



Central Bank of Nigeria Communiqué No. 101 of the Monetary Policy Committee Meeting of Monday and Tuesday, May 18 and 19, 2015

The Monetary Policy Committee met on 18th and 19th May, 2015 against the backdrop of fragile but moderate growth and accentuating discrepancies in global output across regions and intensification of weaknesses in the domestic economy. In attendance were 11 out of the 12 members. The Committee reviewed the fragilities in the global economic and financial environment in the first four months of 2015, and reassessed the short to medium-term policy options for the domestic economy.

International Economic Developments

The Committee noted that global economic recovery continued at a modest but uneven pace partly because most countries were just shedding the deadweights of 2014. The IMF has projected a marginal increase in global output from 3.4 per cent in 2014 to 3.5 per cent in 2015, although with considerable variation across regions

and major economies. The softening oil prices have continued to support an uptick in growth of oil importing countries but dampening growth prospects in major oil exporting economies. Overall, economic activities have gained some traction particularly in the US, underpinned by sustained monetary easing, ebbing fiscal consolidation, improvements in housing market conditions, lower financing cost, rising private consumption and increase in real household income. Elsewhere, low commodity prices continued to boost higher aggregate demand in addition to creating conditions for accommodative monetary policy especially in Japan and the euro area where recovery appears to suffer severe setbacks due to structural bottlenecks and the threat of deflation. For the Eurozone, however, the massive quantitative programme of the ECB opens a new growth vista, halting the slide in potential output and engendering a more solid recovery.

Global growth is expected to accelerate to 3.8 per cent in 2016 but with significant downside risks. Protracted stagnation in the Euro area

could constrain global trade while the anticipated end of monetary easing in key industrial countries could limit investment growth. In addition, stronger currencies in both the US and UK may likely moderate net exports coupled with lower capital expenditure in the energy sector due to the softening oil prices. Furthermore, the huge asset purchase program by the UK Treasury and the Bank of Japan is an indication of divergent monetary policy stance among key advanced economies with the attendant widening of long-term interest rate differentials. We are of the view that with the UK inflation at -0.1 per cent in April, the size of its asset purchase programme of £385 billion may be revisited by the Treasury.

For many emerging markets, the outlook for growth is less optimistic, reflecting cyclical factors, domestic policy tightening, political tension, and structural factors. In China, growth is expected to decline below the long run target of 7.0 per cent in 2015 owing to financial market vulnerabilities, declining productivity, excess capacity, and weakening domestic demand. It is however,

envisaged that recent policy stimuli by both government and the Peoples Bank of China would help unwind the excess capacity and strengthen the financial system with the ultimate goal of restoring growth to the historical path in the long run.

Developing economies as a group continue to show relative resilience with growth projected to accelerate from 4.4 per cent in 2014 to 4.8 per cent in 2015. Growth in the developing economies is also expected to remain uneven in the near term, reflecting the pattern in the advanced economies. Countries with high trade exposure to US and UK would likely gain substantial momentum while those depending on the Euro Area may experience continuing slow down in export demand in the near to medium-term.

Key risks to growth in the developing countries include the possible tightness in the global financial markets and the diverging stance of monetary policy in the advanced economies which portend grave consequences for capital flows, exchange rate stability, and inflation

expectations. In addition, sudden deterioration in liquidity conditions, volatility in commodity and financial markets, narrowing fiscal space, and rising geopolitical tensions are headwinds that could constrain global output growth. Thus, monetary policy in a number of developing countries has to contend with the delicate choice among supporting growth, reining in inflation and stabilizing currencies and the financial systems.

Global inflation remains benign and is expected to be moderate in 2015-16 due to the tailwinds from the sharp drop in the prices of crude oil, excess capacity and appreciation of currencies in key advanced economies.

Domestic Economic and Financial Developments

Output

The deceleration in growth, which commenced in the third quarter of 2014, intensified in the first quarter of 2015 in the aftermath of declining crude oil prices. The National Bureau of Statistics (NBS) estimated Real GDP growth at 3.96 per cent in the first quarter of

2015, which is significantly lower than the 5.94 and 6.21 per cent in the preceding quarter and the corresponding period of 2014, respectively. Real GDP growth is projected to decline to 5.54 per cent in 2015 from 6.22 per cent in 2014. In line with trend, the non-oil sector remained the main driver of growth in the first quarter of 2015, recording 5.59 per cent. The key growth drivers in the non-oil sector during the period were services, trade, and agriculture which contributed 2.82, 1.27, and 1.05 percentage points, respectively. The modest improvements recorded in the oil sector in the fourth quarter of 2014 appear to have been reversed as oil GDP contracted by 8.15 per cent in the first quarter of 2015 compared with an increase of 1.2 per cent in the preceding quarter.

The Committee expressed concern about the weakening economic momentum but recognized the relative similarity in the condition to the evolving economic environment in virtually all oil exporting economies, suggesting the need for acceleration of various ongoing initiatives to diversify the economic base of the country.

With the successful completion of the 2015 general elections and the progress recorded so far in the fight against insurgency, the Committee was optimistic that the slow pace of economic momentum would reverse in the near term.

Prices

The Committee noted that the year-on-year headline inflation crept upwards for the fourth consecutive month in April 2015. The inflation rate rose from 8.2 per cent in January 2015 to 8.5 per cent in March and further to 8.7 per cent in April. The increase in headline inflation in April reflected increases in both the core and food components. Core inflation rose to 7.7 per cent in April from 7.5 per cent in March, while food inflation increased to 9.5 per cent from 9.4 per cent over the same period.

The Committee noted that the uptick in inflationary pressures, year-to-date, was largely traceable to transient factors such as high demand for transportation, food and energy, especially in the period around the general elections as well as the Easter festivities. It

also noted the roles played by system liquidity and the pass-through effects of the recent depreciation of the naira exchange rate. When the transient causes are isolated, the Committee observed the decline in month-on-month inflation across all the measures in April as headline inflation moderated to 0.8% from 0.9% in March; core inflation moderated to 0.6% from 0.8% and food inflation moderated to 0.9% from 1.0%.

The Committee reiterated its commitment to price stability noting that given the already tight stance of monetary policy and the transient nature of the incubators of the current inflationary trend, which are outside the direct control of monetary policy, the space for maneuver remains constrained, necessitating the intervention of fiscal and structural policies to stimulate output growth.

Monetary, Credit and Financial Markets Developments

Broad money supply (M2) increased by 1.80 per cent in April 2015, over the level at end-December 2014. When annualized, M2 increased by 5.39 per cent, which is lower than the growth benchmark of 15.24 per cent for 2015. The modest increase in

money supply reflected the growth in the net domestic credit (NDC) of 9.66 per cent. Annualized, net domestic credit grew by 28.98 per cent over the end-December, 2014 level, which was within the provisional benchmark of 29.3 per cent for 2015. The significant growth in aggregate credit was traced mainly to Federal Government borrowing which increased by 177.26 per cent in April 2015 or 531.78 per cent on annualized basis.

In the period under review, money market interest rates were relatively volatile, reflecting the fluctuations in liquidity in the banking system. Average inter-bank call and OBB rates, which opened at 11.92 and 10.75 per cent on 2nd March 2015, closed at 15.00 and 13.26 per cent, respectively, on April 17, 2015. Average inter-bank call and OBB rates for the period were 19.02 and 17.45 per cent, respectively.

The Committee noted a modest improvement in the equities segment of the capital market during the review period. The All-Share Index (ASI) rose by 9.3 per cent from 31,744.82 on March 31, 2015 to 34,708.11 on April 30. Similarly, Market Capitalization (MC)

increased by 10.0 per cent from N10.72 trillion to N11.79 trillion in the same period. However, relative to end-December 2014, the indices increased marginally by 0.1 and 2.7 per cent, respectively. The recovery in share prices particularly in April 2015 was largely due to improvements in earnings and sentiments, amid successful conclusion of the 2015 general elections.

External Sector Developments

The average naira exchange rate was relatively stable at both the interbank and Bureau-de-Change segments of the foreign exchange market during the review period. The exchange rate at the interbank market opened at N197.80./US\$ and closed at ~~N~~197.00/US\$, with a daily average of ~~N~~197.04/US\$. This represented an appreciation of ~~N~~0.80k for the period. At the Bureau-de-Change segment, the exchange rate opened at ~~N~~225.00/US\$ and closed at ~~N~~217.50/US\$, with a daily average of ~~N~~216.75/US\$. This represented an appreciation of N7.50k for the period.

The stability and modest appreciation in the two segments of the market was largely due to the closure of the rDAS market and the

modified two-way quote trading at the inter-bank segments of the market. Gross official reserves rose from US\$29.34 billion at end-March 2015 to US\$30.05 billion on May 15, 2015.

Committee's Consideration

The Committee noted the salutary effects of the successful conduct of the 2015 general elections on the macroeconomic environment. The Committee expressed optimism that the confidence and goodwill arising from the successful elections would stem the spate of capital reversal, reduce pressure in the foreign exchange market and stabilize the financial markets in the short to medium term. A combination of the renewed confidence and recent administrative measures around the foreign exchange market have eased pressure on the naira, resulting in relative stability in all segments of the foreign exchange market.

The Committee was concerned about the creeping headline inflation since January 2015 but noted that the causal factors were largely transient and outside the purview of monetary policy. Furthermore, the significant rising trend in credit to government was

regarded as potential headwinds to growth with negative spillovers to the already elevated lending rates, credit to the private sector and aggregate domestic investment including inflationary pressures. The Committee expressed deep concern over the lackluster performance of the external sector arising from a number of significant global shocks.

