



CENTRAL BANK OF NIGERIA COMMUNIQUÉ NO. 143 OF THE MONETARY POLICY COMMITTEE MEETING HELD ON MONDAY 18th AND TUESDAY 19th July 2022

The Monetary Policy Committee (MPC) met on the 18th and 19th of July 2022, confronted with heightened macroeconomic uncertainties, broad based inflation across countries, and weakening global recovery associated with the ongoing Russian-Ukraine war, as well as backlash from a wide range of sanctions imposed on Russia. The Committee reviewed developments in the global and domestic economies in the second quarter of 2022 and the outlook for the rest of the year. Majorly, these developments include the unabated rise in global inflation, driven by the disruptions to the global supply chain; tightening global financial conditions as several advanced economies pursue an aggressive regime of monetary policy normalization; declining global trade; and growing risks to financial stability, associated with the burgeoning global private and public debt profile.

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

Global Economic Developments

The Committee noted with concern, the downtrend in global recovery, aggravated by supply chain disruptions as a result of the Russia-Ukraine conflict and the spillbacks and spillovers from sanctions imposed on Russia by the US and its allies. This has resulted in an unprecedented rise and widespread global inflation which is exacerbating downward pressure on the fragile recovery of the global economy. In addition, lingering headwinds associated with the COVID-19 pandemic are constraining the smooth functioning of the global supply chain. The rising risk of tightening global financial conditions, implies that

developing economies now face the risk of constrained access to global capital which would further depress growth in this group of economies. This is expected to result in increased financial vulnerabilities due to the huge volume of corporate and public debt accumulated in the wake of the sharp downturn driven by the COVID-19 lockdown. In the light of these developments, the key risk confronting the global economy is that of a recession which may crystalize as second quarter growth figures for major advanced and developing economies begin to emerge. Consequently, the International Monetary Fund (IMF) in its April 2022 World Economic Outlook (WEO), downgraded its global output growth forecast for 2022 and 2023 to 3.6 per cent apiece from 4.4 and 3.8 per cent, respectively, with the likelihood of a further downgrade, given the continued deterioration in output growth.

Inflation in several advanced economies pushed higher and further away from the long-run objectives of their central banks, reflecting the sustained increase in the price of food, energy, and other commodities due to the harsh combination of persisting supply chain disruptions and pent-up demand. In the Emerging Markets and Developing Economies (EMDEs), inflation is also on the rise, compounded by legacy structural challenges as well as heightened exchange rate pressures, driven by rising capital flow reversals in addition to the outlined shocks from the global economy.

In the financial markets, available data suggests that investors are now rebalancing their portfolios away from gold and equities to fixed income securities, to take advantage of rising yields in the advanced economies as major central banks progress with interest rate hike. Consequently, the tightening of global financial conditions is expected to heighten investment and debt default risks, leading to the likelihood of a broad economic slowdown.

Domestic Economic Developments

According to the National Bureau of Statistics (NBS), Real Gross Domestic Product (GDP) grew by 3.11 per cent (year-on-year) 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. The economy has thus grown for six consecutive quarters, following its exit from recession in 2020. This consistent positive performance was driven largely by the continuous growth in the non-oil sector, specifically, in the services and agriculture subsectors; ongoing policy support post-COVID lockdown; and the base effect from the corresponding period.

Staff projection showed that the economy is expected to remain on a path of sustained positive growth observed in the last few quarters. The Committee also noted that both the Manufacturing and Non-Manufacturing Purchasing Managers' Indices (PMIs) increased above the 50-index point benchmark to 51.1 and 50.3 index points in June 2022, compared with 48.9 and 49.9 index points, respectively, in May 2022. This reflects the continued rebound in economic activities due to improvements in supplier delivery time; raw materials inventory; employment levels as well as expansion in some sectors such as agriculture, accommodation, electricity, amongst others.

The Committee noted with concern the persisting uptick in headline inflation (year-on-year) to 18.60 per cent in June 2022 from 17.71 per cent in May 2022, an 89-basis point increase in just one month. This continued increase in inflation was driven by increases in both the core and food components to 15.75 and 20.60 per cent in June 2022. The considerable rise in core inflation resulted largely from the rising cost of production due to high energy prices associated with the persistent disruptions to power supply, hike in electricity tariff, continued scarcity of Premium Motor Spirit (PMS), and rising price of Automotive Gas Oil (AGO). The increase in the food component was, however, driven by shocks to food prices associated with continued insecurity in food producing areas and along major access routes across the country; the continued impact of the war in Ukraine on the supply of fertilizer inputs, wheat and other grains; exchange rate pressures; and the impact of monetary policy normalization on capital flows away from emerging markets. The Committee, however, expressed confidence in the Bank's sustained intervention programmes, noting

that inflation is expected to abate as food supply improves and the fiscal authority sustain its efforts to tame the legacy structural challenges which put upward pressure on domestic price levels. Members, therefore, urged the fiscal authority to expand and sustain its support for all the recently deployed stimuli to the real sector of the economy.

The MPC noted that broad money supply (M3) rose significantly to 11.52 per cent in June 2022, compared with 10.86 per cent in May 2022. This was largely driven by the growth in Net Domestic Assets (NDA) of 18.02 per cent in June 2022, compared with 17.37 per cent in the previous month. The sustained growth in Net Domestic Assets (NDA) was attributed to the increase in claims on the Federal Government and other sectors (public nonfinancial corporations, private sector, and state and local governments).

Money market rates oscillated within the asymmetric corridor, reflecting prevailing liquidity conditions in the banking system. Consequently, the monthly weighted average Open Buy Back (OBB) and Inter-bank Call rates increased in June 2022 to 10.89 and 11.10 per cent, from 9.39 and 8.38 per cent in May, respectively. The increase in both the Open Buy Back (OBB) and Inter-bank Call rates reflected the tight liquidity conditions in the banking system.

The Capital Adequacy Ratio (CAR) and the Liquidity Ratio (LR) both remained above their prudential limits at 14.1 and 42.6 per cent, respectively in June 2022. The Committee, noted the reduction in the Non-Performing Loans (NPLs) ratio to 4.95 per cent in June 2022, compared with 5.7 per cent in June 2021. The MPC, thus, urged the Bank to sustain its tight prudential regime to ensure that the NPLs ratio is brought well below its prudential benchmark.

The MPC noted the very moderate decline in the performance of the equities market in the review period, as the All-Share Index (ASI) and Market Capitalization (MC) moderated to 51,817.59 and N27.94 trillion on June 30, 2022, from 52,990.78 and N28.56 trillion on May 31, 2022, respectively. The market, however, remains resilient, reflecting continued confidence in the Nigerian

economy, as both the monetary and fiscal authorities work assiduously to improve macroeconomic fundamentals in Nigeria.

The Committee noted the marginal increase of 1.61 per cent in the level of external reserves to US\$39.22 billion at end-June 2022 from US\$38.60 billion at end-May 2022 due to the increase in inflows from non-oil sources.

The Committee reviewed the performance of the Bank's intervention programmes targeted at stimulating productivity in agriculture, manufacturing/industries, energy/infrastructure, healthcare, exports and micro, small & medium enterprises (MSMEs). Between May and June 2022, under the Anchor Borrowers' Programme (ABP), the Bank released the sum of N3.62 billion, as disbursements to 12 projects for the cultivation of rice, wheat, and maize, bringing the cumulative disbursement under the Programme to N1.01 trillion, to over 4.21 million smallholder farmers cultivating 21 commodities across the country. The Bank also disbursed N3.72 billion to finance three (3) large-scale agricultural projects under the Commercial Agriculture Credit Scheme (CACs). These disbursements brought the cumulative disbursements under this Scheme to N744.32 billion for 678 projects in agro-production and agro-processing.

As part of its effort to support the manufacturing sector, the CBN disbursed the sum of N113.08 billion to 19 new projects under the Real Sector Facility. The funds were utilized for both greenfield and brownfield 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 disbursements under the Real Sector Facility currently stands at N2.183 trillion for the financing of 414 real sector projects across the country. Furthermore, under the 100 for 100 Policy on Production and Productivity, the Bank has released N9.98 billion for five (5) projects, bringing the cumulative disbursements under the intervention to N68.13 billion for 48 projects, comprising twenty-six (26) in manufacturing, seventeen (17) in agriculture, three (3) in healthcare and two (2) in the services sector.

In the healthcare sector, the Bank disbursed N4.44 billion to three (3) healthcare projects under the Healthcare Sector Intervention Facility (HSIF), bringing the cumulative disbursements to N133.42 billion for 129 projects, comprising seventy-six (76) hospitals, thirty-two (32) pharmaceuticals and twenty-one (21) other healthcare services. To further expand the nation's non-oil export basket under the Export Facilitation Initiative (EFI), the Bank released the sum of N36.00 billion for five (5) projects in domestic production and value addition of cocoa and sesame seeds towards improving non-oil foreign currency revenue.

To improve electricity supply in order to lower the overall cost of production in the real sector, the Bank also intervened in the power sector to facilitate the deployment of enabling infrastructure. Summarily, the sum of N2.53 billion was disbursed to Distribution Companies (DisCos) for their Operational Expenditure (OpEx) and Capital Expenditure (CapEx), under the Nigeria Electricity Market Stabilization Facility – Phase 2 (NEMSF-2). Cumulative disbursement under the NEMSF-2 currently stands at N254.46 billion. Under the National Mass Metering Programme (NMMP), the Bank disbursed N47.82 billion for the procurement and installation of 865,956 meters across the country.

Outlook

The broad outlook for both the global and domestic economies in the medium-term remain clouded with uncertainties associated with headwinds, such as the substantial disruptions to the supply chain, the Russian-Ukraine war and the lingering impact of the COVID-19 pandemic. Others include the rising level of corporate and public debt in the Advanced Economies and Emerging Market and Developing Economies; as well as the broad shocks to foreign capital flows driven by the aggressive normalization of monetary policy in some of the Advanced Economies.

On the domestic front, available data on key macroeconomic variables indicate the likelihood of a subdued output growth for the Nigerian economy in

2022. This is hinged on ongoing and expected shocks from the global economy, particularly from supply blockages of essential exports from both Russia and Ukraine; the impact of high crude oil prices, given Nigeria's position as an oil exporter and importer of refined petroleum products; and the aggressive normalization by some Advanced Economies. Accordingly, the Nigerian economy is forecast to grow in 2022 by 3.33 per cent (CBN), 4.20 per cent (FGN) and 3.40 per cent (IMF).

The Committee's Considerations

The Committee assessed the impact of emerging external shocks and legacy issues on price development and the recovery of output growth in the short to medium term. Members further noted the continued effort by both the monetary and fiscal authorities to dampen price pressures and sustain the recovery of output growth.

In the opinion of Members, the major external shocks to the economy remained those associated with the supply constraints arising from the Russia-Ukraine war and backlash from sanctions imposed on Russia; residual impact of the COVID-19 pandemic; and tightening external financial conditions, following the aggressive normalization of monetary policy by some advanced economy central banks. On the domestic scene, Members assessed the impact of the continued upsurge in money supply resulting from the increased demand for money, associated with election spending and increase in month-on-month inflation between May and June 2022. In addition, the Committee assessed the continued impact of rising insecurity, the rising cost of Automotive Gas Oil (AGO), and the persisting upward pressure on other energy prices on the general price level.

The MPC noted that the current upsurge in price levels remains a primary concern to monetary policy as Members focused on the optimal policy approach required to address this development while protecting the fragile recovery. The Committee clearly identified that inflationary pressure was being

driven by both demand and supply-side factors, which should be addressed using different policy approaches. In the Committee's view, the demand-side factors were being broadly addressed by the Bank, using the relevant direct and indirect instruments. On the supply side, the Bank has continued to provide the necessary support, through its development finance initiatives in the real sector, to ease supply constraints. The Committee called on the Federal Government to prioritize efforts to curb the menace of insecurity to enable farming and other business activities return to normalcy. The MPC thus called on the Bank to continue its support to increase food supply in a bid to addressing food inflation. Members also noted the upward price pressure, particularly on transportation, resulting from the prolonged scarcity of Premium Motor Spirit (PMS) and called on the Federal Government to seek a long-term and viable solution to strike a balance between the pricing and supply of PMS in Nigeria.

The Committee appraised the continued recovery of output growth, noting that despite the obvious external and internal headwinds, the recovery has remained resilient with hopes of a stronger medium-term recovery. This is however, hinged on the continued support by the Bank and the Federal government to ensure that recent economic gains are sustained.

The MPC welcomed the Bank's concerted efforts towards ensuring exchange rate stability, noting the current difficulties associated with managing the stream of external shocks impacting the economy. The Committee applauded the performance of the RT200 and similar initiatives targeted at improving accretion to reserves and stabilizing the exchange rate. The MPC noted that foreign exchange inflow through the RT200 FX Programme in Q1 and Q2, 2022, had increased substantially to approximately US\$600 million as at June 2022. Members also noted the increase in Diaspora remittances as a result of the Naira for Dollar incentive and urged the Bank not to relent in its efforts to encourage foreign exchange inflow to the economy.

