

**PERSONAL STATEMENTS BY
THE MONETARY POLICY COMMITTEE MEMBERS
MPC MEETING FEBRUARY 26 -27TH 2024**

1. AKU PAULINE ODINKEMELU

I voted to raise the Monetary Policy Rate (MPR) by 300 basis points from 18.75 percent to 21.75 percent, the Cash Reserve Ratio (CRR) by 750 basis points from 32.50 percent to 40.00 percent, adjust the asymmetric corridor around the MPR to +100/-700 from +100/-300 basis points, and retain the Liquidity Ratio (LR) at 30.00 percent. My position is predicated on the persistent inflationary pressures, depreciation of the exchange rate due to demand pressure amid persistent supply shortages, and the need to effectively anchor expectation. In my view, this stance will contain inflationary pressures in the short to medium term.

My decision is influenced by the following developments:

Global Developments

Global output growth is projected to remain stable at 3.1 percent in 2024, relative to the previous year, and may improve to 3.2 percent in 2025, owing to the resilience of the United States economy, leading emerging markets, and developing economies, as well as the fiscal stimulus in China. However, risks to stable global output growth include conflicts in the Middle East (Israel and Gaza), Europe (Russia and Ukraine), with the likelihood of escalation to other regions. Additionally, climate change issues such as floods and droughts pose further challenges.

Inflation is moderating in many regions of the globe, signaling early indications of a disinflationary process amid tight monetary policy stances. Global inflation is projected to slow to 5.8 percent by the end of year 2024 and decelerate further to 4.4 percent in 2025. On the downside, new episodes of commodity price spikes resulting from geopolitical shocks, including the Israel-Gaza conflict, continued attacks in the Red Sea, Iran and US tensions, and supply chain disruptions, could prolong tight monetary conditions in many regions across the globe. The decision of most central banks to retain the policy rate despite declining inflation in advanced economies is in line with the expectation.

Although global inflation is projected to moderate in 2024, inflation remain above the central banks targets, prompting continued tight financial conditions in the Advanced Economies. Consequently, Emerging Markets

and Developing Economies may continue to experience capital outflow. The risks may significantly impact the Nigerian domestic economy as tight financial condition in advanced economies may continue to exert pressure on the exchange rate through capital outflow. To mitigate the risks, **I vote for tightening**, while emphasising the need for effective coordination between the fiscal and monetary authorities to synchronize policy response and restore macroeconomic stability.

Domestic Economic Developments

Nigerian economy remains resilient. Real GDP grew by 3.46 percent in the last quarter of 2023 (year-on-year), from 2.54 percent in the third quarter of 2023. The non-oil sector which grew by 3.07 percent in real terms in the last quarter of 2023, (higher by 0.32 percentage point relative to third quarter of 2023), and the oil sector which grew by 12.11 percent (compared with 2.22 percent contraction in the third quarter 2023), are the joint drivers of output growth. Output growth remained fragile as Composite PMI decreased to 48.5 points in January 2024 from 49.1 points in December 2023, remaining below the expansion threshold of 50 index points, following low business activities.

In spite of output growth, inflationary pressures continued to persist, prices remained sticky as headline inflation rose further to 29.90 percent in January 2024, from 28.92 percent in December 2023 due mainly to the removal of PMS subsidy, the adoption of a market-based exchange rate regime, and persistent security challenges. The month-on-month rise of core inflation (Headline inflation less farm produce and energy) to 2.24 percent from 1.82 percent in the preceding month signals high exchange rate pass through effect to domestic prices. This brings to the fore, the importance of eliminating distortions in the foreign exchange market, promoting transparent and efficient foreign exchange market and ultimately engender exchange rate stability. The reforms embarked upon by the Bank in the foreign exchange market are commendable and should be sustained. The major challenge confronting the economy, however, is expanding the supply-side of the foreign exchange market. I understand the constraints of the Bank in this regard, while advocating for stronger coordination with fiscal authority on audacious strategies to improve the supply of foreign exchange to the market.

On the monetary sector, growth in money supply (M3) rose by 18.25 percent to ₦93.72 trillion at end-January 2024 over preceding December. Broad money (M2) and narrow money (M1) grew by 17.81 and 3.68 percent, respectively at end-January 2024. The growth in broad money supply was driven by the rise in other deposits, transferable deposits, and securities other than shares. In my view, the growth in M1 could further worsen inflationary

pressures in the economy, as it signals rising transactionary motive or excess liquidity in the system. The motive for holding excess liquidity is generally classified into precautionary or voluntary motives. Precautionary excess liquidity portion is useful as a buffer for insuring bank capital and uncertainty surrounding customers' withdrawal, and does not have negative effect on monetary policy. However, involuntary motive usually above the desired level – a common feature of developing economies banking system – is not desirable during this period of persistent inflationary pressure, and also influence my decision to vote for monetary policy tightening. In voting for tightening, I am mindful of the implications of rate hike on the stability of the banking system and therefore, will vote to raise the Monetary Policy Rate (MPR) by 300 basis points from 18.75 percent to 21.75 percent.

