



Central Bank of Nigeria (CBN) Communiqué No. 100 of the Monetary Policy Committee Meeting of Monday 23rd and Tuesday 24th March, 2015

The Monetary Policy Committee (MPC) met on 23rd and 24th March, 2015, against the backdrop of harsh external economic environment and significant risks in the domestic economy. In attendance were eleven (11) out of the twelve (12) members, including Dr. O. J. Nnanna, who assumed duty as Deputy Governor (Financial System Stability) at the end of January 2015. The Committee analyzed key developments in the global and domestic economic and financial conditions as well as the outlook for the rest of 2015.

International Economic Developments

The Committee noted that the pace of global economic recovery had remained moderate and uneven. In particular, the Committee noted that lower commodity prices were weighing heavily on output

growth, especially in the oil exporting countries. In addition, expectations of a rise in US short-term interest rates continue to fuel capital outflows and currency weaknesses in the emerging markets and developing countries. Against the backdrop of sustained weakness in the Euro zone and softening growth in the emerging markets, global output has remained largely tapered.

During the first quarter of 2015, the United States led the global impetus to output growth as consumer demand strengthened on the heels of falling oil prices, lower US oil imports and accommodative monetary policy. In contrast, in the Euro area, continued output decline, in the face of positive oil price shocks, made the European Central Bank (ECB) to introduce a massive €1.1 trillion asset purchase programme, commencing in March 2015, involving a €60 billion monthly asset purchase. The programme, although open-ended, is expected to last at least until September 2016 by which time inflation may have gained reasonable traction.

The Committee, however, noted a number of important downside risks to global outlook in 2015 including geopolitical tensions and

conflicts; the negative impact of commodity price declines; weak external demand and the possibility of Monetary Policy normalization in the US. Growth could, however, remain subdued in most of the Euro Area and Japan, in the short-to-medium term. Growth in the emerging markets may exhibit wide variations with sharp deceleration in most of the large emerging market economies, especially in Latin America and Eastern Europe, due to the headwinds from softening commodity prices and slowdown in external demand from the advanced economies. In addition, country specific risks, such as political crisis, structural factors, adverse weather conditions, and large swings in currencies may continue to slow aggregate demand in a number of countries.

Global inflation continues to be low due to declining oil prices and continuing slack in global output. Core inflation has continued to sag due amongst other things to the dampening effect of low oil prices and lack of appreciable wage gains. Average inflation for the developed economies is projected to remain flat at 1.5 per cent in 2015 due to the increasing output gap, weak recovery, and strong

regional currencies. This development appears to be offsetting the risk of imported inflation in the emerging and developing countries, most of which have experienced moderate to severe depreciation in their local currencies. Developing economies are thus expected to have moderate inflation in the medium term.

The Committee observed that the outlook for global monetary policy suggested a predominantly easy stance. The Euro Area and Japan are expected to remain in the accommodative mode. Even in countries where growth appears to be strengthening like the US, UK and Canada, there are indications of delayed switch to tight monetary policy stance. Owing to currency concerns, however, the Committee further noted that some emerging and developing economies may experience moderate tightening in the short to medium term. Growth in sub-Saharan Africa is projected to average 4.9 per cent in 2015.

Domestic Economic and Financial Development

Output

The National Bureau of Statistics (NBS) estimated real Gross Domestic Product (GDP) growth rate at 5.94 per cent in Q4 of 2014 lower than the 6.77 per cent recorded in the corresponding period of 2013 and the 6.23 per cent recorded in Q3 2014. The Committee noted that the slowdown in growth resulted mainly from the non-oil sector, which grew by 6.44 per cent in Q4, 2014 compared with 8.78 per cent in Q3 2014. Agriculture, industry, construction, trade and services contributed, 0.89, 1.30, 3.64, 0.87 and 2.45 percentage points, compared with 1.21, 1.04, 0.36, 1.08 and 2.53 percentage points, respectively, in Q3 2014. The softening non-oil GDP was partly traced to the spill over effects of low oil prices which negatively impacted agricultural output, trade and services.

Oil-GDP on the other hand, grew by 1.18 per cent in Q4, 2014 compared with a decline of 3.60 per cent in the preceding quarter. The growth in oil-GDP is particularly noteworthy because it came at

a time when the sector was experiencing external negative price shocks.

Prices

Headline inflation remained within the 6.0—9.0 per cent band established by the CBN. However, the Committee noted with concern, the gradual increase in the year on year headline inflation during the first two months of the year from 8.0 per cent in December 2014 to 8.2 per cent in January and further to 8.4 per cent in February 2015. The underlying inflationary pressures came largely from food (particularly imported food) and the core components. Food inflation rose from 9.2 per cent in December 2014 to 9.4 per cent in February 2015 while core inflation increased from 6.2 to 7.0 per cent during the same period. The major risks to inflation, the Committee noted, include elevated aggregate spending in the run-up to the 2015 general elections, the likely higher import prices on the strength of an appreciating dollar and possible food supply

shocks linked to insurgency and insecurity in some major agricultural zones of the country.

Monetary, Credit and Financial Markets' Developments

Broad money supply (M2) declined by 1.70 per cent in February 2014 over the level at end-December 2014. This translated to an annualized decline of 10.23 per cent compared with the provisional growth benchmark of 15.24 for fiscal 2015. The decline in M2 primarily reflected the contraction of 18.14 and 8.22 per cent in net foreign assets (NFA) and other assets (net), respectively, during the period. The fall in NFA is attributed to the combined effects of weakening oil price and reversal of portfolio capital flows. During the period, net domestic credit (NDC) grew by 9.89 per cent in February 2015, annualized to a growth rate of 59.31 per cent, compared with a growth rate 7.89 per cent recorded in the corresponding period of 2014 and an indicative benchmark of 29.3 per cent for 2015. The credit-to-government (net) component grew sharply by 54.69 per cent relative to a decline of 21.81 per cent at end-December 2014.

The Committee noted that money market interest rates were relatively volatile in the intervening period but stabilized on average during the first two months of 2015, as banking system liquidity fluctuated. Thus, average inter-bank call and OBB rates, which opened at 10.58 and 10.52 per cent on 5th and 6th January 2015, closed at 11.00 and 9.23 per cent, respectively, on February 27, 2015. Average inter-bank call and OBB rates for the period were 15.21 and 18.36 per cent, respectively.

The Committee observed that the bearish conditions in the capital market continued in the review period. The All-Share Index (ASI) decreased by 13.1 per cent from 34,657.15 at end-December 2014 to 30,103.81 by February 27, 2015. Market capitalization also moved in the same direction, falling by 12.5 per cent from N11.48 trillion to N10.04 trillion during the period. The Committee noted that the situation, though reflecting current trends globally, needed to be monitored closely.