The Committee noted the Federal Government's increasing debt profile and expressed concerns over debt sustainability given that global uncertainties remain elevated. The MPC thus reiterated its call to the Federal Government to urgently diversify its revenue sources through various initiatives, such as, the development of a viable tax framework for the extractive and mineral export industries, to strengthen its fiscal buffers.

Despite the apparent headwinds confronting the economy, the MPC noted that the banking system remained robust given the continued decline in NPLs below the prudential threshold and enjoined the Bank to sustain the trend by maintaining its vigorous surveillance to ensure continued resilience of the banking industry.

The Committee's Decision

The MPC noted with concern the continued aggressive movement in inflation, even after the rate hike at its last meeting, and expressed its unrelenting resolve to restore price stability while providing the necessary support to strengthen the fragile recovery.

As regards the decision as to whether to tighten, loose or hold, Members were unanimous and so did not consider both loosening and retaining rates at existing levels at this meeting. This is because on loosening, the MPC felt it could worsen the existing liquidity condition in the economy and further dampen money market rate, necessary to stimulate savings and investment. Members also felt that loosening would trigger the weakening of the exchange rate which could pass through to domestic prices.

The MPC did not also consider retaining the policy rate because a hold stance may suggest that the Bank is not responding sufficiently, to both the global and domestic price development, as inflation numbers continue to trend aggressively upwards.

As regards tightening policy stance, Members were unanimous that given the aggressive increase in inflation, coupled with the resultant negative

consequences, particularly on the purchasing power of the poor, as well as retarding growth, there is the need to continue to tighten. However, the policy dilemma was hinged around the level of tightening needed to rein-in inflation, without dampening manufacturing output, which could result from the higher cost of borrowing.

Aside from narrowing the negative real interest rate gap, Members were also of the view that tightening would signal a strong determination of the Bank to aggressively address its price stability mandate and portray the MPC's sensitivity to the impact of inflation on vulnerable households and the need to improve their disposable income.

Members also noted that the 150 basis points hike by the Committee in May 2022, had not permeated enough in the economy to halt the rising trend in inflation and noted that the month-on-month percentage point increase in headline inflation rose sharply in June 2022 compared with May 2022. The MPC also noted that other complementary administrative measures deployed by the Bank to address the growth in money supply did not moderate the inflationary trend.

Addressing the balance of policy objectives and developments in the global and domestic environment, the Committee resolved that the most rational policy option would be to further strengthen its tightening stance in order to effectively curtail the unabated rising trend of inflation. Members were conscious of the fact that output growth remained fragile, however, not curtailing inflation now could erode the moderate gains achieved in improving consumer purchasing power and thus worsen poverty level for the vulnerable populace. To ensure that output still remains in focus, the MPC advised the Bank's Management to continue to use its development finance tools to support the agricultural and manufacturing sectors.

The Committee thus voted unanimously to raise the Monetary Policy Rate (MPR). One member voted to increase the MPR by 150 basis points, six members by 100 basis points, one member by 75 basis points and three members by 50

basis points. Consequently, the Committee resolved to increase the MPR by 100 basis points from 13.0 per cent to 14.0 per cent.

In summary, the MPC voted to:

- I. Increase the MPR from 13.0 to 14.0 per cent;
- II. Retain the asymmetric corridor at +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.

I thank you for your attention.

Godwin I. Emefiele

Governor, Central Bank of Nigeria

19th July, 2022

PERSONAL STATEMENTS BY THE MONETARY POLICY COMMITTEE MEMBERS

1. ADAMU, EDWARD LAMETEK

The Russia-Ukraine war remains the biggest setback to global output recovery after the coronavirus - induced meltdown in 2020. The war continues to spill vulnerabilities on several fronts. Rising prices, amidst scarcity of certain commodities; high energy and food prices; financial market unease as well exchange rate pressures are some of the immediate fallouts of the war. Huge volumes of crude, gas and grain are locked up within both countries, while shortages and price escalations are pushing populations and government to the edge and towards unavoidable collision. The advanced economies are experiencing levels of inflation not seen in decades.

In response to these vulnerabilities, especially consumer price pressures, most central banks have continued to tighten the stance of monetary policy, notwithstanding its potential adverse effect on output recovery. In April 2022, the International Monetary Fund (IMF) downgraded growth projections for nearly all country clusters. The Fund currently projects global output growth for 2022 at 3.6 per cent, a downward revision of the October 2021 projection of 4.4 per cent. Except for low-income developing countries, economic growth is projected to slow in all the country clusters relative to 2021. Global manufacturing PMI slowed in June 2022, to 52.2 index points from 52.3 index points in May 2022, its lowest since August 2020.

While growth softening following a major shock (disease outbreak, war and geopolitical tensions) is not new to policy makers globally, concurrence of same with severe inflationary pressures as is currently the case certainly complicates policy response. Not too many countries can boast of a recent experience of this kind of complexity. In the circumstance, the outlook for monetary policy could remain hazy in the short- to medium-term in especially characteristically low-inflation economies. Given the strong interconnectedness of economies, this uncertainty could affect policy choice even in countries with recent experience of stagflation. Reality is that monetary

policy faces difficult choices almost everywhere currently. The Nigerian economy is not immune to the vulnerabilities engendered first by COVID:19, followed by the war in Ukraine and, of course, the policy complications from those vulnerabilities. The bright side, however, is that the outlook for domestic economic growth continues to be favourable, offering some room for a much neater policy maneuver.

Against the foregoing background, the Monetary Policy Committee (MPC) of the Central Bank of Nigeria raised its benchmark rate, the MPR, by 150 basis points in May 2022. The Committee was clear on intent – to anchor inflation expectation, principally. By that decision, the Committee signalled its discomfort with the forecast path of inflation. Two months after, at the July 2022 meeting, there had emerged credible indications that interest rates had started to rise albeit slowly. I saw the need to do more along the same line to douse any uncertainty about the direction of policy going forward. I therefore voted for a further hike in the policy rate at the meeting to communicate unambiguously a commitment to disinflation. Details of my considerations are presented subsequently.

First, available statistics (and projections) show clearly that the balance of risks remains biased against price stability. Although economic growth faces undeniable challenges globally, early (and impactful) interventions by the CBN, the private sector as well as the Federal Government of Nigeria (FGN) appear to have dampened the deleterious spillover effects on domestic output of the Russia-Ukraine war and the coronavirus pandemic. And so, the outlook for domestic economic growth in 2022 continues to be robust. Real GDP grew by 3.11 per cent (year-on-year) in Q1-2022, implying sustained recovery of the domestic economy. Growth was driven mainly by the non-oil sector – agriculture and services. Sustained policy support (monetary and fiscal) played a major role with Services and Agriculture growing by 7.45 and 3.16 per cent, respectively. The overall growth of 3.11 per cent exceeded expectations, prompting the IMF to revise Nigeria's growth projection upwards to 3.4 per cent

from 2.7 per cent. Discounted by expected contraction in Oil & Gas, Staff forecasts suggest 3.33 per cent growth, only a little shy of the IMF's. The economy would be looking at growth of around 5.0 per cent or more if not for the Oil & Gas sector.

Second, the short- to medium-term outlook for inflation in the domestic economy continues to be uncertain. Both food and core inflation rose in June, underpinning acceleration in headline inflation to 18.6 per cent. Staff forecasts suggest it could rise to 19.2 per cent in July 2022. Current inflation is driven mainly by increased cost of diesel which led to higher transportation costs; spill-over effects of the Russia-Ukraine war affecting price and supply of some items; distribution bottlenecks associated with insecurity; generally rising cost of imports (linked to exchange rate and rising prices abroad) and monetary expansion especially of domestic asset. The acceleration in actual inflation and inflation expectation must be halted.

My third consideration derives from the dominant response to the current episode of global inflation by central banks. I see two sides to this. Understandably, most central banks are racing to reduce negative real rates to improve competitiveness. This is more compelling for the emerging market and developing economies (EMDEs) where increasing outflow of international capital is adding to the complications monetary policy faces. The second side I see is that rising food and commodity prices could mean global inflation remaining elevated for much longer than previously envisaged. The inflation narrative has changed. Earlier, price increases were thought to be mainly transitory; now central banks are walking back that narrative to regain credibility and hopefully anchor inflation expectation better. This will not be a simple task by any means - it looks like most of them will be aggressive in tightening to regain control of expectation and confidence in policy pronouncements going forward. As I imagine this to be the trend, doing otherwise locally could leave the Nigerian economy more vulnerable overall.

Finally, like I stated in May, the evolution of consumer prices in recent months and its unstable outlook are important grounds for a decisive monetary policy action. There continue to exist some room for doing so given the positive outlook for growth. I should emphasise that effective liquidity management continues to be relevant in the disinflation process. Equally important is sustained resilience of the banking system. It is comforting to note that at end-June 2022, all major financial soundness indicators (FSIs) were strong. Capital adequacy ratio (CAR) remained robust at 14.1 per cent; liquidity ratio stood at 42.6 per cent and the ratio of non-performing loans (NPLs) slowed to the prudential limit of 5.0 per cent. On the strength of the resilience of the banking system, I expect adequate funding for the critical sectors of the economy.

In conclusion, the adjustment needed to restore macroeconomic stability carries a huge burden that cannot be borne by the Central Bank or monetary policy alone. The structural issues at play are enormous. Those cannot be addressed by monetary policy instruments. I see the need for reform beyond the borders of monetary policy to deliver a holistic recovery in Nigeria and almost everywhere else. On the side of monetary policy, I am persuaded that further tightening of monetary conditions would help to address the demand factors underlying the inflationary pressures. And so, I voted to:

1. Raise the MPR by 100 basis points to 14.0 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 outlook for the global economy remains somber in July. The Russian Ukraine war is not abating. Food inflation and energy prices remain elevated across countries. China economy is challenged by the implementation of the zero covid-19 policy, electricity cuts and property related issues. The significant role of China in the global supply chain means shocks from China are easily transmitted around the globe. According to the IMF, global output is expected

to decelerate to 3.6% in 2022. Oil prices moderated briefly in response to the US interventions in July 2022.

Global trade, commodity prices, as well as capital flows, are faced with major headwinds, and is expected to decelerate from 10.3% in 2021 to 4.0% in 2022 before rising to 4.3% in 2023. The efforts adopted by central banks around the world to rein in the surging inflation, has tightened global financial market conditions, push up global debt stocks, and may likely lead to another global recession. Most national currencies around the world have depreciated against the US dollar. There is a real fear that current economic crisis may lead to political unrest as was the case in Sri Lanka and cause a rise in the number of migrants from developing countries seeking refuge in developed countries.

Domestic Economic Developments

The Bank Staff presented a report on Global and Domestic Economic Developments and Outlook. Real GDP in 2022 Q1 dropped to 3.11% from 3.98% in 2021Q4. While awaiting the real GDP figure for 2022 Q2, leading indicators have provided mixed results. There was a rise in both manufacturing and non-manufacturing PMIs in June 2022, as both indices rose above 50.0 index points. Manufacturing PMI rose to 51.1 index points, while non-manufacturing PMI stood at 50.3 points. Electricity production, electricity generation and electricity consumption indices rose marginally in June compared with May 2022. However, index of industrial production, and index of manufacturing production declined over the same period.

However, all the inflation indices rose in June. Headline inflation rose from 17.71% in May 2022 to 18.60% in June 2022. This is the highest figure in the past 5 years and is one of the highest levels in the world. Food prices rose to 20.6%, while core inflation surged to 15.75%. The inflation figures were driven by energy prices, transportation, prices of bread and cereals, as well as food products, such as potatoes, yam, and other tubers, wine, oil and fats, meat, and fish.

Expectedly, Monetary aggregate, M3, increased at an annualized rate of 23.04% in June 2022 compared with the provisional figure of 15.21%. When the growth in money supply is decomposed, data showed that Net Foreign Asset (NFA) declined, while Net Domestic Assets (NDA) increased. The rise in the NDA was accounted for majorly by growth in claims on state, local governments and on the private sector. Interestingly claims on the Federal Government, though was above the benchmark, nevertheless, declined in June 2022.

All money market rates rose in June relative to May 2022. Prime lending rate rose from 11.96% to 12.29%. Maximum lending rate rose to 27.61% from 27.37%. Average savings rate rose to 1.38% from 1.37%. OBB rate rose to 10.89% in June 2022 from 9.39% in May 2022, reflecting tightness in the interbank market. Real interest rate on June 2022, 91 days NTB declined from its nominal rate of 2.4% to 0.58% because of rising inflation rate.

The fiscal sector is seriously challenged. Federal Government revenue underperformed relative to the budget. Between January and March 2022, the revenue shortfall on pro-rata basis was 49.5%. Both FAAC disbursements and independent revenue underperformed during the period. Federal Government expenditure over same period declined only marginally by -2.3%. However, the decline was more severe for capital expenditure which fell by 30.9%.

Foreign reserves rose marginally to \$39.22 billion by end-June 2022, from US\$38.60 billion at end May 2022. The increase was due to rise in foreign exchange swap transactions, increase in third party receipts and increase in crude oil related taxes and penalties. Balance of Trade and current account balances also rose due to the favourable price of crude oil, net inflow of remittances and decline in imports. Unexpectedly the naira appreciated in the I&E windows at a time when currencies across the globe are depreciating against a strong dollar. It is also unexpected at a time the huge demand for dollars in the commercial banks outstripped supply.