The Nigerian financial system is resilient as the banking sector remains sound and stable. Total assets of the banking industry increased month-on-month by 24.76 percent between December 2023 and January 2024. The banking industry Capital Adequacy Ratio (CAR) remained above the minimum threshold of 10–15 percent. Similarly, the Liquidity Ratio (LR) remains above the regulatory threshold of 5 percent and 30 percent, respectively. The industry NPL ratio of 4.15 per at end-January 2024, which is itching towards the industry regulatory threshold of 5 percent should be monitored closely.

Given that most banks had CRR above the regulatory threshold of 32.50 percent and the industry average of 39.36% at end-January 2024, I vote to raise CRR by 750 basis points. I am also aware that tightening of money supply will lead to increased borrowing costs for businesses, with consequences for both the bad debt portfolio of banks and the risks. I am, however, confident that the Bank' supervisory tools are robust to address risks arising from monetary policy tightening.

2. ALOYSIUS UCHE ORDU

Global Economic Developments

Global growth is forecast at 3.1 percent in 2024, unchanged from 2023. Though low by historical standards, this stability demonstrates resilience in the global economy, in view of high interest rates and heightened geopolitical tensions. A key driver of global growth is the resilience of the US economy which defied recession forecasts and attained near-record low unemployment, rapid economic growth and fading inflation.

The US economic performance will offset the growth forecast for China, the world's second largest economy, which is facing weak domestic demand and dimmer outlook for the real estate sector. Chinese authorities have set an ambitious growth target of around 5 percent in 2024, essentially the same as last year when the country struggled to emerge from three years of zero-Covid policies, and foreign direct investment hit a 30-year low.

In Europe, rising geopolitical tensions (Russian-Ukraine war) will continue to weigh heavily on growth potential (GDP growth of 1.8 percent in 2024), thus avoiding a recession. The global purchasing managers index for February 2024 remains unchanged with marked deterioration in the Eurozone compensated by improving activity in other world regions.

The Israeli-Hamas war is further complicating the global geopolitical scene; and the Houthi's attacks on ships in the Red Sea is raising global shipping costs and could result in a spike in oil prices – a downside risk to the global economic outlook. The emerging economies of Asia will contribute significantly to global growth in view of their export recovery and continued investments in supply chains.

On inflation, with consumer prices trending downwards in advanced countries, the US Federal Reserve, and the European Central Bank (ECB) will likely end policy rate increases and commence lowering rates in the second half of 2024.

For Africa, the confluence of global economic and political headwinds, regional challenges, and climate risks will constrain some countries' ability to settle their international financial obligations. Nevertheless, Africa will be the second fastest-growing region with 12 of the 20 fastest-growing economies in 2024 (according to the Economist Intelligence Unit). As in previous years, East African countries—Ethiopia, Kenya, Uganda, Rwanda, Tanzania, and the DRC—will record growth rates in the range of 5% to 6 percent, which is above the 3.2 percent average for sub-Saharan Africa in 2024.

Unlike the situation in advanced countries, inflation remains a challenge and many African central banks will continue to increase interest rates in view of high inflation, currency depreciations, and heavy debt burdens. In March 2024, Egypt raised its interest rate by 600 basis point to 27.25 per cent as part of a package of measures that included currency devaluation and to ease foreign exchange shortages.

Kenya's Monetary Policy Committee raised its rate to 13 percent, the highest in 12 years, as inflation risks remain elevated and to stem pressures on the exchange rate. The Bank of Uganda also raised its rate to 10 percent to curb inflation and to support the shilling.

Earlier, an interest rate hike to 12.5 percent, and an increase in the reserve ratio for local banks to 26 percent, combined to strengthen the Zambian kwacha vis-à-vis the US dollar. The currency had previously dropped 21 percent against the US dollar during the period October 2023 to February 2024. And despite political pressure ahead of national elections in May, the South African Reserve Bank insists that there will be no interest rate cut until inflation is brought under control.

Nigeria: Economic Indicators and Outlook

Nigeria currently faces a challenging economic situation. CBN staff presentations during the MPC meeting in February highlighted several of these challenges. First, the economy grew by 2.7 percent in 2023 (a decline in per capita terms), reflecting low growth across most sectors. The transport and logistics sectors were particularly hit more directly on account of the elimination of the decades-long fuel subsidy and the adoption of a market-based exchange rate regime.

Second, there was a substantial and sustained increase in inflation rates: with an increase in headline inflation to 29.9 percent, food inflation to 35.4 percent, and core inflation to 23.59 percent in January 2024. Food prices rose sharply due to the higher fuel and transportation costs and increased insecurity in food producing areas.