First, the prospects of monetary policy normalization in the US with attendant increase in global interest rates and accentuating capital flow reversal which could further exacerbate tightness in global financial conditions and create further pressure on the naira.

Second, the continued glut in crude oil supplies amidst softening prices, anchored by sluggish global output expansion could further threaten foreign exchange earnings and accretion to external reserves over a much longer period. A near-term rally in oil prices is further undermined by the diminishing market power of the Organization of the Petroleum Exporting Countries (OPEC).

Third, the anemic recovery in the Euro Area and Japan and tepid growth conditions in China constitute an additional drag on crude oil exports prospects. Consequently, the decline in trade balance, which commenced in the second half of 2014, could persist over a much longer period with further implications for public revenues and external reserves.

In the light of these developments, the Committee stressed the need for proactive measures to protect the reserve buffer to safeguard the value of the domestic currency and engender overall stability of the banking system. It was, however, noted that monetary policy is gradually approaching the limits of tightening and would, therefore, require complementary fiscal and structural policies.

Furthermore, the Committee considered that the current discriminatory CRR on public and private sector deposits has not only constrained the policy space but could inspire moral hazard by private market participants. Consequently, it was recognized that while additional tightening measures may not be appropriate now to avoid overheating the economy, a harmonization of the CRR was

imperative in order to curb abuses and improve the efficacy of monetary policy.

The Committee's Decisions

In view of these developments, the Committee decided by a unanimous vote to retain the current tight stance of monetary policy. One member voted to increase CRR on private sector deposits from 20 to 25 per cent and retain CRR on public sector deposits at 75 per cent while another member voted to retain the CRR on private sector deposits at 20 per cent and increase CRR on public sector deposits from 75 to 100 per cent. Nine members, voted to harmonize the public and private sector CRR at 31 per cent. Two members voted to remunerate a portion of the CRR. All members voted to retain all other decisions taken at the last meeting of the MPC while improving the implementation of the CRR regime.

Consequently, the MPC voted to:

- (i) Retain the MPR at 13 per cent with a corridor of +/- 200 basis points around the midpoint;
- (ii) Retain the Liquidity Ratio at 30 per cent; and

- (iii) Harmonize the CRR on public and private sector deposits at 31.0 per cent.

Thank you.

Godwin I. Emefiele

Governor, Central Bank of Nigeria

19th May 2015

PERSONAL STATEMENT BY THE MONETARY POLICY COMMITTEE MEMBERS

1.0 ADELABU, ADEBAYO

This Monetary Policy Committee meeting is being held on the backdrop of increasing external vulnerabilities and intensification of domestic weakness. The challenges in the external sector, which commenced in the second half of 2014, are becoming severe and complicated with the prolonged softness in crude oil prices. Within the domestic economy, the deceleration in Real GDP since the third quarter of 2014 is assuming a precarious dimension as the National Bureau of Statistics (NBS) estimated real growth rate at 3.96 per cent for the 2015Q1, lower by 1.98 percentage points from the preceding quarter. Developments in the price level are equally worrisome with headline inflation accelerating since January 2015, driven by increase in both food and core components.

The outlook for the medium term is clouded with considerable degree of risks and uncertainties. In the external sector, a relative

degree of stability has been observed in the foreign exchange market and by extension, accretion to the external reserves following the recent administrative measures introduced by the Bank coupled with the successful conduct of the general elections in March 2015. Nonetheless, the key fundamentals are still weak.

The anxiety in respect of capital flows reversal from developing economies may not crystallize in the near term due to the likelihood of monetary policy remaining in the easing mode in the USA as well as the ongoing massive asset purchase program of the European Central bank and Bank of Japan but the development in the oil market is less optimistic. Although some rally was observed in the prices of crude oil in April 2015, the prospects of sustaining the trend is weak on the backlash of rising level of global inventories coupled with high likelihood of increase in global supply particularly if the ongoing Iran nuclear deal with the USA scales through. In addition, protracted softening of economic activities in the Euro area and leading emerging economies such as China would further

undermine global demand with the attendant negative impact on prices.

Within the domestic economy, growth prospects are becoming weaker not only due to adverse developments in oil prices but equally resulting from deteriorating domestic macroeconomic conditions. Detailed analysis reveals that the significant slump in GDP in the first quarter was largely due to the rising intermediate cost as a result of depreciation of the currency. This suggests that economic weakness may persist in the near to medium term. Another major issue of concern is the apparent dollarization of the economy. Currency substitution index as a measure of store of value is already above 30 per cent international benchmarking, suggesting the imperative of measures to halt the trend.

The major issue is the creeping headline inflation with the possibility of crossing the single digit threshold in the near term and the attendant credibility issue to monetary policy. This development is no doubt a trigger of further tightening of the monetary policy stance, particularly when viewed in isolation of other developments in the

economy. However, there is at least cheering news on inflationary development, which is the fact of moderation on month on month basis. Thus, in the context of observed deceleration in growth and the decline in the month-on-month inflation across all the measures, the need for some caution becomes strong. Besides, the major sources of inflationary pressure in the last three months are transient-increased demand for transportation and food related to political uncertainties, fuel scarcity, and festivities (Sallah and Easter) which effects are expected to wane rapidly. In the light of the foregoing, I am of the view that the current monetary policy measures should be retained.

Notwithstanding, available money market data in the recent times shows evidence of liquidity build, which tends to raise issues about the efficacy of the implementation of the Cash Reserve Requirements (CRR). The current discriminatory Cash Reserve Requirements (CRR) on public and private sector deposit is an exception rather than the rule. Besides limiting monetary policy space, it also engenders rent seeking and speculative behavior

among market participants and ultimately reduces the efficacy of the instrument. Given that CRR is a blunt instrument with the ultimate objective of draining liquidity from the system, I would like to support the harmonization of the CRR.

With respect to the perverse incentives associated with heavy reliance on public sector fund by the banks, the ongoing reform by the fiscal authority on Treasury Single Account (TSA) could address the issue. Thus, the monetary authority should strengthen coordination with the fiscal authority to accelerate the process of TSA.

In harmonizing the CRR, however, there is a compelling need to put the health of the banking system into consideration. Recent results from the operations of the banks revealed that they are becoming more dependent on highly volatile non-interest incomes at the expense of the traditional sources of revenue which is interest income. Apart from the fact that the new trend is not sustainable, it is equally at variance with the whole essence of banking which is to promote financial intermediation. Among others, a principal driving

factor of this phenomenon is high cost of funds due to some of the subsisting monetary policy measures. With current liquidity ratio of 30 per cent, a substantial high CRR on consolidated deposit would further increase the cost of funds and ultimately lending rates with implication for non-performing loans. This, invariably, is an incentive for the banks to skew their business model against real financial intermediation. To halt this trend, therefore, I am of the view that part of the CRR should be remunerated in order to alleviate the burden of cost on the banks.

In the light of the foregoing, I wish to propose a consolidated CRR rate of 31 per cent but with a floor of 25 per cent, such that the excess above the floor will qualify for remuneration.

2.0 ALADE, SARAH O.

Global economic growth has remained moderate with uneven prospects for different countries and regions, and some momentum coming from advanced economies. In emerging markets, while earlier projected risks have diminished, new ones have emerged as a result of lower than expected inflation in advanced countries,

which will impact output and prices. In the domestic environment, although stability has returned to the foreign exchange market after some period of turbulence, the political transition and uptick in inflation due to seasonal planting period calls for a hold on monetary policy rate to safeguard the gains made. Based on the above, I support a hold in Monetary Policy Rate (MPR), and harmonization of Cash Reserve Requirement (CRR) in both public and private sector deposits to 31 per cent to safeguard the local economy.

Global economic growth has improved albeit with some downside risks. Global growth which is projected at 3.5 per cent in 2015 has remained moderate, with uneven prospects across countries and regions. The outlook for advanced economies is improving, while growth in emerging market and developing economies is projected to be lower, primarily reflecting weaker prospects for some large emerging market economies and oil-exporting countries. Outlook for global growth has turned positive on the recovery from the advanced countries led by United States, United Kingdom and Germany. In the United States, after a weak first quarter growth, the

momentum in the second quarter has reduced concerns that weak first-quarter growth represents a loss of economic momentum. In April about 223,000 jobs were added to the economy bringing unemployment rate down to 5.4 per cent. While the report suggested underlying strength in the economy at the start of the second quarter after a bad stumble, wage growth was tepid and March payrolls were revised downward, leading financial markets analysts to push back rate hike by the FED to the last quarter of the year. In the Euro zone, recovery is expected to continue, with growth reaching 1.5 per cent in 2015 from 0.9 per cent in 2014. Lower oil prices, lower interest rates, and euro depreciation, as well as the shift to a broadly neutral fiscal stance, are projected to boost activity in 2015 into 2016. In emerging market and developing economies, growth is projected to be mixed. While some commodity exporting countries, especially oil exporters are expected to see reduced growth, oil importing countries are expected to see increase in growth. India is expected to grow to 7.5 per cent in 2015 from 7.2 per cent recorded in 2014 according to the IMF WEO, April 2015. In view

of these developments, monetary policy is expected to remain responsive to the policy issues these pose for the Nigerian economy.

