



CENTRAL BANK OF NIGERIA COMMUNIQUÉ NO. 142 OF THE MONETARY POLICY COMMITTEE MEETING HELD ON MONDAY 23rd AND TUESDAY 24th May 2022

The Monetary Policy Committee (MPC) met on the 23rd and 24th of May 2022 confronted with declining global growth and heightened uncertainties associated with adverse price developments across the world. These developments partly reflect the aftermath of the ongoing war in Ukraine, the backlash from the numerous sanctions imposed on Russia by major Advanced Economies, as well as persisting supply chain disruptions in major trading routes. At the same time, the Chinese economy remained confronted with the lingering impact of the COVID-19 pandemic, total lockdown of major cities, significant distortions in the property market and modest inflationary pressures. Consequently, Advanced Economy and Emerging Market Economy central banks alike, are switching to monetary tightening to curb the sharp rise in inflation globally.

Even as global output growth recovery moderates, the domestic economy is expected to remain on the current path of recovery through 2022. This is hinged on the continued impact of stimulus by both the monetary and fiscal authorities to support the economy following the outbreak of COVID-19 pandemic. The Committee assessed these developments and the outlook for the rest of the year.

Eleven (11) members of the Committee attended this meeting.

Global Economic Developments

Global output growth commenced a broad slowdown in the first quarter of 2022, as a result of the conflict between Russia and Ukraine, after recovering considerably in 2021. This led to massive supply constraints, with the backlash of sanctions against Russia creating huge macro-economic imbalances for several countries. Consequently, the uncertainties that have arisen are buoyed by the resumption of the spread of the COVID-19 pandemic in China, a key hub of global manufacturing. This has given rise to upside risks to inflation and downside risks to growth.

In addition, the huge amount of stimulus deployed by various countries to ease the downsides of the COVID-19 pandemic, particularly in 2021, has predisposed the global economy to huge debt levels, considering the current burgeoning global private and public debt portfolios. Central banks in both the Advanced and Emerging Market Economies have thus commenced monetary policy tightening to curb rising prices. This could impact the recovery negatively and result in a rise in debt default as global financial conditions tighten. Furthermore, China has also re-introduced constraining measures to mitigate the spread of a new wave of the COVID-19 pandemic within its major industrial cities, resulting in a slowdown in production. In light of these headwinds, the International Monetary Fund (IMF) downgraded its forecast for global output growth for 2022 and 2023 to 3.6 per cent apiece from 4.4 and 3.8 per cent, respectively, reflecting the severity of setbacks to the global recovery.

Inflation continued to rise unabated across several Advanced Economies and is projected to remain high, at least in the medium term, as food and energy prices pushed higher to levels not previously recorded in four decades. This is due to tightening supply amidst closure of major trade routes that supply inputs for food and fertilizer, as well as the high price of energy. In the Emerging Market and Developing Economies (EMDEs), inflation also remained high due to a combination of persisting high food and energy prices; supply chain disruptions

associated with the impact of sanctions against Russia; exchange rate pressure; capital flow reversals; as well as underlying legacy constraints.

In the global financial markets, investor confidence is gradually being restored, evidenced by portfolio rebalancing with the gradual decline in gold price. The demand for advanced economy equities and bonds has improved with the commencement of interest rate lift-off led by the US Fed and the Bank of England, resulting in the outflow of capital from emerging market securities. Global financial conditions are thus, expected to tighten in the near term, as risk-averse investors reassign substantial portions of their portfolios from perceived riskier, though more rewarding Emerging Market securities to less risky advanced economy securities.

In general, the global economy and financial markets, are confronted with significant risks in the medium term as the huge build-up of both private and public debt may push several fragile economies into a new era of recession.

Domestic Economic Developments

According to the National Bureau of Statistics (NBS), Real Gross Domestic Product (GDP) grew by 3.11 per cent in the first quarter of 2022, compared with 3.98 per cent in the fourth quarter of 2021 and 0.51 per cent in the corresponding period of 2021. This is the sixth consecutive quarter of real output expansion, following the economy's exit from recession in 2020. This steady positive performance, was driven largely by the growth in aggregate consumption, arising from the continued policy support at the onset of the pandemic and gradual recovery of aggregate demand.

Headline inflation (year-on-year) ticked up to 16.82 per cent in April 2022 from 15.92 per cent in March 2022, 90 basis points increase. This is the third consecutive increase in inflation since the commencement of the year 2022, attributable to the rise in both the core and food components to 14.18 and 18.37 per cent in April 2022 from 13.91 and 17.20 per cent in March 2022, respectively. The rise in headline inflation resulted from rising energy prices

associated with the epileptic supply of Premium Motor Spirit (PMS), high cost of Automotive Gas Oil (AGO), mostly used in transportation and production as well as a progressive hike in electricity tariffs. The increase in the food component was driven by shocks to food prices associated with persisting security challenges in major food-producing areas and legacy infrastructural problems which continue to hamper food supply logistics and storage across the country.

Broad money supply (M3) rose significantly to 6.22 per cent in April 2022, compared with 4.19 per cent in March 2022. This was largely driven by strong growth in Net Domestic Assets (NDA) of 11.86 per cent in April 2022, compared with 8.82 per cent in the previous month. The growth in NDA was attributed to the increase in claims on the Federal Government and other sectors (public non-financial corporations, private sector, and state and local governments).

Money market rates oscillated within and outside the Standing Facilities Corridor (SFC), reflecting the prevailing liquidity conditions in the banking system. Consequently, the monthly weighted average Open Buyback (OBB) and Interbank Call rates increased to 7.49 and 8.67 per cent in April 2022, from 6.62 and 4.50 per cent in March 2022, respectively. The increase in rates was an indication of the tight liquidity conditions in the banking system during the review period.

The performance of the equities market remained strong and positive in the review period, with the All-Share Index (ASI) and Market Capitalization (MC) increasing significantly from 46,965.48 and N25.31 trillion on March 31, 2022, to 52,979.48 and N28.56 trillion on May 20, 2022, respectively.

In the Banking System, the Capital Adequacy Ratio (CAR) and the Liquidity Ratio (LR) remained above their prudential limits at 14.6 and 43.7 per cent, respectively. The Non-Performing Loan (NPL) ratio stood at 5.3 per cent in April 2022, compared with its prudential limit of 5.0 per cent, reflecting sustained

stability in the banking system, though there remains a need to bring this down to the prudential limit.

Gross external reserves declined moderately to US\$38.36 billion as at May 19th, 2022 from US\$39.28 billion at end-March 2022. This was attributed to the weak accretion to the reserves from exports and the high cost of importation of refined petroleum products.

The Committee reviewed the performance of the Bank's intervention schemes targeted at stimulating productivity in agriculture; manufacturing/industries; energy/infrastructure; healthcare; exports; and micro, small and medium enterprises (MSMEs).

Between April and May 2022, the Bank released the sum of ₦57.91 billion under the Anchor Borrowers' Programme (ABP) to 185,972 new projects for the cultivation of rice, wheat, and maize, bringing the cumulative disbursement under the Programme to ₦1.01 trillion, disbursed to over 4.2 million smallholder farmers cultivating 21 commodities across the country.

The Bank further disbursed the sum of ₦1.50 billion, under the Accelerated Agriculture Development Scheme (AADS), to one (1) new youth-led project, piloted and funded through the Government of Ondo State for the acquisition of assets for oil-palm cultivation and the establishment of poultry farms. This brings the total disbursement under the Scheme to ₦21.23 billion for 10 state-led and three (3) private sector-led projects.

In addition, the Bank released ₦21.73 billion to finance seven (7) large-scale agricultural projects under the Commercial Agriculture Credit Scheme (CACs). The funds were utilized for the establishment of a ranch and milk processing facility; procurement of feed and medication for livestock/dairy production; construction of a 300 metric-tonne per day oil mill in Gusau, Zamfara State; acquisition and installation of an agrochemical factory; as well as purchase and stockpiling of homegrown maize for animal feed production. This brings the

cumulative disbursement under this Scheme to ₦741.05 billion for 674 projects in agro-production and agro-processing.

Under the Paddy Aggregation Scheme (PAS), ₦6.20 billion was disbursed by the Bank to three (3) new projects for the purchase and mopping-up of home-grown rice paddy. This brings the total funds disbursed to 42 integrated rice millers under the PAS to ₦106.39 billion.

To support the growth of the manufacturing sector, the Bank disbursed the sum of ₦436.85 billion to 34 new projects under the ₦1.0 trillion Real Sector Support Facility (RSSF). This was utilized for both greenfield (new) and brownfield (expansion) projects under the COVID-19 Intervention for the Manufacturing Sector (CIMS) and the Real Sector Support Facility from Differentiated Cash Reserve Requirement (RSSF-DCRR). Cumulative disbursement under the RSSF for the financing of 402 real sector projects across the country, currently stands at ₦2.10 trillion.

The Bank disbursed ₦55.34 billion, under the 100 for 100 Policy on Production and Productivity (100 for 100 PPP), to 44 projects, comprising 24 in manufacturing, 17 in agriculture, 2 in healthcare, and 1 in the services sector.

In the healthcare sector, the Bank disbursed ₦17.70 billion to four (4) healthcare projects under the Healthcare Sector Intervention Facility (HSIF), bringing the cumulative disbursements to ₦130.49 billion for 126 projects, comprising 58 hospitals, 31 pharmaceuticals and 37 other healthcare services.

The Bank released the sum of ₦21.00 billion Under the Export Facilitation Initiative (EFI), for three (3) projects in domestic production and value addition of cocoa and sesame seed. This intervention is targeted at further expansion of the economy's non-oil export basket towards improving foreign exchange revenue earnings for the country.

To support micro, small and medium enterprises (MSMEs), the Bank disbursed ₦1.50 billion to 2,718 new projects through the Agri-Business Small and Medium Enterprises Investment Scheme (AgSMEIS) for activities in fish farming, rice processing, wheat farming, poultry farming, livestock farming, ICT and tailoring amongst others. This brings the cumulative disbursements under AgSMEIS to ₦136.13 billion.

Under the Micro, Small, and Medium Enterprises Development Fund (MSMEDF), the Bank disbursed ₦2.79 billion to support youths engaged at various nodes of the agricultural value chain, bringing the total disbursement under this intervention to ₦98.88 billion to 749 MSME projects across the country.

In energy/infrastructure, the Bank released ₦15.71 billion to power sector players including generation companies (GenCos) and gas companies (GasCos), under the Nigeria Bulk Electricity Trading Plc – Payment Assurance Facility (NBETPAF), bringing the cumulative disbursement under the facility to ₦1.30 trillion. The sum of ₦22.67 billion was also released to Distribution Companies (DisCos) for their Operational Expenditure (OpEx) and Capital Expenditure (CapEx), under the Nigeria Electricity Market Stabilisation Facility – Phase 2 (NEMSF-2). Cumulative disbursement under the NEMSF-2 currently stands at ₦251.93 billion.

Additionally, under the National Mass Metering Programme (NMMP), the Bank has disbursed ₦0.19 billion to DisCos for the procurement of electricity meters, bringing the cumulative disbursement for the procurement and installation of 865,956 meters across the country to ₦47.82 billion. Interventions in energy/infrastructure are designed to improve investment and develop enabling infrastructure in the Nigeria Electricity Supply Industry.

Outlook

The broad outlook for both the global and domestic economies in the medium term, remains clouded with uncertainties arising from the lingering war between Russia and Ukraine, the unfolding impact of the extensive sanctions imposed by several countries on Russia, and the downside risks from the continued spread of the COVID-19 Pandemic.

Global growth is thus confronted with significant headwinds which may derail the current projection further. The persisting rise in inflation, is also set to undermine the recovery of output growth, due to the associated build-up of uncertainties around the cost of inventory and other production inputs. The rise in global debt is also an unfolding dilemma which policy makers must carefully evaluate and address to avert a near-term global financial crisis. In summary, while global aggregate demand remains strong and growing, the numerous supply-side constraints will continue to undermine the recovery effort, at least in the short to medium term.

In the domestic economy, data on key macroeconomic variables indicate that the recovery of output growth will continue, probably at a more subdued pace, considering the unfolding domestic and external shocks to the economy. Domestic price development is, however, expected to maintain an upward pressure in the light of the build-up of increased spending related to the 2023 general elections.

Consequently, the Nigerian economy is expected to grow, in line with CBN forecast of 3.24 per cent in 2022. However, the FGN forecast is at 4.20 per cent, while the IMF projects Nigeria's growth in 2022 to be 3.40 per cent.

The Committee's Considerations

At this meeting, the MPC noted the risks confronting the global economy, as those associated with, not only inflation and prices, but also include risks associated with weakening growth prospects across the world.

The Committee observed that whereas post-pandemic policy support has remained broadly expansionary, at least, from a fiscal standpoint, the sharp rise in inflation across both the Advance & Emerging Markets Economies has generated growing concern amongst central banks, as the progressive rise in inflation, driven by rising aggregate demand and wage growth, is putting unsustainable upward pressure on price levels. Consequently, major central banks such as the US Fed, Bank of England, European Central Bank, and Bank of Canada have provided strong guidance for a progressive shift away from monetary policy accommodation to drive market interest rate upward, which may ultimately impact capital flow away from Emerging Market Economies.

On another hand, MPC noted that the war between Russia and Ukraine has resulted in significant disruption of the global supply chain, at a time when the global economy is still confronted with downside risks to growth associated with the Covid 19 pandemic. In addition to this, global trade has been impacted by the series of restrictions imposed by NATO countries and its allies against trade with Russia. This has increasingly fragmented the global economy, imposing huge strains on the tepid post-pandemic recovery. Only recently, China, the USA, and South Africa are seeing a renewed spike in COVID-19 infections. As a result, the Chinese government recently re-introduced lockdown in major industrial cities, to forestall the spread of the pandemic: further disrupting the supply chain crisis. In the view of the MPC, these two risks pose great challenges to rising inflation globally.