Third, business activities slowed as reflected in the decrease in the composite purchasing managers' index to 48.5 points in January 2024. The index remained broadly below the expansion threshold of 50 index points throughout the preceding 12 months. Unemployment, particularly youth unemployment, increased during the period, adding to the burgeoning population of people living in poverty.

Fourth, there was an exponential growth in broad money supply (M3) by 18.25 percent to Naira 93.72 trillion in January 2024 which combined with the cost push factors indicated to exacerbate the surge in inflation.

Fifth, on fiscal policy, Nigeria's tax-to-GDP ratio has stagnated at around 7 percent over time. This ratio is among the lowest in the world and falls far short of the average for sub-Saharan Africa (16.5 percent), Asia-Pacific and Latin America and the Caribbean (around 23 percent), and the OECD (over 33 percent). The ratio emphasizes the potential to raise both tax and non-tax revenues vital to boost investment spending in infrastructure and human capital development. Further, concerted efforts to boost revenues will improve the fiscal space, especially in view of the recent spike in debt-to-revenue ratio to 179 percent at the end of the third quarter of 2023.

Finally, in the external sector, the balance of payments deficit narrowed due to the combined effects of reduced imports (exchange rate depreciation), and increased exports of crude oil at favorable prices (US\$85 per barrel).

The above list is by no means exhaustive but serve to illustrate some of the constraints to better outcomes even though they are outside the immediate remit of monetary policy.

To address the associated challenges would thus require a whole of government approach to map out and to execute a program of economic diversification and structural transformation. A robust revival of Nigeria's economy is needed simply to prevent the number of poor people from increasing beyond the current 133 million multi-dimensionally poor in 2022 (National Bureau of Statistics). Based on the performance of comparable lower middle-income countries, even an ambitious growth target of 6 to 7 percent throughout the next two and half decades would still leave millions of poor people by 2050, when Nigeria will rank as the third most populous country in the world. More troubling, if growth continues at around the current 3 percent a year, the number in absolute poverty would likely double by 2050.

On monetary policy, there was heightened expectation on the February MPC meeting, especially as the current sustained price rise is wreaking havoc on the living standards of people. It is imperative to break the cycle of inflation as a prerequisite for sustained economic growth and to stabilize the exchange rate, following the Naira's sharp depreciation in recent months.

A substantial hike in interest rate at this time will moderate inflationary pressures in the short- to medium-term. It will also send a strong signal to investors (domestic and foreign) about the MPC's intention to build and sustain trust and credibility in monetary policy in line with its core mandate of price stability.

Accordingly, I vote:

- to raise the MPR by 450 basis points to 23.25 from 18.75%

- to raise the Cash Reserve Ratio from 32.5 per cent to 45 per cent
- to adjust the Asymmetric Corridor around the MPR to +100/-700, and
- to retain the Liquidity Ratio at 30 per cent.

3. BALA M. BELLO

Opening Statement

I am honoured to participate in the first Monetary Policy Committee (MPC) meeting for 2024. This meeting provides a unique opportunity to make well-informed policy decisions, given the significant implications for Nigeria's economic stability.

Decision

I voted to tighten the monetary policy stance further, by raising the monetary policy rate (MPR) by 400 basis points from 18.75 per cent to 22.75 per cent, increasing the Cash Reserve Ratio (CRR) by 1,250 basis points from 32.5 per cent to 45.0 per cent, retaining the Liquidity Ratio at 30 per cent, and adjusting the asymmetric corridor from +100/-300 basis points to +100/-600 basis points around the MPR. My decision was predicated on some important developments [summarized below], which have implications for macroeconomic stability in Nigeria.

Considerations

The prolonged upward trajectory of domestic prices requires decisive policy actions to curb the trend, given its adverse implications for the value of the naira and the economic well-being of Nigerians. Data from the National Bureau of Statistics indicates that headline inflation increased year-on-year (y-o-y) to 29.90 per cent in January 2024, from 28.92 per cent in December 2023, driven by lingering effects of the petroleum subsidy removal, continuous exchange rate depreciation, surge in money supply, and persistent structural challenges. Food and core inflation have also maintained an upward trend (y-o-y). This is clearly a reflection of the need for coordinated monetary and fiscal efforts to contain inflation.

The depreciation in the naira exchange rate with significant pass-through effects further exacerbates the threat to price stability. Thus, keeping the exchange rate within desired levels is crucial for price stability. While the recent exchange rate policies implemented by the Central Bank of Nigeria (CBN) are gradually showing some positive results, implementing complementary policy actions by the MPC and the fiscal authority that can increase foreign exchange inflows in the short to medium term, will lead to even better outcomes.

In addition, output performance remained positive, at 3.46 per cent in the fourth quarter of 2023, up from 2.54 per cent in the previous quarter, a development that gives the MPC latitude to focus on keeping inflation under control. Although tightening monetary policy could potentially limit access to credit and negatively impact output, it may be necessary to prevent inflation from rising any further. If inflation persists, it could eventually erode any gains made in output over time.