The Banking System Stability Review Report was also presented at the meeting. The data shows that the banking system remain safe, sound, and resilient. Capital Adequacy Ratio declined marginally from 14.6% in April 2022 to 14.4% in June 2022, but still lies within the prudential requirements. Non-Performing Loans Ratios declined from 5.3% in April 2022 to 5.0% in June 2022. Liquidity Ratio at 42.9% in June 2022 was still above the 30% prudential requirements. Interest margins to total operating income rose marginally between April 2022 and June 2022, however, total operating costs to total operating income declined marginally, though at 76.5% is much higher than those for comparator countries, Turkey, 34.1%, South Africa, 61.5% and Malaysia, 37.9%.

My Concern

Inflation remains my major focus at this meeting. Inflation is rising at an unacceptable rate. Rising inflation is a threat to investment and output growth. Inflation is lowering real incomes of Nigerians and driving more people to poverty. Inflation is hurting many Nigerians, whose nominal wages have remained stagnant for many years. It is dragging down the values of savings, wages, and pensions for retirees. Price stability is a core function of the MPC, and hence, the high level of domestic inflation is unacceptable.

There is no doubt that there is monetary component to the rising inflation in Nigeria. Broad money grew in June by 11.52%, and the Monetary Base is forecasted to increase even more in July and August, due to increase in CIC due to election cycle and spendings in Eid Kabir season. The current inflation is fueling inflation expectations.

The MPC increased the MPR in May. However, it is too optimistic to expect that the May decision would reverse the inflationary trend at once. Several central banks have increased their monetary rates more than once in the last few months. In the first half of this year alone, Brazil has adjusted its monetary rates 5 times, Russia 4 times, Ghana 3 times, USA 3 times, Egypt 3 times and UK 4 times. Apart from the lag effects expected from the transmission mechanisms from

policy rates to causal factors of inflation, the underlying causes of the inflation have not abated.

Nigeria is not unique in inflation being experienced. All countries of the world are basically addressing same supply factors: energy prices, food prices and strong dollar. The measures being taken are same: to tighten monetary expansion. In Africa, Ghana, Egypt, South Africa, along with their counterparts in Emerging and Developing countries have revised upwards monetary policy rates a couple of times since the beginning of the year.

On the fiscal challenges confronting the country, there is an urgent need to jettison the current fuel subsidy policy. While in an election year, the government may be very reluctant to embark on this policy, it is not impossible for the government to force the NNPC Ltd to be more efficient and transparent. There is also a need for increased education and enlightenment of the costs of the subsidy on the economy, and on most Nigerians. Government should also ensure that the Compressed Natural Gas (CNG) programme designed to provide gas as alternative motive fuel for transportation is aggressively implemented. Improvement in electricity supply will also reduce the amount of fuel being consumed in the economy, and thereby lower the overall subsidy payment.

My Vote

In consideration of the worsening inflation, I cast my vote to increase the MPR by 100 basis points, while retaining all other monetary parameters at their extant values. Hence, I vote to:

1. Raise MPR by 100 basis points, from 13.0% to 14%
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.

The monetary policy committee (MPC) held its July 2022 meetings against the backdrop of heightened global risks due to spillover effects of the Russia-Ukraine war, and lingering headwinds from the COVID-19 pandemic. **The war continues to weigh heavily on global commodity and energy prices fueling global inflation, threatening to derail the global growth outlook, and heightening the possibility of a recession.**

Prior to the Russia-Ukraine war, inflationary pressures were building up across many countries, resulting in rate hikes across advanced and emerging and developing economies (EMDEs) to curb the rising prices. Even as policy normalization continues to advance, inflation conditions are worsening at record levels. For instance, inflation in the United States rose to 9.1 per cent in June (from 7.0 per cent in May 2022), the worst in 4 decades; similar trends are reported across the Eurozone and most EMDEs. In response, more central banks have joined the early responders; thus, interest rates are rising globally at a fast pace, casting shadows on growth prospects.

The resultant rising yields in advanced economies worsens the outlook for capital inflows to EMDEs like Nigeria, which is faced with exchange rate pressures in addition to high and rising inflation and a deteriorating macroeconomic outlook. This presents a difficult policy terrain for the monetary authority, especially exacerbated by constricted domestic fiscal space.

Like the global trend, domestic inflationary pressures continue to intensify.

Headline inflation (year-on-year) rose for the fifth consecutive month to 18.60 per cent in June from 17.71 per cent in May 2022, an 89-basis point increase in just one month. This was driven by increases in both core and food components to 15.75 and 20.60 per cent, respectively over the period. The considerable rise in core inflation resulted largely from rising costs due to high energy prices associated with the rising price of Automotive Gas Oil (AGO), hike in electricity tariff, persistent disruptions to power supply and continued scarcity of Premium Motor Spirit (PMS). Underlying factors for the increase in the food component include continued insecurity in food producing areas and along major access routes across the country; the impact of the war on the supply of fertilizer inputs, wheat and other grains and exchange rate pressures.

The progressing and significant rise in broad money supply (M3) to 11.52 per cent in June from 10.86 per cent in May 2022 is another negative headwind for domestic inflation. This rise was driven by sustained growth in Net Domestic Assets due to growing claims on the Federal, state & local governments and the private sector).

As the primary mandate of the CBN, it is paramount that the rising price trend is contained and summarily addressed. Starting with the policy rate, and complimented by other tools at its disposal, the monetary authority must be decisive in signaling and actively curtailing the growing domestic price level, given its potential to erode citizens' purchasing power and its negative impact on the most economically and socially vulnerable.

Thankfully, the policy rate is at a level that can accommodate further rate hikes, whilst limiting the negative impact of rising borrowing costs on businesses. Other tail winds for inflation include the expected harvest in the next few months and sustained interventions to ramp up food supply, which should mitigate food price increases, while coordinated efforts to curb long standing structural and logistical challenges that adversely impact domestic prices are also being pursued. The Bank's exchange rate management strategies, particularly its

concerted efforts to improve foreign exchange supply from more sustainable sources such as exports and remittances would be critical to mitigate exchange rate pass through to domestic prices.

Domestic output growth has remained on a positive trajectory; with six consecutive quarters of real GDP growth post the pandemic-induced recession in 2020. Real GDP grew by 3.11 per cent (year-on-year) 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. The expansion was driven largely by the continuous growth in the non-oil sector, specifically, in the services and agriculture subsectors; ongoing policy support post-COVID lockdown; and the base effect from the corresponding period.

This positive growth momentum is expected to persist as reflected in leading indicators and staff forecasts. Output is projected to grow by 3.3 per cent by end-2022, while both the Manufacturing and Non-Manufacturing Purchasing Managers' Indices (PMIs) increased above the 50-index point benchmark to 51.1 and 50.3 index points in June 2022, compared with 48.9 and 49.9 index points, respectively, in May 2022. The positive outlook for economic activities is attributed to the CBN's interventions in critical sectors and improvements in supplier delivery time, raw materials inventory, employment levels as well as expansion in some sectors such as agriculture, accommodation, and electricity.

Undoubtedly, CBN's sustained development finance initiatives in the real sector and complimentary fiscal initiatives, have helped buoy the economy through these trying times.

The continued resilience of the financial system and flow of credit to the real economy further strengthens the positive outlook for output expansion. Capital adequacy as of June 2022 was robust at 14.1 per cent, 410 basis points above the regulatory minimum of 10 per cent. Industry liquidity was also strong at 42.6 per cent over the same period and supported by significant cash reserve

requirement buffers available to provide liquidity backstops should banks require it.

Key industry aggregates also continued their year-on-year upward trajectory with total assets rising to N65.48 trillion in June 2022 from N53.64 trillion in June 2021, while total deposits rose to N42.03 trillion from N33.85 trillion over the same period. Gross credit has maintained an upward trajectory since 2019, rising by N5.02 trillion between June 2021 and June 2022 with significant growth in credit to Manufacturing, General commerce and Oil & Gas sectors. This notable increase was achieved amidst continued decline in non-performing loans ratio from 5.3 per cent in April 2022 to 5.0 per cent in June 2022.

Furthermore, results of stress tests showed resilience of banks' solvency and liquidity ratios in response to potential severe macroeconomic shocks. **However, the Bank must remain vigilant to proactively manage probable macro risks to the financial system** such as lingering spillover effects of the pandemic, winding down industry forbearance portfolio, and other risks to financial stability such as exchange rate, operational and cyber security risks.

Policy Decision

High and rising inflation presents a serious policy dilemma for the MPC given the imperative to sustain the growth trajectory, limited tools at its disposal and the constricted fiscal environment.

The monetary authority must act to better anchor elevated inflation expectations of economic agents following months of rising inflation and recent multiple shocks. Interventions and continued funding of the real sector give room for tightening the monetary policy stance to better anchor inflation expectations, mitigate demand driven inflation and ultimately preserve output gains. More importantly, the evolution of consumer prices in recent months and the uncertain short-term outlook present credible grounds to raise the policy rate. Finally, the persistent rise in money supply over the last couple of months signals the growing importance of demand side factors in explaining recent

inflation trends which requires prompt response by the monetary authority. The response should, however, take cognizance of the fragile output performance.

Over the last two MPC cycles, I have voted to raise the policy rate gradually. There are compelling reasons from data provided at this meeting to further tighten the monetary policy stance. Therefore, I vote to;

1. Raise the MPR by 100 bps to 14.0%
2. Retain the CRR at 27.5%,
3. Retain the liquidity ratio at 30%
4. Retain the asymmetric corridor of +100 and -700 basis points around the MPR.

4. ASOGWA, ROBERT CHIKWENDU

Policy Decision:

With the transition from 'COVID-19 crisis' to a 'cost of living' crisis, several economies currently face a new dilemma which is already altering the dynamics of monetary policy making across the globe. Available policy evidence suggests that only two choices are being considered by Central Banks, either to leave the benchmark interest rate unchanged so as to facilitate post-covid-19 economic recovery at home while tolerating the spiralling inflation rate or to join the bandwagon of global monetary tightening in order to combat the high inflation rates, but at the same time limiting growth recovery. While none of the two options may guarantee quick positive results, balanced and brave decisions are however required early enough so as to avoid negative impacts and repercussions that may arise due to policy delays. For countries that have recently increased benchmark rates like Nigeria, the unfolding scenario may not really warrant a 'a wait and see approach' which understandably some market watchers may prefer. Rather, a further monetary tightening perspective, at least moderately is required to address the rising consumer and business inflationary expectations. In this circumstance, I will therefore vote to:

- Raise the MPR from 13.0 percent to 13.5 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.

In arriving at this decision, I have assessed the current economic outlook at both the global and domestic contexts including the potential downside risks. The highlights of the assessments are presented below.

Global Economic Context:

Since the last MPC meeting in May, risks to global growth have become heavily skewed to the downside as the ongoing Russia's invasion of Ukraine may have fully diminished earlier hopes of full growth recovery from the COVID-19 crisis in 2022. The outlook for global growth has become even more uncertain with

supply strains worsening, while global inflation is jumping to multi-decade highs in a number of advanced and emerging markets. CBN staff report show that the 2022 first quarter real GDP of several advanced and emerging economies including, USA, United Kingdom, Japan, China, India and Brazil declined compared with the previous quarter. Although official GDP figures for the second quarter of 2022 are yet to be released in many countries, available high frequency indicators seem to suggest that the poor growth trend witnessed in the first quarter may have extended to the second quarter of 2022 as growth indicators are rapidly weakening. In the USA, the flash Composite Purchasing Manager's Index (PMI) for output fell to 51.2 in June from 53.6 in May 2022, indicating weak expansion of current economic activities. In China, eventhough economic activity rebounded in May following the relaxation of COVID-19 related restrictions and the ongoing policy stimulus, recent timely surveys of business activity have also indicated a slowdown of economic conditions in June. Second quarter slack in growth is also expected in the UK and the European Union with recent forecast dropping sharply as compared with the first quarter of 2022. In Chile, consumer and business confidence indicators are already in the negative territory since May, in South Africa, a contraction of 1.1 percent is expected in the second quarter of 2022, while growth in the third and fourth quarters is now forecast at 0.7 and 0.4 percent, respectively. Overall, the IMF in its April revised forecast, estimates a 3.6 percent global growth in 2022 before slowing to 2.9 percent in 2023. For the emerging markets and developing economies (EMDEs), growth is expected to slow from 6.6 percent in 2021 to 3.4 percent in 2022 as the negative spill-overs from the invasion of Ukraine will likely offset any temporary gains from any expected increases in commodity exports.

Global inflation has reached multi-decade highs in recent times and remains unabated even in May and June 2022. The escalating increases in the prices of fuel, electricity and food partly arising because of Russia's war with Ukraine is driving general consumer prices. CBN staff report show that year-on-year inflation in the US rose by 8.6 percent in May compared with 8.3 percent in April,

while in the UK, the year-on-year inflation also rose marginally to 9.1 percent in May from 9.0 percent in the previous month. In the Euro Area, year-on-year inflation measure rose to 8.6 percent in June 2022 from 8.1 percent in May. For emerging market and developing economies, the consumer prices presented mixed fortunes in May and June. While countries such as India, China, Brazil and Australia experienced a moderating or sometimes unchanged inflation rates in May as compared with April, such other countries as Chile, South Africa, Nigeria, Egypt and Ghana witnessed accelerating year-on-year inflation rates in May which even deteriorated by June 2022. Overall, the inflation expectations of consumers and businesses have continued to rise, but the market expects a marginal decline towards 2022 year-end especially if the underlying global shocks begin to partially subside.

