April 2020. Returns on equity and investment remained positive.

The fiscal authority continued to struggle with challenges of low revenue, high expenditure and growing deficit. Despite the revision of 2020 budget, expenditure remained significantly above projected revenue, resulting shortfall is

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to be financed by increased borrowing. Though import has reduced significantly, corresponding decline in both oil and non-oil export heightened vulnerability in the external sector. Shrinking foreign exchange revenue due to low oil price and production, as well as, drying capital flow and remittances have precipitated an overall Balance of Payments deficit, with implications for exchange rate pressure.

The monetary sector and financial markets were characterised by mixed developments. Annualized growth of broad money supply (M_3) and credit to government were below the indicative benchmark for 2020, while growth of credit to the private sector surpassed the target. Money market rates generally trended lower, on account of high banking sector liquidity buoyed by increased intervention stimuli. Stock market capitalization rose, due to listing of additional securities, while the All Share Index fell, on account of profit taking by investors.

Considerations and Decision

Though slight rebound in the Asian economy may have rekindled hope for lesser damage to the global economy, extended disruptions in other regions have, however dimmed prospects for faster recovery. With the unprecedented amount of monetary and fiscal support helping to keep economies running at minimal levels, resurgence of Covid-19 infection rate and rising geopolitical tensions are likely to further slowdown recovery. For emerging markets and developing economies like Nigeria, low capital flow, drying remittances, troubled oil market, tighter financial conditions and rising debt highlights the need to intensify measures that fully leverage peculiar robust resource base to achieve a reset of the dynamics of the domestic economy towards sustainable growth and development.

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On the domestic front, while various interventions by the Bank and Government have significantly mitigated the negative impact of the pandemic, the economy remained challenged by uptick in inflation, weak output and productivity, high unemployment, tighter fiscal space and heightened external sector vulnerability. Proactive measures in the banking sector by the CBN, including the Forbearance and LDR policies, have helped to forestall significant asset deterioration that may have arisen from the impact of the pandemic. The policies have also allowed banks to provide much needed credit to critical sectors. I believe that by sustaining the stringent supervisory and interventionist measures, we will be able to preserve the resilience of the sector.

The fiscal authority, as the biggest spender, obviously need all available resources to effectively play its role of major stimulator of economic activity. I therefore urge the authority to not only strive to mobilise needed resources, including exploring the low interest rate regime in the domestic environment to fund the Economic Sustainability Plan (ESP), but more importantly ensure judicious implementation to further reduce negative impact of the pandemic. Sub-optimal performance of major monetary aggregates continued to provide room to accommodate upscale of monetary and fiscal stimuli to facilitate increased economic activities.

In the external sector, I note with some concern that, while imports have fallen, the more than proportionate decline in oil and non-oil export is an unusual trend that is creating a different form of vulnerability. Persisting deficit trade balance effectively exposes fragility of the sector. I therefore opined that we pursue more aggressively, measures designed to ensure continuous growth of oil and non-oil tangible exports to achieve a favourable trade balance. The indigenous Gold purchase initiative also provide an opportunity to strengthen our external sector.

Addressing high inflation and interest rate, is of course a major concern for the Bank, especially towards maintaining price stability. However, considering the devastating impact of the pandemic and the resulting productivity, output and

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job losses, the task of facilitating expansion of economic activities and promoting output growth has become imperatively urgent. Moreover, our experience in recent times has shown that interest rate in particular, responded more to the intervention activities of the Bank than changes in the MPR, which now serve more as a signaling and less as an anchor rate.

To date, our interventions, largely to promote consumption and production, have generated tremendous outcomes, including better opportunities for household members to pursue their aspirations, ramping up of agricultural output, establishment of micro, small and medium enterprises, as well as, capacity expansion in large corporations. These have deepened ability of the economy to effectively absorb the impact of the present shock. Hence, while we quickly appraise the impact of our actions, to identify gains and gaps, it is rational to allow some more time for the full effects of our most recent intervention activities and adjustment of the policy rate, to fully permeate the economy. We can make the third quarter of 2020 a critical turning point, if we sustain the productivity enhancing support for agricultural and industrial sectors.

As we sustain the progress, by taking advantage of our peculiar strength and allowing internal forces to drive growth, I believe the next priority is to aggressively facilitate intervention in the infrastructure space to significantly reduce the deficit, thereby unlocking constraints that limits ability of enterprises to achieve their optimal productivity and potential output levels.

I therefore vote to retain:

- MPR at 12.5 per cent;
- The Asymmetric Corridor of +200/-500 basis points around the MPR
- Cash Reserve Ratio (CRR) at 27.5 per cent; and
- Liquidity Ratio at 30.0 per cent.

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10. EMEFIELE, GODWIN I.

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

Global macroeconomic stability was significantly impaired in the first half of 2020 due to the widespread covid-19 pandemic, leading to a high degree of uncertainty in the short-term outlook. Though many countries have begun to ease lockdown measures and relax social-distancing restrictions, the protracted adverse effects on households (in terms of income losses) and on businesses (with withered cashflows and weakened activities) are expected to acutely undermine productivity, delay recovery, and diminish prospects in most economies. Accordingly, growth forecasts are being downgraded while global output stabilisation is deferred. IMF estimate of 2020 global output contraction worsened to –4.9 percent from the –3.0 percent previously forecasted. This downgrade affected all countries and regions, with growth lowered by about 2.0 percentage points in both advanced economies and EMDEs; though positive global growth is projected to re-emerge in 2021.