Borrowing costs are also expected to rise, possibly constricting loan growth in view of the positive correlation between market lending rates and the MPR, with adverse implications for asset quality. Although staff reports presented at the meeting showed a resilient financial system with prudential ratios within required levels and satisfactory stress test results, preserving financial system stability as monetary policy contracts remains vital. The CBN's vigilance and proactive measures, such as the proposed recapitalization of commercial banks, are, therefore, germane.

On the international scene, output recovery is tepid, while inflation, though slowly responding to the tightened stance of many central banks, remains broadly above long-run benchmarks. Monetary policy is, thus, expected to remain tight over the medium term amidst lingering uncertainty. Nigeria must, therefore, position itself as an attractive investment destination with high yields.

In summary, there is strong evidence that monetary policy considerations at this meeting should prioritize reducing inflation and maintaining exchange rate stability. Further tightening of the monetary policy stance will, in my opinion, anchor inflation expectations and help attract the much-needed foreign exchange inflows and accretion to reserves while triggering a downward inflation trajectory. The Bank, must however, closely monitor the markets and evaluate unfolding outcomes to prevent unintended consequences of well-intentioned policy actions. The foregoing considerations reinforce my earlier vote.

4. BAMIDELE A.G. AMOO

International Economic Developments

Globally, many countries recorded slow and fragile growth in 2023 with offsetting results. Although the USA economy expanded in Q4 2023, the Euro Area stagnated while the UK and Japanese economies plunged into recessions. However, we still expect stronger growth in 2024 over 2023 levels in many countries, despite deepening tensions in Israel/Palestine, Israel/Egypt, Russia/ Ukraine, USA/Russia, USA/China, China/Taiwan, and many conflicts in Africa. The war in Ukraine/Russia is poised to further cripple the global economy in 2024 as the EU and USA start targeting entities supporting Russia's war in Ukraine. Climate change and El Niño which are set to peak by mid-2024 threaten food and water security in Africa and Middle East, causing potentials for flood, drought, and heatwaves.

The outlook for the global economy output growth remains unchanged at 3.1 per cent in 2024. In developing markets, growth is expected to stabilize at about same levels recorded in 2023 or drop slightly in 2024. Inflation is expected to continue easing in 2024, although at a slower pace in most countries. Red sea disruptions may escalate risks of geopolitical tensions that may drive oil prices. Interest rates are unlikely to be cut until sometime in Q2/Q3 2024. However, risks of rate hikes/hold are now emerging linked to potential inflationary pressure and output cut from Red Sea trade disruptions. When these situations occur, expectation of lower global inflation in 2024 and prospects of rate cut by central banks, may not happen as the war and its negative impact on Red Sea may incite inflation and cost of living during 2024. When this happens, the global monetary policy environment may remain tighter for a long period.

Economic development in Africa was mixed in 2023. There were fragile and offsetting growth recorded in major economies amidst regional tensions which include: debt burden; fiscal stability issues; inflation and tight monetary policy; weak intra-African trade as well as climate change, political and economic stability.

Domestic Economic Developments

Information from staff reports indicated that Nigeria's real GDP grew by 3.46% in Q4 2023 (year on year) from 2.54% in Q3 2023 driven by the non-oil sector. On annual basis, real GDP grew by 2.74% in 2023 from 3.1% in 2022. Headline inflation rose to 29.9% in January 2024 from 28.92% in December 2023, due to persistent supply gap, lingering ripple effects of the PMS subsidy removal. Core inflation stood at 23.59% compared with 23.06% in December 2023, due

to fuel subsidy removal and amalgamation of exchange rate regimes, among other factors. Consequently, food inflation rose to 35.42% (y-on-y). High inflation put Nigeria into cost of living crisis which comes on the heels of foreign exchange reforms and PMS subsidy removal that pushed petrol price up by over 400 per cent, straining households and businesses.

Another phenomenon was currency depreciation which made naira to hit record lows against the dollar, reaching N1,700 per dollar, reflecting high percentage of loss in value. Other issues were: low capital importation, forex backlogs, and diversion of cargoes to neighboring countries to discharge. CBN policy responses were timely and still on-going. They include lifting restrictions on banned items, raising rates on 12-month Treasury Bills, transfer of portion of NNPC's earnings to CBN to stabilize the market and ease pressures on the naira. The overall economy witnessed contractions as composite PMI decreased to 48.5 points in January 2024 from 49.1 points in December 2023 below the 50 points threshold.

Expectedly, monetary aggregates, M3, increased at a rate of 18.25% to ₦93.72 trillion at end-January 2024 compared with the preceding December. When the growth in money supply is decomposed, data showed that 3.68% growth in M1 indicate rising transactionary motive by consumers, which could further worsen inflationary pressures in the economy.