Global financial markets continue to be volatile, similar to the position at the MPC meeting in May with increasing risk aversion levels due to higher interest rates and weaker earnings outlook. Major stock market indices declined further in June, which has been the trend since February 2022. Government bond yields in major countries have witnessed increased fluctuations between June and July 2022 attributable to recent monetary policy announcements. The US dollar has remained strong as more countries face huge capital outflows even amidst growing uncertainty. CBN staff report show that besides the Russian ruble and Mexican peso, all other major currencies in both developed, emerging and developing countries depreciated against the US dollar.

In terms of policy reaction, between the periods June to July, almost all Global Central Banks have continued the 'policy rates normalization path' in addition to massive withdrawal of monetary accommodation in response to the rising inflationary pressures. This approach is considered useful at least to realign the respective country's domestic economic demand with the supply. CBN staff report show that the US Federal Reserve pushed up its policy rate by 75 basis points, while the Bank of England moved a further 25 basis points in June 2022. Also in June, the Central Bank of Brazil and the Reserve Bank of India adjusted their policy rates upwards by 75 basis points and 50 basis points, respectively.

The wave of monetary tightening continued in July 2022 as inflationary pressures remains unabated. The Central Bank of Chile raised policy rates by 75 basis points, while the European Central Bank raised the three key ECB interest rates by 50 basis points. Other Central Banks that have raised policy rates recently include, the State Bank of Pakistan by 125 basis points, the Reserve Bank of Australia by 50 basis points, the US Federal Reserve by 'a second consecutive' 75 basis points and the Bank of Korea by 50 basis points. In Sub-Saharan Africa, policy rates-increases also flourished between June and July 2022 as a way to address the pervasive inflationary pressures. The Bank of Botswana increased policy rate by 50 basis points in June, while the South African Reserve Bank and the Bank of Uganda increased policy rates in July by 75 basis points and 100 basis points, respectively. It is expected that the future policy rate path will be partly dependent on how quickly the supply constraints emanating from the Russia-Ukraine conflicts dissipates and lowers the inflation expectations.

Domestic Economic Context:

There are some encouraging progress in the domestic economic context since the last MPC meeting in May 2022, eventhough several adverse indicators seem to have overshadowed the positive news. A strong optimism however exists for the second half of 2022 which is expected to witness more expansion of the domestic economy despite the current risks.

On growth for instance, Nigeria's impressive rebound from the effect of Covid-19 has continued in June, similar to the position at the last MPC meeting in May 2022 but the second quarter real GDP figures have not been released. In the first quarter, economic activity grew by 3.11 percent (y-on-y), compared with 3.98 percent in the fourth quarter of 2021 and 4.03 percent in the third quarter of 2021. On a quarter-on-quarter basis, there was actually a significant contraction in real output growth in the first quarter by -14.66 percent compared with the 9.63 percent quarter-on-quarter growth in 2021 fourth quarter. Markets are however bracing for a reading of the second quarter 2022 GDP results soon that could show further domestic growth strengthening.

Available high frequency indicators suggest strong improvements since the last MPC meeting. Manufacturing PMI stood at 51.1 index points in the month of June 2022 compared with 50.1 and 48.9 index points in May and April 2022 respectively, while Non-manufacturing PMI rose to 50.3 index points in June from 49.8 index points in May 2022. Other demand indicators including household consumption increased month-on-month between May and June 2022. Looking ahead, growth projection is now revised upwards in the remaining quarters of 2022 supported by sustained growth in the non-oil sector such as agriculture and services.

In terms of domestic inflation, the pressure keeps mounting with latest numbers showing a broad based increase and practically matching earlier forecasts in April and May. Headline inflation (year-on-year) hit 18.60 percent in June 2022 from 17.71 percent in May 2022, while its core component moved to 15.57 percent in June 2022 from 14.90 percent in May. The food component also increased from 19.50 percent in May to 20.60 percent in June 2022. The main surprise is that about 90 percent of the items in the CPI basket experienced increases in June as compared with less than 80 percent in April and May. This may be an indication that in addition to production and distribution bottlenecks, the growing domestic demand may also partly be contributing to the general price increases.

The external sector recorded strong improvements in quarter 1 of 2022 eventhough a Balance of Payments deficit still exist. The current account balance had four consecutive quarters of surpluses with a very significant improvement in the first quarter of 2022. The obvious drag is the capital account balance which remained at zero in the first quarter thus resulting in the continued deficit position of the overall Balance of Payments. Interestingly, the external reserves have resumed an upward trajectory since April and recently moved from US\$38.60 billion at end-May to US\$39.22 billion at end-June 2022. This will hopefully attenuate pressures at the NAFEX and I&E foreign exchange market windows and also ameliorate the uncertainty that is triggering the sharp naira depreciation at the 'unrecognised' parallel exchange market.

The fiscal sector risk appears to be worsening since the last MPC meeting on the back of deteriorating government revenues amidst increasing expenditure needs. CBN staff report show that fiscal deficit as at March 2022 was 70 percent above the deficit recorded in 2021 quarter 1. The government revenues are yet to increase significantly despite the high oil prices which has hovered at over US\$100 per barrel, way above the 2022 Budget Benchmark of US\$62 per barrel, mainly because of the recent surge in oil theft across the country. With debt service obligations now threatening to catch up with revenue receipts, it is critical to commence a process of fiscal consolidation which will help to ensure that debt sustainability is guaranteed even with the high government financing needs.

The domestic financial sector recorded a mixed performance when compared with the position at the last MPC meeting in May. While the banking industry remains robust with a positive outlook, the stock market appears to be rapidly weakening. For the banks, the declines in non-performing loans ratio (NPLs) from 5.31 percent in April to 5.20 percent in May and further to 4.95 percent June 2022 as well as increases in total assets between May and June 2022 are encouraging indicators of increased system soundness and resilience. In addition, growth in total industry credit had remained strong in June despite the policy rate increases at end-May 2022. On the other hand, the stock market performed poorly as both the All Share Index and the Aggregate Market Capitalization dropped significantly between May and June 2022. While CBN staff report attribute this downward stock market trend to dovish sentiments arising from policy rate hikes, the perceived volatility within that period smacks of uncertainties and disorderly market dynamics.

5. OBADAN, MIKE IDIAHI

INTRODUCTION

Since the last Monetary Policy Committee Meeting in May 2022, there have been no encouraging developments in the global and domestic economies.

Rather, macroeconomic uncertainties and vulnerabilities have continued to characterise the global economies with serious implications for global and domestic economic recovery. The global economy has continued to be threatened by the unabated war between Russia and Ukraine; and the lingering impact of the covid-19 pandemic. Although most economies are moving on as if the pandemic has been tamed, its impact in some economies such as China, combined with other shocks has sustained global supply chain disruptions. The pandemic appears to have been dwarfed by the impact of the raging war between Russia and Ukraine. Access to supplies of crucial commodities, such as crude oil, gas, grains, among others, from the two countries has been highly constrained, thus exacerbating global inflation and raising it to historical levels in some countries.

GLOBAL DEVELOPMENTS AND IMPLICATIONS FOR THE NIGERIAN ECONOMY

The Nigerian economy is highly globalised in that the country engages in importation and exportation of large volumes of goods and services as well as capital. Trade accounts for a significant proportion of the gross domestic product. Consequently, shocks in the global economy are easily transmitted to the domestic economy through import and export prices, exchange rate changes, and international interest rates/capital flows, sometimes with debilitating impact on macroeconomic variables such as the GDP, domestic inflation, foreign exchange earnings, external reserves, exchange rate and even domestic public finances, among others. Most of the current macroeconomic challenges facing the Nigerian economy are externally-driven, while domestic shocks are also visible.

Global economic growth.

Global economic recovery has been highly impacted by the unrelenting Russian-Ukrainian war and the associated sanctions imposed on Russia, mostly by the western countries. Indeed, there is the fear that the global economy may plunge into recession. The global socio-economic situation is confronted with notable downside risks to growth and upside risks to price development.

The headwinds have, on average, pushed commodity prices to historic highs, worsened supply chain disruptions, and lowered household and business confidence, thus dampening the rebound in global economic activities. Already, global output forecasts for 2022 and 2023 have been downgraded by the International Monetary Fund (IMF) in its April 2022 World Economic Outlook (WEO). Global output growth has been downgraded to 3.6 per cent for each of the two years. The indications are that further downgrade may occur in its July 2022 review. Already the US economy is reported to have contracted by 1.6% in Q1, 2022. Other economies that experienced contraction in Q1 are the Euro area, Japan and Nigeria (quarter-on-quarter) although the year-on-year growth was 3.11%. for Nigeria. Global trade also slowed in the first half of 2022 due to supply chain disruptions. If the trend continues, some economies will be pushed into recession in 2022. And the impact on the Nigerian economy will be very serious.

Crude oil Prices

As a major commodity upon which the Nigerian economy depends rather precariously, developments in the crude oil market are something that the country watches with keen interest, especially crude oil price as rising prices are expected to impact positively on the country's external reserves, exchange rate, foreign exchange earnings and government finances. The oil market witnessed a sharp rally of global oil prices in the wake of the Russian-Ukraine war. However, following some developments, oil prices have moderated but still above the US\$ 100.00 per barrel mark. But rather sadly, Nigeria has not been able to benefit from the high oil prices because of low volume of production that is very much below its OPEC quota and the phenomenon of importation of all of the country's refined petroleum product needs estimated at unbelievable volumes.

Global inflation

Inflation has continued to rage upwards in many world economies, for example, in the advanced economies that have for a long time recoded low

inflation rates, far below the long-run target of 2.0% of most of the central banks. Now, inflation is at historic levels, for example, United Kingdom had an inflation rate of 9.10% in May 2022; United States, 9.10% in June 2022; and Euro Area, 8.60% in June 2022. These and some other countries are now witnessing or threatened by stagflation, a phenomenon that has challenged the Nigerian economy for about six years since the first recession in 2016. Global inflation is easily transmitted to the Nigerian economy through its high dependence on energy and food imports, in particular wheat. With the escalation of global supply chain disruptions by the war in Ukraine and the associated sanctions on Russia, Nigeria is witnessing high imported inflation as a significant contributor to the headline inflation in the country.

Monetary policy normalisation and tightening financial conditions

Against the backdrop of escalating inflation in most countries, and the need to prioritise inflation control, many advanced and emerging-market economies have continued to pursue aggressive monetary policy normalisation in the form of policy interest rate hikes aimed at controlling aggregate demand. For example, the US Federal Reserve Bank has increased its policy rate by a cumulative 150 basis points so far in 2022. It has also provided guidance on further rate hikes in 2022. The Bank of England, between March and June, 2022 increased its policy rate three times by increments of 25 basis points. Most Emerging Market Economies, Nigeria included, have also shifted toward tightening of monetary policy by raising policy rates. Hiking of policy rates in the advanced economies create problems for the poor countries through capital flows reversals. With tightening global financial conditions, new foreign borrowing has become more expensive thus creating potential debt servicing problems. Some analysts have already expressed concerns about Nigeria's public debt size and debt servicing challenges.

OPINION AGAINST THE BACKDROP OF THE GLOBAL AND DOMESTIC TRENDS

The opinion is formed against the backdrop of the above global developments as well as domestic trends. Many economies have yet to recover from the

covid-19-induced recession. The Russia-Ukraine war erupted, and has raged on, and its impact on global inflation has been unprecedented to the point of making the fears about global recession to becoming a reality. The war has had a strong negative impact on supply and price of commodities – wheat, fertilizer, oil and gas, etc. Through these the escalating global inflation has been strongly transmitted to Nigeria's inflation through import prices. The monetary policy normalisation response to the raging inflation in the advanced economies is not favourable to capital flows to Nigeria; it has reduced inflows and heightened outflows.

In Nigeria, the most pressing current challenges are sustenance of the fragile growth, escalating inflation and foreign exchange/exchange rate pressures. Economic activities recorded notable gains continuously with output expansion for the 6th consecutive quarter in Q1 2022 with a growth rate of 3.11% year-on-year. A number of features of the growth are, however, worrisome. The growth is not only relatively low, it has continuously declined year-on-year since the economy recovered from recession in Q1 2021 – from 5.01% in Q2 2021 to 3.11% in Q1 2022. Thirdly, the year-on-year annual growth has not recovered to pre-2014 levels largely because of exogenous shocks. As it is, untamed inflation escalation may further threaten the growth prospects in 2022.

Developments in the oil sector have not been helpful to growth nor to foreign exchange/external reserves and government revenue. The oil sector contracted for the 8th consecutive quarter by 26.04% in Q1. The resilient non-oil sector has thus sustained the positive growth. Importantly too, the country has not been able to take advantage of the high oil prices in the global market and enhanced OPEC quota to earn more foreign exchange and support external reserves and government revenue. The Bonny Light oil average price for June, 2022 stood at US\$130.3 per barrel compared with US\$74.95 per barrel in December, 2021. Yet, oil production and export averaged only 1.2 million barrels per day and 0.75 million per day, respectively, compared with the OPEC quota of 1.7 million barrels per day. Thus, a major challenge remains how to boost oil production and export in support of macroeconomic stability by

having a handle on oil pipeline vandalisation and oil theft in the Niger Delta region. If oil theft is effectively checked, the current serious pressures on foreign exchange/ exchange rate and government finances will significantly abate.