Headline inflation increased to 8.7 percent in April compared to 8.5 percent recorded in March 2015. Headline inflation increased to 8.7

per cent in April, suggesting that inflation may be expected to stay elevated in the coming months, as local food supply dwindle at the start of the planting season. Although a slight increase, it is still within the Central Bank target of between 6- 9 per cent and the overall goal of single digit inflation. However, this is the fifth consecutive month of increase in the headline inflation and the highest rate recorded for the year. Core inflation rose slightly to 7.7 per cent in April from 7.5 per cent recorded in March, 2015, while food inflation increased slightly to 9.5 per cent from 9.4 per cent recorded in the previous month. The increase in food index is driven mainly by dwindling local food stocks as planting season commenced; suggesting that future increase in inflation is to be expected. This consecutive increase in inflation would suggest a monetary policy action, however, the sluggish growth recorded suggest a counter

narrative. Increasing monetary policy rate at this time could further put added pressure on growth. Aside from the seasonal factors driving inflation, the fiscal shock as a result of dwindling revenue may help dampen further inflation increase. Based on this, monetary policy should give consideration to growth and be mindful of the feedback effect of the fiscal shock and food supply seasonality.

Domestic growth has remained subdued in the first quarter of 2015, with further downside risks. The forecast for 2015 GDP growth ranged from 6.5 per cent to 4.9 per cent but there are risks to this projection. Gross Domestic Product (GDP) grew by 3.96 percent in the first quarter of 2015. This was lower by 1.98 percentage points from the preceding quarter and by 2.25 percentage points from the corresponding quarter of 2014. The lower government revenue as a result of lower oil prices has affected economic growth. While the rebased GDP suggest that the economy is now more diversified and broad-based, sustaining the momentum and creating inclusive growth is the task all policy makers should take seriously. This will require creating an environment that is both competitive and

attractive to foreign and domestic investors. The security challenges in the country has the potential of further impacting growth negatively, although the recent successes recorded by the government suggests that the end could be in sight.

Pressure in the foreign exchange market has eased and some level of stability has returned. Pressure at the foreign exchange market window has eased as the diligent and coordinated efforts by the Central Bank to restore stability paid off. This has been helped by the foreign exchange inflows by foreign investors in the local bond market and other portfolio flows after the election. Rates at the Interbank and Open Buy Back (OBB) rate have remained within the band at 13.54 and 14.29 per cent respectively as at May 15, 2014. These indicate appropriate level of liquidity in the system as banks accessed the Standing Deposit facility (SDF) more than they accessed the Standing Lending Facility (SLF) window since the last MPC in March. In addition, lending rates remained high at an average of 21 per cent, suggesting that care must be taken to

manage the structural liquidity and the structural impediments to credit growth in the economy.

Overall, the monetary policy stance remains appropriate given the divergent monetary policies on the global scene, rising inflation, declining growth and lack of fiscal buffers in the domestic front. Based on this, I vote for a hold on the Monetary Policy Rate, and the harmonization of Cash Reserve Requirements (CRR) on the public and private sector deposits to 31 percent.

3.0 BALAMI, DAHIRU HASSAN

GLOBAL ECONOMY

At the global level, growth is expected to be mixed but slightly higher in 2015 particularly in advanced economies which is likely to support growth in emerging economies when compared to 2014. The global growth rate is estimated to be 3.5% in 2015. Advanced economies to grow at 2.4%, US to grow at 3.1% and Euro Area by 1.5%.

EURO ZONE

Activity growth in the Euro Area was beginning to pick up e.g Germany's output has been robust at 0.7% and credit availability also continue to improve, France (0.12%) and U.K (2.7%) on the average Euro Zone had grown by 0.3% in fourth quarter of 2014 and continues into the 1st quarter of 2015, while Japan is to grow by 1.0%.

UNITED STATES OF AMERICA

United States of America is leading the global recovery of output growth as consumer demand strengthened on the heel of falling oil price in the 1st quarter of 2015. There is also the possibility of rise in US short-term interest rate leading to outflow and currency weakness among trading partners. An increase in US interest rates will lead to softening growth in the emerging markets like China, Brazil, India and Argentina.

EMERGING ECONOMIES

A range of emerging markets had seen signs of pick-up in growth in the fourth quarter of 2014, extended to the 1st quarter of 2015. However the forecast is that overall growth in 2015 will slow from 4.6% in 2014 to 4.3%. China is expected to grow at 6.8% this year, lower than the 7.4% achieved in 2014. Chinese authorities had to reduce policy rate, reduce the cash reserve requirement ratio in response to slower growth, falling inflation and tightening in monetary condition caused by capital outflows and the strong effective exchange rate.

SUB-SAHARA AFRICA

We expect growth in sub-Saharan Africa to average 4.9% in 2015. The challenges at the global level include geopolitical tension and conflict, negative effect of commodity price fall, weak external demand, global inflation that continues to be low. However, there are other major specific factors such as softening commodity prices, political crises, adverse weather conditions and large swings in regional currencies. All the above have implications for the Nigerian economy.

DOMESTIC ECONOMY

GDP Growth

At the domestic level, Real GDP in 2015Q1 grew at 3.96%, lower than the 6.21% in the corresponding quarter of 2014. The growth performance was affected by contraction of nominal GDP and decline in consumption, fixed investment and net exports. The IMF has marked down Nigeria's growth in 2015 to 4.8% from 6.3% previously.

Inflation

Inflation currently stands at 8.7% in April 2015 from 8.2% in January due partly to exchange rate depreciation reflecting the pass-through to higher domestic prices from imports. Note that Nigeria is a highly import dependent economy. However, food inflation rate inched up to 9.4% from 9.38% in March 2015. Headline inflation remains a single digit. Nigeria may not enjoy the effect of cheap oil prices because it is oil exporting country and import dependent.

Foreign exchange

For foreign exchange market stability, the monetary policy put in place is working. However, the Naira Debt card policy is currently being used in a manner they are not supposed to be used. Hence, reason for reducing the maximum limit of \$150,000 per annum.

Financial Sector

We tested the financial sector soundness of banks using some major indicators of performance. The results show that Capital Adequacy Ratio of 17.03%; Non-Performing Loans of 3.97%; Liquidity Ratio of 39.78%; Return on Equity of 19.24% and Return On Asset of 2.42%. The overall performance of the Nigerian banking industry remains sound and stable.

The interbank average rate ranges from 12.7% in March to 24.35% in April 2015. The increase was due to tight monetary policy measures adopted in the review period.

The external reserves

The external reserves stood at US\$29.83 billion, estimated to cover about 6.57% monthly imports, as at the end of April 30 2015 compared to US\$37.1 in April 2014 due to low oil price that decreased the total exchange inflows into the economy.

Challenges

The current challenges facing the Nigerian economy include: Decline in industrial output growing slowly due to higher cost, high interest rate, and depreciation of the naira leading to cost growing faster than output. Producers are not able to pass all their costs to consumers because the purchasing power is low, and in some cases, some state governments are not able to pay salaries for months, thereby affecting the purchasing power of households.

There is the need to carry out more research on the source of liquidity, optimal liquidity, currency substitution and possible effect of rise of interest rates in the US. There is a need to develop a comprehensive monetary policy framework, to pursue the

implementation of the Treasury Single Account (TSA) programme as well as improve coordination between the monetary and fiscal policies. We need more information to take certain decisions, particularly because of the likelihood of US raising their rate of interest.

Recommendations

Based on the review of these happenings in the economy I voted to

- i. Retain the MPR at 13%,
- ii. To harmonise the CRR on private sector deposits of 20% and public sector deposits of 75% with a minimum of 31% CRR total bank deposits of both sectors.

This is because the current CRR has led to the re-pricing of loan by banks. This could affect the capacity of obligors to repay their debt.

- iii. Maintain a symmetric corridor of +/- 200 basis points around the MPR and

iv. Retain the net open foreign exchange trading position at 1.00%.

4.0 BARAU, SULEIMAN

Introduction:

This MPC meeting is holding on the heels of intensification of weakness on key macroeconomic indicators and significant level of uncertainty in both the global and domestic macroeconomic environments. In the global environment, considerable degree of uncertainty surrounds the timing of commencement of monetary policy normalization in the US as well as the direction of crude oil prices in the medium term. Within the domestic economy, there is the conundrum of slowing GDP and rising inflation while the process of transiting to another government is ongoing.

Relative stability appeared to have been achieved in the exchange rate but a lot of pressure still exists in the market, based on the huge demand which consistently outstripped supply. ***In the face of rising***

uncertainty therefore, it is logical to maintain the subsisting stance of monetary policy pending the time a clear picture would emerge.

There is however a new dimension of challenge which, in my view, requires an immediate action otherwise, the modest achievement of the last two months in terms of fair stability in the foreign exchange market stands the risk of being reversed. ***Liquidity build up in the banking system is assuming a new height and becoming structural in nature, suggesting that the existing framework for implementation of the CRR is ineffective.***

Thus, ***while I am voting for the retention of most of the subsisting measures of monetary policy particularly on the basis of the ongoing political transition, the discriminatory CRR should be harmonized to give the desired potency to the instrument.***

Key Developments

GDP

Issue around real output is not just about weakness, but the magnitude of the slump is equally a cause for concern. Real output

growth which was 6.23 per cent in 2014Q3 declined to 5.94 and 3.96 per cent in 2014Q4 and 2015Q1, respectively, representing a cumulative decline of 2.27 percentage points during the period. Apart from the challenges in the oil sector, available data shows that critical sector like manufacturing is also experiencing slow down. This, invariably, suggests that the entire economy is facing challenges with implication for employment and poverty. Addressing the challenge, definitely, requires heavy support from structural and fiscal policies but monetary policy should be expected to equally play a complimentary role in terms of ease of policy.

