CENTRAL BANK OF NIGERIA COMMUNIQUÉ NO. 130 OF THE MONETARY POLICY COMMITTEE MEETING HELD ON THURSDAY 28th MAY 2020, WITH PERSONAL STATEMENTS OF MEMBERS

The Monetary Policy Committee (MPC) met on 28th May, 2020 in an environment of severe macroeconomic shock caused by the fatal spread of the Novel COVID-19 Pandemic, which first started as a health crisis in December 2019 in China and quickly morphed into a global economic crisis in the ensuing months. The pandemic induced economic shock is mainly characterized by disruptions to the global supply chain, on account of the mitigating measures put in place by various governments to contain the spread of the disease. The effects on the global economy have been unprecedented and indeed severe. These include significant stock market crashes; exchange rate volatilities; rising corporate and public debt; rising levels of unemployment; tightening financial conditions; capital flow reversals; and negative shocks to commodity prices, to mention a few.

Under this period of economic crisis, the Committee assessed the developments in the global and domestic economic environments in the first five (5) months of 2020, and the outlook for the rest of the year. Ten (10) members of the Committee were in attendance.

Global Economic Developments

The Committee reviewed developments in the global economy, noting the swift and widespread monetary and fiscal stimulus responses to mitigate the economic crisis and avoid economic recession. They observed that since the duration of the pandemic is unknown, forecasts for global growth projection for 2020 differs amongst institutions and central banks. While the IMF output growth forecast for 2020 was downgraded by 3.0 per cent in 2020, compared with an initial growth projection of 3.3 per cent, the forecast by the Organisation for Economic Co-operation and Development (OECD) showed a moderation in global output growth from 2.9 per cent in 2019 to 2.4 per cent in 2020 and 3.3 per cent in 2021. Most central banks in Emerging and Developing Economies (EMDEs) have mixed forecasts, reflecting the intensity of the demand and supply shocks, as well as the effectiveness of the mitigating measures and stimulus by their monetary and fiscal authorities.

The MPC noted that inflation in most Advanced Economies remained largely below their 2.0 per cent long-run targets. This was partly due to suppressed aggregate demand, occasioned by the lockdown, with resulting low expectations of future income, forcing spending to be directed to only essential goods and services.

The Committee, however, noted that, although, recent monetary decisions in most advanced economies had been accommodative, portfolio flow reversals from Emerging and Developing Economies had continued, indicating general rebalancing of portfolios toward cash and gold as safe assets by investors. This development has resulted in renewed pressure on exchange rates of some Emerging and Developing Economies with a likely pass-through to their domestic prices. In addition, a likely medium-term impact of these synchronized liquidity injections and other forms of monetary accommodation is the compounding of the already huge global corporate and public debt portfolios which may result in a spike in global debt post-COVID-19.

Domestic Economic Developments

Available output data from the National Bureau of Statistics (NBS) showed that real Gross Domestic Product (GDP) grew 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, respectively. This was driven largely by 5.06 per cent growth in the oil sector and 1.55 per cent in the non-oil sector. The economy, however, expanded by 2.27 per cent in 2019, the most since 2015, compared to 1.91 per cent in 2018.

The Manufacturing and non-Manufacturing Purchasing Manager's Indices (PMIs) declined significantly to 42.4 and 25.3 index points, respectively, in May 2020, compared with 51.1 and 49.2 index points in March 2020. The contraction in the manufacturing and non-manufacturing PMIs was attributed to slower growth in production, new orders, employment level, raw materials and input prices. The employment level index for the manufacturing and non-manufacturing PMIs also contracted further to 25.5 and 32.0 index points, respectively, in May 2020 compared with 47.1 and 47.3 index points in March 2020. Generally, the purchasing managers' activities in May 2020, were largely affected by the lockdown of the global economy to curtail the spread of the COVID-19 pandemic.

In the light of the above developments, the Monetary Policy Committee commended the Bank's effort on the recent measures put in place to mitigate the economic impact of the twin shocks on the Nigerian economy. The Committee expressed support for the sustenance of the broad-based stimulus and liquidity facilities to curb the adverse effects of the shocks.

The Committee also noted with concern the persisting uptick in inflation for the eighth consecutive month as headline inflation (year-on-year) rose to 12.34 per cent in April 2020 from 12.26 per cent in March 2020. The uptick largely reflected the increase in both the food and core components, which rose to 15.03 and 9.98 per cent in April 2020 from 14.98 and 9.73 per cent in March 2020, respectively. The MPC noted that the recent increase in inflationary pressure was largely due to a combination of factors including; disruptions in supply chain owing to restrictions on inter-state travels; reduced domestic supply of foreign exchange; continued impact of deteriorating domestic infrastructure; and spillover effects of the Pandemic on global supplies, amongst others. Against this background, the Committee emphasized the need to sustain measures already put in place to maintain price stability. It noted that as the supply of goods and services increase, following the gradual easing of the lockdown and return of economic activities, there would be increase in aggregate supply.

On monetary aggregates, the Committee noted the marginal growth in broad money (M3) to 2.66 per cent in April 2020 from 2.42 per cent in March 2020, largely due to increases in Net Domestic and Foreign Assets. The growth in M3 was, however, significantly below the indicative benchmark of 13.09 per cent for 2020. Aggregate Net Credit also grew significantly by 8.07 per cent in April 2020 compared with 4.90 per cent in March 2020, although this remained below the indicative benchmark of 16.85 per cent for the year. The Committee, therefore, observed that there was relative scope for increased money supply to fund economic activities and boost output recovery.

In the review period, money market rates remained relatively stable reflecting the prevailing high liquidity condition in the banking system. Accordingly, weighted average Inter-bank call and Open Buy Back (OBB) rates decreased to 7.33 and 5.52 per cent in April from 10.29 and 11.78 per cent in March 2020, respectively.

The Committee observed that though the equities market was largely bearish in the first quarter of 2020, moderate improvement continued to be recorded since the beginning of the second quarter. Consequently, the All-Share Index

(ASI) and Market Capitalization (MC) increased by 18.33 per cent a piece, between end-March 2020 and May 22, 2020. This bullish trend reflected improved investor sentiments in response to the mitigating measures introduced at the onset of the pandemic by the monetary and fiscal authorities and positive outlook in the global oil market. The MPC expressed confidence that the current monetary and fiscal policy measures would further strengthen investor confidence.

The Non-Performing Loans (NPLs) ratio decreased to 6.58 per cent at end-April 2020 compared with 10.95 per cent in the corresponding period of 2019 due largely to recoveries, write offs and disposals. The development was adjudged by the Committee as a sign of reasonable stability in the banking system and urged the Bank to maintain its toolkit of prudential and regulatory measures to ensure that NPLs stay below the prudential benchmark of 5.0 per cent.

Outlook

The overall medium-term outlook for the global economy remains broadly uncertain as the COVID-19 pandemic and associated containment measures continue to disrupt normal economic activities across the globe. The global economy remains largely confronted with several headwinds, some of which include: weak aggregate demand due to declining consumer and investor confidence; disruption in global supply chains; shocks to oil and other commodity prices; continued lull in global financial markets; adverse shocks to global capital flows; as well as rising corporate debt in the advanced economies and public debt in some Emerging Market and Developing Economies.

Available data on key macroeconomic variables in the domestic economy indicate that the economy achieved a positive output growth during the first quarter of 2020. The Committee noted that even if the lag effects of COVID-19 result in a low negative output growth in the second quarter of 2020, it could quickly be reversed to avoid a recession by Q3 2020 based on the far-reaching measures taken by the monetary and fiscal authorities to mitigate the combined effects of the COVID-19 pandemic and oil price shock. Projections by both the IMF and Federal Government indicate that the economy would contract in 2020 by -3.40 per cent. Given more recent developments, however, CBN Staff projections indicate a somewhat less pessimistic range of contraction. This forecast is underlined by the measures to curtail the rapid spread of COVID-19; improvement in crude oil prices which stood at about US$34.8 per barrel as at 28th May 2020. The moderate recovery in crude oil prices would reduce the pressure on the external reserves and government revenue. Headwinds to growth, however, remains the legacy issues of the persistent infrastructural and security challenges.

The Committee's Considerations

Central to the Committee's considerations were the impact of the COVID-19 pandemic, the oil price shock and the likely short to medium-term consequences on the Nigerian economy. In particular, the Committee acknowledged the gradual improvement in macroeconomic variables particularly the improvement in the equities market, the containment measures of the COVID-19 induced health crisis, as well as, the impact of the increase in crude oil price on the external reserves.

The Committee noted the stability in the banking system shown by the increase in total asset by 18.8 per cent and total deposits by 25.52 per cent (year-on-year). The performance of the Loan-to-Deposit Ratio (LDR) policy which was introduced in July 2019 showed that total credits increased by N3.1 trillion or 20.45 per cent, with manufacturing, retail & consumer loans, general commerce and agriculture as major beneficiaries.

The Committee recognised that under the N100 billion Healthcare Sector Intervention Fund, the Bank has approved and disbursed N10.15 billion for some projects for the establishment of advanced diagnostic and health centres and the expansion of some pharmaceutical plants for essential drugs and intravenous fluids. As part of the N1trillion intervention targeted at Agriculture and Manufacturing firms, the Bank has disbursed N93.2bn under the Real Sector Support Fund to boost local manufacturing and production across critical sectors. This consists of over 44 greenfield and brownfield projects. The Bank has also approved N10.9 billion to 14,331 beneficiaries under the N50 billion Targeted Credit Facility for households and SME's, out of which N4.1billion has been disbursed to 5,868 successful beneficiaries. The Committee directed Management to reach out to the banks to encourage them to offer and disburse these funds to those priority sectors of the economy so as to stimulate aggregate demand and create more jobs.

The MPC appraised the Federal Government's resolve to maintain the core of its spending plans for 2020 as this remained vital for the attainment of the much-needed economic recovery. It also applauded the government's efforts at revising the oil price benchmark downwards to reflect prevailing conditions. It reiterated the urgent need for the Government to improve tax collections, through a gradual, but purposeful diversification of the economy's revenue base. The Committee also urged Government to remain focused on the implementation of the revised 2020 - 2022 Medium Term Expenditure Framework (MTEF) as the basis for sustainable fiscal policy.

The MPC emphasized the need for Government to work towards a gradual reopening of the economy in line with recommendations of the Presidential Task Force (PTF) and advice from medical experts, insisting that efforts must be directed at saving not only lives but also livelihoods. This is to enable the resumption of economic activities necessary to stimulate growth, accelerate the pace of recovery and restore livelihoods, particularly the vulnerable in our society.

On prices, the MPC expressed concern about the heightened inflationary pressure attributed to a combination of monetary and structural factors. While price stability remains the Bank's primary mandate, the Committee expressed the need for a balanced approach in supporting growth in the face of rising domestic prices.