The other major challenge which must now gain priority attention is the escalating inflation in view of its obvious consequences for investment, growth and standard of living. After the significant gains recorded in inflation control in 2021, all the three measures of inflation, year-on-year – headline, food and core – have trended upwards since February 2022, standing at 18.6, 20.6 and 15.75 percent, respectively in June, 2022. This has been triggered largely by imported inflation occasioned by the Russia-Ukraine war through supply shortages and high prices of imported wheat, fertilizer, refined petroleum products, etc, the importation of which the country depends upon significantly. However, the legacy factors of inflation have continued to be operational – insecurity which adversely affect agricultural food supply and productivity, rising transport costs which escalate food prices, exchange rate depreciation, etc. Also of note is the upward trend of money supply growth in recent months. Although the role of money supply growth in spurring aggregate demand in the face of high unemployment, poverty level and hence fuelling Nigeria's inflation has not been clear-cut, it cannot be completely ruled out. Indeed, there is the possibility that some of the money supply growth may have found its way into non-output enhancing expenditures and hence contributing to increases in the prices of goods and services through the demand side.

The primary mandate of the Central Bank of Nigeria is price stability. It is in light of this that the Bank has intervened in the real sectors of the economy – agriculture, manufacturing, power, MSMEs – with provision of loans at below 10 percent interest rates. The aim is to tackle inflation from the aggregate supply side. Now that the achievement of the primary mandate is being threatened by both exogenous and domestic factors, there is the need for the Bank to further tighten the monetary policy stance to complement the development finance interventions in support of the price stability mandate while the fiscal authority does the needful to support growth. The expectation is that monetary

policy tightening will protect real incomes of consumers, and impact exchange rate and capital flows positively. No doubt, there are concerns that monetary policy tightening may not be helpful to growth in the short-term but certainly price stability will be supportive of investment and growth in the medium-long term. Importantly, it must be borne in mind that policies have trade-offs in terms of effects. At this point in time, the Bank must be seen to be doing the needful to tame inflation while the development finance interventions continue.

In light of the foregoing, I support further tightening of the monetary policy stance. The Cash Reserve Requirement (CRR) is already high at 27.5% without considering the administrative measures of tightening through this instrument. Therefore, I support raising the Monetary Policy Rate (MPR) by 100 basis points to 14.0 percent while the other policy parameters are held constant at their extant levels thus:

MPR	-	14.0%
Cash Reserve Requirement (CRR)	-	27.5%
Liquidity Ratio	-	30%
Asymmetric Corridor	-	+100/-700 basis points

However, the raised MPR needs to be supported with complementary actions, especially by the government, for example:

- Tame the insecurity phenomenon that has tended to discourage investment and production, especially of agricultural products; insecurity has made farming a risky venture and poses a threat to food security;
- Decisively deal with the oil theft in the oil producing areas that has robbed the country of naira revenue and foreign exchange;
- Have a handle on rising transport and business costs arising from shortages and escalating prices of power and petroleum products – diesel, PMS and aviation fuel.

- Expedite action on making the refineries to work. Working refineries will compete with the few private refineries expected to go into operation soon and to the advantage of petroleum product consumers;
- Rationalise the structure of spending, especially of non-capital expenditure items to eliminate wastes and minimise the need for ways and means advances and debt accumulation. The quality of public expenditure needs to improve significantly to enhance the output-capital ratio.

On the part of the Monetary Authority, there is no doubt that it is in a difficult situation because of excess demand for foreign exchange in the face of rather uncomfortable foreign exchange supply situation. In the context of foreign exchange management, there is need for a critical review of the structure of forex demand for invisibles payments abroad with a view to identifying the unessential elements for rationalisation. Some analysts have rightly wondered why the Bank should, for example, continue to provide foreign exchange to fund primary, secondary and undergraduate education abroad in an era of serious forex shortage. It is true that many public schools are in bad shape. But there are many good private schools at the primary, secondary and university education levels. If parents are willing to fund the very expensive foreign education, it will be far cheaper for them to educate the children in the most expensive and good private schools in Nigeria.

6. OBIORA, KINGSLEY ISITUA

As inflation continues to rise rapidly and fast eroding the real income of households and businesses, the need to bring it under control has become more urgent. It is in the face of these increased headwinds that I voted to: raise the Monetary Policy Rate (MPR) to 14.0 per cent from 13.0 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, respectively. I believe this stance is appropriate in containing inflationary pressures, minimizing its effect on growth and safeguarding financial system stability.

The global economy continues to face surging inflationary pressures and slowing economic growth. These are driven by lingering supply-chain disruption, post-pandemic increasing demand, tight financial conditions, China's economic slowdown, the Russia-Ukraine war and its effect on energy and food prices. The combined effect of these factors continues to weigh on global economic activity. In particular, the Russia-Ukraine war has further disrupted the world commodity markets and exacerbated the soaring food and energy prices. This is because Russia and Ukraine are important commodity exporters. They account for about 30.0 per cent of global wheat and 20.0 per cent of aggregate corn, minerals, fertilizers and natural gas.

Disruptions to these commodities, therefore, have, in part, increased inflationary pressures globally. The inflation rate is already heading towards 10.0 per cent in some advanced economies, most especially in the United States, United Kingdom and Euro Area, reaching 9.1, 9.4 and 8.6 per cent in June from 8.6, 9.1 and 8.1 per cent in May 2022. This is far above the target of 2.0 per cent set by the Central Banks of these economies. In Turkey and Czech Republic, inflation increased from 73.5 and 16.0 per cent in May to 78.6 and 17.2 per cent in June 2022, respectively. In Sub-Saharan African countries such as Ghana, Ethiopia and Angola, inflation increased to 29.8, 34.0 and 22.9 in June 2022, respectively. Consequently, inflation in Advanced Economies (AEs) and Emerging Market and Developing Economies (EMDEs) is expected to increase by 5.7 and 8.7 per cent in 2022, up from 3.1 and 5.9 per cent in 2021, respectively. (IMF, April 2022, World Economic Outlook). Overall, although drivers of inflation vary across regions and countries, key developments driving the current inflationary pressures across the world are the rising food and energy prices occasioned by

the ongoing Russia-Ukraine war, post-pandemic increasing demand and supply-chain disruptions.

As a result, many Central Banks in Advanced and Developing economies are aggressively lifting interest rates to contain inflationary pressures, making it the most widespread interest rates hike in the last two decades. The Federal Reserve, the Bank of England, Bank of Canada, and Reserve Banks of Australia and New Zealand have continued to raise interest rates and have further signalled for more interest rate hikes in 2022. In Africa, Egypt, Ghana, South Africa, Tunisia, Kenya and Nigeria have raised interest rates to rein in inflationary pressures that have broadened and become more persistent in some of these economies. Inflation is rising rapidly worldwide, and Central Banks must act quickly to contain it, especially in low-income countries where soaring food prices and other necessities are worsening food insecurity and poverty.

Following these developments, global growth is expected to slow down significantly in 2022 compared with 2021. The J.P. Morgan Global Composite Purchasing Managers Index (GCPMI) improved in June 2022 amid weak growth prospects. The PMI increased to 53.5 index points in June 2022 from 51.3 points in May 2022, driven by the growth rebound in China following the easing of COVID-19 lockdown measures. However, the IMF and the World Bank have projected the global growth to slow down to 3.6 and 2.9 per cent in 2022, from an estimated 6.1 and 5.7 per cent in 2021, respectively. The downward revision was due to the supply-chain disruptions, rising commodity prices, tight financial conditions, the Russia-Ukraine war, extensive sanctions on Russia and weak growth in China. Consequently, growth in the Advanced Economies is forecast to moderate from 5.2 per cent in 2021 to 3.3 per cent in 2022.

In the EMDEs, growth is projected to slow down from an estimated 6.8 per cent in 2021 to 3.8 per cent in 2022 (IMF, WEO April 2022). The economies of the United States, the Euro Area and the United Kingdom are forecast to slow down to 2.3, 5.3 and 3.7 per cent in 2022 from an estimated 5.7, 2.8 and 7.4 per cent in 2021, respectively. Also, in China, growth is expected to decline by 4.4 per

cent in 2022, from an estimated growth of 8.1 per cent in 2021, due to China's zero-COVID policy and the contraction in the property market.

Domestically, growth in the Nigerian economy is also expected to moderate in 2022. Official data from the National Bureau of Statistics (NBS) showed that real GDP grew by 3.11 per cent in Q1 2022, down from 3.98 per cent in Q4 2021, representing a decline of 0.87 percentage points. The growth was largely driven by the non-oil sector, with Rail Transport and Pipelines, Air Transport, Metal Ores, Financial Institutions and Telecommunication and Information Services recording growth of 124.5, 50.68, 30.76, 25.43 and 14.50 per cent, respectively. Overall, the non-oil sector grew by 6.08 per cent in Q1 2022 compared with 4.73 per cent in Q4 2021. However, the Oil sector contracted further by 26.04 per cent in Q1 2022 from a contraction of 8.06 per cent in Q4 2021, making it the eighth (8) consecutive quarter of contraction. The contraction in the Oil sector was mainly due to pipeline vandalism and oil theft, with adverse implications for Federal Government revenues and accretion to external reserves. Consequently, IMF projected the economy to moderate to 3.4 per cent in 2022 from 3.6 per cent in 2021.

However, the Manufacturing Purchasing Managers' Index (PMI) improved for the second consecutive month to 51.1 points in June from 50.1 in May 2022. The increase in the PMI was driven by improvement in production, employment levels in manufacturing and supplier delivery. Also, the Non-Manufacturing PMI increased to 50.3 points, from 48.9 points in May 2022, expanding above the threshold for the first time since February 2020. Furthermore, the overall Balance of Payments (BOP) position narrowed from a deficit of 1.30 per cent of GDP in Q1 2021 to a deficit of 0.81 per cent in Q1 2022, driven by the current account surplus, which increased significantly to US\$2.58 billion in Q1 2022 from a surplus of US\$0.05 billion in Q4 2021. The gross external reserves also increased (month-on-month) by 1.61 per cent to US\$39.22 billion at the end of June 2022, from US\$38.60 billion at the end of May 2022, due to an increase in FX swap transactions and crude oil-related taxes and penalties.

The financial soundness indicators showed that the banking system remained sound, stable and resilient. Total assets of the banking industry grew (month-on-month) by 22.07 per cent from N53.64 trillion in May 2021 to N65.48 trillion in June 2022, driven by balances with CBN/banks, OMO bills and credit to the real sector of the economy. Consequently, the total flow of credit to the economy increased by 22.78 per cent or N5.02 trillion from N22.04 trillion in June 2021 to N27.06 trillion in June 2022 to various sectors of the economy, including Oil and Gas, Manufacturing, General, Governments and General commerce. The industry Non-Performing Loans (NPLs) ratio was 4.95 per cent at the end of June 2022 compared with 5.70 per cent at the end of June 2021, which was below the prudential maximum of 5.0 per cent.

The year-on-year downward trend was attributable mainly to write-offs, restructuring of facilities, Global Standing Instruction (GSI) and sound credit risk management by banks. Furthermore, the monthly average Open Buy Back (OBB) and Inter-Bank rates, fluctuated within the asymmetric corridor and increased from 9.39 and 8.38 per cent in May to 10.89 and 11.10 per cent in June 2022. The increase reflects a tight banking liquidity condition, which could help rein in inflation and safeguard financial system stability.

Amid stable and resilient banking system stability, significant headwinds remain in the economy. Inflationary pressures continued to surge as headline inflation increased to 18.60 per cent in June 2022 from 17.71 per cent in May 2022, driven by rising food and core components.

Food inflation rose to 20.60 per cent in June from 19.50 per cent in May 2022, driven partly by the soaring price of diesel and scarcity of Premium Motor Spirit (PMS), leading to increases in transport and logistics costs. Core inflation further increased to 15.75 per cent in June 2022 from 14.90 per cent in May 2022, due to increases in processed foods, housing, water, electricity, gas & other fuel as well as transportation. Although the economy grew by 3.6 per cent in 2021, it is still fragile. This is partly because the domestic crude oil production continued to trend below the OPEC quota of 1.74 mbpd and the budget benchmark of

1.88 mbpd. The continuous shortfall was attributed to the renewed cases of oil theft and pipeline vandalism, leading to increased fiscal deficit and debt concerns. Furthermore, high unemployment, lingering insecurity and widening infrastructural deficits continue to weigh on the growth recovery.

Overall, the global and domestic outlook remains bleak with increasing uncertainty. IMF and World Bank forecast global growth to weaken significantly in 2022 and 2023 due to the increased headwinds: the Russia-Ukraine war and associated rising food, energy and commodity prices, slowdown in China and tightening monetary policy stances by major Central Banks. Inflation is also expected to remain elevated in 2022. Furthermore, the monetary policy tightening stance by major advanced-economy Central Banks will increase capital reversals, diminish accretion to external reserves and heighten currency depreciation in most EMDEs. It will also increase borrowing costs and undermine debt sustainability.