For the domestic economy, the MPC noted with delight that the GDP grew by 3.11 percent in Q1, 2022 (y-o-y), highlighting a steady recovery for the 6th consecutive quarter. Quarter on quarter real GDP grew by 9.36 percent, a slight moderation from 11.07 percent in the previous quarter. The MPC however was

concerned about the somewhat aggressive rise in inflation by almost 90 basis points in April, 2022. To dampen the expectation of the inflationary pressure, MPC decided on the need to take a shift from its historically cautious approach on interest rate, to a policy rate hike, while still adopting an accommodative approach to development finance initiatives that have supported the growth of the economy and sustained recovery. The MPC is of the view that rates on the development finance initiatives of the Bank should remain at 5 percent till March, 2023.

Consequently, as regards the decision on whether to hold, tighten or loosen, MPC feels that loosening in the face of the rising policy rates in Advance economies may result in a sharp rise in capital outflow and faster dry-up of foreign credit lines. MPC also feels that loosening could lead to further liquidity surfeit and inflationary pressure. As to whether to hold, MPC feels its stance would strengthen the perception that the CBN has abandoned its primary mandate of taming inflation.

On the need to tighten, MPC feels that tightening would help moderate the inflationary trade-off from the steady growth recovery so far. MPC also feels that tightening would help rein in inflation before it assumes a galloping trend, considering the progressive increase in headline inflation (m-o-m), particularly with the sharp 90 basis point increase in April, 2022.

Furthermore, MPC feels that tightening would narrow the negative real interest rate margin, improve market sentiment and restore investor confidence. Equally, members believe tightening would moderate inflationary pressure pass-through to exchange rate depreciation and moderate the speed of capital flow reversal, provide incentives for foreign capital inflows and sustain remittances. Lastly, tightening could moderate government domestic borrowing, as government debt servicing to revenue ratio increased significantly in recent times, threatening debt sustainability.

The Committee's Decision

Members expressed deep concern about the continued uptrend of inflationary pressure. Despite the gradual improvement in output growth. The Committee noted that the current rise in inflation may be inimical to growth, and thus hinder the full recovery of the economy. While the MPC identified several supply-side factors which may be contributing to inflationary pressure, emerging evidence shows that money demand pressure is on the rise and is unlikely to abate until the 2023 general elections are concluded. The dilemma confronting the Committee at this meeting, therefore, is how best to drive down domestic prices while continuing to support the fragile recovery.

In the current circumstance, the Committee was of the view that it was confronted with the choice of either to hold all policy parameters constant to allow previous policy measures to continue to support growth or tighten the stance of policy to curb money demand growth and upward movement of domestic prices. A loosening option would likely result in an increased liquidity surfeit, rise in inflationary pressure, and further pressure on the exchange rate.

The choice of holding, in the view of Members, would not only continue to support growth, even though moderately, but will also allow the growth of money demand to continue at the current pace, leading to the uptick in inflationary pressure. While growth concerns remain paramount to the Committee, the persistent uptick in domestic price levels is clearly a downside risk to growth, that must be addressed urgently.

While it may seem contradictory to raise rates in the face of fragile growth, this is the dilemma that most Central banks around the world are grappling with at the moment. Yet, on balance, it is quite clear and compelling that tackling inflation is more urgent in the sequence of policy objectives. In this regard, the MPC urged the Bank to redouble its efforts at supporting the priority growthenhancing sectors of the economy while urging the Federal government to do more to provide a safe and secure environment for economic agents to boost activities and growth.

After carefully reviewing the developments of the last two months and the outlook for both the domestic and global economies, as well as the benefits and downsides of each policy option, the Committee decided to raise the Monetary Policy Rate (MPR) to rein in the current rise in inflation as Members were of the view that the continued uptrend would adversely affect growth. The Bank further reaffirmed its commitment to continue to provide support to priority sectors as the need arises to support growth until the current upward pressure in price development abates.

The Committee thus decided by unanimous vote to raise the Monetary Policy Rate (MPR). Six (6) members voted to raise the MPR by 150 basis points, four (4) members by 100 basis points, and One (1) member by 50 basis points.

In summary, the MPC voted to:

- I. Raise the MPR to 13.0 per cent;
- II. Retain the asymmetric corridor of +100/-700 basis points around the MPR;
- III. Retain the CRR at 27.5 per cent; and IV. Retain the Liquidity Ratio at 30 per cent.

Thank you.

Godwin I. Emefiele

Governor, Central Bank of Nigeria

24th May, 2022

PERSONAL STATEMENTS BY THE MONETARY POLICY COMMITTEE MEMBERS

1. ADAMU, EDWARD LAMETEK

The Russia-Ukraine war continues to weigh heavily on growth prospects in nearly all countries while also fueling inflation globally. Food, energy and chemical raw material output and prices are some of the immediate victims of the war and its fallouts, especially the sanctions on Russia. Like in previous crises, the impact of these developments is likely to be uneven across economies with some possibly reaping transitory benefits, which however may not fully compensate for losses in other areas. In addition to the war in Ukraine, the effects of the coronavirus pandemic continue to be present. Although GDP growth softening is expected across a broad spectrum of countries, emerging market and developing economies (EMDEs) could experience a more severe impact relative to the developed economies owing mainly to limited policy support.

Weakening output growth prospects is one side of the complication monetary policy faces globally at the present. Another, perhaps more disturbing side is the unfavourable inflation outlook. The sweeping downgrades in growth projections by the IMF in April 2022 did not come as a surprise. Prior to the war in Ukraine, many countries (including Nigeria) were already experiencing severe inflationary pressures. In response, some emerging market and developing economies (EMDEs) like Brazil, South Africa and Russia had commenced policy tightening. Among the advanced economies, the United Kingdom (UK), for example, had similarly commenced tightening in response to a rapidly deteriorating outlook for inflation. Since the war broke, many more central banks have joined the early responders. And so, interest rates are rising globally because of the tightening actions of central banks, casting shadows on growth prospects. A third dimension to the complication monetary policy currently faces, especially from EMDEs' angle, is deteriorating outlook for capital inflow and the attendant exchange rate volatility. Rising yields in the advanced economies due to policy normalization and rate hikes appear to threaten capital inflows and exchange rate stability in these countries.

Monetary policy in most EMDEs currently faces the three shades of the complication – poor inflation outlook, weakening output growth prospects and capital flow instability. Nigeria could well have been facing all three today if not for the sustained pro-growth policy maneuvers and development finance interventions by the CBN in the real sector of the economy. On account of these, output is stabilizing – with six (6) consecutive quarters of real GDP growth post-recession, accompanied by a positive outlook for the rest of 2022. Meanwhile, the short- to medium-term outlook for inflation and exchange rate stability in the domestic economy continues to be hazy. I view the balance of risks, looking forward, as having shifted against price stability owing to some factors I have highlighted further down in this statement. This consideration informed my decision to tighten the monetary policy stance at the May 2022 meeting of the Monetary Policy Committee (MPC).

My assessment of risks to growth and to price stability are outlined as follows: First, against the background of several vulnerabilities emanating from the global and domestic environments, real GDP grew by about 3.1 per cent in Q1 2022, the 6th consecutive growth since the coronavirus-induced recession in 2020. Although there remain some downside risks to growth including the war in Ukraine, insecurity and infrastructure challenges, the outlook for growth, predicated on improved credit and sustained targeted interventions in critical sectors, continues to be stable. The IMF and the CBN have projected overall growth for 2022 at 3.4 and 3.24 per cent, respectively, leaving some room for adjustment in policy to address inflation concerns.

Second, the last few months have seen inflationary pressures intensify across nearly all commodity baskets. As part of the adverse spillovers from the war in Ukraine, food and energy prices are rising globally. In fact, the IMF sees inflation remaining elevated for much longer than previously envisaged. For 2022, inflation is projected at 5.7 percent in advanced economies and 8.7 percent in

emerging market and developing economies. Most of Nigeria's trading partners are experiencing historic high levels of inflation, implying increased risk of imported inflation. In addition, being a pre-election year, election-related increase in both private and public spending is already showing in rapidly expanding monetary aggregates. It is therefore not surprising that headline inflation rose to 16.82 per cent in April 2022 from 15.92 per cent in March. This reflected increased pressure in both food and core components. On the month-on-month basis, all the measures of inflation rose in April 2022. The current inflationary pressures may be explained by multiple factors - supply shocks, demand pull, inertia and increased inflationary expectation. Importantly, the outlook for domestic consumer prices generally appears unstable and could deteriorate further unless it is promptly addressed.

Third, the monetary policy orientation in fiscal 2021 through Q1 2022 aimed at easing liquidity constraint in key sectors through development finance interventions and credit expansion, while ensuring that banking system idle balances remained minimal. This strategy appears to have worked very well on the output side with recovery strengthening in nearly all the sectors of the economy. However, inflation continued to be a major challenge. To such an extent that the major drivers of inflation are supply-related, using unconventional instruments aimed at boosting output (supply) would be appropriate since conventional instruments are essentially demand management tools. This view has underpinned the CBN's approach to inflation in the last 2 years. However, given the current situation in which demand has become an important driver, I believe it is time to bring on board extra policy levers.

Lastly, following several months of double-digit inflation, and given recent multiple shocks, it is logical for expectation of further increases in prices to build. A predominant role of monetary policy is to anchor inflation expectation. In fact, those central banks that have commenced policy rate increase have

done so in part to anchor inflation expectation. The central bank has to signal its discomfort with an undesirable path of inflation by doing something fundamental – like raising its policy rate. I view the evolution of consumer prices in recent months and the unstable outlook as credible grounds for some monetary policy action.

The opportunity for tightening policy to lock-in inflation expectation appears to be present now that the outlook for growth is sufficiently positive. This outlook is underpinned by a favourable outlook for credit to the real economy. At end-April 2022, all major financial soundness indicators (FSIs) suggested the resilience of the banking system. Capital adequacy ratio (CAR) remained robust at 14.62 per cent and the ratio of non-performing loans (NPLs) stood at about the prudential limit of 5.0 per cent at 5.3 per cent. On the strength of the resilience of the banking system and the CBN interventions, I expect continued adequate funding for the critical sectors of the economy.

In conclusion, there is no doubt, monetary policy currently faces enormous challenges globally given that risks are spread across both growth and inflation objectives in most economies. Like I stated in March 2022, I see the need for some innovative policy maneuvers in the rest of 2022 as there might be no easy choices. For now, I am persuaded to raise the policy rate to address the demand factors underlying current inflationary pressures and to also dampen expectation of further increases in prices. In effect, I voted to:

1. Raise the MPR by 150 basis points to 13.0 per cent.
2. Retain the Asymmetric Corridor at +100/-700 basis points.
3. Retain the CRR at 27.5 per cent.
4. Retain the Liquidity Ratio at 30 per cent.

2. ADENIKINJU, ADEOLA FESTUS

International Economic Developments

The international economic environment remains uncertain, as the Russian Ukrainian war intensifies and the sanctions on Russia continued to take effects. The war, and the lagged effects of the pandemic, China lockdown and the supply chain constraints have impacted negatively on global economic growth and expected recovery. Hence, in both Advanced and Emerging and Developing Countries (EMDC), inflation continues to soar at unprecedented levels. These developments led the IMF to downgrade global output growth for 2022 to 3.6% from an earlier estimate of 4.4%. Global Composite PMI slowed to 51.0 index points in April 2022, from 52.7 points, a month earlier.

Commodity prices remain at their elevated levels in April and May. Oil price remained high in May, in spite of US efforts of increasing oil supply. As of May 20, 2022, Bonny Light price stood at US\$116.70/barrel. The FAO Food Price Index (FFP) averaged 158.9 points at end April 2022, 1.5 points higher than at end-March 2022. Global financial conditions have tightened significantly in May 2022 from where it was in January and February 2022. Global trade is forecasted to decline in 2022 to 3.0% and rose marginally to 3.4% in 2023.

In their readiness to fight historic levels of inflation, Central banks in many Advanced Economies have raised policy rates and indicated the likelihood of future rate increases. This will have significant effects on capital flows and interest rates on existing and future Eurobonds.

Domestic Economic Developments

Presentations of the Global Economic Developments and Outlook Report by Bank Staff show mixed reports on the domestic economy. Real output grew in 2022Q1 at 3.11%, positive, though it declined from 3.98% in 2021Q4. Non-oil sector, particularly, services, agriculture and manufacturing sectors drove the growth rates. Oil sector contracted for the eighth consecutive quarter. Other economic indicators were not so positive. Headline inflation rose to 16.82% in April 2022 compared with 15.92% in March 2022. Core inflation rose to its highest level since May 2017. Food inflation also rose to 18.37% in April 2022 from 17.20% in March 2022. The Manufacturing PMI declined marginally to 48.9 index points in April 2022, from 49.10 in March 2022. Non-Manufacturing PMI improved marginally to 49.5 index points in April 2022 from 48.1 index points in March 2022. Data also showed that index of electricity production, electricity generation and electricity consumption in April 2022 declined relative to their values in March 2022.

The exchange rate at the I&E windows have remained stable due to the sustained intervention in the FX market by the CBN. This stability does not however mirror the depreciation that occurred in the Bureau de Change segment.

Monetary aggregates also rose in April 2022, at annualized rates that were beyond their provisional levels. M3 grew at an annualized rate of 18.66% in April 2022, compared with the 2022 benchmark value of 15.21%. The growth was mainly driven by Net Claims on Central Government that grew at annualized rate of 78.87% compared with 11.42% 2022 benchmark rate, claims on other sectors grew at annualized rate of 16.50% compared with 18.05% benchmark rate for April 2022. However, there was significant decrease in Net Foreign Asset by -48.57% compared with the benchmark rate of 0.89% for April 2022. OBB rate

also declined from 7.49% in March 2022 to 5.29% in April 2022, due to increase in liquidity in the banking system. All Share Index however rose significantly from 46,638.94 index points in April 2022 to 52,979.96 on May 20, 2022.