External Sector Developments

Following the closure of the Retail Dutch Auction System (rDAS) window of the foreign exchange market on 18th February 2015, the foreign exchange market is now unified. Consequently, the naira exchange rate opened at N180.1/US\$ and closed at N198.0/US\$, with a daily average rate of N198.0/US\$. This represented a depreciation of N17.9k or 9.04 per cent for the period.

Considerations

The Committee expressed satisfaction with the impact of the decisions taken to harmonise the foreign exchange market. As a consequence of those actions, the interbank exchange rate has stabilized after an initial adjustment. The Committee, however, expressed concern about the wide divergence between the interbank and the bureau-de-change exchange rates, which provides an avenue for arbitrage and speculative activities in the market. The Committee noted with concern the phenomenon of currency substitution and partial dollarization in the economy, a development which may have significantly fuelled the high demand

for foreign exchange. The Committee, therefore, reiterated that the naira remained the currency of transaction in the economy and advised the Bank to take all possible measures to address this development. The Committee also expressed concern about the outlook for growth, which had moderated partly due to the effects of low oil prices, naira exchange rate depreciation, and election-related concerns. The Committee was however, optimistic that the situation would improve once elections were successfully conducted with the expected improvement in business confidence.

The Committee took note that while adverse developments in international oil prices had affected government revenues and reserves accretion and impacted negatively on capital flows, the financial system remained stable with key banking stability indicators showing robustness. In the light of this, the Committee directed the Bank to take all necessary measures to improve the resilience of the financial system as well as the overall economic environment and functioning of the financial markets.

The Committee also took note of the administrative measures implemented by the Bank since the last meeting of the MPC to achieve stability in the foreign exchange market. The Bank had on 18th February 2015 taken the bold supply management measures to close the official window of the foreign exchange market in order to create transparency and minimize arbitrage opportunities in the foreign exchange market. Furthermore, to deepen the market and enhance the efficacy of the demand management measures, the Bank gave specific directives on the effective monitoring and repatriation of both oil and non-oil export proceeds. In addition, the utilization of export proceeds has been restricted to eligible transactions only, to minimize leakages. The Committee enjoined the Bank to continue to fine-tune demand management measures as well as implement appropriate supply-enhancing strategies to ensure effective demand and utilization of foreign exchange in the country.

The Committee noted the gradual rise in headline inflation, driven mainly by exchange rate-induced high prices of imported

(processed) food and output supply shocks. However, the Committee was of the view that the prevailing tight monetary policy stance and some of the recent administrative measures would among others help to lock-in inflation expectations and further stabilize the naira exchange rate.

Decision

In the light of the above considerations, the Committee observed that its previous decisions needed time for their effects to fully permeate the economy and therefore, voted to maintain the current position. Consequently, the Committee decided as follows:

All eleven members unanimously voted to retain the MPR at 13 per cent; retain the CRR on Private Sector deposits at 20 per cent; retain CRR on Public Sector deposits at 75 per cent; and retain the liquidity ratio at 30 per cent.

I thank you all for Listening

Godwin I. Emefiele, CON
Governor
Central Bank of Nigeria

24th March, 2015

PERSONAL STATEMENTS BY MEMBERS OF THE MONETARY POLICY COMMITTEE

1.0 ADELABU, ADEBAYO

Current macroeconomic outcomes reveal intensification of vulnerability to adverse global and domestic conditions. GDP growth rate at 5.9 per cent in 2014 Q4 represents the continuation of slowdown that commenced in 2013 Q4. The IMF has downgraded GDP growth to 4.8 per cent in 2015, the lowest in the last five years. It is a little bit comforting that all measures of inflation remained within the single digit band by end-February 2015, but significant underlying pressures are mounting, based on acceleration in both core and food components since January 2015. Developments in the financial market were more worrisome. Considerable spikes were observed in the money markets with both the interbank and OBB rates veering outside the MPR corridor between February and March 2015. Similarly, the exchange rate at both the interbank and the Bureau de Change segments witnessed considerable depreciation during the period.

The medium term outlook is fraught with a number of risk factors. The continuous slide in the price of crude oil is a major source of concern in light of the effect on fiscal revenue and external reserves. I am of the view that the fall in crude oil price is yet to bottom out giving the rising level of stocks in the US, slowdown in demand in the wake of economic weakness in the euro area and leading emerging economies such as China, and the prospect of nuclear deal that could lift sanction off Iran. The external sector is further undermined by the likelihood of monetary policy normalization in the US and the attendant retrenchment of capital flow. It is generally expected that the effect of the US interest hikes on emerging and developing economies could be offset by the commencement of additional US€1.1 trillion monetary stimulus by the European Central Bank (ECB) but my view is that the economy should be less dependent on portfolio flows given the numerous long term adverse effects to developing economies.

The creeping headline inflation, driven mainly by food component, is a major concern. The trend is suggesting that the threshold of 9 per

cent could be exceeded in the next couple of months with the attendant credibility issue about monetary policy process. Detailed analysis revealed that the underlying pressure was from both farm produce and processed food, indicating switching of consumers to importation in order to fill supply gap from domestic sources. This, invariably, suggests the need to effectively manage exchange rate over the medium term in order to moderate the pass through effect.

Besides, the effect of the recent exchange rate alignment on domestic price is yet to fully crystallize. The long term effect which relates to replacement of stock and machine may take quite a while to manifest. Besides, payments of salaries and wages have recently suffered acute setback in a number of states, suggesting that aggregate demand has been relatively suppressed. In addition, election related expenses and the rising electricity tariffs are potential headwinds that could accelerate inflation in the medium term. In essence, significant underlying inflationary pressure still exists in the horizon.

The wide divergence between the interbank and bureau de change rates gives cause for concern. The attendant arbitrage and rent seeking opportunities would continue to fuel speculative demand and heighten currency substitution and dollarization which are becoming serious issue in domestic monetary policy. Furthermore, **low oil prices and the appreciation of the dollar present specific threats to financial market stability**. Like most comparator countries, the naira has depreciated significantly in the last one quarter. Following this development, the economy has recorded sustained net outflow, which size appears to be growing. This is also showing in the capital market where key indices have lost significant value. Year to date, the All-Share Index and Market Capitalization have declined by 15.4% and 14.7%, respectively.

Overall, the pressures on the naira exchange rate and consumer prices suggest keeping the stance of monetary policy tight.

Therefore, the policy options facing the MPC at this March meeting appears to be either retention of the current tight stance or further tightening.

Given the fact that some of the measures taken in the last two meetings have not completely worked through the system, I would vote for retention of current measures of monetary policy.

2.0 ALADE, SARAH O.

Headline inflation edged up to 8.4 in February from 8.2 percent recorded in January. Growth has been downgraded from an earlier projection of 5 percent to 4.8 percent for 2015 according to the IMF Article IV report. On the global scene, while outlook remains positive, threat of geopolitical tension poses great challenge to growth in 2015. The United States is showing strong signs of recovery on the back of stronger consumer spending, an uptick in new home building and improved unemployment figures. In the emerging market economies, growth remains moderate as oil prices recovered some of the ground lost in February, providing some cushion for oil producing countries. These developments suggest that monetary policy requires a delicate balance and caution in

managing both domestic and global events; therefore I will support a hold on Monetary Policy Rate and Cash Reserve Requirement.