Inflation

There has been consistent threat to general price level from January 2015 up to April 2015, as headline inflation gradually inched up from 8.2 to 8.7 per cent during the period. The uptick in price cut across the two measures of food and core inflation with the potential of taking the headline inflation beyond single digit target of the Bank in the near term with the attendant credibility issue. This, in essence, suggests some measures of tightening but detailed analysis indicates

that the key drivers are transient factors such as fuel scarcity, transportation, festivities as well as some elements of seasonality. In addition, all the measures of inflation decelerated on month-on-month basis, suggesting that the uptick on year-on-year could have been largely due to base effect. Following this, monetary policy may not need to respond to avoid overheating as well as time inconsistency issues

Exchange Rate and External Reserves:

Following the closure of the rDAS segment of the foreign exchange market in February 2015, relative stability has been observed in the remaining two segments of the foreign exchange market. The exchange rate at the interbank opened at N197.80/US\$ on March 2 2015 and closed at N197.00/US\$ on April 24, representing a depreciation of mere N0.8 or 0.4 per cent. Similarly, at the Bureau de change market, exchange rate opened at N225/US\$ and closed at N227/US\$, representing a depreciation of N7.50 or 3.33 per cent during the period. The stability in both markets could have also benefited from reduction in political risk premium following the

successful conduct of the general elections. In tandem with developments in the foreign markets, the external reserves increased moderately from US\$ 29.34 billion at end-March 2015 to US\$30.23 billion on May 8, 2015. These seemingly positive developments notwithstanding, considerable degree of pressure still exist in the market in light of high rate of demand compared with supply.

Global Developments

Two key developments in the global economy weighed heavily on domestic macroeconomic environments in the first four months of the year. The first is the sluggish and uneven global growth particularly in the Euro zone, Japan, and some leading emerging economies, with severe implication for export demand in developing economies including Nigeria. The second is the softening crude oil prices. Brent crude oil price recorded a marginal gain of US\$1.30/barrel in April 2015 over US\$62/barrel in December 2014, representing 2.09 per cent increase. Compared to July 2014 however when the price was at an average of US\$112/b, the level in

April 2015 represented a dip. This, in essence, has implication for both fiscal revenue and accretion to external reserves.

Issues and Pressure Points

A number of key issues would affect macroeconomic environment and by extension define the path of monetary policy in the near to medium term. Beginning from the positive side, the successful conduct of the 2015 general elections has significantly reduced political risk premium which is expected to have salutary impact on investment particularly the pricing of risk in the financial markets. Similarly, the European Central Bank has just commenced massive asset purchase program estimated at about €1.1 trillion with a view to averting the possibility of recession in the zone.

It could be argued that the impact of monetary easing of Euro zone on global financial condition would be moderated by the anticipated normalization of monetary policy in the US but my take is that the normalization may not commence in the near terms. Development in price level in March 2015 revealed that inflation has moved to negative territory in the US while the currency is also

appreciating. Thus, the Federal Reserve would likely be constrained particularly when export demand and labor market condition are factored into consideration. This would likely provide some comfort in terms of capital flow for emerging and developing economies, including Nigeria, thus aiding accretion to external reserves and stability of the exchange rate. The downside risk however is the likelihood of another round of bubble in the equities market with implication for asset quality in the banking system which however could be addressed by the existing macro prudential framework.

A key concern is the softening GDP, traceable to both domestic and global factors. Protracted stagnation in the Euro zone and leading emerging economies like China would constrain export demand, particularly crude oil export. Oil GDP contracted by 8.15 per cent in 2015Q1 compared with an increase of 1.2 per cent in the preceding quarter, thus requiring urgent remedial action. From the domestic side, the slowdown in GDP in 2015Q1 was partly due to rising cost which significantly reduced the net value addition to output. This invariably suggests the need for policy easing.

Another important concern is the medium term outlook of crude oil prices. Brent futures in April 2015 recorded the highest monthly rally since 2009 by rising to US\$66.78 per barrel, representing an increase of 25 per cent relative to the preceding month. Sustainability of the trend is however confronted with significant downside risks. Further uptick in price could provide the incentives to reactivate some of the shale rigs that had hitherto been withdrawn on cost consideration while the prospects of Iran nuclear deal with the US could boost global supplies. Thus oil prices are expected to remain lower than its three-year average in 2015 with severe consequence for balance of trade, government revenue, external reserves, and inflation.

External reserves stood at US\$30.23 billion on May 8, 2015, representing a decline of 11.73 per cent from US\$34.25 billion at end-December 2014. The prospect of building reserve buffer to pre 2014 level in the near term is extremely weak in view of the fundamentals in the global space. A major consequence of the weak external reserve buffer is the waning confidence which is reflected in the

rising level of dollarization. Presently, currency substitution index as a measure of store of value and medium of transaction has crossed the 30 per cent international threshold. This, invariably, creates perverse incentives for the banking system which has started jettisoning the traditional source of revenue, which is interest incomes in favor of non-interest incomes, comprising mainly of volatile foreign exchange transactions. The net effect is that real financial intermediation is being relegated to the background with adverse consequence for the already tapered growth.

Arising from the fall in government revenue is the renewed upsurge in credit to government, which increased by 187.57 per cent at end-March 2015, translating to annualized growth rate of 750.28 per cent. This development is a potential headwind with a negative spillover to private sector credit, growth and ultimately inflation.

A fundamental concern is the perennial liquidity surfeit in the banking system. Optimal liquidity is a *sine qua non* for effective monetary policy. Development in the money markets revealed that both the interbank and OBB rates were below the floor of the policy

rate from the later part of April, 2015 reflecting a breakdown of monetary policy transmission mechanism. My concern is not just about the liquidity surfeit but the apparent structural nature of the problem despite the subsisting tight stance of monetary policy.

My sense is that the current implementation framework of the CRR is ineffective. CRR is a blunt monetary policy instrument with the cardinal objective of draining liquidity from the banking system, regardless of the sources of such liquidity. Attempt to segregate liquidity into public and private sector deposit amounts to placing too much burden on monetary policy, which may be counterproductive. More fundamentally, enforcement of Treasury Single Account (TSA) by the fiscal authority would eliminate the need for discriminatory CRR.

Key Considerations

The overarching consideration for my vote in this meeting is the need to leverage on the reduction in political risk premium by ensuring a stable macroeconomic environment that could provide the required

resilience to the adverse conditions in both the global and domestic environments.

Some of the specific considerations are as follows:

- The need to halt the creeping headline inflation and prevent it from crossing the single digit threshold in order to effectively anchor expectation of economic agents
- The need to build external reserve buffer by making the economy competitive for capital investments such that the adverse impact of continuous softening of crude oil prices on exchange rate and inflation is moderated
- The need to permanently address the structural liquidity in the banking system by improving the efficacy of the CRR
- The need to address currency substitution which is assuming a dangerous dimension
- The need to enable the financial system particularly the banking sector focus on core intermediation

It needs to be stressed that reversing the deceleration in growth through easing of monetary condition is equally imperative but there is the more urgent need of stabilizing price level, building external reserve buffer, and stabilizing the exchange rate in order engender confidence which would ultimately foster growth in the long run.

Recommendations

I have therefore decided to vote as follow:

- Retain the MPR at 13%
- Maintain the symmetric corridor at +/-2%
- Maintain the LR at 30%
- Harmonize the CRR on private and Public sector's deposit at 31%

5.0 DANIEL-NWAOBIA, ANASTASIA

1. The global economy continues to face the risk of deflation as international oil prices remain well below their June 2014 prices. Capital reversals from the Nigerian financial market remains a

source of concern as conditions in the US are on average, looking upwards. With the elections in Nigeria concluded, there is renewed expectation of inward capital flows from the European Central Bank (ECB)'s ongoing quantitative easing program as earlier perceived sovereign risk may have mostly dissipated. However, oil exporting countries like Nigeria, Ghana, Russia etc. are expected to face severe revenue shortfalls as oil export proceeds may likely remain well below post-June 2014 values.

2. The Nigerian economy is expected to continue on its growth path as the year progresses, although with less robustness than it did in 2014. The NBS projected GDP growth rate of 5.54 per cent for 2015 as against 6.3 per cent in 2014. The relatively tepid growth outlook is based largely on the relatively sluggish crude oil markets. However, growth is expected to gain some momentum in the second quarter, due to a mild recovery in the global crude oil markets, as well as the inception of the rainy season that is expected to boost agricultural activities.

3. Headline inflation keeps trending up, but remained in single digits since January, 2013, confirming the effectiveness of sustained tight monetary policy of the Bank. The year-on-year headline inflation increased to 8.7 per cent in April from 8.5 per cent in March, 2015. Projections indicate that the year-on-year headline inflation is expected to rise to 8.32 and 9.05 per cent in May and June, decline to 8.99 per cent in July before accelerating thereafter to 10.16 and 10.11 per cent in September and October, 2015, respectively. The observed continued impact of exchange rate depreciation on imported food; and food supply shortages emanating from the north-eastern part of the country are some of the factors expected to influence the rise in the headline inflation during the year. However, the continued effort by Government to increase food production is expected to impact positively on inflation.
4. Consequent to the current CBN exchange rate policy regime, exchange rate stability has returned in the foreign exchange market. However, concerns still remain as net foreign exchange

inflow remains low. The demand pressures have also not abated, posing threats of further depreciation.