With respect to output, the Committee urged the Federal Government to continue exploring options of partnership with the private sector to fund investment in infrastructure. This would aid employment generation, support production and boost output growth. The Committee also reiterated the need for foreign and domestic investments to support growth in key sectors of our economy, including Nigerian auto manufacturing, aviation and rail industries. The Committee expects that on the backdrop of the various stimulus packages and increased credit at lower interest rates, the impact of the COVID-19 pandemic would be relatively less severe than had earlier been expected and the reversal in growth deceleration would become more optimistic.

The Committee commended the Bank's role in effective oversight of the banking system, as evidenced by the relative stability in key financial soundness indicators and systemic resilience of the banking sector, in the face of severe external shocks.

On the choice before the Committee, the MPC observed the weakening of the global macroeconomic environment due to the adverse impacts of COVID-19 and drop in crude oil prices, which has resulted in negative output in most economies. The MPC also feels that the logical expectation is that to ensure that the global economy reverses from the recession timely, what policy makers must do is to take actions that will necessarily stimulate growth and recovery. For

Nigeria, although the Q1 2020 GDP turned out pleasantly at 1.87 per cent and rate of inflation somewhat moderated, Nigeria may escape a recession if concerted efforts are sustained to stimulate output.

Accordingly, on balance on whether to hold, loosen, or tighten, the MPC was of the view that tightening of policy stance is for now inappropriate. This is because tightening will result in further contraction of aggregate demand, leading to decline in output. Tightening will also increase cost of credit and reduce investment and impact negatively on output growth.

As regards the option of holding previous policy stance, the MPC felt that a hold may indicate that the monetary authorities are insensitive to prevailing weak economic conditions. There is, therefore, the need to signal a direction towards immediate recovery. The Monetary Policy Committee also feels that a hold decision may slowdown the trajectory of the weakened economy, compared with a loosening stance, thereby slackening output growth,

On loosening, whereas the Monetary Policy Committee is concerned that excess liquidity engendered by loosening may overshoot the economy's absorptive capacity and accelerate inflationary pressure, it nevertheless feels that given the slow rate of acceleration of inflation, the accommodative stance will stimulate aggregate demand and supply in the short term. This is because an accommodative stance, through a lowering of the policy rate will stimulate credit expansion to critically important sectors that will also stimulate employment and revive economic activity for quick growth recovery.

The MPC noted that if all stimulus packages already announced by the Bank such as concessionary rates, loan restructuring, and targeted loans to agriculture, manufacturing and health sector are well utilized, this will produce the desired impetus needed to boost economic recovery in Nigeria.

The Committee's Decision

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 while maintaining stable price development across inflation, the exchange rate and market interest rates. To this end, the Committee noted that the Cash Reserve Requirement (CRR) was recently adjusted upwards as a means of tightening the stance of policy. In its response to the COVID-19 pandemic, however, the Bank reduced interest rates associated with all CBN interventions from 9 to 5 per cent. Increasing MPR at this stage will thus be counter-intuitive and will result in upward pressure on retail market rates.

The Committee maintained that although a sharp decline in output growth is expected in Q2 2020 and maybe the third quarter, if the current stimulus initiatives are properly implemented, the economy would reverse to positive growth by the fourth quarter. Hence the optimism on the part of the Committee that the economy may not slide into recession.

In view of the foregoing, the Committee decided by a unanimous vote to reduce the Monetary Policy Rate (MPR) and to hold all other policy parameters constant. Seven (7) members voted for a reduction of the policy rate by 100 basis points, two (2) members by 150 basis points and one (1) member by 200 basis points.

In summary, the MPC voted to:

I. Reduce the MPR to 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

28th May 2020

PERSONAL STATEMENTS BY THE MONETARY POLICY COMMITTEE MEMBERS

1. ADAMU, EDWARD LAMETEK

The global economy continues to be heavily burdened by the fallouts of the novel corona virus pandemic. The economic costs of lockdowns, border closures and restrictions on movement of goods and services have been enormous - and still counting in many respects. Amongst others, output, employment and fiscal sustainability have been adversely impacted across the globe. In many countries, the quantum of stimulus has either gotten close or surpassed anything seen in recent times. Notwithstanding the massive fiscal stimuli and the desperate attempts by monetary authorities to ease liquidity conditions, the International Monetary Fund (IMF) currently sees global output receding by about 6.0 percentage points to -3.0 per cent in 2020, from 2.9 per cent in 2019. As the world comes to terms with the reality that COVID-19 could be around for much longer than did previous strains of the corona virus, and that the costs could continue to build, the appetite for reopening economies has increasingly strengthened. Early reopening/resumption of economic activity appears to be the surest way to halt the global economic descent; in fact, many analysts believe that it would pave the way for liquidity injections to generate real dividends.

In the midst of the uncertainties created by COVID-19, Nigeria's Q1 output growth turned out to be much better than most observers had expected. At 1.87 per cent growth rate, the real Gross Domestic Product (GDP) lost less than 0.5 percentage points in growth relative to Q1 2019. This development illuminates an opportunity for escaping a recession in 2020 with growth-inducing policies in the rest of the year. Understandably, monetary policy alone cannot assure that outcome but could play a vital role. And so, I voted to ease the policy stance at the May 2020 meeting of the Monetary Policy Committee

(MPC). Nothing in my view could be more urgent than supporting output and employment that had borne the most impact of the pandemic. Notwithstanding the growth performance in Q1, the odds are that year 2020 could post an overall contraction in real GDP, principally because of the deleterious effects of lockdown and movement restrictions, unless economic policies generally prioritize economic activity in the rest of the year. Both industrial production and the purchasing manager's indices declined in Q1 2020. Similarly, the index of mining production fell in the quarter. At 42.4 and 25.3 index points, respectively, in May, both manufacturing and non-manufacturing Purchasing Managers Indices (PMIs) show a weakening outlook for output in the year. As the economy hopefully reopens, economic policy must be set to lubricate the wheels of production and wealth creation without delay in line with the global trend.

Nevertheless, easing monetary policy in the face of rising consumer price inflation must be assiduously defended. The major influences on consumer sentiment and inflation have been the pandemic-induced lockdown and movement restrictions (since March 2020) as well as the partial closure of the nation's land borders much earlier. These conditions have obviously resulted in limited supplies of goods and services, in addition to raising transaction costs. Under these circumstances, restraining demand is unlikely to address the inflationary pressures in the economy. I am rather persuaded by the necessity of increasing output and alleviating distribution bottlenecks, particularly of food items, which should help ease the pressure on consumer prices. Likewise, as the global economy gradually reopens and trade rekindles, the supply of imports should improve, thereby easing scarcity of those as well.

In addition to output and prices, the economy currently bears some other vulnerabilities and threats which have to be considered in crafting policy at this time. In March 2020, the price of crude oil, Nigeria's most important export, crashed, forcing immediate fiscal adjustments. The oil price shock continues to reverberate through the economy from the oil and gas sector. The banking system for example is heavily exposed to the sector. In April 2020, credit to the oil and gas sector accounted for about 26.0 per cent of the industry's total loans and advances, making the sector the single most important in terms of credit exposure of the banking system. Related to this source of vulnerability is the foreign currency exposure of the industry which stood at approximately 41.0 per cent in April 2020. Low oil prices translate directly to low resources in the oil and gas sector and reduced foreign exchange inflow to the economy. Therefore, protecting the financial system remains a priority going forward. Though key banking system Financial Soundness Indicators (FSIs) – capital adequacy ratio, non-performing loans (NPLs) ratio, earnings, etc., have thus far been quite robust, the industry is not insulated from the adverse impacts of the global economic and financial weakening arising from COVID-19 and soft oil prices. Loosening the stance of monetary policy offers some relief to the entire financial sector, not just banks but even more critically to the equities market that had shed about 11 percent in value, year-to-May 2020

In addition to easing the lockdown and restoring supply lines, the exchange rate of the naira would be a key factor in the short-term evolution of inflation and output. A key lesson from the 2016 stagflation is that stability of the naira exchange rate will be a critical element of the policy mix for rapid recovery from the COVID-19 economic setbacks. In this light, it will be helpful to sustain and deepen extant foreign exchange management policies including strategic interventions in all segments of the FX market to ensure adequate liquidity, incentivizing autonomous inflows and prioritizing supply for imports of end products and intermediates that cannot be sourced locally. In this connection, I urge periodic review of the list of items that are valid/not valid for funding from the official market.

I share in the optimism, based on right policies, that the economy may not go into a recession as a result of COVID-19, but not in failure to appreciate the magnitude of impact or the risks in the horizon. In the face of increased uncertainty in the global economic environment, external credit lines to corporates and banks in emerging markets and developing economies could shrink considerably in the near-term. Capital reversals have already begun in many of these countries including Nigeria and stock markets could crash unless monetary authorities take deliberate steps to ease liquidity in domestic markets.

Finally, there is no gain saying that fiscal policy holds the thicker end of the economic recovery policy lever going forward. From the monetary end, the robust interventions being implemented by the CBN and other policies which were underway, like the Differentiated Cash Reserves Requirement (DCRR) and the minimum Loan-to-Deposit Ratio (LDR) before the COVID-19 pandemic, would continue to increase and redirect credit to the major growth and employment poles. All of those would benefit the economy more if the orientation of fiscal policy remains complementary. In particular, policies and programmes directed at supporting production of import substitutes and increased utilization of available local inputs and intermediates in production processes will give fillip to the real sector interventions by the Bank.

In consideration of the foregoing, I voted to reduce the Monetary Policy Rate (MPR) by a hundred basis points while holding all other policy parameters at their levels prior to the May 2020 meeting of the MPC.

2. ADENIKINJU, ADEOLA FESTUS

Economic Developments

Covid-19 has altered significantly the global and domestic economic environment. All forecasts about the global economy has been revised downwards on account of the impacts of the pandemic. It is now believed that most countries will experience recession or sharp decline in GDP in 2020. The pandemic has curtailed global demand, supply and value chains. Commodity prices, equity and bond markets have all taken a hit. Nigeria may likely enter into another recession in 2020, albeit a shallow and brief one, depending on how we respond to the opportunities and challenges that face the country.

From the presentations of the Bank's Staff, the Financial Soundness Indicators (FSI) remain strong. The CAR, and NPL ratio are trending in the right direction. The Loan to Deposit Ratio (LDR) has boosted aggregate credit to the economy without impacting negatively on the NPLs ratios as some have feared when the policy was introduced in 2019. The Liquidity Ratio (LR) is above the minimum Prudential Guidelines. Both the ROE and ROA lie within the range for comparator countries. Total Assets, total deposit and total credit also improved since the last meeting of the MPC. The various stress tests also show that the financial system is robust and strong enough to withstand the shocks to the economy from Covid-19 and decline in oil prices.