Headline inflation edged up to 8.4 percent in February reflecting a combination of the currency devaluation and seasonal effect as all categories of prices increased during the period. Headline inflation edged up to 8.4 percent in 2015, from 8.2 percent recorded in January. Core inflation increased to 7 percent from 6.8 percent recorded in January, while food inflation rose to 9.4 percent from 9.2 percent in the previous month. These suggest the pass-through effect of Naira devaluation on prices. Even with this increase, all major inflation index, headline, core and food inflation still remain within single digit. However, the increase should be monitored to ensure that inflationary pressure is contained, although staff projection suggests a benign outlook in inflation in the coming months, but cautioned on inflation reaching double digits by the end of the year. Therefore, in the short to medium term inflationary pressure is not a major concern but should be monitored.

The pace of Gross Domestic Product (GDP) growth will be affected by lower international oil price. The declining oil price and the negative impact on government revenue poses downside risk for domestic GDP growth in 2015 as growth has been downgraded to from 5 percent to 4.8 percent according to the IMF. This is because revenue measures to mitigate the negative impact of oil price decline will include cutting back on growth-enhancing capital expenditures and instituting austerity measures, including increase in VAT tax rate. These developments suggest that both global events and domestic challenges pose huge challenge to growth in the coming months. Policies should be mindful of the impact of the fallout of decline of government revenue on growth and development, and therefore, efforts at economic diversification should be intensified.

The Naira exchange rate is stabilizing on the back of CBN action to unify the exchange rate market. The Central Bank's action that closed the rDAS CBN window and channeled all foreign exchange demand to interbank market has done a lot in stabilizing the Naira

exchange rate. This has unified the foreign exchange market and reduced arbitrage opportunities. Exchange rate which reached above N200 has now stabilized at below N199 on average as pressure has abated.

Global growth has remained moderate and uneven. While the USA is experiencing increased growth and winding down its accommodative monetary policy stance, the euro area is commencing its accommodative monetary policy stance. In some oil exporting countries, lower oil prices continued to drive increased consumer spending and higher growth. However, for most commodity exporting countries, low commodity prices are having adverse effect on revenue and output growth. In addition, the expectation of rise in short term interest rate by the Federal Reserve in the United States is fueling capital outflow and currency weaknesses in emerging market economies. These developments are having a dampening effect on global growth. Under these uncertain conditions, monetary policy should be focused at restoring

confidence in the domestic economy, stabilizing foreign exchange and conserving reserve.

Against this background, I vote for no change in Monetary Policy Rate at 13 percent, Private Sector Cash Reserve Requirement (CRR) at 20 percent, Public Sector Cash Reserve Requirement (CRR) at 75 percent and Liquidity Ratio at 30 percent to address both growth and stability concerns.

3.0 BALAMI, DAHIRU HASSAN

Global Outlook

At the global level mixed signals do exist among Nigeria's trading partners- there is divergence in the rate of growth and recovery being positive in the United States of America, however, the opposite in the Euro-zone and Japan such that the US is recovering but Euro zone (1.5 growth rate only) and Japan are not. Monetary divergence will broaden between the Feds impending hikes versus low rates and quantitative easing in Europe and Japan. China's

growth rate is estimated to be 1.8% averaging 7.2% for the year 2014; however, the economy is estimated to grow at 7% in 2015.

There is divergence of interest rate in Europe and United States of America. Further fall in oil price exporting countries and low price for non-oil commodities like iron ore.

At the global level the major challenges include the following: political uncertainty associated with elections in Greece and her debt rescheduling, the war against ISIS in Syria, Iraq, and Libya and reaction of countries like Egypt and Turkey, the increasing tension in Ukraine. The implication of the global outlook on the Nigerian economy is significant:

- The level of inflation has been low in most oil importing countries.

The consequence of lower oil price will depend on the level and the time it last. It will have the following:

- (i) Dropping of Nigeria's external reserve due to the drop in crude oil revenue. This has translated into weak external buffers and fiscal vulnerabilities which have cause a wide budget deficit in most oil exporting countries.
 - (ii) Depreciation of the Naira against the international counter parts currencies
 - (ii) The impact on foreign exchange reserve and import financing channel because Nigeria is highly dependent on foreign exchange that is most entirely on oil that in turn finances imports.
- The plunge in oil price is reflected in inflationary pressure thereby reducing consumer purchasing power'
 - Jetting out of "hot money" inform of capital outflows.

Domestic Economy

The growth rate in the economy is estimated at 6.2% in the year 2014. However, it is expected that the growth rate in the economy is

likely to be slightly below 5.4% due to the various challenges affecting the economy in 2015.

The following are the domestic challenges to the economy in 2015:

- Falling crude oil prices
- Continued depreciation of the Naira due to pressure from ₦168 to ₦198, closure of the rDAS and the wDAS by Friday 27/2/2015. The interbank rate is ₦202.72 and ₦226 at the BDC
- Election period in 2015 and the shifting of the date from 14/2/2015 to 28/3/2015.
- Insecurity in the North east region of Nigeria(Borno, Adamawa, Yobe, and of recent Gombe)
- Increasing political pressure, fear and uncertainty
- Increasing attack on oil and gas facilities
- Increasing gap between lending rate (28%) and Deposit rate (7%).
- Increasing level of non- performing loans

- Depletion in the level of external reserve from December 19 2014, \$35.13 billion to \$32.3 billion on 19th February due to: drop in crude oil revenue; depreciation of the naira against international counter- part; the CBN has used large of chunk to safe guard the value of the naira in various intervention programmes; and increased funding of the foreign exchange.

The CPI which measures inflation rose to 8.2 & (year on year) 0, 2% point from 8% recorded in December 2014 and 7-9 recorded in November. Headline inflation is heading upwards in the last three months.

The Naira is suffering from structural risks, plunging of oil prices and currency wars.

All ratios on the banking sector showed that the Capital Adequacy Ratio, Levels of liquidity, Profitability and asset quality remained

satisfactory. This is a clear indication that Nigerian banks are sound and resilient despite the headwinds.

Total banking industry impaired loans or non-performing loans (NPL) increased by 16.3% to ₦400.57 billion in August 2014 from ₦344.2 billion in August 2013 of which 66.84% or ₦267.74 billion in loan loss provision had been made by banks at the review period.

Using the Capital Adequacy Ratio, the Liquidity Ratio, profitability and Quality of asset test shows that all banks have met the prudential minimum requirement of 30% liquidity ratio as at August 2014.

Taking the current situation into consideration in the economy, I vote to hold as follows:

- Retain the MPR at 13%.