The Fiscal performance remains alarming. Government deficit position worsened in March 2022 relative to a year earlier, as increased in government expenditure outpaced government revenue. Government debt rose from N22.7 trillion end-December 2020 to about N35.10 trillion end-December 2021. On the external sector, external reserves decreased marginally from US\$39.28 billion end-March 2022 to US\$39.13 billion as of April 25, 2022. Trade balance improved marginally, while the current account balance declined between 2021Q3 and 2021Q4 respectively. Remittances rose from US\$4.98 billion in 2021Q3 to US\$5.03 billion in 2021Q4. FPI inflows declined from US\$0.29 billion in February 2022 to US\$0.27 billion in March 2022, while FDI rose marginally by US\$100 million between the two periods.

CBN continued to make good progress in the development finance activities as indicated in the Staff report. Between March and April 2022, total disbursements stood at N449.83 billion on several sectors including agriculture, MSMEs, Manufacturing, Energy and Infrastructure, Health, and Exports. These development finance interventions impact on both the demand and supply sides of the economy.

The Banking System Stability Review Report showed that in general the banking system remain safe, sound, and resilient. The financial soundness indicators did not change significantly from their levels as at the last MPC Meeting. Capital Adequacy Ratio remained at 14.6% in April 2022, Non-Performing Loans Ratio rose marginally to 5.3% in April 2022 from 5.1% in March 2022. Liquidity ratio also rose to 43.7% in April 2022 from 43.1% in March 2022. There were no changes in both returns on equity and returns on assets. However, operating cost to total operating income rose from 75.5% in March 2022 to 77.3% in April 2022.

Measures of industry aggregates like total assets, total deposits and total credits also maintained upward trajectories. Industry Credit increased by N4.65 trillions between April 2021 and April 2022. This growth can be attributed primarily to

increased funding base of the industry and the CBN's Loan to Deposit Ratio (LDR) policy. All sectors of the economy have benefitted from the increased lending with the top three being Oil and Gas, Manufacturing, and General. However, governments rank as number four largest beneficiary of total credit. In fact, in terms of sectors that recorded the highest increase in gross credit between end-May 2019 and end-April 2022, Governments are in the top three, after manufacturing and General (retail and personal loans). In terms of interest on lending, 70.93% of loan recipients in April 2022, accessed those loans at 15% or below, compared with 61.29% in March 2022. This shows more banks customers were able to access loans at lower interest rates over the two periods.

The Other Financial Institutions (OFIs) are also doing quite well. Between April 2021 and April 2022, OFIs grew total assets by 11%, total credit 21%, total deposits 16% and total borrowings by 11%. The OFIs provide the avenue for increasing financial inclusiveness in the Nigerian economy.

My Concern

The Nigerian economy is projected to grow by about 3.24% in 2022. There are downside risks to this projection including the security challenges, global oil price developments, COVID 19 in China, uncertainty around elections in 2021, among others. The rising inflation is also a downside risk to economic growth. Current projection is that inflation will maintain current growth trajectory in the near term. Inflation and positive inflationary outlook are a major threat to economic growth, and employment generation.

I am worried that Nigeria is not able to benefit maximally from the current upsides in the global oil market. We were not only unable to ramp up our production levels to meet the OPEC quota, no accretion to foreign reserves is also taking place, and government deficit and public debts are going north at a time we should be writing down our debt profiles and even building up a buffer for the inevitable raining days ahead,

The current food price shock is also a call for the country to reduce external dependence and invest more on agricultural output and its value chain. The

country has sufficient land resources and favourable weather conditions to be self-sufficient in many of the food products we import. The CBN is already doing a lot of interventions in this area. The deposit money banks, and the fiscal must complement the efforts of the Bank.

I am concerned about government budgetary performance. The rising share of governments in total credit to the economy by the banking system suggests crowding out effects of private sector borrowings. Governments should divert to non-debt means of funding its activities. Government must grow its revenue base, reduce waivers to economic agents, plug leakages and wastes, and address the wasteful petrol subsidy system. The huge energy deficit must be urgently addressed.

My Vote

My main concern in this meeting is the current elevated level of inflation. Inflation is bad for growth, employment, and poverty reduction. The continue increase in inflation rate since November 2021 is already affecting economic agents. Evidence show that inflation expectations are positive, and second round effects of inflation are already reinforcing current levels of inflation. All our comparator countries have already raised their rates once or twice since January 2022. It is also important to curb the appetite of the government for debt. We must protect current growth rate and we must stick to the core mandate of the CBN, which is price stability. I am not sure that a one-off increase in the policy rate would do the magic of reining in inflation. However, we must start, and we must be overly aggressive in bringing it down. This is in addition to other administrative measures that the Bank management may deem fit to control liquidity.

Hence, I cast my vote to increase the MPR by 150 basis points, while retaining all other monetary parameters at their extant values. Hence, I vote to:

- 1) Raise MPR by 150 basis points, from 11.5% to 13.0%
- 2) Retain CRR at 27.5%
- 3) Retain LR at 30%
- 4) Maintain asymmetry corridor around the MPR at +100/-700 basis points.

3. AHMAD, AISHAH N.

At the May MPC meeting, **I voted to raise the monetary policy rate (MPR) by 100 basis points** from 11.5 per cent to 12.5 per cent, whilst keeping all other policy parameters constant. My predilection for a tight monetary policy stance was long considered given the steady rise in domestic prices since February 2022, the latest being a 90 bps rise in the domestic CPI to 16.82 per cent in April.

Several global and domestic macroeconomic developments make this a difficult, yet obvious decision, given the ‘confluence of calamities’ facing the global economy according to a recent IMF blog. The Russian invasion of Ukraine and attendant trade related sanctions, soaring global inflation underscored by record-high energy prices, slowdown in international trade caused by disruptions in global supply chains as China implements its zero-covid policy, are just a few notable headwinds facing advanced economies (AEs). Emerging markets and developing economies (EMDEs) such as Nigeria, must contend with the spillover effects from these global macroeconomic developments. This is happening in the context of domestic structural challenges such as tightening financial conditions, rising inflation due to increases in food prices and energy costs and capital flight as advanced economies raise policy rates to contain inflation; all within very narrow and tightening fiscal space.

Clearly, the risks to the global economy have risen sharply and central banks face a difficult and unprecedented policy tradeoff; aggressively contain the high and rising inflation, but risk seriously derailing economic growth. This probably partly explains why the International Monetary Fund (IMF) in its April 2022 World Economic Outlook, anticipates a significant slowdown in global output growth to 3.6 per cent in 2022 and 2023 from 6.1 per cent in 2021; reflecting the severity of setbacks to global recovery.

All about global inflation

Inflation is at record levels in AEs due to a combination of the expansionary policies to contain the economic fallout of the pandemic and the impact of the Russia/Ukraine war. This has prompted policy rate increases across many central banks. For instance, the Fed raised its policy rate by a cumulative of 75 bps to 1.00 per cent between March and May this year. Similarly, the Banks of England and Canada, raised their policy rates by increments of 25 bps to 1.00 per cent over the same period.

The impact of such quantitative tightening for Nigeria and other EMDEs is capital flight to AEs, as assets in EMDEs become less competitive. At the same

time, EMDEs have also started to feel the whiplash from the Russia / Ukraine war as food and energy costs push domestic prices higher, stoking inflation. In response, a number of EMDE central banks have similarly tightened monetary policy to contain rising prices and remain competitive to foreign portfolio investors. The Reserve Bank of South Africa increased its repo rate by 75bps cumulatively to 4.75 per cent between March and May 2022. Other emerging market central banks such as Brazil, Egypt and Ghana also raised their policy rates between 25 to 125bps in the last three months.

As noted in my March 2022 statement, tightening the monetary policy stance for Nigeria is timely and justifiable given the growth retarding level of domestic inflation which remains far above the Bank's 6-9 per cent threshold with a negative short-term outlook. This is capable of eroding real output gains if unchecked. More-so, an upward adjustment in the MPR signals not only the Committee's firm commitment to price stability, but also the need to anchor inflation expectations and minimize current negative real interest margins (which is a disincentive to savings and investment), while preserving and attracting capital flows in line with the Bank's efforts to stabilize the foreign exchange market.

According to the National Bureau of Statistics (NBS), **headline inflation (year-on-year) rose for the third consecutive month** to 16.82 per cent in April 2022 from 15.92 per cent in March 2022. The increase is attributable to the rise in both the core and food components to 14.18 and 18.37 per cent in April 2022 from 13.91 and 17.20 per cent in March 2022, respectively. This reflects the effects of rising energy prices associated with the erratic supply of Premium Motor Spirit (PMS), high cost of Automotive Gas Oil (AGO), and the progressive hike in electricity tariffs.

Movement in monetary indicators also validate a hawkish monetary policy stance as **broad money supply (M3) rose significantly to 6.22 per cent in April 2022** from 4.19 per cent in March 2022. This was largely driven by strong growth in Net Domestic Assets (NDA) of 11.86 per cent in April 2022, compared with 8.82 per cent in the previous month.

Granted, the key factors driving inflation remain structural as espoused severally. Notwithstanding, it is critical to ensure that monetary developments do not exacerbate the situation. These structural factors include persisting security challenges, energy costs and logistical bottlenecks related to transportation of produce from farm to market that continue to constrict food supply, resulting in rising food prices. This is despite significant progress with ramping up food production as the MPC noted a marked reduction in prices of some food items at the farm gate.

Finally, a rate hike is an important counterbalancing signal to curtail the development of negative inflation expectations, ensuring that the monetary authority is proactively positioned to curb rising prices expected to persist in the medium term.

Sustaining output growth in the face of multiple macro headwinds

A possible fallout of pursuing a contractionary monetary policy is the reversal of the economic recovery and domestic growth trajectory. Therefore, a cautious and phased program of policy tightening is recommendable in the current circumstances to preserve economic activities, whilst reigning in price developments even as structural factors fueling inflation are being addressed. Thankfully, domestic output growth is positive and relatively resilient, providing further latitude for gradual tightening of the monetary policy stance. According to the NBS, Real Gross Domestic Product (GDP) grew by 3.11 per cent in the first quarter of 2022, compared with 3.98 per cent in the fourth quarter of 2021 and 0.51 per cent in the corresponding period of 2021. This represents the sixth consecutive quarter of real output expansion, following the economy's exit from recession in 2020. Notwithstanding the difficult growth/inflation tradeoff confronting the monetary authority, the steady positive GDP performance reflects the importance of proactive and sustained monetary and fiscal support to drive the recovery, particularly at the onset of the pandemic.

Continued interventions especially in growth enhancing sectors is, thus, critical to sustain momentum in economic activity and stimulate aggregate demand,

especially in view of the manufacturing purchasing manager's Index (PMI) which contracted for the second consecutive month at 48.9 index points in April 2022 from 49.10 index points in the previous month.

External sector remains challenging but stable

Exchange rate stability remains a key concern and policy focus area for the monetary authority. In particular, demand management and supply stimulation strategies such as growing export proceeds and remittances as long term, sustainable sources of forex supply are critical initiatives in this regard.

The importance of this focus is reflected in the current account balance position which recorded three consecutive quarters of surpluses in the second, third and fourth quarters of 2021, following over ten quarters of deficits. The surplus was driven mainly by secondary income, especially remittance flows which increased by 17.38 per cent to US\$5.02 billion in the fourth quarter of 2021 from US\$4.07 billion in the first quarter of 2021.

Forex inflows also increased month-on-month by 16.84 per cent from US\$6.07 billion in February 2022 to US\$7.09 billion in March 2022, however, net flows decreased marginally to US\$2.64 billion in March 2022 from US\$2.90 billion in February 2022 with a marginal decline in gross external reserves by 1.71 per cent over the same period.

Whilst EMDEs face the threat of capital flight, this risk is somewhat benign for Nigeria, given the relatively low base of FPIs compared with pre pandemic levels. Even so, a rise in the MPR will close the yield gap and ensure Nigeria remains a competitive destination for offshore capital. This, coupled with ongoing export promotion policies of the Bank and other complimentary fiscal initiatives will be critical to maintain exchange rate stability and harness Nigeria's huge economic potentials.

Preserving financial system stability as monetary policy contracts

Sustaining banking sector lending to critical sectors of the economy will be paramount as monetary policy tightens to contain inflation. Given the positive

correlation of market lending rates to the MPR, it is expected that borrowing costs will rise, possibly restricting loan growth.

Gratuitously, the CBN's intervention loans targeted at selected industries and SMEs will remain at 5 per cent per annum till March 2023, which stabilizes access to affordable finance for employment generating sectors. This should be positive for the macroeconomy, stimulating further output growth and positioning businesses to maintain strong cash flows whilst minimising default risk and preserving financial stability.

Industry soundness indicators also remain strong as at April 2022, with capital adequacy ratio at 14.6 per cent, non-performing loans ratio at 5.3 per cent (from 5.9 per cent in April 2021) and liquidity ratio at 43.7 per cent (above the 30.0 per cent minimum) even as credit to the real sector continued to grow.

Notably, the sectors driving output growth in the economy (manufacturing, agriculture, construction, general commerce and information & communication) also attracted increased lending from the banking sector during the period under review - a development that should further strengthen output performance.

CBN shall continue its rigorous regulatory oversight over the industry credit portfolio. Stress test results showed that industry solvency and liquidity positions could withstand mild to moderate shocks in the short to medium term. Nonetheless, the sector must continue to build adequate capital buffers - implementing the Basel III capital standards (which prescribes additional capital buffers) will be excellent in this direction.