Domestically, output is expected to remain relatively weak in 2022. Also, headline, core and food inflation are all forecast to accelerate in 2022 at a double-digit territory, far above the implicit inflation target of 6 to 9 per cent set by the Bank, with attendant implications for widening negative real interest rate and increasing inflation expectations. The current economic environment presents the policymakers with tough policy choices between supporting fragile economic growth and containing inflationary pressures. However, since the economy exited recession in Q4 2020, a modest recovery has been achieved, evidenced by the annual growth rate of 3.4 per cent in 2021. This modest recovery was driven by the support of the Federal Government stimulus and proactive intervention programmes of the CBN in various sectors of the economy. Therefore, as we navigate these complex policy trade-offs, we must ensure that the modest recovery achieved is not revised by the current soaring inflationary pressures.

That is why the top priority of the Bank is to act quickly and aggressively to bring this rising inflation under control. Inflation is weighing heavily on individual

households across the country, especially the most vulnerable low-income families. The high costs of food and other necessities continue to erode the purchasing power of ordinary Nigerians, thereby entrenching food insecurity, poverty and inequality.

On account of these and rising inflation expectations, I concluded that the best policy action is to increase the MPR. I believe this will contain inflationary pressures, re-anchor inflation expectations, minimize its effect on growth and safeguard financial system stability. On this basis, I voted to:

- Increase the Monetary Policy Rate (MPR) to 14.0 per cent from 13.0 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

Since the MPC meeting of May 2022, the global economic outlook has continued to deteriorate. There are synchronous downturns in developed and emerging economies and a darkening outlook for growth. The World Bank lowered its global growth forecasts to 2.9% for 2022 and raised stagflation fears.

The European Commission slashed its economic forecast for Europe to 2.7% for 2022.

Harsh Covid restrictions have been reintroduced in China. The Russian President has threatened “catastrophic consequences” for world energy markets by slashing oil exports if further sanctions are imposed. Germany is already facing its worst energy crisis since 1973 following Russia's reduction of gas supply and a 10-day maintenance of its main pipeline to Germany.

Inflation is resetting the path of global and national economies, accentuating monetary policy tightening and raising recession risks. Fitch Solutions forecast that global inflation will peak over the coming months as supply side issues keep prices elevated.

In the United States, consumer prices - driven by demand and high energy and food prices - rose by 9.1% in June 2022, this is the highest increase since 1981. Inflation was a record 8.6% in the eurozone for June from 8.1% the previous month. Consumer prices for June were up 78.62% in Turkey; 20.5% in Lithuania; 15.6% in Poland; 9% United Kingdom; 7.7% in Canada and 3.4% Switzerland. In China consumer prices rose to 2.5% in June from 2.1% in May, however, inflation remains muted in Japan.

South Africa's inflation numbers reached a five-year high at 7.4% in June 2022, up from 6.5% in May 2022. Ghana's inflation was over 29.8 % in June representing an 18-year peak since January 2004. Amid protests over spiraling prices and the rising cost of living as well as an unsuccessful domestic economic recovery plan the government of Ghana in July sought for an IMF bailout. The Reserve Bank of Zimbabwe says from July 25, 2022 it will start issuing gold coins as legal tender as the country battles to control soaring inflation that has considerably weakened the local currency.

Central banks are walking the thin line of attempting to control inflation without impacting economic growth. Global central banks could raise interest rates more sharply than previously in response to persistent inflation and this will

further slow the world economy. The Bank of England has raised interest rates by 25 basis points five consecutive times to 1.25%. The US Federal Reserve tightened monetary policy more aggressively, with a 75 basis points increase in June 2022, the biggest jump since 1994. The US Central Bank has so far increased policy rates by 1.5% this year. To control inflation, the Canadian Central Bank became the first G7 nation to raise policy rate by 100 basis points to 2.5%, this was the biggest policy rate increase in 24 years. Central Banks in India and Brazil have also raised rates, and the European Central Bank announced a forthcoming end to negative rates, the first increase in interest rates since 2011.

Normalisation and tightening of monetary policy stances in the advanced countries is expected to continue in order to tame inflation.

Domestic Economic Developments

According to the World Bank's Nigeria Development update in June 2022, Nigeria is in a paradoxical situation, though growth prospects have improved, however inflationary and fiscal pressures have increased considerably, leaving the economy much more vulnerable. The Country's Gross Domestic Product (GDP) grew by 3.11% (year-on-year) in real terms in the first quarter of 2022, showing a sustained positive growth for six consecutive quarters since 2020. Fitch Solutions Medium-Term Forecast for Nigeria projects that growth will underperform in 2022 but with significant potential for acceleration in 2023 and 2024. Fitch also forecasted that Nigeria's GDP is projected to grow by 3.4% in 2022 up from the previous forecasts of 2.8% for 2022.

Nigeria's inflation rate rose for the seventh consecutive month to 18.6% (year-on-year) in June 2022 from 17.7% recorded in May 2022. The Nigerian National Bureau of Statistics (NBS) reports that headline inflation rate increased to 1.82% in June 2022 on a month-on-month basis from 1.78% recorded in May 2022. Urban inflation rate increased to 19.09% (year-on-year). Core inflation - which excludes the prices of volatile agricultural produce - rose to 15.75% in June 2022 on a year-on-year basis. Diesel prices are making inflation worse as

Nigerian businesses are passing input cost increases to the ultimate consumers. According to the NBS, the average retail price of Automotive Gas Oil (Diesel) paid by consumers increased by 181.00% from N238.82/litre in May 2021 to N671.08/litre recorded in May 2022.

The World Bank reports that Foreign Direct Investments (FDI) have been persistently low in 2022, as exchange rate management issues deter investors. With rising global interest rates, Nigeria will likely experience net portfolio outflows in 2022.

The NBS also reported the total value of capital importation into Nigeria in the first quarter of 2022 stood at US\$1,573.14 million from US\$2,187.63 million in the preceding quarter showing a decrease of 28.09%. When compared with the corresponding quarter of 2021, capital importation decreased by 17.46% from US\$1,905.89 million. The largest amount of capital importation by type was received through portfolio investment, which accounted for 60.87% (US\$957.58 million). This was followed by Other Investment with 29.28% (US\$460.59 million) and Foreign Direct Investment (FDI) accounted for 9.85% (US\$154.97 million) of total capital imported in Q1 2022.

Nigerian Capital Market

The Nigerian Stock Exchange (NGX) All Share Index (ASI) crossed the 50,000-basis point (over a 13 year high) at the end of Q2 2022 with a gain of about 21.17%. However, the market gain was driven by a handful of stocks and in sectors that are negatively correlated to exchange and interest rate movements. There has been more reallocation of assets to dollar denominated investments as investors hedge against a weak Naira.

The NGX witnessed a reduction in foreign investor participation. This is a concern, as an increase in foreign portfolio investments will help reduce foreign exchange pressure and improve market liquidity.

FMDQ recorded an increase in secondary market turnover by 22% to about N43.53 trillion in Q2 2022. However, there was a reduction in securities admissions for both Treasury Bills and Corporate Bonds for the same period.

Monetary policy tightening typically has an adverse effect on the stock market and we may begin to see that impact on the Nigerian stock market if there is prolonged tightening. The growth of any economy is anchored on production and the ability of the capital market to provide avenues for businesses to access long term capital to finance productive activities. As the rate of inflation trends upwards, another challenge apparent, is how to deploy a monetary policy approach with outcomes that effectively balance the ravaging effects of inflation on the most vulnerable demographic of our population, while maintaining the ability of businesses to raise long term capital from our markets for much needed productive activities.

Overall Consideration

Consumers are being squeezed by inflation and its negative effects.

Globally there is the risk that inflation may become entrenched in consumer and business psyches, thus making it more difficult to lower it over the medium term. Most Central banks already have little room for manoeuvre in order to control inflation without triggering a recession.

The rise in global inflation is driven by substantial supply shocks emanating from the pandemic and the Russian invasion of Ukraine. This inflation rise is not abating and there seem to be uncertainty around the potential magnitude of inflation in the coming months. There has been considerable tightening by most central banks around the World as inflation risks lean potentially higher.

In Nigeria, the high inflation rate of 18.6% calls for tightening of monetary policy, while maintaining existing interventions in key sectors to stimulate growth. The rising inflation in the country constitutes a major macroeconomic challenge which is exacerbated by foreign exchange pressures. We are an import dependent economy. A higher inflation rate will further depreciate the value

of the Naira as import prices become more expensive. The foreign exchange challenge remains daunting and addressing this challenge should be of utmost importance.

Monetary policy will thus seek to counteract the trend, support growth and guard against inflationary expectations becoming entrenched.

A tightening of monetary policy is appropriate in the current dispensation to reduce the structurally high inflation base. As with the last couple of months, the Committee is faced with a difficult set of policy choices, requiring trade-offs. The capital market operators lamented the May 2022 MPC decision to raise rates with the likelihood of the hike depressing investors' appetite for equities and reverse the bullish outlook of the market. There is also the impact of tightening on existing and new consumer loans and credit. However, the main focus in the short term is on the primacy of price stability as a failure to restore price stability will erode purchasing power and push millions of Nigerians further into poverty.

My Policy Decision:

I therefore vote to:

- Raise MPR by 50 basis points to 13.50%;
- 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

Global Growth

Since the last meeting of the Monetary Policy Committee on 23rd and 24th of May 2022, the global economy has continued to slowdown as key risks to economic growth, such as the Russia-Ukraine war, remain elevated. For instance, in the July 2022 edition of the World Economic Outlook, the International Monetary Fund (IMF) painted a gloomy picture of the world economy, saying that global output contracted in the second quarter of 2022, owing to a sharper-than-anticipated slowdown in China, majorly due to COVID-

19 outbreaks and lockdowns, as well as further negative spillover effects from the war in Ukraine. Accordingly, the baseline forecast by the IMF is for global growth to slow from 6.1 percent in 2021 to 3.2 percent in 2022 – a 0.4 percentage point lower than in its April 2022 World Economic Outlook.

This global growth forecast, however, masks considerable variation in growth across the regions of the World, with the growth performance in emerging markets and developing economies (EMDEs) outperforming that in advanced economies, especially the Euro Area, whose economies are largely dependent on Russia and Ukraine's energy and agriculture. For instance, the IMF has revised downward its 2022 output growth in the United States to 2.3 per cent – a 1.4 percentage point reduction compared to its April 2022 WEO – due to reduced household purchasing power and tighter monetary policy. In China, further lockdowns and deepening real estate crisis have led growth to be revised down by 1.1 percentage points, while significant downgrades in output growth were seen in Europe reflecting spillovers from the war in Ukraine and tighter monetary policy.

Downside Risks to growth:

Indeed, the global supply disruptions created largely by the war in Ukraine and the continued isolation of Russia from the global economy has persisted. Consequently, this is reflected in high energy and food prices. Thus, the global economy is faced with material downside risks to growth and upside risks to inflation, which could undermine the IMF's growth forecasts for 2022 and 2023. Indeed, the war in Ukraine continues to pose serious downside risks to growth as it fuels to raise of energy prices. For instance, over the past three months, the amount of Russian pipeline gas supplied to Europe has fallen sharply, to about 40 percent compared to the 2021 level, and is expected to decline further by mid-2024 (WEO, July 2022). Thus, a complete cessation of exports of Russian gas to European economies would significantly increase inflation worldwide via higher energy prices. It could also force energy rationing in the euro area,

affect major industrial sectors, and sharply reduce economic growth, with negative cross-border spillover effects, according to the IMF.

The China effect also poses another downside risk to global growth. As is well known, China is the world's manufacturing powerhouse. Thus, a sustained slowdown in China would have strong global spillovers, depending on the balance of both supply and demand factors. For example, further tightening of supply bottlenecks could cause higher consumer goods prices worldwide.

Rising inflation also constitutes another downside risks to growth. Although some analysts expect inflation to reach pre-pandemic levels by the end of 2024, several factors such as supply related disruptions to food and energy could push inflation to maintain the upward momentum leading recession and stagflation. Yet another downside risk to growth can be seen in tighter global financial conditions which could trigger debt distress in emerging market and developing economies. Once again, according to the IMF (WEO, July 2022): "as advanced economy central banks raise interest rates to fight inflation, financial conditions worldwide will continue to tighten. The resulting increase in borrowing costs will, without correspondingly tighter domestic monetary policies, put pressure on international reserves and cause depreciation versus the dollar, inducing balance sheet valuation losses among economies with dollar-denominated net liabilities. Such challenges will come at a time when government financial positions in many countries are already stretched, implying less room for fiscal policy support, with 60 percent of low-income countries in or at high risk of government debt distress (debt restructuring or accumulation of arrears) — up from about one-fifth a decade ago. Widespread capital flight from emerging market and developing economies could amplify this risk". This scenario is reminiscent of the situation half a century ago when rising borrowing costs combined with high inflation and slowing growth prompted central banks across the world to tighten policies to fight high inflation, which consequently led to disorderly external adjustment and debt defaults in some countries.