- Maintain a symmetric corridor of +/-200 basis points around the MPR.
- Retain the CRR on private sector deposits at 20.00 percent.
- Retain the public sector CRR at 75.0 percent.

4.0 BARAU, SULEIMAN

Introduction

I voted to hold policy actions during the previous MPC meeting on the basis of the fact that the response to developments in the financial markets needed to be strategic rather than tactical. I have today also voted to maintain my position i.e. that MPC current decisions should be maintained.

Review of Key Developments

GDP Growth Rate

GDP growth rate of 6.22% in 2014 was robust. However, there are signs that the growth is slowing down with 2015 growth estimated at 5.44%. Real GDP was 5.9% in Q4 2014 compared to 6.2% in Q3.

Growth continued to be driven by non-oil sectors which were estimated at 6.4%. The drivers of non-oil GDP are crop production, trade, textile, apparel/footwear and real estate sectors.

Inflation

Headline Inflation (YoY) trended marginally upward from 8.2% in January to 8.4% in February. Headline Inflation, consistent with outlook, assumed an upward trajectory. Core Inflation (YoY) also rose from 6.8% in January to 7.0% in February. Food Inflation increased from 9.2% to 9.4% in January and February respectively. Imported Inflation also increased from 8.4% to 8.9% respectively during the same periods.

Foreign Reserves

The reduction in oil price coupled with aggravated demand for foreign exchange in the last few months, has led to a decline in the level of our foreign reserves. Foreign Reserves level is currently at approximately \$30 billion compared with \$32 billion as at the end of February. Other significant factors that influenced the level of

foreign reserves included reversal of foreign portfolio flows, speculative demand, and external developments particularly in the USA.

Exchange Rate

The closure of the rDAS window on February 18, was no doubt a major positive decision taken to enable future efforts to be targeted at intervention in the Interbank market. The combination of sustained increase in demand for foreign exchange, the reduction of supply due to the decline in oil receipts and the ultimate closure of the rDAS window, drove the Interbank rate to close at N197/USD on March 20, a depreciation of 8.52%, year to date. The element of speculative demand largely pushed demand to a record level of \$9.13 billion as at March 15, reporting date, compared to \$6.9 billion during corresponding period in February, leading to the reduction in the level of foreign reserves. However, the radical measures taken by the CBN has brought stability to the interbank market with the rate stabilizing at N196 – N199/USD band.

Liquidity

Liquidity in the banking system, at 39%, continued to be healthy. In spite of the sustained demand for foreign exchange in the interbank market, my view is that industry liquidity levels could not possibly be a source of concern for policy at the moment. With Capital Adequacy Ratio at 15.95%, Return on Equity at 24.98% and Return on Assets at 2.29%, the banking industry remains well capitalized, liquid and profitable inspite of external shocks and the impact of various tightening measures taken by the MPC.

Global Scene

Global recovery remains fragile. Global GDP is forecast to be 3.5% in 2015, compared to 3.3% recorded in 2014. In the advanced economies, strong recovery has only been witnessed in the USA with Europe and Japan still struggling. Forecast growth for the advanced economies is 2.4% in 2015 indicating that global growth will be propelled by stronger growth from the Emerging and Developing Economies. The forecast growth for Emerging Economies in 2015 is 4.3%, with forecast for the Sub-Saharan Africa of 4.8% for 2015,

significantly influencing that. As a consequence of the slower than expected recovery, the European Central Bank recently launched a sovereign bonds purchase programme in order to elicit a faster recovery. The recent strengthening of the US dollar against other currencies and the decline in crude oil price below \$60 per barrel for the UK Brent Futures will no doubt positively impact on growth of some economies. Lower oil price during review period has also impacted global inflation.

Outlook and Pressure Points

- Low oil price continued to impact negatively on revenues, foreign reserves and exchange rate. With Brent Crude Futures trading at \$58.40/barrel (27/3/15), we have witnessed some strengthening of price in the last few days from the lower \$50 per barrel. However, the domestic fiscal space will continue to come under pressure until the needed adjustment in expenditure to reflect revenue realities, are done.

- Reduced inflow from monetization of oil receipts will continue to put pressure on the level of foreign reserves. Various measures adopted by the CBN have kept the reserves at about \$30 billion. The measure in place will continue to elicit stability.
- Exchange Rate: The closure of the rDAS window on February 18, 2015 following the huge arbitrage window created by the wide and growing premium between rDAS and Interbank rates at that time is no doubt unprecedented. The containment of the ensuing depreciation in the interbank exchange rate is also unprecedented. The pent up demand for foreign exchange that we witnessed since the collapse of oil price was largely speculative and was supposedly due to the liquidity in the system and uncertainty created by the impending March 2015 elections. Exchange rate management is still a potential pressure point in spite of the current stability, given uncertainties in crude oil price. This calls for the sustenance of the measures taken by the MPC and CBN that brought the current stability.

- Inflation: There exist upside risk to inflation according to staff estimates. Headline inflation is expected to accelerate due to acceleration in Food Inflation and Exchange Rate depreciation. The Core Measure is also expected to accelerate due to the heightened political activities, among other factors, while the Food Inflation measure will be influenced by anticipated rainfall challenges and Imported Inflation.

Conclusion

In spite of reviewed developments and outlook, I'm of the firm view that we should keep policy measures where they are at the moment for the following reasons;

- Consistent with my earlier position, I believe that the space for tactical prescription of policy measures is currently limited;
- That our prescriptions must be strategic for us to be effective. We need to look critically at issues of liquidity

management including the determination of the level of liquidity and what impacts on it. We need to also put in place measures to contain the level and swings in system liquidity particularly relating to the implementation of the Treasury Single Account, FAAC disbursements and how to use Open Market Operations to contain them. Various measures have been taken to bring stability in exchange rate and level of reserves but any long term solution to pressure points coming from these two areas must seek to De-dollarize the Nigerian economy.

- There is currently substantial stability. There is also the commitment on the part of the CBN to maintain stability in foreign reserves and exchange rate. There is no imminent risk that can threaten this commitment.
- On the external scene, it is unlikely that the Fed will increase short term interest rate earlier than June or at least before the May MPC. In addition, oil prices have been above \$50/barrel and indeed have been trending towards

\$60/barrel in the last few days. In addition, the most mobile segments of our foreign portfolio clients have already streamed out.

- The level of banking system liquidity is optimum. We must therefore look for other measures to contain pressure points without impacting negatively on financial stability.

Recommendations

It is in view of the foregoing that I voted to maintain;

- MPR at 13%
- Private Sector CRR at 20%
- Public Sector CRR at 75%
- Symmetric Corridor at minus and plus 2% around the MPR for SDF and SLF respectively.