The fiscal sector performance was mixed in January 2024. Federal Government Revenue improved in January 2024 but was below its benchmark of 16.4%. Oil revenue decreased by 14.7% relative to its level in December 2023 but was 60.5% short of target. Non-oil receipts in January 2024 exceeded both target and preceding levels by 19.7% and 20.4% respectively. Tax revenue also increased by 7.1% over its level in December 2023 and revenue distribution to sub-national governments was higher in January 2024 by 3.5%. Overall, fiscal deficit in January 2024 was contractionary relative to its benchmark.

Foreign reserves rose to US\$34.54 billion by end-february 2024, from US\$32.23 billion at end-January 2024. The average NFEM rate as at February 2024 stood at N1480.58/USD giving a depreciation of 36.2 per cent, compared with N944.08/USD in January 2024 due to demand pressure and persistent supply shortages. The overall balance of payments deficit narrowed to US\$0.28 billion in Q32023, relative to US\$1.34 billion in Q22023, due to decline in merchandise imports. Both the current and financial accounts recorded surplus mostly resulting from favourable export developments and higher investments in fixed income securities by non-residents. The economy also recorded a higher capital inflow of US\$ 2.86 billion relative to US\$ 2.23 billion in Q22023. However, the inflow of diaspora remittances declined by 7.4 per

cent to US\$4.58 billion principally due to lingering global economic challenges in advanced economies.

My Concern

Inflation remains my major focus at this meeting. Galloping Inflation, as noticed in the last few months in Nigeria, is presenting an unacceptable dimension as it poses 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 wages, savings, wealth and pensions for retirees. Price stability is a core function of the MPC, and hence, the high level of domestic inflation is unacceptable. Consequently, it presents a serious policy dilemma for the MPC given the imperative to sustain the growth trajectory, limited tools at its disposal, low productive capacity, high import dependency and the constricted fiscal environment.

There is no doubt that there is a monetary component to the rising inflation in Nigeria. Broad money grew over the months and stood at N 93.72 trillion at end-January 2024 and the monetary base is forecasted to increase even more in forthcoming months due to increase in FAAC allocation, and associated spendings of the sub-national governments to reduce the various outcry of citizens. 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.

In order to reap the benefits of credibility and anchor inflation expectations, good monetary policy should incorporate three main features : primacy of price stability objective, rule-based behaviour implying a systematic response to economic developments, and a firm response to inflationary shocks. High inflation and its expectations are not unique to Nigeria. 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 policy. 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.

It was evident from the MPC discussion that there is an urgent need to promote more collaboration with the fiscal authorities now. There is also a need for increased education and enlightenment to promote ethical behaviors by people and leaders to promote transparency and accountability across sectors. 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 on demand in the economy, and thereby moderate energy price input to the local manufacturers.

My Vote

In consideration of the extant inflation level, I cast my vote to increase the MPR by 400 basis points for high impact on macroeconomy and increase the levels of other monetary parameters. Hence, I vote to:

- A) Raise MPR by 400 basis points: from 18.75 % to 22.75%.
- B) Raise CRR to 45.0% .
- C) Raise LR to 35% .
- D) Adjust asymmetric corridor around the MPR at +100/-300 basis points.

5. EMEM USORO

Global Economic Developments

There had been several developments in the global and domestic economic environments since the last MPC in July 2023.

On the global front, in the past two years, economic activities had been mixed following the slowdown that was occasioned by necessary monetary policy tightening by major central banks to rein in inflation on one hand, and a slowdown in the Chinese economy, on the other hand, that stemmed from subdued demand and stress in the real estate sector. According to the US Congressional Budget Office, the US economy is expected to slow down in 2024 from 2.2 percent in 2023 to 1.3 percent, as financial tightening is expected to dampen demand pressure. Geo-political tensions between Russia and Ukraine in Eastern Europe, and Israeli and Hamas in the Middle East, which have increased energy prices are also contributing to reduced demand.

Similarly, short-term growth prospects for many developing countries, especially in Asia and Latin America, are deteriorating due to tightened financial conditions, shrinking fiscal space, and sluggish external demand. More so, low-income economies are facing increasing Balance of Payments pressures and debt sustainability risks. Annual inflation in developing economies is projected to exceed 10 percent in 2024, amid supply-side disruptions, conflicts, and changing climatic factors. Consequently, local food price inflation remains high in most of these countries, disproportionately affecting the poorest households. This has largely eroded the economic gains recorded following the COVID-19 recovery.

Growth has also remained subdued in the euro area, due to weaker consumer sentiment and lingering effects of energy prices, amid tight financial conditions. In addition, economies such as Japan and the United Kingdom have slipped into technical recessions- while Japan witnessed dampened private consumption and a decline in capital expenditure, the UK experienced a drop in manufacturing, construction, and wholesale output.