It is noteworthy, however, that there are several differences between the current and previous episodes, with the IMF citing the following three important factors: (i) the current real oil price rise is smaller, and global production is now less dependent on oil than previously; (ii) policy tightening in the current episode had begun much earlier in some countries and policy frameworks are also generally more robust than before; and (iii) in the current episode, there has been less time for recycled petrodollars to drive imbalances in emerging market and developing economies.

Global Inflation

In terms of global inflation, it has sustained its upwards trend, remaining well above the long-run objectives of almost all central banks across the globe. In both the United States and the United Kingdom, inflation surged to 9.1 per cent each in June 2022 and May 2022, respectively – the highest level in 40 years in both countries. In the euro area, the consumer price index (CPI) rose to 8.6 percent compared to the corresponding period last year – its highest level since the inception of the monetary union. The story is the same in emerging market and developing economies (EMDEs) where Q2, 2022 inflation reached 9.8 percent (WEO, July 2022). The main drivers for headline inflation globally are higher food and energy prices, supply constraints in many sectors, and a rebalancing of demand back toward services. In addition to headline inflation, there was a persistent rise in core inflation, reflecting the pass-through of cost pressures in the supply chains. All of this could be traced back to the Russian war in Ukraine, which had continued to be the major driver of global inflation due to its influence on commodity prices occasioned by supply chain disruptions. The recent agreement between Russia and Ukraine to allow shipment of agricultural commodities may have helped to slow down the growth in consumer prices, but it may be inadequate to close the backlog of the pent-up demand for these commodities. In this regard, the current trend of aggressive monetary policy normalization embarked upon by major central banks to curb inflation is expected to continue into the foreseeable future,

heightening the likelihood of tighter global financial conditions and global recession in the immediate to medium term.

Global trade

Global demand for tradeable goods continues to be weak. This, together with the continued disruptions in the global supply chain, is likely to slow down the growth in global trade. Accordingly, the report by staff of the Central Bank of Nigeria projected global trade growth to decelerate to 4.0 per cent in 2022 before inching up to an average of 4.1 per cent between 2023 and 2024. In addition, the appreciation of the US dollar in 2022 by about 5 percent in nominal effective terms, as at June 2022 (IMF, WEO July 2022), may also have contributed to a slowdown in world trade growth, given the dollar's dominant role in global trade invoicing.

Domestic Developments

The global developments highlighted above have undoubtedly impacted the Nigerian economy through the effects of the Russian war in Ukraine on energy and food prices as Nigeria is a major player in the energy market (exporter and importer) and an importer of agricultural commodities and inputs. As a major exporter of crude oil, Nigeria could have benefited from the high crude oil price, but unfortunately such benefits have been eroded by the high costs of refined products of which Nigeria is a major importer. The high price of imported petroleum products translates to high subsidy on petrol motor spirit (PMS) with attendant consequences on government revenues. Furthermore, Nigeria does not benefit from the high crude oil price due to substantially reduced oil production, caused by oil theft and insecurity in the Niger Delta area. Currently, less than 1.4 million barrels per day of crude oil is produced, well below the Organisation for Petroleum Exporting Countries' (OPEC's) quota of 1.8 million barrels per day. Consequently, this has serious implications for foreign reserves, which in turn limits the effectiveness of foreign exchange management in Nigeria. Thus, the high energy and food prices triggered by the war in Ukraine contribute significantly to upward domestic price pressures.

Nigeria's twin problem of inflation and inability to benefit from high energy prices contrasts sharply with experiences by other oil exporting countries. For instance, Saudi Arabia has benefitted tremendously from the high crude oil prices that it is likely to be one of the world's fastest-growing economies in 2022, as gross domestic product (GDP) is expected to expand by 7.6 per cent, the fastest growth the country recorded in almost a decade (IMF Article IV Consultation report, 2022). Furthermore, despite higher prices for imported commodities, inflation in Saudi Arabia is expected remain contained at 2.8 per cent in 2022 as the Saudi Arabia Monetary Agency (SAMA), its central bank, tightens policy in line with the US Federal Reserve. Thus, Saudi Arabia's public finances and the external position will continue to strengthen due to higher global energy prices, in stark contrast with Nigeria's fiscal and external balances.

Despite rising prices and structural challenges facing Nigeria, the country has 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 per cent (year-on-year) compared with the 0.1 per cent in Q4 2020. The projection is that the growth performance in Q2 of 2022 will match or even surpass the performance recorded in the preceding quarter. 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 per cent, 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 per cent 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, it is needless to say that 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, as stated above, 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 18.6 per cent in June 2022, it is largely driven by food inflation, which stood at around 20.0 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, the factors I emphasised in my personal statement in the May 2022 meeting are still worth mentioning if inflation pressures were to be curbed in

Nigeria. These include reducing post-harvest food losses, reducing cost of governance and redirecting resources saved to development of rural infrastructure, timely provision of emergency agricultural interventions in the current wet and dry seasons to boost agricultural production, and 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

Despite raising the Monetary Policy Rate (MPR) by 150 basis points, from 11.5 per cent to 13.0 per cent in May 2022, global as well domestic inflation has continued to inch up. The uncertainty around the Ukraine war as well as geopolitical tensions around world suggest that inflation will remain elevated for much longer and at higher levels than previously assumed. This has prompted central banks in the Advanced Economies and other EMDEs not only to raise the monetary policy rates to contain curb inflation but also to send signal that they will continue to raise policy rates in the immediate future until price stability is restored. Nigeria is not isolated from the global economy, so imported inflation is likely to continue to surge. However, on the domestic front, inflation will surge further over the coming months due to increased spending by politicians in the run up to the 2023 General Elections. Thus, the Central Bank of Nigeria must not relent in using the MPR and other monetary policy tools to curb the inflationary pressures in the country, especially now that the fiscal authorities have limited tools in view of the constrained fiscal space where government spending outstrips revenue and debt service-to-revenue ratio exceeds 96 per cent and is expected to reach 119.0 per cent in 2023 (Federal

Government of Nigeria, Medium Term Expenditure Framework 2023-2025). This calls for a drastic action on the part of the fiscal authorities, to do more to complement the efforts of the monetary authorities, including reducing the size of fuel subsidy, reducing the cost of governance, exploring ways of generating more non-oil revenue, increasing the volume of crude oil production by tackling the crude oil theft, and tackling insecurity generally.

Accordingly, I am of the view that, since inflation in Nigeria is stubbornly high and it continues to rise unabatedly, the CBN should not relent in its effort to aggressively tackle it with all the arsenals at its disposal, including raising the Monetary Policy Rate (MPR). I am also of the view that effective collaboration and coordination between the fiscal and monetary authorities is needed for maximum impact of their interventions on the economy.

Consequently, I voted to:

- Raise the MPR by 75 basis points to 13.75%
- 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

Decision

I voted to raise the MPR in order to rein in the rising inflationary pressure. There are several sources of this pressure including the supply disruptions associated with the Russian-Ukrainian war, domestic monetary and fiscal stimuli in response to the COVID-19 pandemic. Given the forecasts that inflation would continue on the upward trend on the account of broad-base increases in the both core and food components, I believe the monetary policy must be committed to reining in inflation. Further tightening would also help reduce the rising pressure in the foreign exchange market. I, therefore, voted to further tighten the policy stance at this meeting.

Background and Justification

Global Economic Developments

The global economy continued to be hit by the adverse consequences of the Russian -Ukrainian war, which disrupted the global supply chain, halted the well-anticipated global output recovery from the pandemic and raised global inflation. As major central banks worldwide accelerated the pace of policy normalisation, the tightening global financial conditions would continue to put pressure on riskier assets and currencies in EMDEs, amidst imported inflation.

The Russia-Ukraine war erupted when the global economy had not fully recovered from the supply disruptions associated with the COVID-19 pandemic. The US and EU sanctions on Russia and the associated blockages disrupted the global supply chain, leading to a rise in global commodity prices, especially food, fertiliser, crude oil and gas prices. Consequently, the war has impaired the production and trade of a wide range of energy, food, and agricultural goods across the globe. Despite the US release of strategic oil reserves and diplomatic efforts with Saudi Arabia, the global energy demand would rise, especially as winter approaches. As oil prices are expected to remain high for the duration of the war. The global economy is facing the risk of another recession associated with these heightened uncertainties. The April

2022 IMF's forecasts for global output are further downgraded to 3.6% in 2022 and 2023, compared with the 6.1% realised in 2021 (IMF, WEO, April 2022). In Advanced Economies (AEs), output growth is similarly forecasted to decline progressively from the 5.2% achieved in 2021 to 3.3% in 2022 and 2.4% in 2023. Q-o-Q output in the US, Japan and China have all contracted in 2022Q1. GDP tracker suggests that Q-o-Q output growth for the US is likely to be negative in 2022Q2. In EMDEs, output growth is forecasted to slow down from the 6.8% achieved in 2021 to 3.8% in 2022 before rising to 4.4% in 2023. JP Morgan's PMI, however, increased from 51.3 in May 2022 to 53.1 in June 2022. Manufacturing PMI declined, but global services PMI rose in June 2022.

Crude oil prices have remained high, albeit moderated, owing to the increased supply from US strategic reserves and increased production from Saudi Arabia. As of 14th July, 2022, the price of OPEC Basket stood at \$102.66/b. Global demand is forecasted to grow and remain higher than global supply throughout the year. Global commodity prices have remained high due to the supply chain disruptions, but have moderated in June 2022 because of the easing of the pent-up demand. International prices of agricultural products, especially cereals, vegetable oils, sugar, wheat and corn, have also declined. The global food price index declined from 157.4 in May 2022 to 154.2 in June 2022.

Global inflationary pressures have continued and are projected to remain elevated in the near to medium term due to rising freight costs and slow production. 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 June 2022, US inflation rose to 9.1% from 8.6% in May 2022. In the Euro Zone, inflation has further increased to yet another all-time-high rate of 8.6% in June 2022, driven by prices of energy (41.9%), food, alcohol & tobacco (8.9%), and non-energy industrial goods and services (4.3%). In the UK, inflation has risen to 9.1% in May 2022. In the EMDEs, inflation is expected to rise to 8.7% in 2022 from 5.9% in 2021, but will decline to 6.5% in 2023. As of June 2022, inflation (year-on-year) has risen in all the major EMDEs economies, including China (2.5%), Kenya (7.9%), South Africa

(6.5%), Ghana (29.8%) and Nigeria (18.6%). Inflation declined in India (7.01%) and Egypt (13.2%) due to slight moderation in food prices.

Central Banks in many Advanced Economies and EMDEs are aggressively tightening in response to the unabating inflationary pressure. The Bank of England raised its repo rate by 25 basis points thrice in March, May and June 2022. The US Fed also raised its rate by cumulative 150 basis points so far in 2022 to 1.50-1.75%, indicating that further raise of 50 basis points is likely in its next meeting. Most central banks in EMDEs have also continued to tighten. South Africa increased its repo rate for the third time this year by 25 basis points in May 2022 to 4.75%. Similarly, Egypt, Brazil, Kenya and Ghana have all raised their key policy rates in May and June 2022 in response to the rising inflation, capital outflow and currency depreciation. The EMDEs have continued to face portfolio capital outflow. In May 2022, net portfolio outflows from EMDEs stood at US\$4.9billion due to tightening monetary conditions in the AEs and the risk of a global recession.

These global developments have major implications on the domestic economy. The commodity price shock, for instance, would have a high pass-through to domestic prices, given the import intensity of the economy. The global oil price rise in the presence of low oil export due to oil theft means low accretion to foreign reserves. Given the risk of capital outflows, low reserves accretion and the need to import refined products, the foreign exchange market pressure will continue to intensify.

Domestic Economic Developments and their Implications

The NBS shows that output grew by 3.11% in Q1 2022 compared with 3.89% in Q4 2021, driven by the non-oil sector, particularly Services, Agriculture and Manufacturing. This is the 6th consecutive positive growth since the last recession in 2020. The oil sector GDP contracted for the 8th successive quarter because of production problems related to increased oil theft and pipeline vandalism. Despite the high global oil price, the monumental level of oil theft and dependence of domestic consumption on imports have continued to

deprive Nigeria of the benefits of the increased global oil prices. Staff forecasts that output will grow at 3.34% in Q2 2022 and 3.33% in 2022. The outlook is predicated on effective implementation of the Medium-Term National Development Plan (MTNDP), improvement in manufacturing and positive impact of CBN interventions.

In June 2022, inflation increased to 18.6% (year-on-year) from 17.71% in May 2022, driven by both the food and core components. The food component increased (y-o-y) to 20.60% in June 2022 from 19.5% in May 2022. The increase in food prices was due to continued insecurity across the major food-producing areas, increased cost of production, processing and transportation of the food items due to high energy costs and global trade shock due to the Russia-Ukraine war. Core inflation increased to 15.75% in June 2022, mainly driven by several factors, including lingering structural issues, external shocks; continuous foreign exchange market pressure; imported inflation; rising prices and inadequate fuel supply (especially PMS and diesel), transportation and electricity. According to Staff projections, inflation will rise to 19.2% in June 2022 as a result of an increase in production costs associated with the scarcity of refined petroleum products, disruptions in electricity supply and spillover effects of the Russian-Ukrainian war.