5.0 DANIEL-NWAOBIA, ANASTASIA

The global economy continues to face the risk of deflation as international oil prices remain well below June 2014 prices. Developed economies have recorded mixed performances but inflation is significantly lower than the target of most monetary authorities. The current situation indicates that a substantial output gap still exists across several developed and emerging economies even though unemployment rate in the US has maintained a downward trend in recent months. Nigeria is not benefitting from the global decline in inflation as we are a commodity exporter and the recent depreciation in the exchange rate has further increased the likelihood of an inflation pass-through from the price of imported consumer goods.

The Nigerian economy is expected to continue on its growth path as the year progresses, albeit with less robustness than it did in 2014. The NBS projected GDP growth rate of 5.5 per cent for 2015 as against 6.3 per cent in 2014. The relatively tepid growth outlook is based

largely on the bearish crude oil markets. Nevertheless, continuous implementation of the economic reforms through the Federal Government transformation agenda is expected to continue to stabilize and support various growth activities. The continued implementation of the power sector reform, especially, given the recent liquidity injection into the sector by the CBN, as well as bullish investors' sentiments in the sector is expected to improve power generation and distribution, a very potent economic growth driver.

Inflation performance remains encouraging at single digit since January, 2013, confirming the effectiveness of sustained tight monetary policy of the Bank. However, the year-on-year headline inflation rose from 8.0 per cent in December, 2014 to 8.2 and 8.4 per cent per cent in January and February 2015, respectively. Staff projections also indicate gradual increase in the inflation rate over the short to medium term, driven largely by acceleration in food inflation; depreciation of the exchange rate; and to a certain extent, election spending. The capital reversals, low international oil price and other related risks have imposed considerable pressure on the

exchange rate with the likelihood of significant pass through to domestic inflation. The Bank should therefore collaborate with the Federal Ministry of Agriculture and Rural Development to implement policies and programs that would boost local production of food crops in order to contain the expected increase in food inflation.

The exchange rate market remains weak due largely to weak infusion of foreign currencies into the market as a result of the official foreign exchange window closure. Nevertheless, the Naira is expected to stabilize in the near term as foreign exchange demand pressure is managed through the appropriate intervention of the Bank whenever deemed appropriate.

Developments in the international oil market in recent time witnessed continuing decline in the price of Bonny Light crude and other crude oil prices. This is largely attributed to the observed increase in the level of output by the U.S. as a result of the shale boom, OPEC's continuous refusal to cut production and the weakening demand of crude oil from major economies, especially, China. These have led to

the significant fall in global oil prices and pose a threat to the growth of oil revenue in Nigeria, especially in the medium to long term. Government drive to accelerate the diversification of the economy is beginning to yield fruit, such as the spike in tax revenue. The continuous support through intervention programmes to the real sector by the Government is also crucial to the diversification effort.

The key challenges to monetary policy currently include: managing inflation and exchange rate expectations; building of fiscal buffers to insure against global shocks; managing capital flow reversal; and safeguarding financial system stability.

In view of the above developments and the policy response by the CBN which has engendered some level of stability in the macro-economy, it is advisable to sustain the current tight monetary policy stance of the Bank. This will help to consolidate the relative stability achieved thus far.

Consequently, I vote as follows:

- (i) The Monetary Policy Rate (MPR) to be retained at the current level of 13% and corridor of +/- 2% for the inter-meeting period.
- (ii) The Private sector CRR should also be retained at 20 per cent, given the current banking system liquidity profile. The policy relating to 75% CRR on public sector deposits should also be sustained in order to discourage banks' reliance on such deposits.
- (iii) The liquidity ratio should be retained at 30 per cent.

6.0 GARBA, ABDUL-GANIYU

I cast a holding vote for the set of policies decided at the January 2015 meeting of the MPC. My key reason for holding is that it is not strategic just four days before a defining election to make any strategic or policy changes. Therefore, the best short term option in my view is to hold, watch the markets and prepare for the medium to long term.

In taking my decision, I took due account of (1) vulnerabilities in the real economy (slowing growth, rising unemployment, the massive supply shock and rising inflation); (2) fiscal vulnerabilities (negative effects of oil price shocks on revenue, fiscal deficits and rising public debts and servicing costs); (3) changes in ratings of the economy; (4) the closure of the RDAS window and its implications for the exchange rate corridor; (5) the breaches of the interest rate corridor after November MPC and (6) the fundamental changes in policy framework.

The first three are medium to long term issues. The closure of the RDAS window a key factor in the sustenance, deepening and widening of the “Bernanke effects” in Nigeria has eliminated the “arbitrage gap” between the RDAS and Interbank market Naira/US\$ exchange rates that promoted collusion, currency substitution, speculation, arbitrage and volatility in demand and rates. It is not surprising that the combination of the closure of the RDAS window (to promote entry through the door of the Inter-bank market) and appropriate administrative actions have helped to stabilize the

interbank rate. Much could still be achieved through administrative actions in the short run. It has become imperative to support market functioning in the foreign exchange market by **shutting down the remaining subsidy window: the “Bureau De Change subsidy”**. The continuing subsidy of the BDC cannot be justified on the grounds of efficiency or equity. The proliferation of BDCs mirrors the proliferation of petrol stations in the PMS subsidy game. Both types of proliferation undermine efficient allocation of resources by promoting rent seeking behaviours. It is obvious that the interbank-BDC rate spread is not driven by market fundamentals or the needs for efficient allocation of forex to real sector activities. It is simply part of the games of rent seeking and appropriation.

Thinking medium to long term, a comprehensive strategic framework for monetary policy, financial system stability and operations is imperative. For one, the goal post has shifted and the contexts of the relevant games have changed. The closure of the RDAS windows has effectively closed the “exchange rate corridor”. In the post-November 2014 MPC set of decisions, the ceiling of the interest rate

corridor has suffered sustained and significant breaches. In addition, (1) the money multiplier has fallen from its peak level of 3.9 in 2010:09 when the tightening regime began to just 1.06 in 2015:02 and (2) the rate of currency substitution has progressed very fast from 14.2% in 2010:09 to about 30% in 2015:02. With 30% of M2 in Foreign Currency Deposits (FDC) and with the shrinking of M1 from its most recent peak of 7.42 Trillion Naira in 2012:12 to about 6.05 Trillion Naira in 2015:02, it is clear that informal dollarization has become a danger to policy effectiveness and to stability (financial and macroeconomic).

The "effective closure of the exchange rate corridor" and the sustained breaching of the ceiling of the interest rate corridor imply that a major shift from the "two corridor" monetary framework that hitherto prevailed has taken place since the last MPC meeting. The implications of this change and of the two additional structural changes (collapse of the money multiplier and growth in informal dollarization) must be fully understood as part of a new strategic framework for monetary policy. I have no doubts that a new comprehensive strategic framework for monetary policy in Nigeria is

long overdue and further delay is not in the best interest of the economy. I am also convinced that in the challenges that face the Nigerian economy lay opportunities for restoring the two cooperative legs of macroeconomic policy and complementing them with the twin policies for financial system stability (macro-prudential policy and micro-prudential policy).