5. Information from the capital market suggests a recovery ahead for the economy. Projections based on the All Share Index (ASI) indicate improved performance in the next six months and thus suggests gradual dissipation of investors' concerns about the fragility of the global economy.
6. Developments in the international oil market in recent months witnessed a considerable rally in the price of Bonny Light crude (and other crude oil prices) This is largely attributed to the decrease in the level of output by the U.S. as a result of previous bearish market trend that discouraged further fracking in the U.S. shale oil industry. However, the current upward trend in global oil prices is not expected to last, especially, as OPEC is still reluctant to curb production.
7. The key challenges to monetary policy still remain: Excessive liquidity in the banking system, pressure on the exchange rate and the continuous decline in external reserves.

8. In order to enhance the effectiveness of liquidity management, particularly the implementation of the CRR, I support the harmonization of the public and private sector CRR. Furthermore, there is need for enhanced co-ordination and collaboration between the fiscal and monetary authorities to ensure the full implementation of the Treasury Single Account (TSA). This will enhance public financial management as well as ameliorate the problem of excess liquidity in the banking system.
9. In view of the above, it is advisable to sustain the current tight monetary policy stance of the Bank in order 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 differential CRR should be removed and replaced with a single rate of 31 per cent.
- (iii) The liquidity ratio should be retained at 30 per cent.

6.0 GARBA, ABDUL-GANIYU

Background

The global economic outlook is tenuous. There is widespread nervousness about how the United States will normalize its expanded balance sheet which like that of many central banks has been bloated with toxic assets mopped up during the various phases of quantitative easing. There is also nervousness and uncertainties about the timing of the impending hikes in interest rates by the US Federal Reserve. These concerns added to the precarious state of Greece and the delinking of Eurozone and the United States monetary policies point to more difficult times ahead for most economies particularly, emerging economies. Many of these economies including Nigeria are still challenged by the negative commodity price shocks and by the reverse flows of portfolio investments.

The macroeconomic data for the first quarter highlights the high sacrifice ratio of the high interest rate trap that many emerging

nations including Nigeria have walked themselves into: declining GDP growth, high unemployment and rising inflation. Though, crude oil prices have risen by over 30% from the under \$50 in January 2015, the nervousness about the global economy does not support confidence that the recovery would continue through to the end of the year. Other macroeconomic risks include the continuing pressure on the Naira and the fiscal vulnerabilities. Expectations about the future path of fiscal policy appear to be positive. If monetary-fiscal cooperation and coordination are prioritized and produce a comprehensive and consistent strategy, the effects on Nigerian financial markets including government securities and exchange rate may be positive.

The Strategic Options

I do not subscribe to the view that monetary policy is short termed and should focus on short term stability. The conventional wisdom is that economic agents are forward looking. It is obvious that key global and national players in the financial markets are highly sophisticated and strategic. It follows that if players are forward

looking but monetary authorities are backward looking, the players will always be several steps ahead of policy makers. It is established that such dis-connects have negative effects on the effectiveness of policy. In addition, the action lags for necessary structural and institutional challenges will be longer than necessary. Such problems are not desirable for any economy in these tenuous times. There is sufficient evidence of such failures past and more recent history. The extent and scope of the failures that culminated into the global financial and economic crisis (the great recession) should make all policy makers who have responsibility for protecting their commonwealths to be proactive and continually alert to ensure that markets are working to be effectively allocative, aid discovery and stimulate creativity.

I have no doubt that the primary strategic/policy challenge is to develop a comprehensive strategic framework that integrates economic policy, micro-prudential policy and macro-prudential policy compatible with macro objectives, financial system stability and effective market functioning. It is hard enough for monetary

authorities to be effective in a global economy characterized and shaped by asymmetries, market power and strategic behaviours (legal and illegal) by dominant players as they struggle to sustain their advantages.

One of the enduring lessons of the global financial crisis and its aftermath is that monetary authorities must be more proactive and act timely and decisively to prevent the prohibitive costs of illegal activities of financial institutions who in their determination to maximize profit opportunities undermine market functioning. The exposure of the Libor fixing scandal in 2012 revealed the roles key British and American global financial players played in fixing Libor rates between 2005 and 2009 to secure unfair advantages and to rig the money market. Later revelations have exposed the rigging of the global foreign exchange markets by six of the largest global players some of whom were involved in the sub-prime mortgage crisis and the Libor fixing scandal.

Building consensus on the need for a strategic shift to a forward looking and comprehensive framework is necessary if the CBN is “to be proactive in providing a stable framework for the economic development of Nigeria” which is the mission statement of the bank. I am convinced that given the *multiple principal objects* of the CBN as provided for in Section 2 and the dual mandate of the MPC as provided for in Section 12 (1) of the CBN Act of 2007, a feasible framework for coordinating fiscal and monetary policy with macro and micro prudential policies is the top priority. Section 12 (1) provides that the MPC was established to facilitate the attainment of the objective price stability and to support the economic policy of the Federal Government’. I had no doubts whatsoever, that the top priority issue for the May 2015 MPC was improving on the monetary framework in ways that strengthen the transmission mechanism of monetary policy and also provides for a non-passive monetary policy stance.

The concern with liquidity is appropriate. However, given the tightening regime from September 2010, the sacrifice ratio of the 'deflationary policies', the exposures to portfolio flows and its consequences, the expansion in balance sheets of the Central Bank and Deposit Money Banks during and after the completion of AMCON 'cleaning of bank balance sheets' in 2010-2014, it was necessary to be clear about the real causes of the persistence of the problem of excess liquidity so that we could effectively control it without sacrificing growth and jobs or financial system stability. Otherwise, MPC meetings will consistently be either about tightening or passivity. I have consistently alluded to a high interest rate trap that MPC has to deal with in contrast to the low interest rate trap that many global central banks that deployed aggressive quantitative easing to stimulate their economies have to deal with.

Decision

I vote to maintain the discriminatory CRR: 75% on public deposit and 25% on private sector deposit (an increase of 500 basis points). When I voted in favour of discriminatory CRR in July 2013 it was not a

frivolous decision. I feel obliged to reproduce part of my justifications. I had concluded that "a 50% CRR on government deposit in the first instance is necessary to start the process of correcting market and state failures in a concrete and effective way. The very short-run effects and the likely reaction functions of key players have also been well analyzed and anticipated. The right institutions to support the policy are also clear and well within the capacities of the Banking Supervision Department of the Central Bank."

The market and state failures led to "the paradox of substantial government deposits in Deposit Money Banks (DMBs) and high government borrowing from the DMBs. As at June 13, 2013, the three tiers of government had N2.384 Trillion in the DMBs out of which about 90% are in zero interest bearing Current Accounts. To mop up the liquidity at 14% will cost N301.33 billion which is more than the annual budgets of most states. Clearly, governments are over-borrowing, are wasteful in the management of public resources and are undermining the competitiveness of the DMBs. This corporate

welfare, transfers or subsidy is clearly wasteful and costly. In addition, it undermines and corrupts the public sector and makes public resources to generate inefficient outputs and ineffective outcomes. Improving the market and the state demands the correction of the causes of distortions.''

As I wrote, 'I voted for a 50% CRR on government deposit as a necessary first step in the process of correcting market and state failures in a concrete and effective way. I expected that a 50% CRR will (i) eliminate the highly profitable repeated game of lending to government its deposit; (ii) compel banks to adapt to new realities, change their business models and become more efficient; (iii) incentivize banks to seek for deposits from the private sector and, to lend to the private sector, (iv) encourage the Federal government to proceed quickly to the Treasury Single Account (TSA), all governments to better manage public resources, cut down wastes and unnecessary costs and (v) reduce the levels and costs of government borrowing, the crowding-out effects of public sector borrowing and, the cost of implementing monetary policy. In

addition, I expected (i) some portfolio adjustments in the structure of DMBs' assets and liabilities, (ii) short lived rise in the operating targets of the monetary policy transmission mechanism (OBB and Call rate) and (iii) decline in liquidity ratios from the very high levels that prevailed in the last one year.'

My initial assessment of the policy in my personal statement of September 2013 was: "the data shows significant changes in the ownership and instrument structure of the deposits of DMBs in favour of growth in government deposit and a more efficient use of financial instruments by the government . . . between June and August, Federal Government Naira deposit with DMBs rose by almost N1.5 Trillion. By corollary, private deposits declined by N1.077 trillion. As a result, total public sector Naira deposit rose to N3.73 Trillion in August 2013 from N2.384 Trillion in June 2013 while private sector Naira deposits fell to N8.7 Trillion from N9.78 Trillion in the same period. In addition, a significant part of the increase in Federal government Naira deposit (81%) was held in Time Deposit in August 2013. These changes are positive signs that the 50% CRR on government deposit

is a game changer for the government deposit. Also, that the efficiency of both money markets and public finance are likely to improve. Second, though, there was an increase in the average Open Buy Back (OBB) and interbank rates, the rates trended downwards between August 20 and September 3, 2013. . . The short term interest rates (intermediate targets) were on average flat: the Maximum Lending Rate (MLR) declined on average by 16 basis points and the Prime Lending Rate (PLR) rose by just 8 basis points. Third, the exchange rate was relatively stable even as the currencies of most emerging markets lost value against the US\$. In addition, the inflation maintained the downward trend, and government borrowing, OMO, Treasury Bills Rate and OMO costs, Liquidity ratio all trended downwards.’