In summary, **global economic prospects remain confronted with significant headwinds and a deteriorating outlook**, largely driven by spillover effects from the Russia / Ukraine conflict amidst lingering impacts of the COVID-19 pandemic. Rising global inflation as a result, has led to monetary tightening by advanced and emerging market central banks, even as they struggle to preserve the fragile recovery.

Similarly for Nigeria, containing inflation in line with the price stability mandate is the appropriate monetary policy priority in my opinion. It will be prudent

however to be cautious in raising the policy rate, recognizing underlying structural factors driving price developments and the potentially negative effect of a sudden and significant rate hike on credit expansion, financial system stability and economic growth.

Therefore, at this meeting, it was appropriate to vote to

- Raise the MPR by 100 bps to 12.5%
- Retain the CRR at 27.5%, liquidity ratio at 30% and asymmetric corridor of +100 and -700 basis points around the MPR.

4. ASOGWA, ROBERT CHIKWENDU

Introduction:

The monetary policy landscape has dramatically changed since the beginning of 2022 with the emergence of new economic uncertainties. Inflationary pressures have intensified across developed and developing countries, while there is a slowdown in recovery of economic activities in a number of countries due to the Ukraine crisis and lockdown measures in China. Since our last MPC meeting in March, many central banks have hastened the pace at which they are withdrawing policy accommodation, yet some others remain adamant about any monetary policy shifts, as growth concerns remain paramount in their policy considerations. While this period really presents an exceptionally challenging environment for all countries, the future outlook for both inflation and growth should be critical in the immediate choice of policy instruments. My personal opinion at this May 2022 MPC meeting therefore reflects a current assessment of the economic outlook and balance of risks at the global and domestic levels. While it is necessary to be sensitive to new realities, a gradual approach in deploying policy tools should be paramount in our thinking so as to avoid additional shocks. The considerations are briefly highlighted below.

Overview of the Global Economy:

The Russia-Ukraine conflict has dimmed prospects for robust global economic performance in 2022, casting doubts on the earlier expected return to pre-COVID-19 levels by early 2023. CBN staff report show that the pace of economic activity in the strongest economies slowed in the first quarter of 2022, compared with the previous period. For instance, in the US, GDP contracted by 1.4 percent in the first quarter of 2022, compared with a growth of 6.9 percent in the fourth quarter of 2021 driven primarily by a widening trade deficit and weak inventory investment. The Euro area also grew by 0.2 percent in the first quarter of 2022, compared with 0.3 percent in the preceding quarter, while in the UK, preliminary estimates suggests that the first quarter 2022 output may have grown by 0.9 percent, compared with 1.3 percent in the fourth quarter of 2021 and 0.9 percent in the third quarter of 2021. A similar moderation is observed in China where output grew by 1.3 percent in the first quarter of 2022, compared with 1.5 percent in 2021 fourth quarter. Overall, global economic growth in 2022 is now projected at 3.6 percent, which is 0.8 percent lower than the previous estimates according to IMF's new April forecast.

Global Inflation has risen significantly in recent months with the disruptions in global energy at a time when supply chains were already strained. Of critical concern is that the inflationary pressures are now higher and more volatile in developing countries than in developed countries, contrary to earlier pattern and forecasts. For instance, CBN staff report show that in Egypt, month-on-month inflation rose to 3.3 percent in April 2022 compared with 2.2 percent in the previous month and in Ghana, inflation increased to 23.6 percent in April compared with 19.4 percent in March 2022. This contrasts the trend in some Advanced economies, like in the Euro Area, where month-on-month inflation decelerated to 0.6 percent in April 2022, compared with 2.4 percent in the previous month. In Japan, month-on-month inflation remained stable at 0.4 percent in March 2022, while in the US, month-on-month inflation increased to 0.3 percent in April 2022, coming from a 16-month high of 1.2 percent in March 2022. While food prices are key drivers in Sub-Saharan Africa, in places like Latin America, a combination of higher oil and commodity prices as well as the

existing broad accommodative monetary policy have contributed in elevating the inflationary pressures.

Global financial markets have remained volatile driven mainly by risks associated with the Russia-Ukraine war and also with the speed at which the advanced economies central banks' especially the US Federal Reserve, are now expected to withdraw their monetary stimulus measures. Since the last MPC meeting in March, global equity indexes have dropped further with investor appetite for riskier assets now weaker and asset values in key markets declining sharply. The earlier trend of exchange rate depreciation against the dollar continues even as many countries remain vulnerable to capital outflows. Amidst these challenges, many central banks across the globe have engaged in massive withdrawal of monetary accommodation, while others have announced their future intention, all in an effort to ensure that inflation remains aligned to the target range. CBN staff report, show rate hikes in a number of countries. For instance, the Bank of England in early May 2022, increased policy rate by 0.25 basis points to 1 percent, while the US Federal Reserve raised its policy rate by 50 basis points. In Brazil, the central bank adjusted its policy rate upwards by 100 basis points in May, while the Reserve Bank of India increased the policy repo rate by 40 basis points to 4.40 per cent also in May 2022. The central banks of Egypt, Malaysia, Chile, Korea, Ghana and the Reserve Bank of South Africa have also raised their policy rates in May. In terms of the future global monetary policy trajectory, the expectation is that key central banks will further intensify their withdrawal of monetary stimuli in 2022, given that the Russia's war in Ukraine may likely persist for the rest of the year and will continue to have significant further effects on global prices.

Overview of the Domestic Economy:

Growth.

The Nigerian Economy has continued to recover, but still face several challenges. Based on recent GDP figures, economic activity grew by 3.11 percent (y-on-y) in the first quarter of 2022, which sustains the positive growth for six consecutive quarters after the 2020 recession. However, the recent

growth figures dropped, compared with 3.98 percent in the fourth quarter of 2021 and 4.03 percent in the third quarter of 2021. The non-oil sector has improved rapidly supported by the lifting of restrictions and several monetary interventions by the regulatory authorities. In specific terms, the non-oil sector grew by 6.08 percent in 2022 quarter 1, which was 1.34 percent higher than the rate recorded in the fourth quarter of 2021. The oil sector remains challenged with average daily production of 1.49 million barrels per day, which is lower than the average daily production of 1.72 million barrels recorded in the same quarter of 2021. As a result, real growth of the oil sector was -26.04 percent (year-on-year) in the first quarter of 2022 compared with -8.06 percent (year-on-year) in the fourth quarter of 2021. On a quarter-on-quarter basis however, the oil sector recorded a growth of 9.11 percent in the first quarter of 2022.

The future outlook appears fairly good as GDP growth for 2022 is now projected by CBN at 3.24 percent, slightly below the level in 2021 at 3.40 percent. This minor downgrade is partly due to the expected moderation in global economic growth in 2022. Available high-frequency indicators including the Manufacturing Purchasing Manager Index (PMI) and the MAN CEO confidence index suggests that 2022 quarter 2 growth may somewhat fall below that of quarter 1. For instance, the manufacturing PMI stood at 48.9 index points in April 2022, lower than the 49.10 points recorded in March 2022, marking two months of consecutive decline, below the accepted 50 index points threshold. The non-Manufacturing PMI for April looks better at 49.5 index points, compared with 48.10 index points in March 2022.

Inflation.

The recent movement of the Inflation rate is rather worrisome as both year-on-year and month-on-month increases were recorded in April 2022. Headline inflation (year-on-year) increased to 16.82 percent from 15.92 percent and 15.70 percent in March and February 2022 respectively, while it rose month-on-month to 1.76 percent in April from 1.74 percent in March 2022. Both food and

core inflation accelerated during this period. All eleven of the food sub-groups registered increases in April as compared with March 2022, while eight of the thirteen core inflation sub-groups increased in April as compared with March. Looking ahead, food inflationary pressures are likely to continue for the next few months and may slightly abate during the harvest season. There are however concerns that the direct impact of the rising petroleum and energy costs as well as the emerging political developments in the country are likely to feed into the core inflation prints in the next few months.

External Sector.

Nigeria's external sector remains strong, similar to the position at the last MPC meeting, characterised by a partial resilience of the Balance of Payments (BOP) amidst the global challenges. CBN staff report show that the current account balance has now recorded three consecutive surpluses in the second, third and fourth quarters of 2021 after ten earlier quarters of consecutive deficits. The prospect on the external sector looks good, despite the fact that the overall Balance of Payments recorded a deficit in the fourth quarter of 2021. The drawback as usual is the capital and financial account which has not been in a 'surplus position' for a long time now. Emerging data for the first quarter of 2022 suggests that an improving term of trade may be sustained going forward into the second and third quarters of 2022. The total exports increased by 23.13 percent in the first quarter of 2022 when compared with the fourth quarter of 2021, while total imports decreased by 0.67 percent in the first quarter of 2022 from the levels recorded in the fourth quarter of 2021.

Fiscal Sector and Debt.

The escalating fiscal sector deficits with the attendant rising debt ratios are part of the weak links in the domestic economic environment. The poor revenue growth in a period of expanding government expenditures has continued to soar the budget deficit levels in the first quarter of 2022, similar to the trend witnessed in 2021. The total debt stock as at the first quarter of 2022 has now risen to N41.60 trillion as compared with N39.56 trillion in December 2021, which represents a N2.04 trillion increase in a period of three months. As at end 2021,

the debt service to revenue ratio was 76.0 percent, but may have jumped to about 80.0 percent by the first quarter of 2022.

Particularly worrisome about the debt structure, is the increasing accumulation of Eurobonds in the external debt component, while minimising concessionary loans. The unexplained government preference of Eurobonds at high interest costs, with the associated exchange rate risk may likely hurt Nigeria sooner than anticipated. Unfortunately, several other African countries are involved in this excessive rush for Eurobonds. Already, Nigeria is being mentioned by the IMF as one of the countries that may likely move into debt distress, given the staggering \$100.07 billion dollars of public debt stock as at March 31, 2022.

Financial sector.

The domestic financial sector appears not to be fully affected by these negative global developments given the positive outlook of the banking and equity markets, especially when compared with the position at the last MPC meeting. The banking industry remains strong and resilient with an expanding total asset base and an increasing dynamism in credit performance across different sectors. There are however minor concerns about the recent negative trend in the asset quality as the non-performing loans ratio increased marginally from 5.1 percent in March 2022 to 5.3 percent in April, 2022, while key profitability indicators such as ROE and ROA seems to have stagnated in recent months.

The equity market has maintained a positive momentum, unlike in many other countries with the All-Share Index increasing by 4.74 percent between February and April 2022, while Market Capitalization also increased by 4.77 percent during the same period. For the monetary conditions, the current levels still indicate a tighter space even though broad money (M3) grew by 4.19 percent in March 2022, compared with 2.11 percent in February 2022, but still far below the provisional benchmark of 15.21 percent for 2022.

Policy Decision:

After careful consideration of the current and expected economic developments both globally and domestically, it is pertinent that urgent policy

actions are needed to avoid the risk of longer-term inflation expectations increasing to an extent that will be detrimental to the growth plans. While a policy rate increase at this moment will be consistent with the inflation target, defining the appropriate size of the rate increase that will be growth accommodating is very critical. Given the prevailing high market interest rates in Nigeria, a minimal adjustment of the policy rates at this meeting will be sufficient to send the necessary signals, while future meetings will provide the opportunity to review the setting based on additional information.

I will therefore vote to:

- Raise the MPR to 12.0 percent
- Retain the CRR at 27.5 percent
- Retain the Asymmetric Corridor at +100/-700 basis points
- Retain the Liquidity Ratio at 30.0 percent.

5. OBADAN, MIKE IDIAHI

INTRODUCTION

The global economy has continued to confront severe economic disturbances arising from political shocks such as the current Russian-Ukraine war, and the health shocks from the COVID-19 pandemic. The current developments in the global economy show that the Advanced Economies (AEs) and some Emerging Market and Developing Economies (EMDEs) are now facing the type of challenge that the Nigerian economy has faced for more than six years. They are faced with threatened economic recovery/growth and escalating inflation to historical levels. In light of these challenges, global economies now face two very difficult policy choices entailing a difficult trade-off between addressing rising inflation and dwindling growth. However, their primary policy response is movement along the path of normalisation (strong tightening of monetary policy) through interest rate hikes and rolling back of quantitative easing to address the rising inflation. They had used the two policy instruments to inject large volumes of liquidity into their economies during the COVID-19 pandemic. They can tighten monetary policy without much concern for growth because they could rely on robust fiscal policy to support growth. But Nigeria is not in such a position.

GLOBAL CONTEXT OF NIGERIA'S MONETARY POLICY DIRECTION

Unabated Uncertainties and Elevated Vulnerabilities.

The heightened uncertainties in the global economy in the wake of the COVID-19 pandemic have further intensified since the Russian invasion of Ukraine late February, while vulnerabilities remain unabated as a result of several developments and the associated implications which include the following:

- i. The escalation of the Russian invasion of Ukraine into a full-scale war which has become prolonged. With this war, global supply shortages re-emerged much stronger, energy prices escalated, and food supply chains disrupted with attendant rise in prices.
- ii. Global growth prospects have become dampened. The high expectations about strong economic recovery and growth in 2022 have become subdued in light of the war and the associated sanctions. Accordingly, the International Monetary Fund (IMF), in its

April 2022 edition of the World Economic Outlook, has further downgraded global output growth in 2022 and 2023 to 3.6 per cent in each year from 4.4 and 3.8 per cent, respectively as the backlash from Western sanctions on Russia escalates supply disruptions and global inflation worrisomely elevated.