7.0 NNANNA, O. JOSEPH

Against the backdrop of strong external headwind, characterized by sluggish global economy and policy uncertainties in the advanced and emerging market economies; macroeconomic conditions in Nigeria was relatively stable in the period under review. Specifically, on the domestic front, developments in the real sector (inflation, product and labor markets) were subdued; while developments in the foreign exchange market were volatile.

Overall, sluggish non-oil sector performance and weak global oil market remains a challenge for monetary policy. The latest data from the National Bureau of Statistics (NBS), revealed a lower GDP

growth rate of 5.94 per cent in the 4th quarter of 2014, vis-à-vis 6.77 percent in the corresponding period of 2013 and 6.23 percent in the 3rd quarter in 2014. The MPC attributed the decline in domestic output and the observed marginal increases in inflation to the weak performance of the non-oil sector and the spill-over effects of the weak global oil market

Though, high and inclusive growth is desirable, but not at the expense of price stability, especially, as creeping inflation threatens macroeconomic stability in the near term. To be sure, the uptick in Headline inflation from 8.0 percent in Q4 2014 to 8.4 percent by end-February 2015, although, marginal in absolute terms, still represents a threat to the hard won macroeconomic stability which the economy had witnessed in the past. Consequently, the need to rein-in inflation expectations by pursuing a mix of appropriate demand and supply management policy measures cannot be over emphasized. With the national elections coming to close, additional measures in the near term are needed to mop-up the excess/ incipient liquidity which might have found its way into the system during the run-up to

the national elections is advised. While achieving high output and inclusive growth remains a key policy priority, nevertheless, this cannot be pursued at the cost of price stability. In the circumstance, I believe that staying the course of maintaining current policy stance and watching the trend completely unfold in the near term remains the best option to adopt.

The closure of rDas window will reduce speculative demand in the Forex market and mitigate the dollarization of the economy. The

Closure of rDas window by the monetary authorities is commendable. Indeed, it represents a bold and appropriate policy action aimed at addressing the challenges of multiple currency practice in the economy and curbing the problem of rent-seeking and arbitrage in the forex market. Going forward, the naira exchange rate will be determined by the forces of demand and supply in the inter-bank forex market, with the Central Bank intervening periodically as the need arises. With the elimination of the rDas Window, the naira exchange rate trend has been generally stable against the US dollar. This recent development is in sharp

contrast with the development preceding the closure of the Window. The speculative demand and dollarization of the economy which commenced with the tapering of FDI inflows, dwindling crude oil receipts and heightened political campaign activities seem to have reduced appreciably. But uncertainties remain.

External Reserves and fiscal buffers are envisaged to be rebuilt as oil prices gradually stabilize and fiscal adjustments are sustained. Due to the decline in oil prices and foreign portfolio investment outflows in recent months, external reserves declined from \$32.36 billion in January to \$29.88 billion in March 2015. The oil price slump from \$111.70 (US/b) in August, 2013 to \$48.47 in January 2015, has been the major push factor for the decline in reserves and weak fiscal buffers. Notwithstanding, there has been a recent gradual recovery in oil price which has inched above \$55 bb as at March 20, 2015. It is expected that supply glut and weak demand that characterize current international oil market will gradually abet as crude oil futures have shown significant signs of recovery in the past few weeks.

The decline in revenue as a result of declining oil prices has induced fiscal readjustment in government 2015 Appropriation Bill. Such readjustments are expected to boost the rebuilding of fiscal buffers in the near future, while prioritizing government expenditure to avoid waste. However, sustained decline in government revenues suggest that fiscal deficits may widen and government might resort to borrowing in the domestic money market. The implication will be a hike in interest rates that might crowd out private sector borrowing. Against this backdrop, fiscal and monetary policy coordination becomes a top most priority in the near term.

Developments in monetary aggregates do not suggest a tight liquidity condition in the banking system and therefore, monetary easing may be premature and time inconsistent. Aggregate credit (net) to the economy declined from 10.97 percent in December 2014 to 7.12 percent in January 2015 representing a decline of 3.85 percent (month- on- Month). Aggregate money supply (M2) also declined from 7.29 in December 2014 to -0.13 percent in January 2015 owing to contraction of 18.14 and 8.22 per cent in Net Foreign

Assets (NFA) and other assets (net) respectively, in the period under review. While there is a reasonable decline in M2, M1 grew by 1.70 percent due mainly to the rise in currency and demand deposits in the DMBs. There is no conclusive evidence from provisional monetary aggregates to suggest that liquidity crunch is a major problem to warrant monetary easing. Therefore, in my opinion current monetary policy stance should be maintained, until the demand pressure in the forex market abets.

Against the foregoing, I, hereby, vote to maintain the status quo and urge the use of moral suasion and forward guidance to calm the markets, until the pre- election jitters subsides. I believe that maintaining the current monetary policy stance will allow current measures run its course. We should avoid the adoption of time inconsistent measures.

8.0 UCHE, CHIBUIKE U

In my opinion, the March 2015 MPC meeting was a very difficult one. This was perhaps because, it brought to the fore the fact that there are indeed limits with respect to what monetary policy can achieve

especially under our peculiar economic conditions. With concurrent decline in crude oil prices and foreign reserve, pressure on the Naira exchange rate, rising inflation, increasing trade imbalances as well as increasing capital outflows, it has indeed become very clear that total economic restructuring is an urgent imperative. This will enable monetary policy to retain its potency as a tool for influencing macro-economic stability which is a necessary condition for the attainment of sustainable economic development.

For instance, in recent times we have seen the value of the Naira depreciate significantly. Unfortunately, the pressures for further depreciation have not yet abated. The fiscal consequences of the ongoing national elections will no doubt add fodder to the above pressures. Although it is natural for some, especially those who believe that macroeconomic stability is an end in itself, to expect further tightening of money supply, this is clearly not feasible under the current circumstances. This is because any move in this direction at the present time is likely to endanger the health and stability of the Nigerian banking system. It will also negatively affect the ability

of banks to fund the real sector of our economy which is critical, if our mono-product economy is to be successfully diversified.

What the current position tends to suggest is that monetary policy successes in Nigeria, in the past, may have been influenced more by good fortune (i.e. high oil prices) rather than the nature and effectiveness of the various monetary policy tools employed. This is the stark reality of our mono-product economy. In order to make monetary policy effective therefore, we must begin to explore ways of using monetary policy to reverse the mono-product nature of our economy.

An important area of concern that needs rethinking at the present time is the issue of capital account liberalization. I have consistently argued that capital account liberalization is most unsuitable for our type of economy that is heavily dependent on a single rent product. Capital account liberalization has simply increased the exposure of the Nigerian economy to the vagaries of the economic policies in developed economies. For example, excess capital emanating from such economies which sometimes result from deliberate money

expansion (quantitative easing) policies in such economies find the Nigerian economy as a profitable temporary home. When such expansionist policies are tapered, such excess capital are also withdrawn, without notice (and without penalty).