However, economic growth is set to rebound in Sub-Saharan Africa (SSA) in 2024, following a lukewarm performance in the preceding year. Growth in SSA is expected to accelerate to 3.8 percent in 2024 and further strengthen to 4.1 percent in 2025 as inflationary pressures weaken and financial conditions improve.

Uncertainties in the global commodity markets, particularly concerning oil and other energy prices, have heightened due to recent geopolitical risks in the Middle East. Prices of certain agricultural commodities fell slightly due to strong competition, improved crop conditions, and the arrival of recently harvested cereals. This is expected to dampen global food inflation, thus transmitting to lower imported food inflation.

Inflation in advanced economies has eased, albeit remained elevated and above the long-run target, prompting major central banks in these regions to soft-pedal on their aggressive policy stances.

According to the IMF, the outlook for global growth is optimistic, as the global economy is expected to grow by 3.1% in 2024 and then accelerate by 3.2% in 2025¹. This is predicated on departure from restrictive monetary policies, as well as expected economic recovery in China and the euro area. Global headline inflation is expected to fall from an estimated 6.8% in 2023 (annual average) to 5.8% in 2024 and 4.4% in 2025. Notably, downside risks to this outlook include heightened geo-political tensions emanating from conflicts, protectionism that could stifle global trade, and electoral outcomes from more than 75 countries. These risks could distort energy and financial markets, resulting in dampened growth and inflationary pressures.

Domestic Economic Developments

On the domestic front, economic activity gained momentum since the last MPC, reflected by the real GDP growth of 3.46% in Q4 2023, from 2.54% in Q3 2023, resulting in an average growth of 2.74% in 2023. This momentum was driven by the non-oil sector, which grew by 3.07% in Q4 2023, compared with 2.75% recorded in Q3 2023. Similarly, the oil sector grew by 12.11%, compared with 0.85% contraction in Q3 2023.

Domestic crude oil production has risen from an average of 1.08 mbpd in July 2023 to 1.34 mbpd in December 2023, and further to 1.48 mbpd in January 2024, due to improved pipeline infrastructure security and crude oil production/exportation. This is expected to improve the inflow of oil receipts and enhance accretion to external reserves.

With respect to price developments, **headline inflation rate has risen steadily to 29.90% in January 2024, up from 24.08% in July 2023**, which is not unconnected to the removal of PMS subsidy, the adoption of a market-based exchange rate system, intensified consumer spending, credit expansion, particularly Ways and Means, and the exchange rate pass-through to domestic prices. Food inflation, the major driver of headline inflation, rose steadily from 26.98% in July 2023, to 35.41% in January 2024,

¹ IMF World Economic Outlook, January 2024

underpinned by high transportation and logistics costs, as well as prevailing insecurity and infrastructural deficits. Core inflation also trended northward, from 20.47% in July 2023 to 23.59% in January 2024, owing to exchange rate pass-through and demand pressures.

Notably, broad money and inflation have moved almost in tandem as broad money supply (M3) expanded by 18.25% at the end of January 2024. This growth was ascribed to a rise in other deposits, transferable deposits, and securities other than shares, by 26.55%, 4.73%, and 99.98%, respectively. From the asset side, Net Domestic Asset (NDA) contributed significantly to broad money growth while Net Foreign Asset (NFA) subdued growth in broad money. The steady rise in inflation has resulted in negative real interest rates.

The financial system remains resilient as reflected by financial soundness indicators which remained within regulatory limits. In addition, recent reports from international rating agencies such as Fitch, Moody's, and S&P, have upgraded Nigeria's ratings from stable to positive.

External reserve position stood at US\$34.54 billion as of February 21, 2024, from US\$33.31 billion at end-July 2023, majorly driven by receipts of crude oil-related taxes and third-party receipts. The level of reserves could finance 6.9 months of import for goods and services, and 9.8 months of import for goods only.

Recent measures put in place by the fiscal and monetary authorities to recalibrate policy objectives, improve credibility, drive market efficiency, and promote transparency and accountability have complemented efforts towards achieving price stability. For instance, the removal of fuel subsidy, adoption of a market-determined exchange rate, and the introduction of tax reforms have fostered market liberalisation and price discovery. Also, the change in the Central Bank's management team which seeks to re-focus the Central Bank on its core mandates and re-define narratives about the Bank has improved confidence in the Central Bank.

Going forward, the growth outlook remains positive, as output is expected to maintain an upward trajectory in Q1 2024 and Q2 2024, respectively. Inflationary pressures may persist in the near term partly on account of the lingering impact of PMS adjustments, import costs, exchange rate pass-through, and growth in money supply. Furthermore, expectations around the country's external position remain optimistic, driven by favourable crude oil prices and increased domestic oil production.