- iii. Global inflation which rose significantly in several countries in 2021 following their gradual recovery from the impact of the COVID-19 pandemic was initially thought to be transient. But this has turned out not to be so. In light of the recent supply-side shocks, inflation is likely to remain elevated due to sharp increases in energy and food prices. This will result from the persistence Russian-Ukraine war and the spread of COVID-19 in China disrupting production and aggravating supply chain disruptions. In 2022, inflation in the Advanced Economies is expected to average 5.7 percent. The US inflation rate stood at 8.3 percent in April, while in the UK it reached a forty-year high of 9.0 percent. In the Eurozone, it was 7.4 percent. Food prices are expected to rise sharply, exacerbate headline inflation and slow growth.
- iv. The global economy is still within the doldrums of the COVID-19 pandemic although many countries have exited lockdowns. Current and expected lockdowns in major manufacturing hubs in China will further constrain global supply as the rising infection toll associated with the new wave of COVID-19 in China implies that further restrictions will be imposed on the global supply chain.
- v. Global trade. After a strong recovery in 2021, global trade is projected to decline in 2022 and 2023. This is due to supply shortages associated with the Russian-Ukraine war, backlash from sanctions imposed on Russia, persistence of price pressures in the Advanced Economies, and re-introduction of lockdowns in major industrial cities in China. These have depressed the prospects for the continued recovery of global trade.
- vi. Heightened uncertainty facing global financial markets resulting from the combined impact of the lingering COVID-19 pandemic and backlash of the Western sanctions imposed on Russia. Investor confidence was gradually creeping back to the markets when the war broke out. Coupled with monetary policy normalisation in the Advanced Economies and some Emerging Markets and Developing Economies, there is significant tightening of global financial conditions across most parts of the world.

- vii. Crude oil price. After a gradual and continued rally in the wake of the recovery of global aggregate demand, post-lockdown, oil prices shot up sharply in the last week of February up to the first week of March 2022 as hostilities between Russia and Ukraine escalated. The price of crude oil remains high due to supply shortages associated with the sanctions imposed on Russian oil. As at May 20, 2022, crude oil prices were as follows: OPEC Basket, US\$ 112.0/pb; Bonny Light, US\$ 116.70/pb; and UK Brent, US\$ 112.50. However, the price of oil is confronted with a medium-term downtrend on the back of the robust response by the United States to pick up the supply slack attributed to the ban on Russian oil. The US is also in close talks with Saudi Arabia to increase its oil production output to support its efforts in closing the global supply gap.

- viii. Monetary policy normalisation. Against the backdrop of the highly escalated inflation rates currently in the high single digits in the Advanced Economies that enjoyed very low rates even under the COVID-19 environment (characterised by huge fiscal and monetary injections to combat COVID-19 and its effects), a sizable number of central banks are progressing with policy rate hikes much faster than anticipated, pushing the global economy closer to the precipice of a debt crisis, and even recession. Countries like the US, UK, Canada, Egypt, Ghana, Brazil, South Africa, Russia have hiked monetary policy rates for the major reason of reining in inflation, capital flows concerns, among others. However, the Peoples Bank of China lowered its policy rate marginally from 3.8 percent to 3.7 percent due to concerns relating to low growth, supply chain bottlenecks, war in Ukraine and COVID-19 developments, stress in the property sector, rising unemployment, rising inflation, among others.

Implications of Global Developments for the Nigerian Economy

In light of the high level of globalisation of the Nigerian economy, global economic disturbances and uncertainties have continued to be transmitted to the domestic economy, even more intensely, since the outbreak of the Russian-Ukraine war with severe adverse implications for macroeconomic stability.

For example, the rise in the prices of energy and food products abroad, accentuated by the Russian-Ukraine war, is being transmitted into higher food and energy prices in Nigeria because of the country's heavy dependence on

importation for supply of products such as wheat, cereals, vegetable oil, refined petroleum products, iron and steel; consequently, the domestic rate of inflation has tended to accelerate. Besides, under the circumstances, the exchange rate has tended to depreciate with significant pass-through effect to the domestic economy in the form of higher prices of imported goods and services. Thus, the global economy has tended to generate headwinds which undermine the nation's economic recovery and inflation control efforts.

Importantly too, is the impact of monetary policy normalisation in the Advanced Economies on capital flows to Nigeria. Monetary policy normalisation is progressing in the AEs much earlier than expected and at a pace much faster. In light of this, Nigeria and other EMDEs are very likely to be hurt by the commencement of the normalisation as capital inflows are halted and outflows are exacerbated and consequently exerting further upward pressure on the exchange rates.

CURRENT FEATURES OF THE DOMESTIC ECONOMY

In light of the foregoing, the Nigerian economy has continued to exhibit features which make monetary policy choices difficult for the policy makers, in particular, the Monetary Authority. Two of these features are fragile economic growth and escalating inflation. Others are high and unstable exchange rate, uncomfortable external reserves levels (the stock at US\$ 38.61 billion in April, 2022 covers 7.2 months of import of goods and services), crude oil export regime which does not yield accretion to external reserves, weak capital inflows and balance of payments position, burgeoning fiscal deficits and associated high domestic and external debt, both of which gulp a significant proportion of government revenue in debt servicing, etc.

Output growth. Real GDP consistently recorded positive growth rates for (6) consecutive quarters to 3.11 percent in Q1 2022 (year-on-year). The growth pattern is as follows:

Q4 2020 - 0.11%

Q1 2021	-	0.51%
Q2 2021	-	5.01%
Q3 2021	-	4.03%
Q4 2021	-	3.98%
Q1 2022	-	3.11%

In Q1 2022, while the oil sector contracted for the 8th consecutive quarter, the non-oil sector remained the driver of the positive output growth through services, agriculture and manufacturing activities. However, growth remains fragile (showing quarter-on-quarter deceleration since Q2 2021) largely due to waning base effect and various headwinds; consequently, continuous policy support is still required to sustain the positive growth at even a higher and inclusive level.

Accelerating inflation. The rate of inflation accelerated to 15.92 per cent in March 2022 with food and core inflation also trending upwards in relation to February 2022. In April, the headline inflation rate further rose sharply to 16.82 percent, again due to increases in food inflation and core inflation, the former from 17.20% in March to 18.37% in April, 2022 and the latter from 13.91% in March to 14.1% in April, 2022. The contributing factors include imported inflation triggered by global food supply shortages accentuated by the war in Ukraine, exchange rate pass-through effects, rise in cost of transportation and housing due to high cost of fuel/diesel and energy, seasonal factors, security challenges which impede farm access, etc. Due to the upside risks driven by these factors, headline inflation is expected to accelerate in the near-to-medium term unless appropriate policy measures targeting the triggers are implemented.

Capital flows. Foreign capital inflows have remained at low levels. Year-on-year, Foreign Portfolio Investment (FPI) inflows decreased from US\$ 0.44 billion in March 2021 to US\$ 0.27 billion in March 2022. During the same period, Foreign Direct Investment (FDI) inflow grew marginally from a paltry US\$ 0.05 billion in March 2021 to US\$ 0.06 billion in March 2022 arising from increased inflow of

fresh equity capital. Desired foreign capital volume needs to be encouraged with stable exchange rate and appropriate interest rate.

OPINION

In Nigeria, inflation, has since February 2022, been accelerating at a very worrisome pace, eroding purchasing power of the citizens and threatening economic recovery. If the current trend is maintained, it could trigger a recession due to weakened aggregate demand.

Although the current inflation has visible non-monetary factors as drivers, the influence of monetary factors cannot be ruled out in view of developments in the monetary aggregates. Therefore, the Bank could consider tightening the monetary policy stance by adjusting the Monetary Policy rate upwards. Along with other complementary measures, the raised rate should lead to the desired downward trend in headline inflation. Importantly, a hiked MPR could douse the demand pressures in the foreign exchange market and may also spur desired capital inflows/stem outflows as well as boost external reserves.

No doubt, in the situation of relatively low and fragile growth, monetary policy tightening through MPR hike appears contradictory to the objective of supporting growth through easy access to cheap credit. For this reason, the Bank's support to the priority real sectors of the economy will need to be continued, more especially as it supports the price stability objective through adequate supply of goods and services.

In sum, the complementary measures to an upward adjustment of the MPR include the following:

- Continued support to the price stability objective with the development finance interventions;
- Implementation of measures to ensure exchange rate stability;
- Tackling of arbitrary increases in the prices of goods and services by economic agents;
- Elimination of scarcity in petroleum products supply;
- A halt to electricity tariff hikes;

- Re-doubling of efforts by the Government to ensure a safe environment for farming in the farming communities.

In light of the foregoing, I vote to raise the Monetary Policy Rate but rather gradually so as to avoid destabilising the financial system with huge interest rate shock. Thus, for a start, I vote to raise the MPR by 100 basis points from its extant level of 11.5 percent to 12.5 percent while all the other parameters remain at their extant levels:

MPR	-	12.5%
Cash Reserve Requirement (CRR)	-	27.5%
Liquidity Ratio	-	30%
Asymmetric Corridor	-	+100/-700 basis points

6. OBIORA, KINGSLEY ISITUA

At this meeting, I could not ignore the unabating rise in the general price level, especially as it affects fixed income earners and real economic growth itself. In light of these realities, I voted to: raise the Monetary Policy Rate (MPR) to 13.0 per cent from 11.5 per cent, retain the Cash Reserve Ratio (CRR) at 27.5 per cent, the Liquidity Ratio (LR) at 30.0 per cent and the asymmetric corridor of +100/-700 basis points around the MPR. I believe this stance will contain inflationary pressures without reversing the modest recovery.

Several factors have continued to disrupt global recovery and accelerate inflationary pressures. These factors include the Russia-Ukraine war, the rebalancing of demand towards services, tight labour markets, and spike in energy prices. Apart from the death toll and displacement of millions of people, the war continues with severe spillover effects across Europe and the rest of the world. This is because Russia and Ukraine are among the major exporters of oil and gas, fertilizer inputs, maize, wheat, and some precious metals. The supply disruptions to these commodities have contributed to weakening global growth prospects and accelerating inflationary pressures.

Reflecting these developments, inflation has reached record highs in both advanced; emerging market and developing economies. In advanced economies it is expected to increase by 5.7 per cent in 2022, up from 3.1 per cent in 2021, driven by post-pandemic increasing demand, soaring commodity prices, and the ongoing Russia-Ukraine war. In the United States, inflation is projected to increase by 7.7 per cent in 2022, up from 4.7 per cent in 2021. In the Euro Area, it is projected to increase from 2.6 per cent in 2021 to 5.3 per cent in 2022. These are clearly above the target rate of 2.0 per cent set by the Federal Reserve and the European Central Bank, respectively. In Emerging and Developing Europe, Latin America and the Caribbean, and Sub-Saharan Africa, inflation is projected to increase by 27.1, 11.2, and 12.2 per cent in 2022, up from 9.5, 9.8 and 11.0 per cent, respectively (IMF, April WEO, 2022). Even before the Russia-Ukraine war, inflation in Advanced Economies (AEs) and Emerging Market and Developing Economies (EMDEs) has been accelerating due to policy support, supply-chain disruptions, rising commodity prices and strong demand for goods during the COVID-19 pandemic. In 2021, global inflation rose to its highest level since 2008 and in EMDEs since 2011. It also exceeded the target of 2.0 per cent in more than half of the countries on an inflation-targeting framework (Brookings Institute, 2022). As a result, in 2021, some emerging markets, including Brazil, Mexico, Peru, Colombia, and Chile, started to raise their policy rates in response to the rapid inflationary pressures associated with the post-pandemic effects. However, the Russia-Ukraine war has further exacerbated inflationary pressures, with rising energy and food prices hitting record highs globally.

In response to these worrying trends, central banks worldwide are rapidly raising policy rates, which many analysts believe is the most widespread monetary policy tightening in more than two decades. Several advanced-economy central banks, including the Bank of England, the Federal Reserve, Bank of Canada, Reserve Banks of Australia, and New Zealand, are raising the policy rates to contain the rising inflation. In Africa, Egypt, Ghana, South Africa, Tunisia, and others have increased the policy rates. The resurgence of the COVID-19 pandemic in China, however, has also added to the supply disruptions and could accelerate global inflationary pressures. Overall, the current wide spread of policy rate hikes by central banks across the world indicates that inflation is now a global problem, and central banks must act to address both the external and domestic factors driving it. Also, there is an urgent need to end this war to avoid a global food crisis, especially in Low-Income Countries.

With these significant headwinds, the global economy is projected to slow down in 2022. The J.P Morgan Global Composite Purchasing Managers Index declined

to 51.0 index points in April from 52.7 index points in March 2022, driven by slower growth of new orders, declining international trade flows and rising inflation. Accordingly, in the April 2022 World Economic Outlook (WEO), the International Monetary Fund (IMF) downgraded the global economy growth to 3.6 per cent in 2022 from an earlier forecast of 4.4 per cent. The downward revision was due to the post-pandemic demand, the Russia-Ukraine war, rising commodity prices, extensive sanctions on Russia and weak growth in China. In Advanced Economies, growth in the United States, Germany, France, and the United Kingdom is projected to slow down to 2.3, 2.1, 2.9 and 3.7 per cent in 2022 from 5.7, 2.8, 7.0 and 7.4 per cent in 2021, respectively. In Emerging Market Economies, China - a significant driver of global growth, is forecast to decline by 4.4 per cent in 2022, down from 8.1 per cent in 2021, reflecting the resurgence of the COVID-19 pandemic, the lockdown measures and downturn in the property sector.