Although such capital inflows may have in the past helped sustain the value of our currency, the fact remains that such capital are unpredictable and therefore destructive to long term planning. It also distorts the operations of both the money and capital markets in the country. The fact that most of the foreign capital have now gone and our reserve is now at a dangerously low level, in my view, provides an excellent opportunity for us to reset the rules for welcoming such foreign capital in the future. We can, for instance, with the use of taxation on capital flows, discourage speculative capital and encourage long term capital investments in the real sectors of our economy. Bluntly put, any capital that is incapable of contributing to the productive base of our economy should not be encouraged.

Another way of using monetary policy to grow the real sector of our economy is to adopt policies that will help reduce the interest rates on loans and advances. In the light of the increasing inflationary pressures, advocating for a reduction in the Monetary Policy Rate at the present time will be unproductive. The widening gap between deposit and lending rates, however, provide us with some room for manoeuver. In this direction, there is need for us to redouble our efforts in encouraging banks to curtail this widening gap. One way of doing this will be to put in place economic incentives that will encourage banks to reduce their interest rate spread.

Irrespective of what we do with respect to monetary policy, the fact remains that without fiscal policy compliment, there is not much that can be achieved in our country. Although the falling oil price is making the fiscal space more complicated, I believe that there is still room for improvement. One area that can be easily improved upon is the reduction of wastages in government finances which is as a result of poor financial management. By far the greatest single example of this is the absence of the Treasury Single Account (TSA).

The consequence of the above is that because of the incentive of corruption, government parastatals keep huge amounts in bank accounts earning little or no interests while at the same time borrowing from such banks at double digit market interest rates.

Although Government has for over a decade been stating and restating its commitment to the TSA, this has not yet been actualized. It was in the attempt to force the adoption of the TSA that the MPC introduced the discriminatory Cash Reserve Ratio (CRR) on public sector deposits. I am aware that this policy is increasingly being criticized even within the MPC. Such criticisms, in my view, are erroneous. Although it is true that most countries do not apply discriminatory CRR, it is also true that imposing CRR on government deposits is an anomaly. If such monies are in the Central Bank, where it should be, this clearly will not arise. Ensuring that all the accounts of government and its agencies are maintained with the Central Bank, which is the position of the law, is therefore a more sustainable way of addressing the concerns over discriminatory CRR.

In the light of the above factors and concerns, I hereby vote as follows: (1) to retain MPR at 13 percent with interest rate corridor of +200/- 200 basis points; (2) to retain CRR on private sector deposits at 20 percent; (3) to retain CRR on public sector deposits at 75 percent; and (4) to retain Liquidity Ratio at 30 percent.

9.0 YAHAYA, SHEHU

I vote to maintain the current monetary stance: MPR at 13%, along with the symmetric corridor of +/-2%; CRR for public sector deposits at 75%; CRR for private sector deposits at 20%. The reasons for my position are outlined below.

Global Economy

Growth in global GDP in 2014 is still about the same as in 2013; growth in the OECD countries is slowly recovering, with US leading the way. Overall growth in developing countries and in Africa is lower than it had been in 2013.

Global prices, already low, are trending further downwards, particularly in the Euro area, where deflation is a palpable threat. In addition to oil prices, prices of many minerals, metals and food are also trending downwards.

One significant development is the introduction of quantitative easing in the Euro area, which is expected to run until September 2016. By keeping interest rates very low, the Euro area QE may help offset to some extent the effects of anticipated interest rate increases in the US on portfolio investments, reserves and exchange rates in developing countries.

Oil prices are not showing any reliable signs of recovery, especially considering the extremely high levels of storage in the US and global gluts.

Domestic Economy

The macro-economy of Nigeria is still dominated by the developments in the foreign exchange market, given the 16% depreciation in the value of the Naira in the first two months of 2015

alone, under pressure from the oil price fall, portfolio reverse flows, falling reserve levels (currently at US\$29.8 billion), the increasing use of the dollar as a store of value and the uncertainties surrounding the elections in March and April.

The Naira depreciation is beginning to exert an upward pressure on price levels. Headline inflation has risen to 8.4% in February 2015 year on year, driven mainly by prices of imported food (exchange rate pass through). Forecasts also indicated the likelihood of further price increases up to the end of 2015. On the other hand, if oil prices remain stable and the uncertainties and speculations associated with the elections dissipate, this may stabilize the exchange rate and therefore remove any further exchange-rate induced pressures on domestic price levels

GDP growth at 6.22% in 2014 is higher than 2013. Nevertheless, GDP growth rate has shown a downward trend for the last three quarters of 2014, and is projected to slow down to between 4.8% and 5.4% in 2015. Again, the non-oil sector is expected to be the main growth engine.

The Fiscal Sector

Government spending has been restrained during 2014, resulting in a budget deficit of less than 1.2% of GDP on federal government actual fiscal activities. Given the drastic fall in government revenues, government expenditure and fiscal balance in 2015 will depend crucially on the evolution of oil prices and output, as well as the exchange rate. It is clear though, that the government will be challenged to maintain a low deficit/GDP ratio in these circumstances, especially considering that credit to the government from the banking sector has already shown a 55.41% increase in the one-month period up to mid-January 2015. If recurrent expenditure will be a challenge this year, capital expenditure will be an even bigger challenge. Concerted efforts must therefore be made by the fiscal authorities, with the support of monetary authorities to maintain a healthy level of capital investment in the economy in order to maintain growth and job creation.

The inter-bank and OBB rates have stabilized after a huge spike and profitability of the banking system has improved. Given the pressure

on the macro-economy, it is essential that necessary attention be paid to ensure that monetary policies serve to strengthen rather than undermine the relative stability of the sector with respect to liquidity, capital adequacy. Some attention should also be paid to sectoral lending de-concentration in the sector.

Conclusion

The outcome of the elections is obviously the most significant short term issue affecting many of the macro-economic variables, including the exchange rate. The trend in price levels is not clear as there are credible possibilities of both a rise in price levels and a post-election stabilization. CRR on private sector and public sector deposits is already high. Other instruments such as OMIO are being diligently applied by the CBN to stem liquidity-which is showing a downward trend within the banking sector. A number of administrative measures are being deployed by the Central Bank to address speculative activity and other distortions in the foreign exchange market, while the effects of the elimination of the WDAS are still unfolding.

In the light of these considerations, I vote to maintain the current monetary stance.

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

The global macroeconomy continued to be driven by strong undercurrents from significantly cheaper commodity prices, pervasive geo-political tensions, growing threats to financial markets in the aftermath of the continued economic sanctions led by the United States on Russia for its alleged role in the ongoing Ukrainian conflict, and the effect of the potential monetary policy normalisation in the US on emerging markets. Although global growth prospect in the near-term was broadly revised upward, the outlook indicates modest pace rather than an accelerated recovery, which remains lopsided across countries and regions. I note that whereas lower commodity prices have led to cheaper energy, reduced costs for firms, enlarged real disposable incomes, and brightened outlook for many OECD countries, it weighed

adversely on real growth and growth prospect of commodity exporting countries including Brazil and Canada.