My Considerations

- i. **Global Economic Recovery and Nigeria's External Account** - The resilient recovery in global economic activities, particularly in

advanced economies and some EMDEs², signals optimism for Nigeria's external account given its reliance on demand for oil, globally. However, broader escalation of conflicts could disrupt energy markets, trade dynamics, and financial markets, leading to dampened growth and inflationary pressures.

- ii. **Domestic macroeconomic concerns** - The domestic economy is experiencing elevated inflation and exchange rate volatility, which have impacted price levels and real income negatively. Persistent inflation has impacted the purchasing power of the general populace adversely, thus, heightening uncertainty around future path of general prices, and propelling currency substitution.
- iii. **Broad money and banking system liquidity** – Monetary and financial conditions analysis revealed episodes of liquidity surfeit in the economy. Importantly, the deviation of broad money growth from its regulatory benchmark has had inflationary effects on the economy.
- iv. **Money Market Rates** - Furthermore, dynamics of key money market rates are indicative of liquidity conditions as average prime and maximum lending rates exhibited downward trends.
- v. **Monetary Policy Stance and Transmission Channels** – the real interest rate had remained negative, far below the neutral rate of interest, hinting at an accommodative monetary policy stance.
- vi. **Policy Coordination Efforts and Strategic Alliances** - The impact of the recent policy coordination efforts by the monetary and fiscal authorities, particularly around the strategic alliance with NNPC, to repatriate all Naira and foreign currency proceeds to accounts domiciled in the CBN, aimed at simultaneously containing liquidity in the banking system and providing FX liquidity is beginning to achieve results.

My vote

- i. The domestic economy is faced with a mix of rising inflation, subdued economic growth and exchange rate volatility. Hinged on the resolve to focus on its primary mandate of ensuring price stability, the MPC is poised to utilise the full range of the instruments available to it to address the liquidity surfeit, as well as attract foreign portfolio investment that would cater for liquidity conditions in the FX market.
- ii. Resultantly, I vote at this meeting to:
 - a. Raise the MPR by 400 basis points in a bid to tighten financial conditions, and rein in inflation;

² EMDEs means Emerging Markets and Developing Economies

- b. Adjust the asymmetric corridor around the MPR to +100/-700 basis points from +100/-300 basis points to contain cost of liquidity management;
- c. Raise the CRR to 40.0% from 32.5% to complement the increase in the policy rate and support liquidity management; and
- d. Retain the LR at 30.0%.

6. JAFIYA LYDIA SHEHU

Global growth recovery remained resilient, despite the dampening effect of the withdrawal of fiscal stimulus in many economies, geo-political tensions and their disruptive effect on the supply chain, as well as monetary tightening by many central banks to control inflation. Consequently, the IMF in its January 2024 World Economic Outlook (WEO) forecast global growth at 3.1 percent and 3.2 percent in 2024 and 2025, respectively. This is partly on account of the strong growth momentum in the United States and sustained recovery of the Chinese economy. Growth in Advanced Economies is projected to moderate to 1.5 percent in 2024 and rise further to 1.8 percent in 2025, while in Emerging Market and Developing Economies (EMDEs), it is envisaged to remain at 4.1 percent in 2024 and increase marginally to 4.2 percent in 2025.

On global price developments, whilst Inflationary pressures continue to abate across many Advanced Economies, particularly in the Euro Area and the United States, a slow pace of decline which could keep inflation above their long-run target, is foreseen in 2024. Already, the IMF projects global inflation to moderate to an annual average of 5.8 percent in 2024, which is above many Advanced Economies long-run targets, signifying the persistence of inflationary pressures. This calls for a cautious approach to monetary policy.

World trade is expected to rise to 3.3 percent in 2024, from 0.4 percent in 2023, and further to 3.8 percent in 2025 (IMF, WEO January 2024). The projected increase reflects a moderate normalisation of trade, following severe weaknesses in the previous year, and alignment of global demand towards services. Downside risks to the outlook, is the ongoing geopolitical tensions, particularly in the Red Sea and further rise in protectionist measures.

It is noteworthy that foreign investment inflows into EMDEs increased by 23.1 percent in January 2024 compared with the position recorded in December 2023. This suggests positive investors' appetite for emerging market treasury securities and stocks. Nonetheless, envisaged tight financial conditions in Advanced Economies in 2024, portend contraction of capital flows to EMDEs.

THE DOMESTIC ECONOMY

Real GDP year-on-year grew by 3.46 percent in Q4 2023 from 2.54 percent in Q3 2023. Growth performance hinges on upbeat reforms, higher crude oil production and prices, increased investments in the oil and ICT sub-sectors, and renewed efforts to improve infrastructure. The non-oil sector grew by 3.07 percent, in real terms in Q4 2023, higher by 0.32 percentage point relative to

Q3 2023. The oil sector grew by 12.1 percent compared with 2.22 percent contraction in Q3 2023. Downside risk to growth are high inflation and exchange rate pressures, which have slowed down business activities, as corroborated by the decline in the Composite Purchasing Managers Index (PMI), which decreased to 48.5 points in January 2024 from 49.1 points in December 2023, below the expansion threshold of 50 index points. Among comparator countries, Kenya's output expanded by 1.35 percent in Q3 2023 and is forecast at 2.7 percent in 2024, South Africa's economy contracted by -0.7 percent and is estimated to grow by 1.0 percent in 2024, while Ghana's growth moderated to 2.0 percent and is predicted at 1.2 percent in 2024.