Following these global trends, the Nigerian economy is also expected to moderate in 2022 compared with 2021. The latest figures from the National Bureau of Statistics (NBS) revealed that the real GDP moderated to 3.11 per cent in Q1 2022 from 3.98 per cent in the preceding quarter, driven by the non-oil sector. The non-oil sector grew by 6.08 per cent, compared with a contraction of the Oil sector by 26.04 per cent. The sub-sectors that recorded significant growth included Rail Transport and Pipelines, Air Transport, Metal Ores, Financial Institutions and Telecommunication and Information Services by 124.5, 50.68, 30.76, 25.43 and 14.50 per cent, respectively. However, Oil Refining, Crude Petroleum and Natural Gas, Road Transport, Quarrying and Other Minerals all contracted by 44.26, 26.04, 24.63, and 13.72 per cent, respectively. The contraction in the oil sector amid rising oil prices was due to pipeline vandalism and oil theft, with adverse consequences on Federal Government revenues, accretion to external reserves and exchange rates. Also, the manufacturing Purchasing Manager Index (PMI) contracted for the second consecutive month at 48.9 index points in April 2022, compared with 49.10 index points in March 2022. It was driven by a decrease in production, employment levels in manufacturing, and supplier delivery. Overall, the modest recovery was driven, in part, by the continued intervention programmes of the Central Bank of Nigeria (CBN).

The banking system remained sound, stable and resilient. Total assets of the banking industry grew by 20.97 per cent from N53.17 trillion in April 2021 to N64.32 trillion in April 2022, driven by balances with CBN/banks, OMO bills, and credit to the real sector of the economy. As a result, the total flow of credit to the economy increased to N26.10 trillion in April 2022 from N21.45 trillion in April 2021, representing an increase of 21.66 per cent. Some sectors with the increased

credit included manufacturing, consumer credit, general commerce, information and communication, and agriculture. The Non-Performing Loans (NPLs) ratio stood at 5.31 per cent at the end of April 2022, slightly above the prudential threshold of 5.00 per cent. It was, however, an improvement from 5.89 per cent at the end of April 2021, reflecting recoveries, restructuring of facilities and sound management practices by Other Depository Corporations (ODCs). In the interbank market, the Open Buy Back (OBB) rate trended upward from 6.62 per cent in March to 7.49 per cent in April 2022, indicating a tight banking liquidity condition, which helps rein in inflationary pressures and safeguard a stable banking system.

Despite this modest recovery and stable financial system, short-to-medium challenges remain. Although the economic recovery is on track, it is still fragile. Domestic crude oil production continued to trend below the OPEC quota of 1.74 mbpd and the budget benchmark of 1.88 mbpd. In April 2022, the average crude oil production declined to 1.35 mbpd from 1.39 mbpd in the previous month. The shortfall was due to increased oil theft and pipeline vandalism, making it difficult for the Federal Government to benefit from the rising oil prices. Also, while the manufacturing and non-manufacturing Purchasing Managers' Indexes (PMIs) improved, they are still below the 50 index points. Inflationary pressures persisted in April 2022 as headline inflation rose to 16.82 per cent from 15.92 per cent in March 2022, driven by food and core components. Food inflation increased to 18.37 per cent in April 2022 from 17.20 per cent in March 2022. Core inflation stood at 14.18 per cent in April 2022, up from 13.91 in March 2022. Furthermore, limited fiscal space, high unemployment, lingering insecurity, and infrastructural deficits continue to fraught recovery.

The outlook is confronted with significant downside risks. The IMF projected a slowdown in global economic activity in 2022. It is also expected that global inflation will remain elevated longer than previously projected. The resurgence of the COVID-19 virus in China could disrupt production and add to inflationary pressures. Furthermore, continued monetary policy tightening by advanced economies to tame inflation would result in more capital outflows from EMDEs. Capital reversal from these economies will increase by 30.0 per cent, up from an earlier projection of 20.0 per cent (Global Financial Stability Report, April 2022). It will increase the cost of borrowing, diminish accretion to external reserves, depreciate local currencies, and further push up the prices of goods and services in EMDEs. In the domestic economy, despite the modest recovery, growth is still fragile and expected to remain subdued in 2022. The forecast also showed upward trend inflation at a double-digit territory, which is far above the

implicit inflation target of 6-9 per cent. This will imply an increase in the negative real interest rate and a shift upward in inflation expectations.

All of these suggest a difficult policy environment for Central Banks and fiscal authorities around the world. This is because they are now faced with the challenging trade-off between rising inflation and dwindling growth. Supporting growth that is still fragile would suggest an accommodative policy stance, and that would help promote growth and job creation for the unemployed and underemployed youth. But Nigerians also need low and stable inflation that preserves the value of their hard-earned income and savings - and this will require a tightening policy stance. High inflation affects everyone, including households, firms, and businesses. It particularly hurts the lower-income group because it easily erodes their purchasing power, and exacerbates poverty and inequality. Furthermore, the current inflationary pressures are not only driven by structural issues but also by monetary factors partly due to the buildup to the 2023 general election.

Although the recovery is dwindling, it has witnessed six (6) consecutive quarters of growth after exiting a recession in the fourth quarter of 2020. This modest growth was, in part, due to the CBN continued intervention programmes to stimulate growth across multiple sectors of the economy, including MSMEs, agriculture, manufacturing, healthcare and individual households. To further sustain this modest recovery, the Bank has extended the concessionary interest rate of 5.0 per cent of its various interventions by one year, ending March 1, 2023. Therefore, having achieved some modest recovery with the continued support from the Federal Government and the CBN, the time is appropriate to contain the rising inflationary pressures to avoid reversal of this recovery.

Having carefully considered this trade-off between inflation and growth, I believe the best course of action is to aggressively increase the MPR. This will help contain inflationary pressures in the short-to-medium term, sustain the recovery, moderate capital outflows, and minimize the effect of exchange rate pass-through to domestic prices. On this basis, I voted to:

- Increase the Monetary Policy Rate (MPR) to 13.0 per cent from 11.5 per cent.
- Retain the Cash Reserve Ratio (CRR) at 27.5 per cent.
- Retain the Liquidity Ratio (LR) at 30.0 per cent; and
- Retain the asymmetric corridor to +100/-700 basis points around the MPR.

7. OMAMEGBE, MO'

Global Economic Developments

Around the world, there are warning signs of a recession. The uncertainty and fears of its likelihood is negatively impacting financial markets. Economists are steadily downgrading their forecasts for global growth. The IMF projects that global growth will slow from an estimated 6.1 percent in 2021 to 3.6 percent in 2022 and 2023. Beyond 2023, global growth is forecast to decline to about 3.3 percent over the medium term.

Stock markets in United States, Europe and Asia-Pacific region are falling as investors worry over weakening global growth. Emerging markets hit by the mix of rising rates and slower growth dims the outlook for developing economies around the world.

Central banks are raising interest rates to try to control inflation. In the US, Inflation was a growing concern throughout 2021, but the central bank only began hiking rates in March 2022. The Federal Reserve chair announced a 50-basis point increase in interest rates, the largest hike in over two decades. The US central bank would continue to raise rates by half a percentage point at the conclusion of each meeting until inflation is under control. Inflation rates are near 40-year highs and most economists agree that the Fed should raise interest rates in order to reduce economic demand and maintain price stability. The Fed is convinced it can raise rates without pushing the economy into a recession.

Britain is on course to enter a technical recession in the second half of this year, already living standards is being impacted by surging prices. UK inflation hits 40-year high of 9.0%. The Bank of England warned of double-digit inflation and a possible recession as it raised its key interest rate by a quarter percentage point.

China's economy, the world's second largest, is stalling, threatening to drag down global growth. The progressive staggered lockdowns in China continue to disrupt supply chains.

The war in Ukraine triggered higher food and energy prices, which is eroding households' disposable incomes. Food prices are rising, energy bills are rising, petrol cost, taxes, food bank use, the number of people in poverty is rising. The war-induced commodity price increases and broadening price pressures have led to 2022 inflation projections of 5.7 percent in advanced economies and 8.7 percent in emerging market and developing economies.

Rising US interest rates make emerging markets relatively less attractive to investors, prompting many to pull their money out of riskier economies. The Russia's invasion of Ukraine strengthened currencies of commodity-exporting countries including Brazil and South Africa. At the same time, it has engineered shocks in global commodity markets which is straining the external and fiscal balances of commodity-importing countries.

Domestic Economic Developments

The International Monetary fund (IMF), in its April 2022 Economic Outlook, has revised its growth projection upward for the Nigerian economy in 2022 to 3.4 percent. The IMF had earlier forecasted a 2.7 percent growth for the Nigerian economy in 2022, suggesting an increase of 0.7 percent. Also, the forecast for 2023 was revised upward from 2.8 percent, indicating an increase of 0.4 percent. Despite the upward revision, Nigeria's growth forecast still lags behind the Sub-Saharan growth rate of 3.8 percent and the world growth rate of 3.6 percent.

There is a dramatic deterioration in the real purchasing power of people's incomes. Data obtained from the National Bureau of Statistics has revealed that the Consumer Price Index rose to 16.82 per cent in April from 15.92 per cent in March. The rise in the inflation rate in April shows that Nigeria is not left out in the global inflation surge as both components of inflation – core and food went up. Recently, the World Bank stated that COVID-19 pandemic-induced inflation

pushed about 23 million Nigerians into a food crisis in 2021. On the fiscal side, deficits are increasing and external debt growing.

According to the Organization of Petroleum Exporting Countries (OPEC) May 2022 oil report, Nigeria's oil production fell in April 2022 due to low investment and other factors, including persistent oil theft and pipeline vandalism. Nigeria produced an average of 1.22 million barrels per day (mb/d) of crude oil in April 2022. This production level is approximately 18,000 barrels per day (b/d) lower than 1.24 mb/d recorded in March 2022. In addition, total production is about 500,000 b/d lower than 1.74 mb/d OPEC assigned quota for the country. The shortfall in production results in a loss of crude oil export earnings valued at over US\$50 million per day, which also indicates a shortfall in government revenue from crude oil royalty. Nigeria is not maximizing additional oil revenue associated with the surge in crude oil prices in the international market since Russia's invasion of Ukraine.

Latest data released by the Central Bank of Nigeria (CBN) shows that Nigeria's external reserves dipped by US\$742.59 million to US\$38.84 billion on May 18 2022 from US\$39.58 billion on April 29 despite higher crude oil prices.

The naira has weakened to N598 per dollar at the black market as a result of increased demand. In March this year, several Nigerian banks announced the reduction of the monthly spending limit to US\$20 from US\$100, while some temporarily suspended the usage of the naira-denominated debt cards for international transactions.

Nigerian Capital Market

Amid uncertainties in the global economy and rising insecurity in the country, the nation's stock market continued its bull-run. The equities market has recorded an unprecedented upbeat since the beginning of the year to emerge the best performing market in Africa and third in the world. The Nigerian Stock Exchange (NGX) All Share Index (ASI), crossed the 53,000 mark to hit a 14-year high for the first time since 2008, amid improved earnings, dividends reinvestment and the roll out of derivatives.

The capital market performance has remained relatively strong despite the various global and local headwinds including rising inflation, supply chain challenges, rising cost of energy, threat of global food crisis, insecurity and interest rate hikes in some leading economies.

- NGX All Share index returned year-to-date figures of 19.21% in Q1 2022; the best performing in Africa and moving further to close the week of 20th May 2022 on a year-to-date increase of 24.03%. While the index has trended upwards, there has been bouts of sell offs leading to decline in the NGX ASI. Total turnover in FMDQ markets as at 31st March 2022 was N15.16trillion increasing by 6.54% over February 2022.
- JP Morgan delisting of Nigeria from its emerging markets list would impact negatively on international perception of the country, denting international confidence in the economy which would affect the flow of international capital including FPI into the country. Loss of confidence would invariably raise the cost of borrowing internationally for both the country and domestic borrowers.
- Global interest rate hikes in the bid to tame inflation can encourage capital flight from emerging markets including Nigeria as foreign investors pull funds from those markets to developed ones and reduce new inflows. Higher rates may also push up international borrowing costs and reduce the ability to borrow.
- Increased global interest rates and inflation will most likely reduce Diaspora remittances to developing countries including Nigeria.

Overall Consideration

There are many uncertainties threatening the Central Bank's inflation and growth objectives. Several macroeconomic headwinds ranging from the global shocks emanating from the Ukrainian war, continued supply chains disruptions and COVID-19 lockdowns in China, to slowing global economic growth and persisting inflationary and exchange rate pressures.

We are faced with food and fuel prices that are rising. Inflation has to be tackled as it is eroding purchasing power with the most impact on the living standard of the poorest amongst us. As rising inflation rates becomes a global phenomenon, Nigeria face imported inflation with 18 out of 21 countries of our trading partners battling record high inflation rates.

While increasing the MPR is a lever for slowing down inflation, it may be harmful to growth. To be effective in tapering inflation, rates typically need to be raised to a level that discourages borrowing, investments and spending which ultimately reduces job growth. However, the potential negative impact on growth highlighted above may be blunted by targeted intervention on key sectors.

Exchange rate pressure need to be addressed. Very simply put, we need foreign exchange to fund imports and we import what we do not produce. There should be a relentless focus on boosting local production. In the medium to long term, we can only produce our way out of the foreign exchange challenge.

There is an urgent need for a combination of broad-based monetary and fiscal policy measures to curb the rise in inflation and contraction in output growth. The Committee is faced with a difficult set of policy choices, requiring trade-offs. Policy options are limited in this scenario and tradeoffs must be made.

My Policy Decision:

My policy decision is based on the above assessment of developments likely to affect growth and inflation outlook in 2022.

I therefore vote to:

Raise MPR by 100 basis points, from 11.5% to 12.5%;

Retain the Asymmetric Corridor of +100/-700 basis points around the MPR;

Retain the CRR at 27.5 per cent;

Retain the Liquidity Ratio at 30 per cent.

8. SALISU, MOHAMMED ADAYA

Global Developments and Economic Outlook

Just as the global economy has started recovering from the aftermath of the Covid-19 pandemic, it is now being hit by the effects of the Russia-Ukraine war. The spillovers from the war are leading to severe disruptions in supply chains, fuelling inflation, especially rising food and energy prices, financial vulnerability, policy uncertainty and constrained fiscal space.