Headwind from the covid-19 pandemic also debilitated business activities and weakened sentiments in the domestic economy while dampening near-term growth prospects. Combined with the concomitant softening of crude oil prices, this caused elevated FX market pressure, constricted fiscal space, destabilised household and business incomes, and decelerated economic activities. Accordingly, 2020 GDP growth may fall below the 1.9 percent recorded in 2020q1 with a genuine possibility of contractions in the remaining quarters, if not well-managed. Recent realities indicate the need for coordinated efforts among policymaking authorities to ensure a quick rebound of the economy and strengthen short-term outlook. Deteriorating prospects, due to global headwinds and local imbalances, provide opportunity for us to reposition the economy, prop domestic productivity, and strengthen demand.

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With the non-oil sector as the critical base of the economy, complete and accelerated diversification of the economy is imperative now, more than ever. In this regard, and in view of the current covid-induced adverse shocks, the CBN has increased the scale and scope of development financing and will intensify efforts at resolving underlying structural deficiencies. I note the CBN's liquidity assistance and targeted support to incentivize domestic production, bolster supply and stimulate the Nigerian economy. The N50 billion Household and SME facility and the N100 billion healthcare intervention (both aimed at neutralising the adverse effects of the pervading shocks) have been extensively disbursed. Likewise, the N1 trillion manufacturing and agriculture intervention to spur the rebound of the economy through high impact productive sectors are being disbursed purposefully.

On domestic prices, the rising inflationary trend which began in September 2019 due to structural factors was aggravated by the pandemic-derived supply shocks. From 12.4 percent in May 2020, year-on-year headline inflation rose to about 12.6 percent in June 2020, reflecting increases in both food and core components. This is partly attributable to the lingering effects of disruptions and challenges around agricultural belts, and infrastructural complications (aggravated by covid-19 setbacks to interstate distribution network). The spill-over effects of these adverse impulses are expected to persist in the short-term and abet inflation inertia for much of 2020.

Liquidity outturn in June 2020 was sub-par as monetary expansion fell below the indicative benchmark while money market rates rose. Weighted average inter-bank call and open-buy-back rates increased from 5.2 and 5.8 percent, respectively, in May 2020 to 5.8 and 11.3 percent in June. Annualised at 3.3 percent, expansion of broad money stock (M_3) fell below the targeted 13.1 percent. This expansion fundamentally reflected the 13.2 percent annualised growth in private sector credits.

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Data indicate that total gross credit grew by N3.3 trillion since May 2019 to N18.9 trillion in June 2020 showing increased lending to manufacturing, consumer credit, general commerce, ICT, and agriculture. This illustrates the continued potency of CBN's LDR policy. Even with an increasingly fragile global macro-financial condition and rising domestic credit, the Nigerian banking sector remained largely resilient with NPLs ratio continuing to moderate from 11.2 percent in May 2019 to 6.4 percent in June 2020. Yet, I note the imperative of sustained credit flows to the private sector, especially at this critical time when the productive machinery of the economy needs liquidity support to prop domestic supply. To help local firms cushion the consequences of the pandemic, the CBN is working with banks to restructure lending and grant increased forbearance to businesses which require such to survive. The CBN will continue its drive to de-risk lending and increase targeted intervention to strategic high impact private sector ventures through effective collaboration of all stakeholders, especially on the backdrop of the imminent economic downturn.

In my consideration, I acknowledge that the objective of price and exchange rate stability remain central without losing sight of the need for output stabilisation. I note that both inflation and exchange rate expectations are elevated in the short-term while growth outlook is weakened. Economic contraction is almost certain in the 2020q2 and slowdown likely throughout 2020. This holds undesirable ramifications for poverty, unemployment and potential output. I resolutely favour measures to forestall a recession or at least curtail its lifespan and severity. Yet, it is important to ensure that measures to support growth do not undermine price stability.

I note that tightening at this time, to curb inflation, will not only negate our last decision to ease, but will further constrict domestic productivity and avoidably plunge the economy into a deeper and more painful contraction. Conversely,

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a further easing of policy stance will evidently support growth but will worsen inflation inertia. Besides, further rate cuts will elicit negative real MPR which could destabilise investment decisions and potentially lead to indeterminate domestic equilibrium. I am of the view that since impulses from the last policy adjustment are still filtering-through the system, it is imperative to be cautious with our decisions.

With rising inflation expectations and weak growth outlook, my inclination is to maintain the current stance of monetary policy and hold all parameters. This will allow a sustained permeation of recent policy actions –including the various counter-covid interventions– and avoid undue policy shocks to the system. In my view, an adjustment could complicate the impulse-response traverse of recent changes and culminate to indeterminate outcomes. Maintaining the *status quo* could, however, balance the long-run objectives of price stability and output stabilisation without disrupting the path of equilibrium. Therefore, I vote to:

1. Retain the MPR at 12.5 percent;
2. Retain the asymmetric corridor at +200/–500 basis points;
3. Retain the CRR at 27.5 percent; and
4. Retain liquidity ratio at 30.0 percent.

GODWIN I. EMEFIELE, CON
Governor

July 2020

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