In the United States, the economy has been significantly boosted by strengthened consumer demand on the heels of falling oil prices, lower US oil imports and accommodative monetary policy. In the Euro area, the threat of deflation and stunted growth remain in the horizon, although favourable tailwinds from positive oil price shocks and massive monetary policy easing are expected to boost overall outlook in the region. Consequently, the 22 January 2015 announcement by European Central Bank (ECB) of an open-ended €1.1 billion quantitative easing programme (QEP) is expected to mildly boost consumer prices and avert a deflation.

I note that global growth continues to be constrained by a number of old and new adversities including the aforementioned undercurrents as well as deteriorating debt and unemployment profiles in a number of countries. While the favourable commodity price shocks provides an opportunity for the Euro area and Japan to recover, such rebound will at best be modest with a real possibility

that growth will remain fragile or subdued in the medium term. Among emerging markets, growth prospect appear muted particularly following continued sharp corrections in financial markets in response to the end of the US QE, softening commodity prices and weak demand from advanced economies. Growth prospect in sub-Saharan Africa remain moderate over the short-term with average growth projected at 4.9 percent in 2015.

On consumer prices, I note that global inflation continued to decelerate and remained below target in major advanced economies. This is essentially due to the reduction in energy prices, negligible nominal wage rise and weak demand. Among advanced economies, average rate of inflation is projected to remain perilously below 2 percent; thus, counterweighing the adverse pass-through from depreciating currencies in many emerging and developing countries. In a bid to prop up inflation and strengthen local demand, major advanced economies are either easing monetary policy or deferring decisions to tighten policy stance. However, central banks in emerging market and developing economies may tighten

monetary policy, albeit subtly, in order to assuage emergent currency concerns.

In Nigeria, data from the National Bureau of Statistics (NBS) indicated that the economy expanded by 6.2 percent in 2014, although the quarterly growth rate decelerated 29 basis points from 6.2 percent in the third quarter to 5.9 in the fourth quarter of 2014. This was due essentially to the performance of the non-oil sector which slowed-down from 8.8 percent in the third quarter of 2014 to 6.4 percent in the fourth quarter. More specifically, diminished non-oil expansion is attributable to the strong headwinds and the adverse spill-over effects of slipping oil prices on agriculture, trade and services sub-sectors. Despite tumbling crude oil prices, oil GDP rebounded in the fourth quarter with a growth of 1.2 percent after a 3.6 percent contraction in quarter three.

Although inflation rate edged up in February but remained within the Bank's single-digit target range of 6.0—9.0 percent. While this single digit outcome is welcome, the upward trend noticeable in the last few months is indeed concerning. NBS data indicates a gradual

increase of consumer prices from a growth rate of 8.0 percent in December 2014 to 8.2 percent in January and further to 8.4 percent in February 2015. This reflected the strengthening pressure predominantly from core components of consumer prices and complemented by imported food prices. Driven by the latent pass-through from a stronger US dollar, delayed rainfall and disruptive effects of prolonged insurgency in important agricultural zones, food inflation ascended to 9.4 percent in February 2015 from 9.2 percent recorded at the end of 2014. Core consumer prices, however, accelerated from the 6.2 percent in December 2104 to 6.8 percent and 7.0 percent, respectively, in the first two months of the year. I note that while decelerating global inflation and the threat of deflation, especially in key advanced economies, mitigate risks of imported inflation due from strengthening US dollar, the major upside risks in the near term are domestic. This includes the amplified spending ahead of the 2015 general elections and the persistent insurgence in key agricultural zones.

On domestic monetary and financial development, I note the relative tight conditions in the market. Liquidity measured by broad money supply (M2), in February 2015, contracted by 1.7 percent over the end-2014 level, implying an annualized shrinkage of 10.2 percent vis-à-vis the target expansion rate of 15.2 percent in 2015. This contraction was driven largely by the 18.1 percent decline in net foreign assets—due to the dwindling oil receipts and portfolio reversals—and the 8.2 percent fall in other assets (net). These declines more than offset the 9.9 percent expansion net domestic credit, the annualized growth of which at 59.3 percent surpassed the 2015 benchmark of 29.3 percent. Fundamentally, the increase in domestic credit was supported by the 54.7 percent rise in credit to government. The tight monetary stance resulted in intermittent surge in some market interest rate during the period. However, market rates remained relatively stable in the January and February 2015. Average interbank call and the OBB rates in the first two months were 15.2 and 18.4 percent, respectively; having closed at 11.0 and 9.2 percent end-February. At the capital market, bearish outcomes

persisted as key equity indices nose-dived during the period under review. Year to end-February 2015, All Share Index shed 13.1 percent to end at 30,103.8 while market capitalisation lost 12.5 percent to close at ₦10.0 trillion. This trend requires strict surveillance and necessitates all relevant institutions in the capital market to synergise in order to rein in the adverse outcomes.

In the foreign exchange market, I acknowledge that the unfavourable effect of oil price movements lingers although speculative tendencies became less profound following the closure of the official market. As a final step in the orderly shutdown, the rDAS window was merged with the IFEM on 18 February 2015. The unified IFEM rate, thus, depreciated by 9.0 percent from ₦180.0/US\$ in January to ₦198.0/US\$ in February. At the BDC segment, the naira fell 7.9 percent from ₦196.1/US\$ at end-January to ₦213.0/US\$ in February. Gross official reserves, at US\$29.6 billion in February 2015 contracted by 2.7 percent from US\$32.4 billion held at end-January. The fall in reserve, during this period, reflected the continued decline

in foreign inflows and sustained interventions at the foreign exchange market to safeguard the value of the domestic currency.

Against the backdrop of the forthcoming general elections, it is apparent that market confidence and domestic conditions in the economy are shaped not only by global oil price fundamentals but also by human instincts and proclivities associated with perceived political uncertainty. Yet, I am optimistic that Nigeria's economic expansion will not decelerate considerably in the near-to-short term. With falling global inflation and declining energy prices, I expect a moderating impact on domestic consumer prices that will maintain inflation rate within the single-digit target range in the near-term. It is my belief that policy reaction should be delayed to allow "political noise" dissipate from financial markets and also give room for the effects of earlier policy actions to permeate the economy. There is, therefore, no need to act impetuously.

Consequently, I vote as follows:

1. Retain the MPR at 13.0 percent;
2. Retain the CRR on private sector deposits at 20.0 percent;
3. Retain the CRR on private sector deposits at its current level of 75.0 per cent;
4. Retain the liquidity ratio at 30.0 percent; and
5. Maintain a symmetric corridor of ± 200 basis points around the MPR.