Against the backdrop of this challenging environment, the global economy is expected to experience its sharpest deceleration in decades. Accordingly, major multilateral institutions such as the International Monetary Fund (IMF) and the World Bank have downgraded their global growth forecasts for this year. For instance, the IMF has downgraded its 2022 growth forecast to 3.6 per cent from 4.4 per cent (WEO, April 2022), while the World Bank has revised its growth projection for 2022 from 3.1 per cent to 2.9 per cent (Global Economic Prospects, May 2022).

It is noteworthy, however, that the global growth forecast trend masks considerable variation in growth across the regions of the World, with the

growth performance in emerging markets and developing economies (EMDEs) likely to outperform that in advanced economies, especially the Euro Area, whose economies are largely dependent on Russia and Ukraine's energy and agricultural commodities and inputs. For instance, in advanced economies, growth is projected to decelerate from 5.1 percent in 2021 to 2.6 percent in 2022. In contrast, growth in EMDE is projected to decelerate from 6.6 percent in 2021 to 3.4 percent in 2022 (GEP May).

The effect of the Russia-Ukraine war can also be felt on global consumer prices, which have been rising across the world since start of the war on 24 February 2022. Inflation in many countries is reaching multidecade highs and is now above target in most advanced economies and EMDEs. For example, in the UK, the Consumer Prices Index (CPI) rose by 9.1 per cent in the 12 months to May 2022, the highest in many decades. Similarly, in the US, inflation reached 8.6 per cent in May 2022, the highest since 1981. And in the Euro Area, inflation stood at 8.1% in May 2022, up from 7.4% in April 2022 (Eurostat, May 2022).

Domestic Developments

Since it exited recession in Q4, 2020, the Nigerian economy experienced improved growth performance in six successive quarters. According to data released by the National Bureau of Statistics (NBS), Nigeria's real GDP grew by 3.11% (year-on-year) in Q1 2022 compared with the 0.1% in Q4 2020. Thus, the observed trend since the fourth quarter of 2020 is an indication of a gradual economic stability. Growth during the past quarter was driven largely by ICT, Agriculture, Trade, Financial and Insurance services. In contrast, the Industrial sector shrank by 6.81%, largely driven by the decline in the Crude Petroleum and Natural Gas sector (-26.04%), Coal Mining (-12.97), Quarrying and Other Minerals (-13.72), and Oil Refining (-44.26). The poor performance of the oil

sector, which accounted for only 6.08% of GDP in Q4, 2022, was occasioned by a lower volume of oil production caused by crude oil theft and vandalism.

Although the positive growth performance is expected to continue over the short- to medium-term period, the full growth potential would be undermined by the spillovers from the Ukraine war via rising inflation (especially food inflation) and crude oil prices. In the case of energy prices, in the past, higher oil prices had improved Nigeria's fiscal and external positions, boosting exports and government spending. It also had spillover effects on the non-oil economy, particularly services and manufacturing sectors. However, in contrast to the past episodes of high oil prices, Nigeria is unlikely to reap full benefits from higher oil prices now for two reasons. First, oil production is far below Nigeria's full capacity and the OPEC's quota; and secondly, the higher crude oil price leaks into higher cost of imported PMS leading to higher PMS subsidy. So long as fuel subsidy is in place, it will continue to erode the revenue gains associated with higher oil price.

In the case of inflation, which stood at 17.70 per cent in May 2022, it is largely driven by food inflation, which stood at around 20 per cent. The war in Ukraine will exacerbate food inflation through scarcity in agricultural commodities such as wheat as well as farm inputs such as fertilizer. Thus, higher prices of fertilizer induced by the ongoing crisis between Ukraine and Russia is not without effect on Nigeria's production outlook in the coming season(s). It is noteworthy that fertilizer prices in Nigeria have more than doubled and farmers are likely to cut down on fertilizer applications on farmlands which could seriously limit food production unless concerted intervention efforts are put in place.

Other drivers of inflation, especially food inflation, in Nigeria include disruption to farming activities and inter-state trade because of worsening security conditions, rural road infrastructural deficits, persistent supply chain disruptions,

post-harvest losses, and sustained exchange rate pressures with pass-through to domestic prices.

The consequences of sharply rising prices are that inflation adversely affects all Nigerians, especially the poor, by reducing the value of savings and purchasing power. It also reinforces expectations and reduces Nigeria's price competitiveness with regard to the country's international trading partners. Thus, reducing post-harvest food losses, reducing cost of governance and redirecting resources saved to development of rural infrastructure can have immediate impacts in reducing inflation in Nigeria. Some of the immediate measures needed to tackle food inflation include timely provision of emergency agricultural interventions in the current wet and dry seasons to boost agricultural production as well as addressing the insecurity challenges by (i) improving the capacity of security forces to gather advanced intelligence to enable them act proactively; (ii) increasing co-ordination between stakeholders and regional organisations to improve safety for farmers; (iii) hastening the implementation of agricultural reform policies especially transformation of livestock farming to reduce potential for conflict; (iv) undertaking a comprehensive exercise to reduce access to arms and ammunitions including through cooperation and coordination with trading partners; and (v) detailed scrutiny of security funding to ensure that security votes are used efficiently and judiciously.

Policy Decision

Against the backdrop of headwinds to global and domestic economic growth and outlook, it is apparent that maintaining economic growth and reducing inflation will be the twin policy objectives of government policy. The uncertainty around the Ukraine war as well as geopolitical tensions around world suggest that inflation will remain elevated for longer and at higher levels than previously assumed. This has prompted central banks in the Advanced Economies and other EMDEs to use monetary policy instruments to contain inflationary

pressures. Here, in Nigeria, inflation expectations will continue to rise in the run up to the 2023 General Elections, in addition to the lingering effect of the Ukraine war on commodity prices. Thus, the rapidly rising inflation poses a serious risk to the Nigerian economy and has created additional monetary policy challenges. I believe that we can address these new pressures without unduly impairing the recovery through clear and effective communication as well as a steadfast commitment to credible monetary frameworks, including maintaining the resilience of financial institutions through effective macroprudential regulation. This calls for a restrictive monetary policy stance.

Therefore, the time has come for the CBN to take a more aggressive monetary stance on inflation by raising the Monetary Policy Rate (MPR) substantially. Efforts by the CBN should, however, be complemented by the fiscal authorities for maximum impact. However, there is a need for collaboration and coordination between the fiscal and monetary authorities to tackle the headwinds, reduce inflation and boost economic growth. There is also the need for effective monitoring and evaluation of many of the government policies, as Government often approves important policy recommendations but implementing agencies of government fail to implement them fully, resulting in sub-optimal outcomes.

Consequently, I voted to:

- Raise the MPR by 150 basis points to 13 %
- Retain the CRR at 27.5%
- Retain the Asymmetric Corridor at +100/-700 basis points around the MPR
- Retain the Liquidity Ratio at 30.0%

9. SANUSI, ALIYU RAFINDADI

1.0 Decision

In today's meeting, I voted with the conviction that the interactions of three domestic and international developments, which threaten inflation have necessitated a tightened monetary policy stance so as to rein in inflation. On the domestic side, the prolonged food and energy price inflation has significantly raised production costs and inflation expectations, thereby causing significant second-round effects on the core inflation. Secondly, the monetary effects of the fiscal and monetary interventions in response to the COVID-19 pandemic amid persisting supply chain disruptions may be an important source of inflationary pressure. Thirdly, the Russian-Ukrainian war as well as the associated trade sanctions have significantly affected global commodity prices, including prices of domestic production inputs as well as energy prices. Fourthly, Central Banks in both Advanced Economies and Emerging Markets and Developing Economies (EMDEs) have raised their policy rates and began monetary policy normalisation, which can cause capital outflows and raise foreign exchange market pressure. Given the potential effects of the interactions of these developments, as well as the available data and staff forecasts, I am convinced that monetary tightening is required to rein in inflation and mitigate the adverse consequences of these developments on the domestic economy.

2.0 Background and Justification

2.1 Global Economic Developments

The Russia-Ukraine war has continued to dampen the prospects for the much-expected global economic recovery in 2022 by exacerbating the pre-existing inflationary pressures and causing further disruption to the global supply chain. Consequently, global inflation is likely to remain elevated as energy and food

prices increase, while global output growth slows down. Central Banks across the world are, therefore, faced with the difficult trade-off between focusing the rising inflations and dwindling output growth.

The blockades associated with the Russia-Ukraine war and the trade as well as financial sanctions imposed by the US and EU on Russia and Belarus have continued to stifle the global economic recovery. Global spillovers of the conflict are expected to continue to impact on the commodity, trade and financial markets with their attendant adverse effects on global food and energy prices and global financial conditions. Consequently, IMF's forecasts for global output in 2022 have been further downgraded from the 3.8% earlier expected to 3.6%, compared with the 6.1% achieved in 2021 (IMF WEO April 2022). In the Advanced Economies (AEs), output is similarly forecasted to progressively decline from the 5.2% achieved in 2021 to 3.3% in 2022, and further to 2.4% in 2023. In the EMDEs, output growth is also forecasted to slowdown from the 6.8% achieved in 2021 to 3.8% in 2022 and then rise to 4.4% in 2023.

Crude oil prices have moderated owing to the increase in supply by US and Saudi. As at 20th May 2022, the oil price stood at \$112/b (OPEC Basket) and is expected to remain elevated. Global prices of agricultural products, especially wheat and corn, have also risen following the disruptions in the global grains market. The global food price has increased by 12.6% between February 2022 and March 2022 mostly due to sharp rises in the prices of vegetable oils, cereals, and meat.

Global inflation is expected to remain elevated in the near to medium-term due to worsening supply-side constraints, rising costs of freight and the sharp increase in food and energy prices arising from the Russia-Ukraine conflict. Global inflation is, therefore, expected to maintain its trend beyond 2022. Inflation in the Advanced Economies is forecasted to rise to 5.7% in 2022 from 3.1% in 2021, but will decline to 2.5% in 2023. In April 2022, US inflation was 8.3%, having slightly moderated from the 40-year high of 8.5% recorded in March 2022. In the Euro Zone, inflation has further increased to yet another all-time-high rate of 7.4% in April 2022, driven by prices of food, energy, alcohol &

tobacco, non-energy industrial goods and services. In the UK, inflation has risen to 9.0% in April 2022. In the EMDEs, Inflation is expected to rise to 5.9% in 2022 from 5.7% in 2021, but will decline to 6.5% in 2023. As at April 2022, inflation (year-on-year) has risen in all the major EMDEs economies including China (2.1%) India (7.79%), Kenya (6.47%), South Africa (5.9%), Egypt (13.1%), Ghana (23.6%) and Nigeria (16.82%).

The forecast for global trade is revised downward to 3.0% from 4.7% in 2022 and 3.4% in 2023 owing to the disruptions from the Russian-Ukraine conflict. Commodity prices have, therefore, risen significantly including prices of food, energy, fertilizers, oils, metal, woods and plastics.

Central Banks in many Advanced Economies and EMDEs have raised their policy rates in response to the rising inflation. The Bank of England has raised its repo rate by 25 basis points twice in March 2022 and May 2022. The US Fed also raised its rate to 0.75% to 1.0% and indicated that further rises are likely. Most central banks in EMDEs have also shifted to tightening by raising their policy rates as they respond to the rising inflation amidst weak output growth. South Africa has increased its repo rate by 25 basis points in March 2022 to 4.25% in response to rising inflation due to oil prices, increased shortages amid strong demand and depreciation of its currency, the rand. Similarly, Egypt, Brazil, Russia, and Ghana have all raised their key policy rates by between 25 basis points and 125 basis points in response to rising inflation anticipated capital flow reversals arising from policy normalisation in the AEs. The emerging market economies have started experiencing capital flow reversals. In March 2022 and April 2022, portfolio flows into the Emerging Markets have been negative to the tune of \$9.8 billion and \$4.0 billion, respectively.

2.2 Domestic Economic Developments and their Implications

Available data shows that domestic output has grown by 3.11% in Q1 2022 compared with 3.89% in Q4 2021. The growth was driven by the non-oil sector, by particularly Services, Agriculture and Manufacturing, as a result of the rebound in economic activities and sustained support to the real sector.

However, the oil sector output contracted for the 8th consecutive quarter as production remained well below the OPEC quota due to increased level of oil theft and pipeline vandalism. Although the global oil price has remained high, unchecked oil theft, vandalism and unrelieved dependence on imported refined products for local consumption has continued to reduce Nigeria's benefit from the high global oil prices. According to staff forecasts, output will grow at 2.99% in Q2 2022, and 3.24% for the year 2022. The outlook is predicated on the effective implementation of the Medium-Term National Development Plan (MTNDP), rebound in manufacturing activities and positive impact of CBN interventions.

Headline inflation has increased from 15.92% in March 2022 to 16.82% in April 2022. The increase is driven both the food and core components of inflation. The food component has increased (y-o-y prices of processed foods, bread and cereals, and yam, potatoes & other tubers). The increase in prices of food was attributable to supply shortages due to insecurity across the major food producing areas, increased cost of production, processing and transportation of the food items due to high cost of energy and global trade shock as a result of the Russia-Ukraine war. Core inflation has increased from 13.91% in March 2022 to 14.18% in April 2022. The rise in core inflation is driven mainly by the increase in prices of processed food, housing, water, electricity, gas & other fuel. The rise in core inflation is attributable to a number of factors including the lingering structural issues; external shocks; continuous foreign exchange market pressure; imported inflation; rising prices and inadequate supply of fuel (especially PMS and diesel), transportation and electricity. According to Staff projections, inflation will rise to 17.31% in May 2022 driven by both the core and food components as a result of increase in production costs associated with scarcity of refined petroleum products, disruptions in electricity supply and spillover effects of the Russian-Ukrainian war.