The Economic Report shows weakening domestic economic performance since the March Meeting. Real GDP growth fell from 2.25% in Q4 2019 to 1.98% in Q1 2020. Headline inflation also rose to 12.34% in April 2020 from 12.26% in March 2020. The increase in headline inflation was driven mainly by Transport, Food & non-Alcoholic Beverages and Health items. However, looking at components of monetary aggregates, growth of Broad Money (M3) and Net Domestic Aggregates (NDA) were below their provisional benchmarks for 2020, while Net Foreign Assets (NFA) overshot its target. Sectoral indices of the Nigeria Stock

Exchange were mostly negative in April. Exchange rates at both the BDC and I&E windows depreciated between March and April. The premium between the BDC and I&E rates however declined by -8.34%. Price of oil declined steeply to below US$30 per barrel in May 2020 from over US$65 per barrel in January 2020. The foreign reserves rose from US$33.69 billion in March 2020 to US$36.43 billion in April largely due to receipts of proceeds from IMF Rapid Financing Instrument. The fiscal operations of the government remain challenging. Some proactive acts have been taken to protect the 2020 budget. The government slashed its expenditure for 2020 from N10.594 trillion to N10.523 trillion. The country also received US$3.4 billion in Emergency Support from the IMF. The Senate approved the borrowing requests of N850 billion for the Federal Government. The balance of trade and current account balance remain at unacceptable levels for the economy. The full impacts of Covid-19 on domestic economy is still unclear as at this meeting as most parts of the country remains under some form of lockdown. The 2020 real GDP is forecasted to record negative growth.

Considerations

I am glad to know that the Bank has commenced the implementation of the Special Intervention Programmes approved at the March Meeting of the MPC. This will protect the real and financial sectors of the economy from the Covid-19 shocks. It is important that the CBN oversees effective implementation of the programme for the entire financial system – both for Deposit Money Banks and Other Financial Institutions.

I want the CBN to give priority to the employment generation sectors and the SMEs in the implementation of the relief programmes. Special incentives should be given to companies that do not lay off their employees as a result of Covid-19.

The effects of Covid-19 will be with us for a long term. While most countries are slowly getting back to work, what is still not clear to most analysts is the nature of economic recovery: will it be a 'V-shaped', 'U-Shaped' or 'W-shaped'. Almost without exception central banks across the world have downplayed the inflationary mandate in favour of financial stabilisation and economic recovery. Hence, reducing monetary policy rates and increasing monetary accommodation have been the dominant response to the economic effects of the pandemic.

However, I also see Covid-19 as an opportunity for us to recalibrate our economic policies. For instance, we need to protect our foreign reserves. It is critical to ensure a realistic and stable exchange rate that protects our foreign reserves and support investors' confidence in the economy. The fiscal authority must use the opportunity to a) significantly cut down on the costs of governance at all levels b) permanently remove the oil subsidy and develop a framework for phased removal of electricity subsidy, c) passage of PIB and similar legislations that will unlock productivity and growth across the economy, d) implement alternative financing framework other than the budget to fund infrastructural projects, e) expand tax coverage to enhance non-oil revenue, f) sales of abandoned government properties across the country.

I am aware of the marginal increase in headline inflation between March and April 2020, as well as the long-term threat that inflation posed to the economy. However, at this time of contraction of the economy due to exogenous shocks on the economy, it is time to provide increased stimulus and support for the real economy in order to shift Aggregate Supply curve of the economy and protect jobs. Moreover, I am convinced that supply and structural factors have played dominant roles in the growth of consumer prices in the last month. Transportation costs, poor road networks, supply challenges associated with the lockdown and security challenges affect the extent to which monetary policy tools alone can align inflation rate to anticipated targets.

Decision

Given all of the above considerations, I am in favour of lowering the MPR by 100 basis points. It is time to send a signal of support to economic agents. Lowering the policy rates will reduce costs of production and support aggregate supply, something that the economy needs at this time. It will also lower the burgeoning costs of government debt.

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

i) Reduce MPR by 100 basis points to 12.5%
ii) Retain CRR at 27.5%
iii) Maintain Liquidity ratio at 30%
iv) Retain asymmetric corridor around the MPR at -500/+200 basis points.

3. AHMAD, AISHAH N.

Negative externalities arising from the covid-19 pandemic have begun to manifest more fully on global financial markets and the domestic economy. Despite lockdown measures across much of the world from March through May, **infection and mortality rates have risen exponentially.** According to the World Health Organization, over 5.5 million infections and 350 thousand deaths have been recorded as at May 28th, 2020, up from 315 thousand and 14 thousand, respectively in March.

Meanwhile, lockdown measures continue to weigh heavily on global economic activity, causing turmoil in financial markets, an unprecedented rise in unemployment, negative output growth, exchange rate volatilities, capital flow reversals and rising public debt across countries. For instance, output growth in the United States contracted by 4.8 per cent in Q12020 against the expected growth of 3.8 per cent with over 40 million job losses as at April 2020. China's GDP shrank by 6.8 per cent in Q12020, while the UK economy contracted by 2.0 per cent over the same period.

Whilst fiscal and monetary authorities across the world continue to implement a spate of measures to contain the virus and mitigate the negative economic effects through fiscal stimulus packages, furlough of workers and sourcing of emergency funding from the IMF/World Bank; much is still uncertain as the economic implications emerge idiosyncratically across countries.

For the Nigerian economy, the most pressing issue remains the double whammy arising from the slowdown in economic activity due to coronavirus pandemic and the oil price crash following the collapse of the OPEC+ negotiations and the consequent price war between Saudi Arabia and Russia. Although **crude oil prices have picked up significantly (bonny light US$34.8/b as at May 28, 2020 from US$15/b on March 31, 2020),** outlook for the oil market amidst softening demand remains uncertain. These developments present significant headwinds for fiscal revenues, exchange rate and domestic prices and output.

For instance, in response to supply constraints at the foreign exchange market, **the exchange rate depreciated by 5.3 per cent from N360/US$ to N380/US$. Headline inflation inched up year-on-year to 12.34 per cent in April 2020 from 12.26 per cent in March 2020** - driven primarily by disruptions in food supply chains and exacerbated by restrictions imposed across the country to curb spread of the coronavirus. Furthermore, the Manufacturing and non-Manufacturing Purchasing Manager's Indices (PMIs) **declined significantly to 42.4 and 25.3 index points,** respectively, in May 2020, compared with 51.1 and 49.2 index points in March 2020. All of these signal significant challenges ahead for the economy.

Notably, domestic policymakers have commenced implementation of comprehensive measures earlier introduced to mitigate adverse effects of these shocks. Updates provided to the Committee indicate disbursements of N10.15 billion from the N100 billion health sector intervention fund, N93.2 billion under the N1trillion Real Sector Support Fund to boost local manufacturing, whilst over 14,331 beneficiaries have received N10.9 billion out of the N50 billion Targeted Credit Facility for households and SMEs. These measures, coupled with prior monetary and fiscal reforms, have **kept the domestic economy resilient, blunting the effects of the coronavirus on economic activity as reflected in a higher than anticipated Q12020 real GDP growth of 1.87 per cent (year-on-year).**

To preserve these gains and forestall a recession, domestic productivity must be accelerated immediately, particularly as a number of countries contemplate broad export restrictions. Thus, stimulating the manufacturing sector is mission critical to support local consumption needs and reduce output gap to stem price developments. In addition, focused implementation of the revised 2020-2022 Medium Term Expenditure Framework should be prioritized along with the continued implementation of the Economic Recovery and Growth Plan and the diversification agenda of government.

The financial system remains a bright spot of the economy and is well positioned to support domestic output growth, and stimulate economic recovery. Even as the CBN monitors the potential risks to financial stability, it is gratifying that **financial soundness indicators have remained strong,** despite the headwinds and rapid expansion of credit **(gross credit increased by N3.0 trllion between end-May 2019 and end-April 2020)** driven by the Loan to Deposit Ratio (LDR) policy. Non-performing loans (NPLs) ratio stood at 6.6 per cent at end April 2020, compared with 11.0 per cent at end April 2019, while other prudential ratios remain robust.

This resilience notwithstanding, the industry remains exposed to shocks from spillover effects of the pandemic on macroeconomic conditions. This underscores the importance of regulatory measures to mitigate the effects of the crisis, such as granting forbearance to banks to temporarily restructure loans for businesses and households most affected by Covid-19 and the Global Standing Instruction policy to limit NPLs.

As at end-May 2020, staff reports indicate that 17 banks submitted requests to restructure over 32 thousand loans for individuals and businesses impacted by the pandemic, **representing 32.94 per cent of total industry loan portfolio**, with the manufacturing and general commerce sectors constituting the bulk of the restructured facilities.

Results from ongoing impact assessment of Covid-19 effects on impairment by banks, indicate modest impact given regulatory policy measures already implemented. These, coupled with close monitoring by authorities and enhanced risk management practices by financial institutions, would help to mitigate the emerging risks and preserve financial system stability.

Policy decision

The coronavirus-induced global economic crisis is pervasive, with heightened uncertainty for the medium-term economic outlook. In Nigeria, early effects of the crisis and containment measures have reflected in modest decline in output growth, exchange rate depreciation, rising public debts and domestic prices amidst existing structural challenges. While these impacts on the Nigerian economy continue to evolve, even as some resilience is acknowledged particularly in healthier than expected Q12020 GDP numbers, there is urgent need to maintain this trajectory to prevent a recession and engender sustained recovery.

The rising domestic price level attributed to a combination of monetary and structural factors, also poses additional risk to the muted growth environment. This presents the monetary authority with a difficult tradeoff, amidst limited tools to balance its primary price and monetary stability remit - given the negative direction of inflation and exchange rates with promoting GDP growth.

In my view, an aggressive move to reflate the economy should be the primary objective at this time. This can be partly achieved by lowering the policy rate to stimulate aggregate demand and direct credit to growth-enhancing sectors of the real economy. This measure would help lower domestic lending rates which have trended downwards due to increasing supply of loans via the LDR policy, expand access to credit, stimulate employment and improve domestic economic activity.

To absorb excess liquidity from ongoing fiscal and monetary injections and curb monetary induced inflation that may potentially arise from MPR reduction, the CBN has at its disposal the discretionary cash reserve requirement (CRR) implementation framework which will be supported by issuance of new fiscal instruments as the government executes its revised debt programme.

Therefore, I vote to reduce the MPR by 150 basis points from 13.5 per cent to 12.0 per cent and retain the asymmetric corridor of +200/-500 basis points around the MPR; the CRR at 27.5 per cent; and Liquidity Ratio at 30.0 per cent.

4. ASOGWA, ROBERT CHIKWENDU

Background:

Policymakers around the globe now face formidable challenges as they seek to restore their economies following the devastating health, macroeconomic and social effects of COVID-19. This pandemic has been described as the largest economic shock the world economy has witnessed in several decades. The crossborder spill overs from the collapse of global manufacturing activities and the disruptions to supply chains in major hubs of world trade including in China, United States and Germany is exerting a huge toll on developing countries due to the rapid reduction in the demand for intermediate goods and primary commodities. In Nigeria, the prolonged slump in oil prices significantly reduced government revenues, thus exacerbating the already chronic fiscal deficits, while the fall in external reserves evoked considerable negative investment sentiments especially for foreign portfolios. At the same time, the continued marginal uptick in domestic inflation in the months of March and April presents additional difficult choices to grapple with. However, the need to ensure that domestic firms survive in the short term whilst ensuring that growth in the long term returns to its previously expected levels remains an urgent task. The challenge, therefore, is to design the best monetary policy reaction to the pandemic taking into account these developments in domestic economy in addition to the global economic outlook. Such policy choices should preserve financial stability whilst at the same time ensuring that the general level of liquidity is consistent with the inflation focus.