Data from the banking system stability report shows that the banking industry has remained resilient and sound and contributes to the real sector. Capital adequacy has remained above the regulatory minimum at 14.1% as of April 2022. The Non-Performing Loans (NPLs) ratio was 5.0%, at the regulatory maximum of 5%. The industry's total credit to the economy increased by N5.02 trillion or 22.78% between June 2021 and June 2022. Gross industry credit, which stood at N27.06 trillion in June 2022, has risen steadily since 2019, largely due to the Bank's LDR policy. Analysis of the interest rate band reveals that 65.9% of customers borrowed a total of N4,768.0 billion at interest rates of less than 15% as of June 2022, suggesting that interest rates are declining as credit to the real sector of the economy continues to increase. As of June 2022, a total of N3,378.0 billion was lent to beneficiaries at less than a 10% interest rate through the CBN intervention funds.

Data on monetary aggregates shows that in May 2022, the broad money supply (M3) has expanded by an annualised rate of 23.04%, which was greater than the benchmark for 2022 of 15.21%. The monetary expansion was driven by Net Domestic Assets, reflecting the continuous borrowing by the Federal government from the domestic market.

The Basis for My Policy Choice

The continued increase in inflation, which is forecasted to rise further on account of broad-based increases in core and food components, is caused by diverse factors. Although the initial source of maybe supply-side or cost-push, the dynamics have since changed. As I argued in my statement, the enduring inflation persistence had produced second-round effects on non-energy, non-food components of inflation by raising inflation expectations. In addition to the fiscal and monetary stimulus that had significant liquidity injection, continuous borrowing by the Federal government had contributed to the expanding money supply. Being a pre-election year, election-related spending can be expected to inject significant liquidity and contribute to the inflationary pressure. Therefore, although the current inflationary process may have multiple supply-side sources, it also has a substantial demand-side influence. Thus, in choosing between the options to tighten, hold or loosen the current policy stance, I voted to raise the MPR by 50 basis points to rein in inflation.

Consequently, I voted to:

- Raise the MPR by 50 basis points to 13.50 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.

This meeting held at a time when the global economy faced multiple challenges of rising food and energy prices, declining production, and sub-optimal productivity compounded by tougher global financial conditions. Even as many economies adopt hawkish measures to curb aggressively rising inflation, unintended consequences that is somewhat chocking an already slow recovery has created a policy conundrum for global policy makers. As the domestic economy faces spillover from this precarious global macroeconomic

condition, amidst high unemployment and widespread insecurity, it has become imperative for the Bank to demonstrate commitment to ensuring monetary and price stability. Despite the pressure to keep operating in a way to prevent degeneration in output, the Bank must take decisive and clear action to emphasize the primacy of its monetary and price stability mandate.

Brief Review of Global and Domestic Economic Developments

The global economy faced twin problem of declining growth and aggressively rising widespread inflation. Lingering effects of pandemic-induced disruption to supply chain and production has worsened by the devastating impact of the Russia-Ukraine conflict on food and energy prices, causing historical rise in global inflation. Overall impact is reflected in significant economic slowdown and in some cases growth reversal, across developed, emerging and developing economies. Accordingly, the latest IMF World Economic Outlook projected global growth at 3.6 per cent in 2022 from an earlier 4.4 per cent, amidst emerging uncertainties.

Domestic economic growth, at 3.11 per cent in the first quarter of 2022, showed sixth consecutive quarters of growth, continued to be driven by the expansion of the non-oil sector. The dismal performance of the oil sector, due to low investment and theft, however, remains a major drag on overall growth. Composite manufacturing and non-manufacturing Purchasing Managers' Indices surpassed the 50.0 index point at 51.1 and 50.3 per cent, respectively, in June 2022, reflecting some improvements in the expectations of this sector.

Domestic headline inflation accelerated further to a worrisome level of 18.60 per cent (year-on-year) in June 2022, its highest-level since January 2017, from 17.71 per cent in May 2022. The aggressive rise in general price level reflected increase in both food inflation and core inflation to 20.60 and 15.75 per cent, respectively, in June 2022, mainly on account of insecurity induced disruption to food production and distribution, as well as, rising production cost due to

high energy prices and imported inflation. Widening gap between farmgate and market prices of food reflects impact of rising logistic and distribution cost.

Growth in major monetary aggregates over preceding December have been significant vis-à-vis the targets for 2022. Broad money supply (M_3) grew by 11.52 per cent at end-June 2022 (annualized to 23.04 per cent) against 14.92 per cent benchmark for fiscal 2022. Similarly, growth in claims on the central government and private sector were 35.04 and 11.84 per cent at end-June 2022, annualized to 70.08 and 23.68 per cent, vis-à-vis their respective benchmarks of 12.26 and 17.73 per cent for fiscal 2022.

Prudential indicators in the banking sector remained within acceptable levels, highlighting resilience of the sector. Even as total asset, deposit and credit maintained their upward trend, the non-performing loans ratio improved further to 4.95 per cent, below the prudential maximum of 5.0 per cent. Industry capital adequacy and liquidity ratio were maintained within regulatory thresholds, though returns on equity and investment recorded muted improvement, reflecting the high operational cost and tight operating environment.

The fiscal space is characterised by significant shortfall in revenue, even as the need for increased expenditure stares us in the face. This has resulted in rising deficit, huge debt stock and overwhelming debt service obligations leaving little or no resources for other government obligations. In the external sector, low inflow from crude oil sales due to declining production investment and oil theft has caused significant decline in accretion to the external reserves and foreign exchange supply, leading to exchange rate pressure from pent-up demand.

Considerations and Decision

Prospects of global growth is significantly muted as economies deal with the effects of rising inflation, declining trade, and shortage of critical inputs caused

by lingering disruptions to supply chain. The pace of economic recovery has therefore further slowed down. Elevated general prices combined with tighter financial conditions constitute major headwinds to global recovery. This condition of global stagflation has created uncertainties around the global policy environment and underscores the need to adopt more radical and pragmatic measures to ward-off spillover from the precarious global macro-economic situation and save the domestic economy from further deterioration.

The pressure points on the domestic economy remain fragile growth, aggressively rising inflation, weakened fiscal space and vulnerable external sector. Driven by the conviction that promoting output will address unemployment and ultimately moderate inflation, the Bank has continued to support growth. To address the fact that certain outcomes of ongoing support may have been suboptimal due to factors out of control of the Bank, the next stage is to make interventions more targeted and measured towards areas that have yielded most impact. Strong perception of the counterfactual that if not for the interventions in the real sector the situation may have been worse for both output and food prices is a major basis to continue the support for growth. In this regard, to moderate food inflation, I encourage a consideration of targeted intervention/measures to address factors exacerbating the gap between farmgate and market prices of food.

Impact of oil theft and insufficient new/replacement investment has led to inability to meet up with OPEC production quota, making the oil sector a major drag on overall growth. Huge revenue loss and near-zero flow from the major source of foreign exchange has widened the foreign exchange demand-supply gap, thereby causing a worsening of exchange rate pressure. It is therefore imperative for the fiscal authority to take decisive steps to stop oil theft, which will in turn encourage investment, especially with the gradual operationalization of the Petroleum Industry Act.

Current trajectory of inflation calls for drastic actions as inflation accelerated at a rate not seen in a long time. Apart from pressure from food prices and imported inflation, the monetary phenomenon in domestic inflation has become obvious, just as expectation seem to have also taken root. With growth in the major monetary aggregates at end-June 2022 already surpassing the benchmark for 2022, we must take immediate action to douse the influence of monetary aspect of inflationary pressure. I therefore encourage Bank, guided by trends in monetary aggregates, to keep a close eye on money supply and continue to deploy its administrative measures to manage liquidity, especially as it has shown to be a ready and effective tool in our peculiar case.

Despite the need to refocus on inflation, the Bank faces unrelenting pressure to continue to promote growth and facilitate employment generation. However, the public must be aware that we are concerned about the precarious inflationary pressure and ready to act to tame inflation expectation. We must at this point not only be seen as concerned, but also to have done something to anchor inflation expectation and prevent a further compounding of unemployment and poverty problems.

I therefore vote to:

- Raise MPR to 14.00 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

The Russia-Ukraine conflict continued to undermine the global economy, particularly for small open developing economies like Nigeria. Besides, global rebalancing in the aftermath of the Covid-19 remained sluggish as pent-up demand persisted. These were complicated by the economic sanctions against Russia that further worsened subsisting supply-chain disruptions across the globe, especially in Europe and Africa. Over the past few months, the ensuing trade dislocations have aggravated supply shocks across regions, triggered unprecedented price hikes, and powered commodities, energy and food inflations to record heights. Continued blockage of shipments (predominantly of grains and other food items) along the Black Sea exacerbated the threats to global food security and undermined macroeconomic stability.

Consequently, the global economy is saddled with high inflation and rising inflation expectations that have hampered growth prospects. Across different regions, inflation rates have skyrocketed above the long-run thresholds of many central banks. May 2022 rate of inflation rose to 9.1 percent in the United Kingdom (UK), while the United States (US) and the Euro area recorded all-time highs of 9.2 and 8.6 percent in June, respectively. For Emerging Markets and

Developing Economies (EMDEs), inflation rose in June to 2.5 percent in China, 5.6 percent in Brazil, 7.9 percent in Kenya, 18.6 percent in Nigeria, and 29.0 percent in Ghana. These are already complicating existing global vulnerabilities and risks to output growth. Current realities indicate that the nascent global recovery from the impact of Covid-19 pandemic could reverse in 2022q2 except urgent countervailing measures are implemented. Accordingly, the IMF is likely, in its July WEO, to further downgrade the 2022 global growth from the 3.6 percent projected in April, ditto for the 3.3 and 3.8 percent growths, respectively, estimated for advanced economies and EMDEs.

Central banks in many advanced economies and EMDEs have intensified policy tightening to contain inflationary pressures and anchor expectations. These have significant ramifications for capital reversal from EMDEs and could worsen vulnerabilities associated with sovereign debts, external reserves, and exchange market pressures. The emergent uncertainties from these could combine with a narrowed policy space to escalate the lingering fragility in several EMDEs; thus, requiring urgent and critical policy actions.

Despite these growing concerns, which were amplified by domestic security threats and rising inflation, growth prospect for the domestic economy remained cautiously positive. Staff forecast suggests a domestic growth of 3.33 percent for 2022 even as the elevated risk of recession accompanies rising inflationary pressure. Headline inflation rate for June 2022 rose to 18.6 percent from 17.7 percent in May, with food and core inflations, respectively, rising to 20.6 and 15.7 percent. On a month-on-month basis, the food sub-index increased by 2.05 percent from 2.01 percent recorded in May, while the core slowed to 1.56 percent from 1.87 percent; reflecting the importance of food inflation. I am notably concerned about the debilitating effect of high inflation on the purchasing power of economic agents, its disruptive effect on productivity and distribution, and its exacerbation of unemployment, poverty and inequality. More so, continued negative real interest rate could destabilise domestic investments, deepen capital flow reversal, and undermine the stability of the naira.

Broad money supply (M3) grew by 11.52 percent in June from 10.86 percent in May due to the increase in net domestic asset. Against the backdrop of sustaining the critical support to the real sector of the economy, credit to the private sector grew by 27 percent in June 2022 (year-on-year). Amidst these growing global uncertainty and price developments, the banking sector remained robust and safe as banks' leverage ratio indicated ample resilience to shocks. At 14.1 percent, CAR stood above the 10 percent threshold in June, while liquidity ratio was 42.6 percent and NPL ratio moderated further to 5.0 percent. External reserves, at US\$39.6 billion in June, remained at a comfortable level and could finance over 9 months of imports. Nonetheless, external sector vulnerabilities (due to ongoing geopolitical tensions) could persist in the near-term as pressures on aviation fuel, grains and other commodities intensifies.

In my consideration, I reiterate the need to staunchly support the agriculture and manufacturing sectors to help moderate food prices and other imported finished goods through both fiscal stimulus and unconventional monetary policy (interventions) in the real sector. Furthermore, improving the security of lives and properties would help agriculture and food production (especially as we approach the harvest season) and keep inflation under check. I am certain that sustaining our non-oil sector development programmes through the RT200 initiative would help reserves accretion and support exchange rate stability. Above all, curbing oil theft and shoring up oil production will boost government finances, support external reserves and moderate the pressure on the exchange rate.

Based on the objective of price stability, my inclination is to decisively contain inflationary pressure and expectations without impairing the long-run growth path. Primarily, it is imperative to disentangle the evolution of the current inflationary dynamics, unravel the underlying drivers, and respond accordingly. I recognise that the current inflationary pressure is due to both structural and monetary factors, and underscore the urgent need to rein in inflation. In my consideration, loosening at this time will be antithetical as it could trigger massive capital outflow, intensify exchange rate depreciation and worsen

inflation. Furthermore, holding policy rate could be sub-optimal given the already negative real interest rate that could undermine investments and exacerbate the pressure on the external balance. I am convinced that policy tightening, to a significant degree is crucial at this time. I believe that given the over 84 and 200 basis points increases in headline and food inflation, respectively, aggressive tightening is necessary to dampen pervasive inflation, contain expectations, and provide a forward guidance. Overall, I vote to:

- I. Raise the MPR by 150 basis points to 14.5 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

July 2022