In January 2014, I voted for the CRR on public deposit to be raised to 75%. I justified my vote on the need to ‘speed up the process towards the Treasury Single Account (TSA) which I have consistently argued is “indispensable (i) to avoiding a high interest rate trap and

(ii) to preparing the economy to soften the likely adverse effects of the imminent implosion of the low interest rate trap.” I also anchored my vote on the premise that with “a more efficient and effective cash management that a Treasury Single Account.” I also expected less dependence of the DMBs on government securities; improved efficiency in the pricing and allocation of credit; transition from crowding-out effects of borrowing to crowding-in effects of government lending; rise in money multiplier through increased intermediation by DMBs; (v) potentially lower interest rates; less dependence on portfolio flows; more efficient pricing and allocation of financial assets and reduced risks of financial contagion.”

I have absolutely no reason at this MPC meeting to vote for a harmonization of CRR. I have listened to and contemplated all the arguments put forth. But I am not convinced. It was clear to me based on available data that it was not valid to claim that the policy was not successful. What was clear was that the policy particularly from December 2014 was being undermined by deliberate

reclassifications that needed to be penalized. The right solution was enforcement of the rules of the game not changing the rules. The claim that discriminatory CRR was fiscal policy is not valid and as revealed by Staff Reports, discriminatory CRR is being effectively implemented in Brazil to achieve their peculiar objectives. The CBN Act gives MPC the responsibility of attaining price stability and supporting the Federal Government to achieve its economic objectives. What is more, the fifth principal object of the Central Bank is to act as banker to the Federal Government and provide economic and financial advice to the federal government.' It is important and necessary for policy success that the CBN is able to be an effective banker and economic and financial adviser to the Federal Government and that the Federal Government supports the CBN to fulfill its responsibilities.

In voting for a rise in private CRR to 25%, I am acted on analysis provided by Bank Staff that there was a need to sterilize about half a trillion Naira to reduce the pressure on the Naira. I vote to hold all

other policy variables: MPR at 13% with the symmetric corridor of $\pm 2\%$ and Liquidity Ratio at 30%. The challenge I remain convinced is about developing a forward looking and coordinated policy framework. It is important that a new era of monetary-fiscal policy coordination is ushered in urgently to improve the effectiveness of both fiscal and monetary policies.

7.0 LAWSON, I. STANLEY

The Global Economy

The global economy continues to be characterized by moderate but uneven recovery and diverging monetary policy among the world's major economies. The IMF has projected a marginal increase in global output from 3.4 per cent in 2014 to 3.5 per cent in 2015.

Against the backdrop of sustained weakness in the Euro zone and softening growth in the emerging markets, global output has remained largely tapered. A possible growth path has however been opened by the recently introduced massive quantitative program by the European Central Bank. It has to some extent halted

the slide in potential output and engendered a clear recovery path. This notwithstanding, growth in most of the Euro area and Japan is likely to remain subdued in the short to medium term due to structural bottlenecks and the threat of deflation. Growth In China is also expected to decline below the long run target of 7.0 per cent in 2015 owing to financial market vulnerabilities, declining productivity, excess capacity, and weakening domestic demand. The historical upward trend in growth may however be restored by recent policy stimuli introduced by both government and the Peoples Bank of China in an attempt to unwind the excess capacity and strengthen the financial system.

The US economy continues to remain a bright spot in the global economy. During the first quarter of 2015, the United States led the global impetus to output growth as consumer demand strengthened, unemployment figures improved and the housing market conditions improved all on the heels of falling oil prices, lower US oil imports and accommodative monetary policy. The disparity in

the economic fundamentals of the major economies of the world has resulted in an increasing divergence in their monetary policies. Further worsening the strained global macroeconomic picture are the on-going geopolitical conflicts in the Middle East and Russia-Ukraine. These trends pose downside risks, particularly with respect to volatility in financial markets as interest rates in major economies rise on varying timelines. 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. Emerging and developing countries on the other hand have mostly experienced moderate to severe depreciation in their local currencies and are thus expected to have moderately rising inflation in the medium term. In spite of this, developing economies continue to show relative resilience with group growth projected to move up slightly from 4.4% in 2014 to 4.8% in 2015 while global growth is expected to ramp up to 3.8% in 2016.

Domestic Economy

On the domestic scene, Nigeria continues to witness a deceleration in growth. This deceleration which commenced in the third quarter of 2014, intensified in the first quarter of 2015 in the aftermath of declining crude oil prices. The National Bureau of Statistics (NBS) estimated Real GDP growth at 3.96 per cent in the first quarter of 2015, which is significantly lower than the 5.94 and 6.21 per cent in the preceding quarter and the corresponding period of 2014, respectively.

Real Gross Domestic Product (GDP) growth is expected to decline to 5.54% in 2015 from 6.22% in 2014. As is typical, the non-oil sector comprising services, trade, agriculture and construction was the major contributor to growth. Industry growth was negative at -1.02% in Q1 2015.

Headline inflation continued to edge higher to 8.7% in April from 8.5% in March 2015. Year-on-year food inflation rate inched up marginally to 9.49% from 9.38% in March 2015, while the core sub-index recorded an increase to 7.7% (year-on-year) from 7.5% in March 2015. The rise

in food inflation may be due to the gradual crystallizing impact of the recent devaluation on imported food prices as well as escalating transportation costs. This, to my mind, calls for concern and requires serious monitoring and pre-emptive administrative actions.

In the money market, interest rates continue to be volatile, mirroring the fluctuations in the liquidity position of the deposit money banks. Average inter-bank call and OBB rates, which opened at 11.92 and 10.75 per cent on 2nd March 2015, closed at 15.00 and 13.26 per cent, respectively, on April 17, 2015.

Following the unification of the foreign exchange market on February 18th, there has been significant stability in the foreign exchange market with the Naira consolidating around the N198/US\$ level. The widening gap between the interbank and bureau-de-change exchange rates however continues to raise serious concerns in my mind as it continues to fuel arbitrage and speculative activities. The heightened rate of currency substitution and partial dollarization of the economy is also a source of immense pressure on the exchange rate. Low oil prices have continued to take a toll on

Nigeria's foreign reserves. The latest official foreign reserve figures show a slight increase from \$29.827 billion on 30th April to \$30.181 billion as at May 14, 2015

Conclusion

To my mind, the global outlook has remained largely unchanged over the last two months. On the domestic front, the major cause for concern is the steadily creeping headline inflation over the last five months. It is however worthy of note that the causal factors are largely transient. Also of concern is the wide divergence between the interbank and the bureau-de-change exchange rates, which continues to provide an avenue for arbitrage and speculative activities which invariably puts undue pressure on the exchange rate. The issue of excess liquidity in the system, though contentious, has also come up severally for discussion. A differential CRR regime has been applied severally to mop up liquidity from the system.

Though adverse developments in international oil prices have affected government revenues and accretion to reserves, the financial system has remained stable with key banking stability

indicators showing robustness. It is imperative to ensure that this banking stability is maintained and therefore any administrative action that is likely to impinge on, or dampen the resilience of the financial system and the functioning of the financial markets should be promptly reviewed.

With the peaceful conclusion of the elections, it is my belief that some of the distortions that prevail in the market today will begin to self-moderate after the transition from the outgoing to the incoming government as a lot of confidence will be restored in the market. Nevertheless, I am mindful of the importance and the need to carefully and continuously monitor the domestic risk factors confronting the economy with a view to taking preemptive and timely monetary measures and administrative actions as and when they become necessary. Consequently, I am inclined to vote as follows:

1. Retain the MPR at 13% with a corridor of +/- 2% around the midpoint;
2. Retain the liquidity ratio at 30%; and

3. Harmonize the CRR on public and private sector deposits at 31%.

8.0 NNANNA, O. JOSEPH

Global macroeconomic conditions remain cautiously optimistic amid fragile external headwinds in advanced economies and emerging markets. At the domestic front, the upside effect of the peaceful outcome of the elections contributed to a relatively stable exchange rate of the Naira and macroeconomic stability.

Output and Prices

The decline in output growth, combined with an uptick in inflation which was recorded in Q1 transmitted mixed signals: The National Bureau of Statistics (NBS) reported a 3.96 percent decline in GDP in Q1 of 2015 against a projected growth rate of 5.5 percent as compared to 5.94 percent and 6.12 percent in corresponding quarters of 2013 and 2014 respectively. The decline in output growth was attributed largely to the decline in credit to the economy, even though, liquidity in the banking system was considerably high. Based on available data, the private sector was crowded out by the public sector, as public sector credit significantly rose by 531.78 percent (

annualized) in April 2015 vis-à-vis 7.95 percent (annualized) growth for the private sector in the same period. The overall decline in GDP growth during the first quarter of 2015 was consistent with seasonal expectations.

Creeping inflation uptick remains a major challenge in the near term as monetary policy approaches its limits in anchoring stability in the absence of complimentary structural and fiscal policies: Headline inflation (Y-on-Y) accelerated to 8.7 percent in April 2015 up from 8.2 percent and 8.5 percent in January and March respectively. The trend was replicated in other components of food and core inflation. While food inflation increased from 9.49 percent from 9.39 in March, core inflation marginally increased from 7.50 percent (Y-on-Y) in March to 7.70 percent in April 2015. Though, headline inflation remained within policy bench mark of single digit at 8.7 percent, the upward pressure experienced in recent months could push inflation above the upper limit of 9.0 percent in the near term. In order to mitigate inflationary pressures, the need for complimentary fiscal and structural policies cannot be overemphasized.