The Global Economic Outlook and the Effects of COVID-19

The COVID-19 pandemic has wreaked considerable havoc on the global economy unleashing catastrophic recessions with nearly 90 percent of the world economy under some form of lockdown. Revised projections suggest that the global GDP will shrink by -3. percent in 2020 (IMF), contrary to the earlier estimation of global GDP growth improvement of 3.3 percent in 2020 before the outbreak of the crisis. The advanced economies are expected to be hit hardest by this crisis. On average, the projection is that GDP in developed countries will shrink by 6.1 percent in 2020 while for Emerging Market and Developing Economies, the expected contraction is by 1.0 percent in 2020. Specifically, for the United States, GDP is now expected to contract by 5.9 percent in 2020 even though an early rebound of up to 4.7 percent is tentatively forecast for 2021. The Euro Area GDP is also expected to contract by 7.5 percent in 2020 but also forecast to rebound to 4.7 percent in 2021. For Japan, GDP is projected to contract by 5.2 percent in 2020 while China's growth is projected to decelerate sharply from 6.1 percent in 2019 to 1.2 percent in 2020. Commodity–dependent countries have faced severe spill over brunt of the pandemic with the prices of oil and other commodities declining across board in the first three months of 2020. The US oil prices also plummeted into the negative territory during the second half of April as it faced limited demand and insufficient storage capacity. Global trade seems to be severely hit by this health crisis and looks more even volatile than gross output. Besides, financial markets across the World have also witnessed a historic slump, perhaps even worse than the 2008/9 global financial crisis. Many equity markets in large and small economies have endured declines of 30 percent or more as a result of this pandemic and market liquidity has fallen significantly even for traditionally deep markets such as the United States. For Banks across the globe, the more capitalized ones have remained strong, but longterm rating outlook have been revised to negative for many banks, especially those with recent low profitability indicators.

Central banks across the globe have responded strongly to stabilize the financial markets as well as restore economic activity. Many advanced economies eased monetary policy rates to historic low levels and injected large liquidity into the financial system through a combination of both direct credit provision and large-scale asset purchases. CBN staff report show that the US

Federal Reserve led this aggressive cycle of monetary accommodation by lowering its policy rate twice within a fortnight down to the zero-lower bound and announced unlimited purchases of US government debt and mortgage-backed obligations as well as large scale purchases of corporate bonds and securities issued by lower levels of government. The Bank of England also pushed its policy rate close to the zero-lower bound at 0.10 percent in March 2020 from 0.25 percent in January 2020, while the European Central Bank besides keeping benchmark policy rate at 0.0 percent, has offered low-interest loans to banks, significantly boosted asset purchases and allayed fears of member-country defaults by lifting distributional restrictions on its bond-buying programmes. The Bank of Japan also in the last three months, scaled up purchases of government and corporate bonds, commercial papers and exchange traded bonds. Similarly, Central banks in developing and emerging markets have followed suit and have, besides cutting interest rates, provided additional liquidity to the financial system so as to enhance loans for firms' recovery. The Chinese central bank in addition to cutting interest rates also approved 500 billion Yuan in financing to provide less expensive loans to smaller enterprises struggling to resume operations after the COVID-19 lockdown. CBN staff report show that the central banks of South Africa, Ghana, Kenya, Brazil and Indonesia all lowered their policy rates to varying degrees between March and May 2020.

The Domestic Economic Outlook:

The domestic economy has suffered above-average declines as a result of the COVID-19 crisis but not yet as hard hit as more advanced economies. The first quarter 2020 GDP grew by 1.87 percent compared to 2.55 and 2.28 percent in quarter four and quarter three of 2019, respectively. This decline is attributed to the impact of COVID-19 on general economic activities as the oil sector declined from 6.36 percent in 2019 quarter four to 5.06 percent in 2020 quarter one, while the non-oil sector also declined from 2.26 percent in 2019 quarter four to 1.55 percent in 2020 quarter one. The Purchasing Manager's Index for both manufacturing and non-manufacturing sectors have been on the downward trend since February 2020 arising from the COVID-19 pandemic and for the first time in several years dropped below the 50 midpoints benchmark. The manufacturing PMI stood at 42.4 index points in May 2020 compared to 51.1 points in March 2020, while the non-Manufacturing PMI which dropped to 49.2 points in March 2020 fell further in May 2020 to 25.3 index points. The growth outlook for the second and third quarters of 2020 have been revised downwards, but general economic activity are gradually regaining momentum since mid-May especially as the prices of crude oil rebounds. With government revenues and external reserves picking up modestly as the economy start to reopen, and as the effects of the increased credit and fiscal stimulus kick in, there are high expectations that 2020 third quarter GDP figures may possibly close in at a small but positive territory.

Two key downside risks remain potent amid weakening of economic activity and lower oil prices. First, is the minor upticks in inflationary rate. Headline inflation rates increased further for a ninth consecutive time to 12.34 percent in April 2020 from 12.26 per cent in March and 12.20 percent in February 2020. This persistent over shooting of the inflation target remains a key concern to the Bank even as the marginal increases in the past eight months have been driven largely by prices of food and non-alcoholic beverages. Second, is the higher levels of public debt the domestic economy is exposed to in the aftermath of this COVID-19 crisis which may worsen the current macroeconomic challenges going forward. CBN staff report showed that IMF approved US$3.4 billion in Emergency support for Nigeria to address the COVID-19 pandemic, while the Parliament has also approved the request of N850 billion loan for the Federal Government to be sourced from the domestic capital markets so as to finance the 2020 budget. While reduced interest rates may keep the cost of servicing the new domestic loans low, it will be difficult not to crowd out private borrowing. Given the uncertainties about the future course of this pandemic, a prolonged period of weak GDP growth will further worsen the country's debt burden. As such, pursuing fiscal consolidation and even fiscal austerity without jeopardising social sector spending remains the viable option to reduce the mounting debt burden.

Interestingly, threats to domestic bank stability remain minimal as at now, just as in the last MPC meeting. CBN staff report showed a marginal increase in the non-performing loans ratio in April as compared to February 2020. Also, there were modest declines in key profitability indicators (ROE and ROA), but increase in industry size at May 2020 still depicts a robust banking system. Even though on average, the banks still have strong capital and liquidity positions despite the threat of COVID-19, it is important that greater supervisory scrutiny is applied to avoid any deterioration should the health crisis deepen any further. If more firms become distressed despite governments support for revival and the default rates on loans increases, the credit market may be jolted significantly. An arsenal of macro prudential support policies is therefore necessary to maintain banking sector resilience as they embark on aggressive economic recovery lending.

Decision:

While there are still uncertainties about the future path of the COVID-19 pandemic, government's current responses have been to review the associated mitigation measures including lockdowns and business closures with the assumption that the outbreak is under control. The provision of healthcare and support for individuals and households remain central focus, but support for business recovery and survival is seen as key to curb the pandemic's long-term effects. This explains why in several advanced economies, there have been massive fiscal policy support through subsidies, guarantees and tax reliefs but at the same time, central banks have cut policy rates and initiated other far-reaching steps to provide liquidity and maintain investor confidence. As there are wide projections that majority of the countries including Nigeria may plunge into recession in 2020, promoting sufficient access to credit regardless of firm size will be a necessary monetary policy choice despite the current inflationary realities.

My opinion therefore, is that a moderate easing of monetary policy at this May 2020 MPC meeting will provide the right tonic for business resumption and post - crisis strengthening. I will thus vote to:

- Reduce 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%.

5. ISA-DUTSE, MAHMOUD

A. INTRODUCTION

The debilitating impact of the Covid-19 pandemic across the world remains a formidable challenge. Apart from the health crisis occasioned by the virus, the containment responses of nations simultaneously triggered both demand and supply shocks which combined with the precipitous drop in oil demand to make a global recession inescapable in 2020. The widespread disruptions in production supply chains and the sharp decline in all components of aggregate demand dampened expectations and heightened uncertainty in the global economy.

Nigeria's oil-dependent economy received a hard hit in the absence of adequate fiscal buffers to mitigate the exogenous oil price shock. Moreover, the severe public cost engendered by the containment measures to stem the spread of Covid-19 significantly worsened the domestic economic conundrum.

B. EXTERNAL ECONOMIC CONDITIONS

The revised growth projections of the International Monetary Fund (IMF) were based on the assumption that the Corona virus pandemic would be contained at end-June 2020. On account of this, global growth is forecast to contract by 3.0% in 2020 – a reduction of 6.3 percentage points from the earlier 3.3% projection in January 2020. Prior to the pandemic, growth in Advanced Economies was projected to decline to 1.6% in 2020 from 1.7% in 2019 due to sustained weakness in aggregate demand but with the current realities of lockdowns, these economies may contract by as much as 6.1% in 2020. Most Emerging Market and Developing Economies (EMDEs), including Nigeria, are also expected to go into recession in 2020. As an economic bloc, output growth in EMDEs is projected to contract by 1.0% in 2020 as against the earlier forecast growth of 4.4% in January 2020. The Chinese and Indian economies, however, are expected to grow at a dampened pace of 1.2% and 1.9% in 2020 compared with 6.1% and 4.9% in 2019, respectively.

Central banks around the world have joined the monetary easing 'train' to prop up consumption and investment spending with rate cuts and other stimulus measures. In countries such as Nigeria that are facing inflationary pressures, the argument for monetary easing hinges on the use of alternative policy instruments to rein-in excess liquidity while delivering targeted credit to key sectors of the economy.

The pandemic engendered significant volatility in the global financial and capital markets with key indices dipping as asset prices, market liquidity and investors' confidence waned. EMDEs whose situation is compounded by the oil price shock have continued to experience capital outflows to safer havens. Portfolio outflows and declining foreign exchange earnings from oil have combined to result in substantial reductions to our foreign reserves. Nigeria's external reserves fell from US$38.07 billion in December 2019 to US$33.69 billion in March 2020 before climbing to US$36.49 billion on May 21, 2020. The direct fallout of this is the unrelenting pressure on the foreign exchange rate as the market adjusts and stabilise at higher levels.

The price of Bonny Light stood at US$33.01 per barrel on May 26, 2020 compared with US$67.20 per barrel on January 1, 2020.The current energy outlook indicates that crude oil price may average US$34/barrel in 2020. The resulting decline in government's oil revenue in Nigeria and covid-related expenditure has necessitated a substantial review of the 2020 budget.