Review of the banking industry shows that the banking industry has continued to remain resilient, with all the ratios indicating that the industry is sound. The Capital Adequacy Ratio (CAR) of the industry was 14.6% as at April 2022, which is above the regulatory minimum of 10%. The Non-Performing Loan (NPL) ratio was 5.3%, slightly above the regulatory maximum of 5%. The industry's total credit to the economy has also increased by N4.65 trillion or 21.66% between April 2021 and April 2022. Gross industry credit, which stood at N26.1 trillion in

April 2022, has steadily increased since 2019 largely as a result of the Bank's LDR policy. Analysis of the interest rate band reveals that 70.93% of customers paid interest rates of less than 15% in March 2022, suggesting that interest rates are declining as credit to the real sector of the economy continued to increase.

Available data shows that in April 2022 broad money supply (M3) has expanded by an annualized rate of 18.66%, which was greater than the benchmark for 2022 of 15.21%. Similarly, the narrow money supply (M2) also expanded by an annualized rate of 27.75%, which was also faster than the 2022 benchmark of 23.56%. the monetary expansion was driven by Net Domestic Assets. This suggests that part of the current sources of inflationary pressures may, indeed, be monetary.

3.0 The Basis for My Policy Choice

The domestic economy, like in rest of the emerging markets, has been under significant pressures from domestic and external shocks that adversely affect the medium-term outlook for both output and inflation. On the one hand, the rising global inflation, which is exacerbated by the Russian war in Ukraine, is a significant source of pressure for domestic inflation. The rising global inflation means that high cost of imports will continue to be passed on to domestic prices. In addition, as major central banks hike their policy rates, the potential capital flow reversals may have significant impact on exchange rate and eventually domestic inflation. On the other hand, while domestic security challenges have sustained a prolonged increase in food price inflation, the incessant shortages of refined petroleum products and electricity have significantly raised energy prices, leading to significant second-round effects on core inflation. In addition to these sources of inflationary pressures, the significant liquidity injection expected in the pre-election year would add to the already increasing money supply. Therefore, although the inflationary process is mainly supply side, a significant source is demand side. Thus, in choosing between the options to tighten, hold or loosen the current policy stance, I voted to raise the MPR by 100 basis points in order to rein in inflation.

Consequently, I voted to:

Raise the MPR by 100 basis points to 12.50 per cent;
Retain the CRR at 27.5 per cent;
Retain the asymmetric corridor at +100/–700 basis points; and
Retain the liquidity ratio at 30.0 per cent.

10. SHONUBI, FOLASHODUN A.

Impact of spillover to the domestic economy from the slowdown in global growth and uptick in global inflation were the major considerations at this meeting. Prolonged bottlenecks in the global supply chain, on account of the pandemic, is further aggravated by more disruptions caused by ongoing Russian-Ukraine conflict and resurgence of the pandemic in China. Consequently, reduced global trade, food and input supply shortages and the resultant record-level inflation have negatively impacted global growth momentum, even as many advanced and emerging market economies began aggressive monetary policy tightening to curb inflationary pressure.

Nigeria, like many of its peers, continues to grapple with effects of the precarious global macroeconomic environment, which has manifested in the form of high imported inflation, slow foreign exchange inflows and a significantly weakened fiscal space. Though recent developments indicated subdued positive outcomes from measures targeted at promoting productivity, growth remains fragile, while the persistent rise in domestic inflation, driven by both domestic and external factors is becoming a threat to further growth. This situation obviously calls for decisive action by the Bank to curb the inflationary pressure, in line with the primacy of its price stability mandate.

Brief Review of Global and Domestic Economic Developments

Heightened uncertainties around lingering effect of past restrictions, resurgence of the pandemic, particularly in China and disruptions arising from the Russian-Ukraine crisis has been a major drag on global growth. Inflation has

become elevated to record levels on account of rising food and energy prices, increased cost of trade and, supply shortages due to protracted supply chain disruptions and production shutdowns. The International Monetary Fund has estimated global growth at 3.6 per cent, while growth in the advanced, as well as, emerging and developing economies are expected to slow to 3.3 and 3.8 per cent, respectively, in 2022.

Latest data from the National Bureau of Statistics indicated that Real Gross Domestic Product (GDP) grew by 3.11 per cent in the first quarter of 2022, compared with 3.98 per cent and 0.51 per cent in 2021Q4 and 2021Q1, respectively. Major growth driver was the 6.08 per cent growth in the non-oil sector, which more than offset the 26.04 per cent contraction of the oil sector. Overall, real output growth was below the potential level, highlighting opportunities for further expansion, especially under a condition of increasing population and high unemployment.

Headline inflation increased further to 16.82 per cent in April 2022, from 15.92 per cent in March 2022, driven by increases in both food and core inflation at 18.37 and 14.18 per cent, respectively. Rise in energy and transportation costs, effects of insecurity-induced disruptions to the distribution of food and exchange rate pass-through were the major drivers of inflationary pressure.

Developments in the banking system reflected sustained resilience and soundness as major prudential indicators remained largely within regulatory limits. Though non-performing loans ratio, at 5.3 per cent in April 2022, was marginally above the 5.0 per cent prudential limit, industry liquidity and capital adequacy ratios were above the regulatory minimums in the review period. Monetary aggregates, particularly domestic claims rose significantly, reflecting increased credit flow from the banking sector, on account of the development finance initiatives of the Bank. Accordingly, broad money supply (M_3) grew at

an annualized rate of 18.66 per cent in April 2022, against the 15.21 per cent benchmark for fiscal 2022.

Estimated government revenue increased in April 2022. However, corresponding increase in expenditure led to further rise in the overall deficit. The fiscal sector therefore continues to grapple with the consequences of high debt stock and a narrow fiscal space. Despite high global oil price, bottlenecks in the arrangements within the domestic oil sector has not allowed improved fortunes of the global oil market to manifest in the conditions of Nigeria external sector. The sector is characterised by low foreign exchange inflows resulting in low external reserves and pressured exchange rate.

Considerations and Decision

On the back of gradually tightening financial conditions, slowing global trade, huge debt and record level widespread global inflation, optimism about global growth has waned. Moreover, disruptions caused by the Russian-Ukrainian war and reintroduction of restrictions in China have increased uncertainties in the global economic environment, posing new challenges to growth momentum. Rising probability of further uptick in global inflation and spillover to the domestic economy therefore calls for urgent domestic policy action to curb inflationary pressure, in line with global trend.

Without doubt, the Bank has done much to promote growth and recent data attest to the positive outcomes so far. The domestic economy expanded again in the first quarter of 2022. Though composite manufacturing PMI was slightly below the 50.0 basis point mark, marginal expansion shown by production and employment indices are a good indications of prospect for more progress. Growth, however, remains fragile and challenged by significantly elevated price levels. Moreover, high unemployment level suggests that deliberate measures must continue to target employment generating sectors to absorb the teaming idle labour force and close the negative output gap.

Persistent elevation of domestic price levels and impact on purchasing power poses major challenge to growth and authority's effort to reduce poverty level. On food inflation, moderated farmgate prices reflect impact of development financing activities on agriculture. However, high cost of logistics due to rising energy and transportation prices have continued to cause increase in market prices, thus constituting a major driver of inflation. Imported inflation on the other hand is further aggravated by exchange rate pass-through.

Inflation is clearly now widespread and at a level that is persistent, which if not checked may become detrimental to sustainable growth. Without discounting the fundamental role of non-monetary factors, current developments suggest a strengthening monetary phenomenon as well as strong expectations about rising cost, driven by trends in insecurity, exchange rate pressure, global inflation, and effect of sharp market practices.

With inflation rising and purchasing power being eroded, there is need to not only signal readiness to curb inflationary pressure but effectively anchor inflation expectation. Rate adjustment at this time will help douse aggregate demand, stem capital outflow, and boost external reserves, especially in an era of aggressive wind down of accommodative policy stance globally. However, any rate adjustment must be complemented with fiscal measures to avert unintended consequences. Maintaining targeted interventions to promote a system that support productive sector's access to credit conforms with the Banks's strategic focus of ensuring price stability that is conducive to investment, employment generation and poverty reduction.

I therefore vote to:

- Raise MPR to 13.00 per cent.
- Retain Asymmetric corridor of +100/-700 basis points around the MPR
- Retain Cash Reserve Ratio (CRR) at 27.5 per cent; and
- Retain Liquidity Ratio (LR) at 30.0 per cent.

11. EMEFIELE, GODWIN I.

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

Though growth prospect of the domestic economy remained positive, its resilience is threatened by the simultaneity of derailed global recovery and quickening inflation. The Russia-Ukraine conflict, which complicated global vulnerabilities and tumultuous conditions, increased uncertainties and upset growth trajectory. It sparked food and energy insecurity in many countries, that further devitalised vulnerable households and deepened poverty. Macroeconomic challenges in China also impaired global conditions. Accordingly, the IMF projected global growth to decelerate sharply from about 6.1 percent in 2021 to 3.6 percent in 2022; mostly for advanced economies.

Recent undercurrents exposed the output-inflation dilemma in many countries as the inflation outcome and outlook soared strongly. The upshot of the Russia-Ukraine war amplified the lingering effects of the pandemic; thus, worsening supply-chain disruptions and accelerating inflation to decennial heights, especially in advanced economies where rates are manifolds of target. Steep inflation is triggering monetary tightening that could push global interest rates upward and debilitate global demand. For EMDEs, rising yields in advanced economies could cause disruptive portfolio adjustments that heighten financial markets fragilities, imbalances and vulnerabilities.

Escalating global headwinds, notwithstanding, domestic outlook remained positive, but was significantly clouded by rising inflation, diminishing effective demand, and falling Purchasing Managers' Index (PMI). Maintaining its resilience, domestic recovery continued in 2022q1 as GDP grew 3.11 percent. This was driven essentially by the 6.08 percent growth of the non-oil sector – mainly services (7.45 percent) and agriculture (3.16 percent) sub-sectors– as oil

GDP contracted by -26.04 percent. Protracted decline of the oil sector over the last eight quarters reflected escalating production losses, vandalism, and theft; potentially impeding overall outlook. Yet, the satisfying performance of the non-oil sector shows the continuing success of policy stimulus for household and high-impact economic sectors. It equally illustrates the on-going diversification of the domestic economy and impact of CBN interventions, to resolve the long-standing structural bottlenecks and bolster productivity.

Spill-over from global energy price crisis amplified structural constraints that reignited a strong upward momentum of domestic inflation. This is potentially worsened by the anticipated surge in electioneering spending during the year. Headline inflation for April 2022 showed a significant 0.90 percentage point rise to 16.82 percent relative to the preceding month. The observed speed-up followed the substantial 1.17 percentage points ascent in food inflation to 18.37 percent and the 0.27 percentage point rise in core inflation to 14.18 percent. These reflected concurrent cost-push and demand-pull effects on inflation, especially as rising fuel and electricity costs (compounded by higher aggregate consumption) heightened existing infrastructure and security challenges. The observed inflationary trend needs to be decisively curtailed in order to subdue its expectations; even as the CBN sustains its supply-correcting interventions in agriculture, manufacturing, and particularly infrastructure.

Current inflation impetus also reflected the build-up of systemic liquidity, signposted by financial markets conditions as the election year unfolds. Broad monetary expansion quickened to 6.22 percent in April 2022 from 4.19 percent in March due, largely, to the 11.86 percent increase in net domestic assets from 8.82 percent. This reflected the sustained expansion of banking system credits to the private sector, following the CBN policy to finance high-impact sectors. Satisfactorily, and amidst exogenous shocks, Nigeria's banking system remained safe, sound and stable as NPLs ratio (5.30 percent), liquidity ratio (43.70 percent) and CAR (14.60 percent), were tolerably around their respective thresholds. To bolster domestic investment, household demand,

and aggregate productivity, it is important to sustain innovative de-risking of critical sectors. This will fast-track economic diversification and ensure strong inclusive growth.

In my consideration, I note the continued improvement in the domestic economic outlook especially as recovery consolidated over the last five quarters. However, I note also the potential risks from worsening global conditions and growing inflationary pressure, as subsisting Covid-19 shocks were complicated by the Russia-Ukraine conflict and renewed supply-chain disruptions in China. Prevailing food and energy crises are fuelling inflation globally, towards quintupling their targets in key economies, and prompting monetary tightening. This has implications for EMDEs, including Nigeria, as increased capital outflows can destabilise the foreign exchange market and set-off financial market vulnerability.

In the domestic economy, I note that the prevailing stability and positive prospects are significantly threatened by the sharp rise in inflation. This is exacerbated by the prospective impact of election-related spending on inflation expectations. While the cyclical recovery of Nigerian economy continued, it is important that inflation expectations are adequately anchored. Today, inflation, driven by global and domestic shocks, is at a level deemed detrimental to growth. Forecasts suggest continued ascent, if no immediate action is taken to assertively stabilise price at levels that are conducive to growth and productivity.

At this time, given the rising inflation expectations, the postulated policy response is to tighten, mindful of the trade-off between inflation and output. A rate hike could derail continued recovery, undermine productivity, and weaken outlook. However, failure to tighten will further aggravate inflationary pressure and adversely impact economic growth. I remain inclined towards a cautious, practical, and well-balanced decision that promotes price stability while optimising output considerations.

I underscore the need for continued stimulus to critical sectors, especially in agriculture, manufacturing, and MSMEs and believe that the aggregate supply boost from such support will considerably moderate inflation. Since the key mandate of the CBN remains price and monetary stability, I am committed to driving inflation to tolerable levels. Overall, I am convinced that the current level of the policy rate is inadequate to effectively balance the objectives of price stability and output growth. Therefore, I vote to:

- i. Raise the MPR by 150 basis points to 13.0 percent;
- ii. Retain the asymmetric corridor at +100/–700 basis points;
- iii. Retain the CRR at 27.5 percent; and
- iv. Retain liquidity ratio at 30.0 percent

GODWIN I. EMEFIELE, CON

Governor

May 2022