Exchange Rate Developments.

Current relative stability in the exchange rates could be sustained as portfolio inflows improves and efforts to reduce excess liquidity in the system and build-up reserves buffer are sustained: The Naira

Exchange rate depreciated by 9.44 percent and 15.14 percent in the interbank and Bureau –de- Change (BDC) market segments respectively from January to May 15 2015. Between end-April and 15th may 2015, the Naira exchange rate remained stable at N197.00 and N221 /US\$ at the interbank and BDCs segments respectively. This represented a marginal appreciation of 0.02 percent over the end April rates, but the premium between the interbank and BDC rates continued to widen largely due to speculation. The CBN intervention strategy in the interbank forex market has continued to gain traction, as speculative bidding by forex dealers have moderated.

Liquidity Management

Liquidity management in the banking system has produced positive results in recent times: The combination of Open Market Operations

(OMO) and Cash Reserve Requirement (CRR) to control banking industry liquidity in the short term was relatively successful. It was obvious that liquidity returned to the system as a result of the temporary suspension of CRR implementation as evidenced by: First, interbank short term interest rates which dropped from 12 percent to about 9 percent on the average. Second, the return of demand pressures in the forex market further confirmed the efficacy of the flow method of CRR calculation as opposed to stock method. Based on these observations, going forward, the harmonization of the CRR (Private/ public deposits of 20% and 75% respectively) into a unified CRR of 31% on DMBs deposit liabilities will, all things being equal, lead to a more efficient control of excess liquidity in the banking system and more stability in the forex market. I therefore, voted to merge the private sector and public sector CRR to produce a single CRR rate of 31 percent. Such a merger will discourage misreporting of liquidity conditions by DMBs and equally serve as a direct cushion on liquidity conditions that may impact on forex market.

Against the foregoing background, I therefore, voted to maintain the MPR at 13 percent, Liquidity Ratio at 30 percent and a merged CRR at 31 percent. I believe that maintaining the current monetary policy stance will allow recent policy decisions to run its course while sustaining prevailing macroeconomic stability in the economy.

9.0 UCHE, CHIBUIKE U

In my opinion, the most contentious issue that was considered at this MPC meeting was the proposal to abolish the differential CRR charged on public and private sector deposits. I am personally not convinced that this is the right policy at the present time. My position on this matter is based on some important factors.

In the first place, it is pertinent to note that charging CRR on public sector deposits is an anomaly. This is because by law, the CBN is the banker to government and as such, it is expected that all government deposits should be domiciled in the CBN. In practice, this legal requirement has arguably been subverted for a long time now because of personal interests of government operatives and policy makers. Although the Federal Government has for over a

decade been mouthing its determination to operationalize the TSA, it is obvious that it is yet to muster the political will to do so.

The policy of charging a high CRR (75%) on public sector deposits was adopted because of the need to sterilize some of the money that should legally be in the CBN coffers. In other words, MPC simply decided to force the Government to comply to a reasonable extent with the laws of the land with respect to ensuring that at least most of the government monies are removed from the banking system. It is also erroneous, in my humble opinion, to argue that the operationalization of a TSA is purely a matter for the fiscal authorities. This is because the anomaly of banking government monies with commercial banks also has profound consequences for monetary policy.

At another level, I am also not convinced by the argument that the Central Bank of Nigeria has been unsuccessful in monitoring banks in order to ensure that they do not take advantage of the arbitrage opportunities that fraudulently reclassifying public sector deposits as private sector deposits could present. I am of the opinion that if

existing penalties do not provide enough disincentives for such fraudulent practices to be curbed, then the penalty for such acts should be stiffened. For the avoidance of doubt, it is important to assert that sabotaging monetary policy because of micro interests has grave repercussions for the nation's economy. It is therefore important for the Central Bank to do all in its power to discourage economic agents from undermining its policies.

Furthermore, it is important to point out that the adoption of the discriminatory CRR regime sent a clear message to banks to begin to reduce their dependence on public sector deposits. This should be considered a welcome development considering the serious danger such dependence poses to financial sector stability. In order to elaborate on this point, one will only have to think of what will happen to banks that are heavily dependent on public sector deposits should government suddenly decide to do the right thing by recalling all its deposits from commercial banks and placing them in the Central Bank?

A very positive outcome of the discriminatory CRR policy is that many banks have now started to reduce their dependence on public sector deposits. Suddenly abolishing the existing discriminatory CRR policy will therefore simply punish the banks that have bought into our risk reduction strategy, perhaps at great costs, while unjustly rewarding the banks that have failed to materially reduce their dependence on government deposits. Surely this unintended consequence of the proposed policy will erode trust between the banks and the regulator. I am also particularly concerned about the timing of this decision. This is so because with the expected change of government on May 29, there is a real chance that the TSA will swiftly be implemented by the incoming administration.

It is on the basis of the above factors that I have come to the careful conclusion that it would be an error to harmonize the current discriminatory CRR on public and private sector deposits at the present time.

With respect to banking sector stability, I am troubled by the increasing dollarization of the balance sheet of Nigerian banks. One

of the possible causes of this dangerous trend is the fact that we currently do not charge CRR on domiciliary account balances in these banks. By this practice, the CBN may be inadvertently encouraging banks to increasingly hold their savings in dollars. This kind of practice however will likely lead to a mismatch between the assets and liabilities of Nigerian banks. This is so because given the increasingly assertive stance of the CBN in making the Naira the sole transaction currency in Nigeria, commercial banks will increasingly have to depend on Naira revenues to offset their foreign currency deposit liabilities. This means that Nigerian commercial banks will have to increasingly deal with exchange rate risks which, as a consequence of the above scenario, is now firmly entwined with their base intermediation function.

In consideration of the immediate economic realities of rising inflation, increasing pressure on the Naira exchange rate and declining reserves, an ideal option demands for some form of immediate tightening of monetary policy. It is in the light of the above that I will support an increase in CRR on public sector deposits

from 75 percent to 100 percent. In addition to reducing the inflationary pressures on our economy, it will also have the additional effect of sabotaging the current anomaly (and the various underlying interests responsible for such) of keeping government deposits outside the Central Bank. No doubt, such tightening may also adversely affect our GDP growth rate that is already shrinking. The alternative of allowing higher inflation and further depreciation of the Naira is in my view more dangerous.

In summary therefore, 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 increase CRR on public sector deposits from 75 percent to 100 percent; and (4) to retain Liquidity Ratio at 30 percent.

10.0 YAHAYA, SHEHU

I vote to maintain the MPR at 13%, along with the symmetric corridor of +/-2%; and the liquidity ratio at 30%. However, I support the

harmonization of CRR for public and private sector deposits at 31%; the reasons for my position are outlined below.

Global Economy

The current global situation is characterized by: a recovering US economy, though with uncertainties as to when monetary policy will be tightened; weak recovery in the Eurozone and Japan; prospects for lower, if still robust economic growth in China and higher growth in India.

The growth rate in Africa is overall at a respectable level, but with mixed prospects for oil exporting and importing countries, exporters of metals (which show a downward trend), as well as countries with persistent political instability and conflict.

Global prices still look flat, below monetary policy targets in US and the Eurozone area. Oil prices have been rising over the last three months, but there is little evidence that this can be sustained over the medium term- indeed there are more credible arguments for a reversal of the gains.

Developments in the global economy therefore pose some challenges for the Nigerian economy and financial system with respect to demand for oil and non-oil exports and metals, uncertainties over timing and pace of monetary tightening in the US and its effect on capital inflows and the exchange rate. Imported inflation is however not expected to pose any difficulties, except through the possible inflationary effects of exchange rate changes.

The Domestic Economic and Financial System

In the Nigerian economy, growth prospects have dimmed as indicated by a relatively low GDP growth rate of 3.96% in Q12015, largely due to low oil prices (contribution of the oil sector to GDP dropped by 9.3% as compared to Q42014) and a sharp decline in manufacturing output. Meteorological forecasts of a relatively shorter rainy season this year, continuing uncertainty in the oil sector compounded with exchange rate issues and reverse capital flows throw up significant challenges for the economy. Major efforts need to be applied in the areas of energy, power, manufacturing revival and reforms in service delivery to sustain rapid growth levels. A

substantial increase in the share of capital to total government expenditure is also needed to support growth.

Domestic price levels have increased year-on year, slowly but consistently in the last few months- headline, core and food inflation figures have all moved upwards and there are prospects for further rises in the course of the year.

One important change is that, although the budget deficit is still projected to be just around 1.1% of GDP, there has been a big rise in government deficits in the last few months, a substantial increase in credit to the government and a rise in domestic debt. This is largely due to a significant rise in government revenue.

By all the relevant indices, the financial system is still sound, although efforts have to be made to prevent lending concentration and to carefully manage foreign currency exposures. There is also some evidence that liquidity in the banking system and in the economy needs to be continued to be well monitored to prevent excessive pressure on prices and the Naira exchange rate. In this regard, the

efficacy of the CRR to help manage liquidity needs to be strengthened.

At the exchange rate market, some relative stability has been restored due to a suite of measures introduced by the Central Bank and due to post-election adjustments. External reserves, although lower than in Q12014 and the first month of 2015, have remained stable over the last three months.