C. DOMESTIC ECONOMIC CONDITIONS

According to the National Bureau of Statistics (NBS), the Nigerian economy slowed to a growth rate of 1.87% in Q1 2020 compared with 2.55% in Q4 2019 due to sectoral declines in agriculture, industries and services to 2.20%, 2.26%

and 1.57% in Q1 2020 from 2.36%, 2.31% and 2.22% in Q4 2019, respectively. The data on Purchasing Managers' Index (PMI) portrays a worsening scenario as manufacturing and non-manufacturing PMI decelerated steadily from 60.8 and 62.1 index points in December 2019 to 51.1 and 49.2 index points in March 2020 and 42.4 and 25.3 index points in May 2020, respectively. The key factors accentuating the downward slide relates to the plunge in crude oil prices and the Covid-19 pandemic which has drastically disrupted economic activities. While the on-going monetary and fiscal stimulus remain apt, there is the need to adopt further measures to stimulate the demand- and supply-sides of the Nigerian economy to avoid or minimize the negative growth scenario of -3.4% projected by the IMF for 2020.

Headline inflation (year-on-year) inched up to 12.34% in April 2020 from 12.26% in the previous month reflecting a sustained upward trend in the general price level for the 9th consecutive month. The rise in prices is driven mainly by food and non-alcoholic beverages which witnessed a positive percentage change of 0.04 in the review period. The two components of headline inflation – food and core inflation – increased to 15.03% and 9.98% in April 2020 from 14.98% and 9.73% in the preceding month, respectively. The rise is mainly attributable to the significant influence of farm produce and processed food in the inflation basket of goods. Although the outlook for inflation in the short term is on the upside, especially given the economic shutdown and oil price shock, nonetheless there is hope that normalcy would gradually return, movement restrictions lifted, supply chains revived and production re-started. These steps should contribute towards easing pressure on prices. Many analysts forecast a modest improvement in oil prices in the second half of the year. Pressures on the foreign exchange rate may thus subside and curtail the problem of imported inflation as accretions to foreign reserves gather momentum. The current strategy of controlling excess banking system liquidity through the Cash Reserve Ratio (CRR) should continue and implementation further strengthened. On the back of these developments, greater focus should be on boosting aggregate demand and growth to steer the economy away from imminent recession.

The scorecard of the banking system portrays stability and resilience even in this difficult era. The credit to private sector is on the rise to 7.4% in April from 5.2% in the preceding month. The quantum of new credits to vital sectors of the economy continues its upward path. The overall averages for both the Open Buy Back (OBB) and interbank rates during the period (March 25 to April 27 2020) were 6.62% and 6.01%, respectively – reflecting the relative calm pervading the financial market. The banking soundness indicators are within reasonable limits. Although, the Non-Performing Loans (NPLs) at 6.6% is slightly above the prudential minimum of 5.0%, the Capital Adequacy Ratio (CAR) and liquidity ratio meet prudential requirements. Moreover, the Return on Assets (ROA), Return on Equity (ROE) and Total Operating Cost to Total Operating Income Ratio indicate that the banking system is profitable and compares quite favourably with peer countries. The banking system thus is in a position, with a supportive policy mix, to promote the growth agenda by channeling more credit to the real economy. The Nigeria capital market index – the NSE ASI declined by 3.86% between end-February 2020 and May 22, 2020 due to the pandemic. With the easing of national lockdown and improvement in the business climate and investors' confidence, a market rebound is likely in the near term.

C. VOTING DECISION

In view of the stagflation scenario confronting the economy, the tightening option of monetary policy is not ideal. The challenge of Covid-19 pandemic, oil price shock and an economy on the brink of recession call for easing of monetary conditions to stimulate growth even though we are facing inflationary pressures. The earlier hike in CRR and other measures taken by the CBN are expected to significantly douse the inflationary pressures. The on-going easing of Covid-related restrictions should also have a salutary effect on prices. A loosening policy option would enhance the confidence of households and businesses and promote spending. Taking all the foregoing factors into account, I voted for a reduction in MPR by 100 basis points while retaining all other 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%
- CRR at 27.5%

6. OBADAN, MIKE IDIAHI

The 273rd meeting of the Monetary Policy Committee was held at a time that the global economy was thrown into confusion, uncertainties and twin crises (a health crisis and an economic crisis) by the novel coronavirus (COVID-19) pandemic – a virus outbreak which started in Wuhan, China in December 2019. Within a few months, because of its nature, the virus had spread to nearly all the countries of the world with very devastating implications. The virus precipitated a health crisis which has put countries with known robust health systems off-balance and also an economic crisis driven by lockdowns of economies, or significant parts thereof, restrictions of travels and movements across national borders and within national economies with consequent production and trade disruptions, and deterioration in global financial conditions. In other words, measures aimed at containing the virus resulted in the collapse of economic activities and trade. Commodity prices, except gold which appears now to be a safe haven for investors, have experienced unprecedented declines. With significant supply surfeit in the world market for oil arising from competition between Saudi Arabia and Russia and sharply reduced global demand, the price of Brent crude oil declined sharply until the last few weeks when it began to rebound standing at US$ 34.81per barrel as at May 28, May 2020.

IMPACT OF COVID-19 ON GLOBAL GROWTH AND TRADE, AND MONETARY POLICY RESPONSE

COVID-19 has impacted global economic growth and trade very negatively and sharply. Some advanced economies and EMDEs have already experienced contraction of their economies (quarter-on-quarter) in the first quarter of 2020: USA, -1.2%; Euro Area, -3.8%; UK, -0.2%; France, -5.8%; Spain, -5.2%; Italy, -4.7%; Japan, -0.9%; China, -9.8%; South Africa, 0.4%; and Nigeria, 14.3%. Furthermore, the IMF has projected sizable negative economic growth rates in 2020 for the advanced economies (between -6% and -9 %), U.S (-5.9%), Euro Area (-7.5%), U.K (-6.5%). The EMDEs are projected to growth by just 1.0 percent while the Nigerian economy is expected to grow by -3.4 percent. Among the major EMDEs, only China and India may have positive but low growths in 2020. The virus has reduced international trade volumes significantly and world trade is projected to contract by 11.0 percent in 2020.

Most advanced countries have responded to the COVID-19-induced downturn in economic activities with robust fiscal stimulus packages and monetary accommodation measures. This is with a view to averting/minimising recession, stimulating aggregate demand, supporting recovery and sustaining stability. Of particular interest to us here are the monetary measures. Most Central banks have moved into monetary accommodation mode entailing huge injection of monetary stimulus to help maintain a reasonable level of aggregate demand and restore confidence even though the injections could stoke inflation in the short – medium term. Steering the economies on a positive growth trajectory seems to be taking precedence over the traditional price stability objectives during the COVID-19 pandemic period. The monetary instruments used include quantitative easing and reduction of the monetary policy rate (MPR). The Central Bank of Nigeria's survey of 14 central banks revealed that 12 of them reduced their policy rates in the past few months, some multiple times. The Euro Area and Japan could not as they were already at the zero-lower-bound of their policy rates. These actions suggest that changes in the policy rates produce the desired signals and effects on credit in those economies. This is a challenge to Nigeria where the effectiveness of the MPR has tended to be undermined by the Deposit Money Banks (DMBs). The Central Bank of Nigeria must continue to address the challenge so as to make the monetary policy rate an effective instrument especially in the direction of boosting credit to the real sectors of the economy at affordable interest rates.

STATE OF THE NIGERIAN ECONOMY

The very negative economic impact of the coronavirus pandemic has manifested in very serious challenges for the Nigerian economy; major macroeconomic aggregates have deteriorated while the economy is now on the verge of stagflation. The devastating impact is such that the gains made on the growth front in 2019 are under threat of reversal. It was only since 2019 that the economy began to show meaningful signs of recovery from the 2016 recession. In 2019, the economic growth rate showed consistent upward trend, quarter-on-quarter, culminating in 2.55 percent growth rate in the fourth quarter and 2.29 percent for the whole year. In the first quarter of 2020, the growth rate declined to 1.87 percent from 2.55 percent in December 2019. Notwithstanding, it is reassuring in relation to the contractions in many other countries in the first quarter as a result of COVID-19. However, in view of the fact that economic activities in Nigeria were locked down from April, a more serious economic contraction is likely in the second quarter. It is to be hoped that the various monetary, fiscal and structural measures would assist the economy to avert a recession from the 3rd quarter even though some bodies have projected negative growth for the economy in 2020: IMF (-3.4%); World Bank (-3.4%); CBN (-2.82 to -4.2%); Federal Government (-3.5%).

Besides the challenges in the area of growth, other aspects of the economy have provided cause for strong concerns as follows:

i. Serious weakening of the oil market entailing crash of oil prices (as low as US$14.28 per barrel as of end April 2020 from a high of US$66.69 at end-January), supply glut and weak demand arising from the closure of numerous economic activities across the world. As Nigeria depends rather precariously on crude oil for the bulk of its domestic revenue and foreign exchange earnings, the problems in the oil market have put the country's finances in serious jeopardy, constraining the government's ability to respond effectively, as it would wish, to the pandemic in terms of containment and stimulus packages.

ii. Continuously rising inflation due to both monetary and structural factors and compounded by the lockdown resulting in supply disruptions, both from domestic and external sources. All the measures of inflation (headline, core and food) increased in April 2020. The headline inflation moved further away from the CBN target range of 6 – 9 percent from 12.26 percent in March to 12.34 percent in April. Similarly, food inflation increased from 14.98 percent in March to 15.03 percent in April.

iii. There has been a significant threat to external reserves position and exchange rate stability as a result of the slump in oil prices/COVID-19. Foreign exchange earnings from exports and stock of external reserves have shown a downward trend. External reserves, in particular, have experienced downward volatility. From US$38.072 billion in December 2019, it declined to US$33.69 billion in March 2020. The reserves level, however, improved to USD$36.69 billion by 14th May 2020 due to receipt of proceeds from the IMF's Rapid Financing Instrument (RFI). The exchange rate depreciated in all segments of the foreign exchange market also because of the crash in oil market. Overall, the balance of payments and its components have weakened.

iv. Challenging fiscal operations of the government. Against the backdrop of significant revenue underperformance and the weakening of revenue-generating capacity induced by COVID-19 pandemic, the need of government to contain the pandemic and save livelihoods has constrained the adjustment that would have been necessary under the situation of revenue shortage. Consequently, fiscal deficits have increased with implications for increased domestic and external borrowing and public debt build-up. As at March 2020, the Federal Government's fiscal deficit stood at -N1,392.96 billion. With domestic borrowing through bonds at N560.0 billion as financing, the net overall unfinanced deficit stood at N832.96 billion. In the recently revised 2020 budget occasioned by the crude oil price crash, the fiscal deficit stands at N4.975 billion. With the new borrowings under the COVID-19 environment, total public debt will further increase very much beyond the N27.401 trillion as at December 30, 2019.