Conclusion

Policy responses are complicated by the combination of declining growth and slowly rising inflation. Unemployment figures have lowered largely because of the change in the way in which unemployment is currently calculated by the FBS. Also, the effects of the election on the economy are winding down. A new government has been elected into power and a transition process is in place. Under the circumstances, it is preferable to maintain much of the current monetary stance for now. Nevertheless, changes to the CRR, especially in the way they are being calculated, are essential to ensure a fairer and more credible policy stance. I therefore vote to

maintain the current liquidity ratio, MPR, the symmetric corridor at the same level. However the CRR should be harmonized at 31%.

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

Since the last Monetary Policy Committee Meeting, which was held in March 2015, depressed oil prices have continued to support the recovery in global demand, *albeit* asymmetrically for oil importing vis-à-vis oil exporting economies. The favourable tailwinds from softened oil prices have led to cheaper energy and quickened the pace of growth in many advanced countries; it had dampened growth and weakened prospects in many commodity exporting emerging and developing countries. Global growth in 2015 is projected to increase by 10 basis points to a modest 3.5 percent reflecting the brightening prospects in major advance economies.

Among advanced economies, the renewed growth prospects reflect the robust outlook for the US and the UK economies, which are projected to expand by 3.1 percent and 2.7 percent, respectively, in 2015. Especially in the US, this development is largely

attributable to strengthened consumer demand, sustained monetary ease, improving housing markets conditions, moderated supply costs, and rising real disposable incomes. In the rest of the advanced economies, predominantly in the Euro Area and Japan, deflation and stagnation remain imminent due to severe structural imbalances, irrespective of the cyclical stimulus from cheaper oil price and loose monetary policy. However, the current asset purchase programmes of the European Central Bank and Bank of Japan provide genuine impetuses for re-inflating these economies. Accordingly, I note that the projected medium-term global growth of 3.8 percent in 2016 is expected to benefit from a probable faster recovery in the Euro area and Japan.

Emerging and developing countries accounted for most of the global growth in 2014; nonetheless, the prospect for growth in the near- to short-term remains fragile following continued sharp corrections in the financial markets due to a potential rise the US yield curve, lower commodity prices and weak demand from advanced economies. For key emerging market economies, a

slowdown or downright contraction is expected in 2015. For instance, the modest growths recorded in Russia and Brazil in 2014 is projected to reverse to contractions of 3.8 percent and 1.0 percent, respectively, in 2015. In China, growth is projected to decline 60 basis points to 6.8 percent in 2015, which is lower than the benchmarked long-term path of 7.0 percent. I note that among these so-called BRIC economies, only India is projected to gain momentum with growth rising by 30 basis points to 7.5 percent in 2015. Low-income developing countries are facing weaker growth prospects as the group's GDP growth is expected decline from 6.0 percent in 2014 to 5.5 percent in 2015. Growth prospects in Sub-Saharan Africa remains austere in the short-term with average growth for the region projected to decelerate to 4.5 percent in 2015 from 5.0 percent in 2014. The pace of growth among emerging and developing countries, broadly, is expected to mimic the asymmetric pattern noticed among advanced economies, depending on whether the pendulum of trade tilts towards the US and UK or towards the Euro area and Japan.

On consumer prices, I note that global inflation continued to decelerate and remained below target in major advanced economies. This is essentially due to lower energy prices, sluggish nominal wage changes and moderating financing costs. Among advanced economies, considerable disinflation of consumer prices are expected in 2015 as average inflation rate is projected to fall 100 basis points to 0.4 percent from 1.4 percent recorded in 2014. This reflects the realised and expected deflation experienced in the UK, Euro area and Japan and is significantly below the 2.0 percent threshold fixed in many advanced economies. Though the disinflation in advanced economies cushions the pass-through from depreciating currencies in many emerging and developing countries, average consumer price inflation in the latter is projected to rise from 5.1 percent in 2014 to 5.4 percent in 2015. The immediate risk to emerging and developing countries is the anticipated protraction of monetary ease in many advanced economies in a bid to re-inflate prices and growth prospects. I, however, note that central banks in emerging market and developing economies may

tighten monetary policy in order to mitigate adverse currency movements.

In Nigeria, short-term growth prospects weakened further as the pace of economic expansion lost some momentum in the first quarter of 2015. On an annualised basis, the outlook for 2015 projects that growth will decelerate to 5.5 percent from 6.2 percent in 2014. Recently released data from the National Bureau of Statistics (NBS) indicated that, at 3.9 percent in 2015Q1, economic growth shed approximately 200 basis points from 5.9 percent recorded in the last quarter of 2014. This moderate growth was largely attributable to the 5.6 percent expansion in non-oil GDP, which regardless of an inherent 85 basis points decline, eclipsed the 8.1 percent shrinkage of oil GDP. The growth in the non-oil GDP reflected growths in the trade, crop production, construction, telecommunications, and other services sub-sectors. The contraction in the oil sector was partly due to strong headwinds from declined oil prices on investment and productivity in that sector. While the slowing pace of growth is a concern, it is important to highlight that it is congruent with

developments in most oil exporting countries, and heightens the need for renewed and intensified drive to reduce the dependence of the economy on primary commodities, especially crude oil, and towards value-added products. In the interim, I am of the view that the outlook will brighten in the near- to short-term following the reduced uncertainty that accompanied the success at the last elections and reinforced by the progressive dismantling of insurgency.

On domestic consumer prices, although headline inflation remained practically stable, it is creeping towards the upper limit of the Bank's tolerance range of 6—9 percent. At 8.7 percent in April 2015, the successive uptick in the last five months is indeed breeding concern and needs to be closely monitored. Available NBS data indicates a gradual increase of headline consumer prices from a growth rate of 7.9 percent in November 2014 to 8.2 percent in January and further to 8.5 percent in March 2015. The increase in headline inflation reflected the strengthening inflationary pressure both in food and core components of consumer prices. Food inflation rose 10 basis

points to 9.5 percent while core prices accelerated by 20 basis points to 7.7 percent in April 2015. The ascent in domestic prices is largely due to temporary factor associated with elevated costs of transportation, energy and food following the general elections and Easter celebrations. I note that while falling global inflationary prospects, driven largely by the rapid disinflation in major advanced economies, could moderate risks of imported inflation, potential pressure on the exchange rate may pose some upside risks to the realization of imported inflation.

Liquidity conditions in the domestic monetary, credit and financial markets remained fairly tight in the review period. Over end-2014 level, broad money supply (M2) rose by 1.8 percent in April 2015 implying an annualised monetary expansion of 5.4 percent, which is much lower than the programmed growth rate of 15.2 percent in set for 2015. This growth was attributable to the 9.7 percent expansion in net domestic credit. In the banking system, liquidity conditions vacillated sharply, thereby causing relative instability in money market interest rates. Average interbank call and the OBB rates rose

from 11.9 and 10.8 percent, respectively, at the beginning of March 2015 to 15.0 and 13.3 percent at mid-April. Cumulated over the first four months of 2015, average interbank and OBB rate stood at 19.0 and 17.5 percent, respectively. At the capital market, moderate outcomes were recorded as key equity indices improved during the period under review. Relative to the levels at end-March, the Nigerian Stock Exchange's All Share Index rose 9.3 percent to close at 34,708 at end-April 2015 while market capitalisation increased by 10.0 percent to end the month at ₦11.8 trillion. The rally in the capital market largely reflected positive spillovers from the successful conduct of the 2015 General Elections and the attendant improvements in uncertainty and market sentiments.

I note the continued calm in all segments of the foreign exchange market during April 2015, following diminished speculative activities that accompanied the closure of the rDAS window in February 2015. The interbank exchange rate recorded a marginal appreciation of ₦0.80 from ₦197.80/US\$ in March 2015 to ₦197.00/US\$ in April. By the same token, the exchange rate appreciated by ₦7.50 at bureau-de-

change segment to close April at ₦217.50/US\$. Besides, since the last MPC, the gross official reserves have recorded modest accretions growing from US\$29.3 billion at end-March 2015 to US\$30.05 billion as at 15 May 2015. The observed accretion in reserve during this period was attributable, among other reasons, to the tapered presence of the CBN in the foreign exchange market with a view to developing the domestic interbank market.

Overall, I note that the successful conduct of the 2015 General Elections and the eased political uncertainty represent a significant boost for the domestic financial markets and the macro economy in general. The associated improvement in market perceptions, sentiments and confidence is expected to provide an impetus for positive net capital inflows and sustain the recent stability observed in the foreign exchange and capital markets. Given that the transient drivers of domestic inflation are evidently outside the influence of monetary policy and given the existing tight stance of monetary policy, I am of the opinion that conventional monetary policy is nearing its upper limit and note the potential roles of

complementary fiscal and structural policies in stimulating aggregate supply and moderating domestic inflation. In addition, I am of the view that the subsisting discriminatory CRR for public and private sector deposits could provoke unwholesome practices among banks with adverse consequences for the aim of liquidity and prudential management. In this regard, I believe that harmonisation of the rates will simplify the application and computation of the CRR and make it a more effective instrument for monetary policy and prudential management.

In this regard, and given the constrained space for further tightening of monetary policy, I vote as follows:

1. Retain the MPR at 13.0 percent;
2. Maintain a symmetric corridor of ± 200 basis points around the MPR:
3. Retain the liquidity ratio at 30.0 percent; and
4. Harmonise the public and private sector CRR at a single rate of 31 percent.