No doubt the above developments have elicited robust responses from the Monetary Authority which has implemented some adjustment and several unconventional monetary intervention measures. The Fiscal Authority is also doing its best, but it is a case of the spirit is willing but the flesh is weak as it has had to battle with exogenous shocks since 2015.

However, going forward, two lessons must be learnt in relation to good economic management. The first is the need to take diversification of the economy very seriously and the second is the imperativeness of building fiscal buffers. An economy that is diversified in the spheres of production, domestic revenue generation and export earnings is better equipped to withstand internal and external shocks, for example, the implications of the coronavirus pandemic. Otherwise, shocks create panic in economic management necessitating painful adjustment measures. Admittedly, the present government has since inception strived to diversify the economy. Most of the interventions of the Central Bank of Nigeria in the real sectors of the economy – agriculture and manufacturing – and some service sector activities are aimed at diversification and self-sufficiency as well as conservation of scarce foreign exchange. A successful diversification strategy will require the country to strengthen its capacity to produce more sophisticated, higher-value goods for which demand expands globally as income rises. It also requires the government to muster the political will to effectively deploy oil resources to raise productivity in the agricultural sector and acquire capabilities to produce more sophisticated, higher-value goods.

The need to build fiscal buffers or save money for the rainy day, like the country is in now, cannot be overemphasised. This can be achieved by saving from oil earnings and undertaking aggressive non-oil revenue mobilisation. Because of the absence of fiscal buffers, Nigeria is one OPEC country other than Venezuela, perhaps, that has very limited budgetary space to absorb the shocks from the coronavirus. Hence, the country's fiscal response to the economic fall-outs of the disease is rather muted even though the government is very enthusiastic to do something substantial. The government must appreciate the boom and bust nature of the international market for crude oil and take saving for the rainy day very seriously once the good times return again. To this end, the Excess Crude Account (ECA) which has no legal backing should be merged with or subsumed under the Sovereign Wealth Fund which has a legal backing. Importantly, all the tiers of government and the National Assembly and State Houses of Assembly must develop the political will to save for the rainy day as a mark of good economic governance. This entails amending the Constitution as may be required and support for the Sovereign Wealth Fund.

OPINION

The above features of the global economy and Nigerian economy, in particular, provide a basis for my opinion on monetary policy direction as to whether or not it should be restrictive or expansionary. The monetary policy stance is already tight in view of the need to rein-in monetary inflation with the monetary policy rate at 13.5 percent and cash reserve requirement (CRR) at 27.5 percent. The Nigerian economy, at present, requires monetary policy (and fiscal policy) actions that will help the economy to avert a recession or prevent prolonged contraction and thereafter put it on a path of strong recovery from the coronavirus-induced crisis.

- Further tightening the monetary policy by raising the MPR and CRR could help douse monetary inflation. But the major driver of headline inflation for some time now is food inflation driven by limited imports and structural factors including the menace of herdsmen on the farms in food producing areas of the country. Also, it is doubtful if raising the MPR will attract capital inflows at this time that EMDEs are experiencing capital flows reversal, pointing to portfolio rebalancing by investors towards gold and cash that are considered safe assets. And the Deposit Money Banks (DMBs) may capitalise on an increased MPR to further raise lending rates and hence negating the objectives of the Loans to Deposit Ratio policy. Finally, at this point in time, further tightening of monetary policy may be viewed by stakeholders as callous. A dose of inflation and public debt may have to be tolerated to prevent the economy from sinking into the abyss.
- Endorsing the current monetary policy stance will not be helpful in addressing the daunting growth challenges.
- In view of the threat of recession, increased unemployment and poverty, the suggestive monetary policy stance is easing to complement the commendable monetary interventions of the CBN already being implemented under the COVID-19 environment. It can be argued that easing of monetary policy will increase liquidity in the economy and worsen inflation as well as undermine the stability of the foreign exchange market and capital inflows. However, it is to be hoped that the DMBs will behave well, expand credit to the real and other critical sectors of the economy at reduced interest rates in support of the current efforts to put the economy on a respectable growth path. Also, the CBN will need to ensure that nothing blocks access to its various intervention programmes.

In light of the foregoing, my opinion is to reduce the MPR from 13.5 to 12.0 percent but leave the other parameters at their extant levels: CRR, 27.5 percent; Liquidity Ratio, 30.0 percent and asymmetric corridor at +200/-500 basis points around the MPR.

7. OBIORA, KINGSLEY ISITUA

Faced with the prospects of a sharply-decelerating GDP growth and reality of a slowly-accelerating inflation, I voted to reduce the MPR by 200 basis points from 13.5 percent to 11.5 percent while retaining the CRR at 27.5 percent, the LR at 30 percent, and the asymmetric corridor of +200/-500 basis points around the MPR. This stance should complement the measures already taken by the Bank's Management, aimed at supporting economic activity, ensuring banking system stability, resuscitating livelihoods and averting a recession.

The spread of the novel coronavirus disease (COVID-19) continues to undermine economic and social activities across the world, with many countries already recording negative output growth. Output in the first quarter of 2020 in the United States, the UK, and the Euro area contracted by 5.0, 2.0 and 3.8 percent, respectively. Similarly, the IMF projected that the economies of Russia, South Africa, and Nigeria will be in recession with an output contraction of 5.5, 5.8, and 3.4 percent in 2020, respectively. This is in addition to the continued disruptions to global trade, fall in oil prices, volatilities in major global stock and financial markets. After weeks of lockdowns, however, several European countries and the United States have announced plans to gradually reopen their economies. The timing, sequencing, and pace of these plans differ across countries, reflecting differences in the progress of the epidemic and national preferences. While this provides some reprieve for markets, it also comes with a likelihood that there may be a rebound of the pandemic as social distancing may likely be compromised.

Being an integral part of the global community, Nigeria has not escaped some of the negative consequences of the COVID-19. The oil price continued to fall, and this has adversely affected the fiscal operations of the Federal

Government. Consequently, the Federal Government revised its Fiscal 2020 budget downwards, attributing it to the slowdown in the domestic economic activities and instability in the international oil price due to the COVID-19. This development is compounded by continued current account deficits, exchange rate pressure, rising inflation, and inadequate fiscal buffers – a situation that has rendered the country more vulnerable to shocks.

Despite these headwinds, the Nigerian economy performed better than expected in the first quarter of the year. Real GDP grew by 1.87 percent in the first quarter of 2020 from 2.55 and 2.10 percent in the previous and corresponding quarters of 2019. It was the slowest expansion since the third quarter of 2018. The oil sector recorded a real growth rate of 5.06 percent in the first quarter of 2020, indicating an increase of 6.51 percentage points relative to the corresponding quarter of 2019. The non-oil sector, however, grew by 1.55 percent in the first quarter of 2020, slower by 0.93 percentage points from the corresponding quarter of 2019. The decline in output growth reflected the partial impact of COVID-19 lockdown on the global economy, which disrupted supply chains beginning around the end of the quarter.

Comparable emerging economies fared far worse than Nigeria in the same quarter. Although growth in the first quarter of 2020 represents a decline of 0.68 percentage point when compared with the previous quarter, this performance was better when compared with other emerging economies like South Africa, Brazil and Mexico that contracted by 1.4, 1.5 and 1.2 percent in 2019Q4 and 2020Q1 percent, respectively. Headline inflation inched up to 12.34 percent in April 2020 from 12.26 percent in March 2020 largely driven by food component. Although inflation is already above the upper limit of the indicative benchmark of 6-9 percent, I believe that the recent policy measures of reducing fuel pump price and other various interventions in boosting food supply by the Bank will in the short term reverse the uptick trend in the headline.

The discount window operation remained active during the period under review reflecting the Bank's commitment to liquidity management. The short-term interest rates, however, exhibited some liquidity surfeit, as the average OBB and inter-bank call rates opened at 3.00 and 3.50 percent respectively, on March 25, 2020, and closed at 14.75 and 15.50 percent respectively, on April 27, 2020. The overall averages for the period were 6.62 and 6.01 percent, for the OBB and unsecured interbank call rates, respectively.

Financial system indicators were encouraging, with improvements to real sector lending, reflecting the Bank's Loan-to-Deposit Ratio (LDR) policy. Total gross credit increased by ₦3.041 trillion from ₦15.567 trillion at end-May 2019 to ₦18.608 trillion at end-April 2020. The credit growth was largely driven by manufacturing, consumer credit, general commerce, information and communication, and agriculture. The increase in credit is expected to bolster aggregate demand, investment, and job creation. Consequently, the average retail lending rates of DMBs and interest rate spreads moderated in the review period. This development, I believe will have a positive impact on financial intermediation and the effectiveness of monetary policy transmission channels. However, there are risks and vulnerabilities in the short to medium-term, which include persisting new cases of coronavirus disease and low oil prices.

During the period under review, the exchange rate experienced some upward pressure, largely due to the decline in crude oil prices. Having allowed the naira to move freely to a market-determined rate, it is noteworthy that activities at the Investors and Exporters Window (I&E) have been relatively stable throughout the second quarter of 2020. This is not very surprising given the depression in FX demand in view of the fact that global supply chains also suffered significant dislocations at the same time.

Although downside risks abound, my overall outlook for the economy is more optimistic than most analysts seem to portray. I believe that while the economy will record significant deceleration in the second quarter of the year, a strong rebound could be recorded in the third, reflecting the effects of many of the measures the Central Bank is putting in place at the moment. More also, with gradual oil price recovery, re-openings of major economies and trading routes, and return to international travels, Nigeria could escape two consecutive quarters of negative GDP growth.

As we deal with the associated adversities of this disease, we must systematically embrace the inherent opportunities therein. I believe that in the middle of this pandemic, lies great opportunities, and there cannot be a better time to make a big push, particularly given our wide negative output gap and with inflation almost reaching its plateau. Given this policy scenario of potentially depressing growth and broadly stable inflation, I believe the right thing for Monetary Policy is to support growth, and on that basis, I voted to:

- Reduce the Monetary Policy Rate (MPR) to 11.5 percent from 13.5 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 at +200/–500 basis points around the MPR.

8. SANUSI, ALIYU RAFINDADI

1.0 Decision:

I voted for a reduction in the MPR, at today's meeting, because I believe that despite the threat of inflation, monetary policy easing is the optimal response to an impending recession. Before the lockdown of the economy, the Bank had successfully incentivized banks to increase lending to the productive sectors of the economy. The heterodox policies of the Bank have also succeeded in reducing deposit and lending interest rates. These developments have, however, occurred amidst tight monetary policy stance because of the threats to inflation. The impending recession caused by the lockdown of the economy in response to the COVID-19 pandemic, however, suggests that monetary policy should be accommodative when the economy reopens. Monetary policy should ensure that funding is not only available when firms and households resume production and consumption activities, but the cost is also low enough for markups to be positive as well as allow demand to keep pace with the rising output. Therefore, I voted for a reduction in MPR to reduce the funding cost in anticipation for the opening up of the economy.

2.0 Background and Justification

2.1 Global Economic Developments

The global economic shutdown due to the COVID-19 pandemic resulted in the fall in output and prices in most of the Advanced Economies, whose inflation rates are lower than their long-term targets, thereby eliciting monetary policy easing along with expansionary policy measures. All the EMDEs reviewed, however, the declining output was associated with rising inflation rates, but have eased their monetary policy stance in addition to the fiscal stimulus. These responses were ultimately aimed at not only helping businesses and households to cope with the impending recession, but also ensure that it is short-lived.

The global economic activities have remained subdued due to the containment measures, implemented across the world, against the spread of the highly infectious coronavirus disease (COVID-19). As the Advanced and Emerging economies simultaneously face the unprecedented health crisis, economic crises that also ensued along with declining external demand, increased capital outflows and collapse in assets and commodity prices. Consequently, the IMF revised its 2020 growth forecast for the global economy downwards from 3.3% to -3.0%. Recovery is, however, expected in 2021, with a growth rate of 5.8%, if the pandemic declines in 2020Q2 and the containment measures are reversed quickly. The IMF expects negative growth in the vast majority of the Advanced and Emerging economies in 2020 except, notably, China and India, which are expected to grow at the low rates of 1.2% and 1.9%, respectively. Nigeria is forecasted to record negative growth of -3.4% in 2020, and positive growth of 2.4% in 2021. The extent of the loss in global output is estimated to be higher than the loss recorded during the 2008 Global Financial Crisis (GFC). For instance, IMF estimates that the global output loss for 2020/2021 will be about US$9 trillion. The US, UK and Euro area are estimated to lose between 2.0% and 3.0% of GDP weekly during the lockdown. The JP Morgan's global composite output index has contracted from 39.2 in March 2020 to 26.5 in April 2020, which is lower than the lowest it reached during the 2008 GFC. Latest data shows that the US, UK and the Euro area recorded negative quarter-on-quarter output growth in 2020Q1 (-1.2%, -2.0% and -3.8% respectively). Japan has, however, recorded two consecutive negative quarter-on-quarter output growth of -1.9% and -0.9% in 2019Q4 and 2020Q1, respectively. Among the Emerging Market and Developing Economies (EMDEs), the Chinese GDP contracted (q-o-q) by -9.8% in 2020Q1 for the first time since 1992; South Africa's output contracted for two consecutive quarters by -0.8% and -1.4% in 2019Q4 and 2020Q1 respectively. Brazil, Russia and India, however, recorded low but positive q-o-q growths rates of 0.6%, 1.1% and 1.5%, respectively. Although

Nigeria's output in 2020Q1 has also contracted q-o-q by -14.3%, the year-on-year growth was positive at 1.87%.

The WTO forecasted global trade volume to contract by 3.0% to 32.0% in 2020. Global trade fell by 1.5% in January 2020 due to the decline in passenger travels and shipping, which fell by 90%. *Although global exports have started to resume, their recovery is still weak*.

While inflation in Advanced Economies is forecasted to decline by 0.9 percentage point from 1.4% recorded in 2019 to 0.5 in 2020, it is expected to decline by only 0.4 percentage point in the EMDEs from 5.0% in 2019 to 4.6% in 2020 (IMF's WEO). Also, *the inflation rates in the major Advanced Economies, including the US, declined in April 2020, and are well below their long-term target of 2 per cent. The declining inflation suggests that the depressing effects of the COVID-19 containment measures were disproportionately greater on the aggregate demand relative to aggregate supply in this group of countries.* In the EMDEs, Russia, South Africa, Kenya and Egypt recorded *higher* inflation rates, in April 2020, but are within their long-term targets. China, Ghana and Nigeria, however, had *higher* inflation rates that were slightly above their long-term targets by 0.3, 0.6 and 3.34 percentage points, respectively. Furthermore, in April, the inflation rates *increased* in all these EMDE countries except China. *The rising inflation rate in the EMDEs suggests that the COVID-19 containment measures has a disproportionately greater depressing effect on the aggregate supply than on aggregate demand*.

The global oil market, having suffered an unprecedented decline in April due to oversupply caused by COVID-19 lockdown and the late agreement reached between OPEC+ countries, has started to recover in May 2020. The dip in oil prices, coupled with the significant volatilities in the global financial markets that resulted in massive capital outflows from EMDEs, have caused significant foreign exchange market pressures. These developments have led to exchange rate volatilities, especially in the oil-exporting economies.

The global policy responses to the economic impact of the COVID-19 pandemic was generally accommodative. Most central banks reduced their policy rates and embarked on quantitative easing, while the fiscal authorities announced a massive fiscal stimulus aimed at supporting business and household. For instance, fiscal injection in the US (US$ 2.3 trillion from the CARES Act) is estimated to be about 11% of its GDP. This is in addition to the US$ 488 billion Pay Cheque Protection Programme, the US$8.3 billion from the Corona Virus Preparedness and response Supplemental Appropriation Act and the US$192 billion Families First Coronavirus Response Act. *In general, therefore, the global monetary policy response to the impending COVID19-induced recession tended towards easing in both the Advanced Economies that had falling inflation rates and in the EMDEs that had rising inflation*. Between February and April 2020, policy rates were reduced in the US, UK, EU, Japan, China, Brazil, India, Egypt, South Africa, Ghana and Kenya.

2.2 Domestic Economic Developments and their Implications

Data from the NBS shows that the year-on-year output growth remained positive at 1.87 per cent in 2020Q1 compared with the 2.55%in the preceding quarter 2019Q4. The output growth was driven by the oil sector (5.05%), which contributed 9.5% of the real GDP, and the non-oil sector (1.55%), which contributed 90.5% of the real GDP during the quarter. The non-oil output was driven by services, agriculture and industry. Domestic output is expected to fall in 2020Q2, as indicated by the Purchasing Manager's Index (PMI) for the first two months of the quarter. 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, while that of Non-Manufacturing PMI stood at 25.3 points, indicating contraction compared with 51.1 and 49.2 points, respectively, in March 2020.

Available data from NBS shows that headline inflation (y-o-y) had continued an upward trend, which started since September 2019 when the closure of all land borders, along with other structural factors, increased scarcity of food and other commodities supply. The inflation rate (y-o-y) has increased from 12.26% in March 2020 to 12.34% in April 2020. The increase was driven by both the food and core components of inflation. Food price inflation (y-o-y) rose from 14.98% in March to 15.03% in April 2020, driven by prices of farm produce and imported food. Core inflation (y-o-y) rose from 9.73% in March to 9.98% in April 2020, owing to rise in prices of processed foods, clothing & footwear, furnishing, household equipment, transport and health.

Data on the monetary aggregates shows that M3, the broadest money supply, grew by 2.66% in April 2020 (7.9% annualized), below its provisional benchmark of 13.09% for 2020. *Staff reports show that the growth of M3 has consistently been below its programmed target since February 2019.* Reserve Money, however, grew by 41.3% to N12.250 trillion in April 2020. This was due to the implementation of the recent increase in CRR, thereby overshooting its provisional target of N8.625 trillion for 20020Q2. *These developments suggest that the stance of monetary policy has been tightened.* Available data also suggests that while the deposit rates continued to decline since December 2020, the prime lending rate has also declined slightly in March 2020. The prime lending rate in April 2020 stood at 14.92% compared to 15.39% in April 2019. These developments in interest rates are attributable to the implementation of the heterodox policies by the Bank aimed at re-directing credit to the productive sector , including the LDR policy. *Therefore, although monetary policy has been tight, implantation of the heterodox credit policy has succeeded in reducing the deposit and prime lending rates.*

3.0 The Basis for My Policy Choice

In choosing the appropriate policy stance today, the key consideration for me is to choose a policy direction that would ensure fast recovery from the COVID19-induced recession. The received wisdom in monetary policy and practice is that during economic recessions, monetary authorities' response must aim at providing adequate liquidity support to firms as they seek to resume or expand production and to households to support consumption. Indeed, this is the standard result in the large body of the literature on economic recessions, including the Great Depression. This explains the observed coordinated monetary easing in response to the COVID19-induced economic shutdown across both Advanced Economies and EMDEs. The optimal response, therefore, is easing the monetary policy stance to allow for access to credit at a low cost. While the N3.5 trillion targeted intervention funds earlier approved by the CBN would make low-cost credit available to businesses and households, lowering the MPR will be complementary towards a generalized easing as the economy gradually opens up. In considering my options, I am therefore convinced that the best option, for now, is to reduce the MPR.

Consequently, I voted to:

Reduce 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.

9. SHONUBI, FOLASHODUN A.

Like many other net exporters of oil, Nigeria currently faces the twin challenge of a global economic contraction, induced by the Coronavirus pandemic (Covid-19) and a significantly dislocated global oil market. Even as lockdowns are cautiously eased across economies, lingering effects of the disruption to economic activities is expected to cause a global economic downturn, estimated to be more severe than during the 2007-2009 global financial crisis. At the same time, the global oil market has witnessed, historically, one of the biggest negative price shocks due to unprecedented demand collapse and supply glut. ***The new uneasy normal, plagued by suppressed global demand, shrinking economic activities and cautious interaction in global markets, call for measures, by all nations, to decisively deal with the health challenge, while taking actions that recognize idiosyncrasies of domestic macroeconomic environments, to address manifesting economic challenges and achieve a swift economic recovery.***

Global and Domestic Economic Developments

On account of the Covid-19 pandemic, intense disruption, initially to the Chinese economy in the first quarter, has extended to the rest of the world over the second quarter of 2020. Even as China sluggishly rebounds, widespread lockdown, shut-ins and supply chain disruptions in other economies, have heightened the odds of a global economic recession in 2020. Preliminary estimates by the IMF projects contraction of advanced economies at 6.1 per cent, emerging markets and developing economies at 1.0 per cent, and sub-Sahara Africa at 1.6 per cent.

Domestic headline inflation accelerated to a two-year high of 12.34 per cent in April 2020, compared to 12.26 per cent in March 2020***. Disruption to production***

and distribution of food, as well as, other commodities due to bottlenecks arising from restrictions aimed at reducing the spread of the pandemic, has caused supply shortages and increased distribution cost, which is passed to the final consumer as higher prices. Food inflation reached 15.03 per cent at end-April 2020, the highest since May 2018. Similarly, core inflation rose further to 9.98 per cent in April 2020, from 9.73 per cent in the previous month.

Output growth of 1.87 per cent in the first quarter of 2020, indicated a slowdown in the gradual pick-up observed in 2019, and reflected a muted initial impact of the Covid-19 pandemic. Data from the National Bureau of Statistics (NBS) showed that the expansion in the GDP was driven by growth of 5.06 and 1.55 per cent, in the oil and non-oil sectors, respectively. Manufacturing and non-manufacturing PMI, however, recorded the biggest declines in recent time, to 42.4 and 25.3 index points, respectively, in May 2020, reflecting impact of Covid-19 related lockdown measures on activities in the manufacturing and non-manufacturing sectors.

Amidst the general lull in the business environment, the banking system continued to show enduring resilience. In terms of size, industry total asset and deposit base rose further at end-April 2020, maintaining the upward trend since the beginning of 2020. Though industry liquidity ratio declined to 38.4 per cent, due mainly to the LDR policy, which continued to promote increased credit, the ratio remained above the regulatory threshold of 30.0 per cent. Industry capital adequacy ratio moderated to 14.9 per cent, as a result of increased risk weighted asset, which more than offset the marginal rise in qualifying capital, while the non-performing loan ratio rose marginally to 6.6 per cent. Returns on asset and investment were at levels that compared favourably with levels in similar jurisdictions.

The Nigeria fiscal space is unarguably the worst hit by the present health and economic challenge. Significantly low oil price and demand has led to declining proceeds from crude oil sales. Domestic government revenue sources are also drying up as a result of disruptions to economic activities. Fiscal operation of the Federal Government remain characterised by low revenue, increasing expenditure, higher deficit, as well as, growing debt stock and service.

Developments in the monetary sector and financial markets largely underscored liquidity surfeit condition, particularly in the banking system. Money market rates were generally stable at lower levels. Growth in broad money (M_3), at 2.66 per cent, annualized to 6.38 per cent, was below the indicative benchmark for 2020, and reflected expansion in Net Domestic and Foreign Assets. The capital market has seen resurgence of bullish trends since the beginning of the second quarter, as yields on government fixed income securities remained low and impressive first quarter performance of quoted companies continue to attract investors. On account of reduced foreign exchange earnings, lower capital inflow and declining external reserves, the external sector is grappling with pressure in the exchange rate market.

Considerations and Decision

With contraction already recorded across most advanced economies in the first quarter of 2020, protracted and widespread lockdowns, beyond initially planned periods, has heightened the odds of recession across various economies. Even as different strategies of reopening are considered and unparalleled combination of fiscal and monetary measures are implemented worldwide, impact of any sluggish recovery across only a few economies, will most certainly be weighed down by larger GDP losses in most of the other jurisdictions. ***Though a challenged global economy has implications for the Nigerian economy, current trends in the domestic macro-economic***

environment provide some glimpse of hope and opportunity to ward-off damaging spillover, if the right actions are taken timely.

Sustained resilience and relative stability of the banking system at this critical time provides opportunity to further support the economy to overcome negative impact of the crisis. Increasing bank credit, as a result of the LDR policy, is a sure way to help businesses survive extended shut-down and keep the productive sector functioning. ***I am certain that, with the progress recorded on CBN interventions and steady rise in bank credit to the real sector, direct and spillover effect of the crisis will be further muted.*** In addition, moderated rebound in the capital market and low rates in the money market will allow the markets to act as effective stabilizer and channel for efficient resource allocation.

The recent uptick in inflation remain a source for concern, especially in the light of the Bank's primary mandate of price stability. ***We must, however, not lose sight of the more urgent need to decisively limit the impact of the current situation on output, employment and overall economic well-being of Nigerians***. Interestingly, rise in the domestic general price level has been less vigorous, vis-à-vis pre-crisis predictions, and therefore provides some respite. Global trend show that many monetary authorities have generally embraced a loosening posture, to promote economic recovery, even with uptick in inflation. Moreover, below benchmark growth in domestic monetary aggregates indicate some slack to accommodate the potential money supply increase from growth in banking system credit and CBN interventions, for stimulating economic activities without compelling impact on general prices.

Theoretically, fiscal policy measures and stimuli to support households and small businesses in crisis, are generally the most effective. Instructively, the trend globally show that fiscal authorities have been playing significant role in the efforts to combat the pandemic and address the ensuing economic challenge. ***While I recognize that the fiscal space has become tighter, sizeable cost rationalisation and judicious use of resources will allow the authority to effectively play the lead role in fortifying the economy.*** As I mentioned in my earlier statements, the Federal Government need to further embrace Public-Private Partnership to overcome the challenge of resource shortfall and efficiently close the infrastructural gap.

We can expect that the current low price of oil will affect Government revenue and therefore the external reserves held by the country. For us to minimize the impact, current efforts to encourage local production of goods and chemicals through the import substitution policy, and discourage unnecessary imports should be intensified, in order to further reduce our import bill.

I believe that despite the challenges posed by the dwindling fortunes of the global economy, the current domestic macro-economic situation provides opportunity for us to go through the crisis with minimal negative impact. Even as the possibility of a sharp contraction in the second quarter is apparent, muted effect on growth in the first quarter, due to pro-active measures by the monetary and fiscal authorities, further highlight a glimpse of hope. As we continue to ensure that the various measures complement each other, I am optimistic that sustained implementation of the interventions will further strengthen the ability of the economy to effectively ward-off and minimize impact of the crisis.

I therefore vote to:

- Reduce the MPR to 12.50 per cent;
- Retain asymmetric corridor of +200/-500 basis points around the MPR

- Retain Cash Reserve Ratio (CRR) at 27.5 per cent; and
- Retain Liquidity Ratio (LR) at 30.0 per cent.

10. EMEFIELE, GODWIN I.

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

With the extensive macroeconomic fallout over the covid-19 pandemic, medium-term global outlook has waned. Extreme and atypical measures that were ubiquitously rolled out by various governments – including widespread lockdowns and movement restrictions – have severely decimated business cashflows, depressed global economic prospects, and disrupted supply chains. As outlook diminish, growth forecasts have significantly been downgraded. The previously expected stabilisation of global output has, accordingly, been revised to reflect short-term contractions. For 2020, global growth projections by the IMF was reduced from an initially expected 3.3 percent expansion to a contraction of 3.0 percent. This downgrade to negative growth, due to the effects of the covid-19 pandemic, was unanimous across all countries and regions.

For Nigeria, near-term economic sentiment has dampened; in sync with weakened global prospects. The impact of the ongoing outbreak on Nigeria is concurrently aggravated by the significant drop in crude oil prices and the continued capital flow volatility. Together, these are causing foreign exchange market pressures, constricting fiscal maneuverability space, and dampening economic outcomes. Regardless, real output recorded a positive growth of 1.9 percent in 2020q1. A breakdown of this outturn indicated that the oil sector, with a growth of 5.1 percent during the quarter, contributed 0.5 percentage point to overall GDP growth, while non-oil sector grew by 1.6 percent and accounted for 1.4 percentage points. Analysis by economic activity revealed that the services sector contributed 0.9 percentage point to 2020q1 output growth while agriculture and industries sectors contributed 0.5 percentage point each.

This breakdown continues to highlight the importance of the non-oil sector for the economy and the need to accomplish the diversification of the Nigerian economy. Recent realities indicate that the economy could slowdown in the short-term as businesses come to standstill following lockdowns to stem coronavirus. As I noted earlier, the diminished prospect, due to global headwinds and local imbalances, provides opportunity for us to reposition the economy, prop domestic productivity, and strengthen domestic demand. I note once again the recent efforts of the CBN to stimulate the Nigerian economy and reiterate that these shall proactively continue to target high impact productive sectors in order to defuse the prevailing shock.

On domestic prices, recent data indicated that rising inflationary trend which began in September 2019 persisted in April 2019, due to structural and supply factors. Year-on-year headline inflation rose by nearly 0.1 percentage point to about 12.3 percent in April 2020, reflecting quickening of both food and core components. This is attributable, in part, to the legacy effects of the border protection policy, disruptions and challenges around food production belts (aggravated by the pandemic-induced setback to interstate food distribution network), and continued VAT pass-through. As the spillover effects of covid-19 are expected to linger in the short-term together with incessant infrastructural deficits and FX market fragilities, inflation inertia is projected for much of 2020. Given the trade-off between output stabilisation and price stability, I note the importance of a cautiously balanced and coordinated policies by fiscal and monetary authorities as the CBN sustains existing inflation curbing measures.

Analysis of domestic liquidity conditions for April 2020 indicated a systemic surfeit as money market interest rates declined and money stock expanded. Weighted average inter-bank call and open-buy-back rates fell from 10.3 and 11.8 percent, respectively, in March 2020 to 7.3 and 5.5 percent in April. Correspondingly, broad money supply (M_3) showed an annualised expansion of

8.0 percent in vis-à-vis the targeted 13.1 percent. Monetary expansion during the review period reflected the substantial 22.2 percent annualised growths in private sector credits over the 2020 benchmark of 14.9 percent.

Again, the observed growth in credit illustrates the continued potency of the Bank's LDR policy and the need to sustain credit flows to the private sector, especially at this critical time when the economy needs to indefatigably support its productive machinery. I note the continued moderation of NPLs ratio from 11.0 percent in April 2019 to 6.6 percent in April 2020 amidst growing private sector credits. This underlined our continued drive to de-risk lending. I re-echo the imperatives of enhanced credit flows to strategic and high impact private sector ventures through an effective collaboration of all stakeholders, especially on the backdrop of the imminent economic downturn.

In my consideration, I once again acknowledge that the objective of price and exchange rate stability remain foremost. I note also the weakened short-term growth outlook, its apparent implications for poverty, employment and potential output, and the almost certain economic contraction in the 2020q2. As I underscore the need to abridge the lifespan of the downturn, I am firmly inclined towards measures to forestall a recession or at least curtail its severity, should it unavoidably occur. It is expedient, now than ever, to support a growth objective without losing sight of our price stability mandate. We need to prop domestic liquidity and crucially awash strategic, productive, and de-risked private sector ventures with credits. On account of the recent pandemic and allied global shocks, this will accentuate the ongoing efforts to diversify the economy, adequately support domestic productivity, and bolster aggregate demand. I promote the consolidation of tailored CBN's measures (and interventions) to support critical high-impact private sector businesses and the various stimulus packages for MSMEs.

I believe that an aptly timed and measured rate cut will shorten the lifespan or severity of the expected contraction without significantly undermining the objective of price stability. It remains imperative to ensure that the long-run path of output is not depressed permanently, as this will translate to long-term welfare losses with entrenched poverty and unemployment. As I advocate for an accommodating monetary stance, I am nonetheless of the view that the present rate of CRR is adequate to counteract superfluous FX market demand. I equally opine that the current spate of cash-injections and the various interventions are sufficient to support the ease. Hence, CRR should remain unchanged as we loosen via the policy rate.

Overall, I am of the view that the global and domestic economic uncertainty from the covid-19 pandemic is momentous and needs to be curtailed immediately. The outbreak has not only impacted business viability, it has also highlighted the importance of public services and timeous policies. There is a grim possibility that a delay to act will prolong the impending contraction and culminate to recession. Though inflation inertia remains in the short-term, the looming output distabilisation is a bigger concern at this point in time. Without significantly undermining price stability, an aptly sized easing of policy rate could truncate the lifespan of the downturn as it will support domestic production, boost demand, and importantly avert job loses. Noting that an aggressive easing could heighten FX market pressures, I opt for a prudent rate cut to balance the long-run objectives of exchange rate stability, price stability and output stabilisation.

Therefore, I vote to:

1. Reduce the MPR by 100 basis points to 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

May 2020