Inflationary pressures persist as Headline inflation year-on-year rose further to 29.90 percent in January 2024, from 28.92 percent in December 2023, largely due to high transportation costs, increased cost of imported goods arising from exchange rate pass-through to domestic prices, including, persistent security challenges. Disaggregating the headline inflation, shows that food inflation year-on-year rose to 35.41 percent from 33.93 percent in December 2023, while core inflation (headline less farm produce and energy) inched to 23.59 per cent, compared with 23.06 per cent, in December 2023.

Domestic crude oil production rose by 6.7 percent in January 2024, to 1.43 mbpd, even though it was below the OPEC production quota of 1.578 mbpd by 0.148 mbpd. The improvement is attributable to the enhanced security in the oil producing region, and improved governance structure and reforms in the oil industry. As at February 22, 2024, the average price of Bonny Light rose by 4.1 per cent to US\$85.57 pb, compared with US\$82.18 pb in the preceding month. The price of Bonny Light was US\$4.73 pb higher than the 2024 budget benchmark of US\$77.96 pb which would accrue to the Federal Government as foreign exchange gains.

Broad money supply (M3) rose by 18.25 percent to ₦93.72 trillion at end-January 2024, over preceding December.

The external reserves stood at US\$34.54 billion as at February 21, 2024, from US\$32.23 billion in the previous month. The level of reserves could finance 6.9 months of import of goods and services, and 9.8 months of import of goods only, based on import statistics for Q3 2023. Banking system Financial Soundness Indicators (FSIs) revealed salutary performance in the review period.

CONSIDERATION FOR VOTING

I considered the various contending objectives of monetary policy, which include price stability, output growth and exchange rate stability, in arriving at a policy decision. Indeed, addressing inflation and growth objectives

require a delicate balance, considering the tradeoff between them. Though, monetary policy tightening, could be a disincentive to investment, but a low and stable price level contributes to macroeconomic stability, including economic growth. Real GDP has remained positive since the country exited the COVID-19 induced recession. Staff forecast suggests further improvement in output growth at 3.20 percent and 3.22 percent in Q1 2024 and Q2 2024, respectively, reflecting the short-term impact of the oil, tax and monetary reforms.

I am convinced that in view of the persisting rise in headline inflation, monetary policy tightening is appropriate at this time. The preceding domestic economic analysis shows that inflationary pressure is driven by monetary (high growth in money supply) as well as by structural factors such as high energy costs, exchange rate depreciation, infrastructural challenges, and insecurity. Hence, dealing with the problem requires policy coordination between the fiscal and monetary authorities.

The rebound in the oil sector and the sustained contribution of non-oil sector to real GDP growth is noteworthy. The fiscal authority has made substantial progress in automating tax collections which has boosted non-oil revenues and blocked leakages. Government's efforts at addressing insecurity has seen a substantial increase in oil production. Significant efforts are being made to also address security challenges confronting the food producing belts, as well as tackle the high cost of transportation through heavy investments in the CNG Bus project. Other fiscal measures aimed at improving food crop production, increase supplies and moderate prices, include efforts at developing dry season farming, build storage facilities and facilitate grain release from the strategic grain reserves.

Nigeria's inflation is almost above its tolerable threshold and monetary policy may lose its potency over domestic prices and its ability to anchor expectations if an urgent and plausible action is not taken at this time. Also, in light of tightened global financial conditions, and capital flows returning to EMDEs, a tightened monetary policy stance could encourage foreign investment inflow, increase accretion to reserves and restore stability in the foreign exchange market. A complimentary measure would be to create incentives to boost non-oil exports, as well as improve diaspora remittances.

In light of the foregoing considerations, I vote at this meeting for a raise in the Monetary Policy rate (MPR) to 22.75 percent, an increase in the Cash Reserve Ratio (CRR) to 45.0 per cent, an adjustment in the asymmetric corridor around the MPR to +100/-600 basis points, and the retention of the liquidity ratio at 30.0 per cent.

7. LAMIDO ABUBAKAR YUGUDA

The Monetary Policy Committee (MPC) meeting of 26-27 February 2024, the first since July 2023, took place against a backdrop of slow but resilient recovery in global economic growth, moderately declining global inflation and tight monetary policy in most advanced economies. On the domestic front, real output growth increased significantly in the fourth quarter of 2023 buoyed by a pick-up in growth in the oil sector. However, headline inflation continued to rise, reaching 29.90 percent in January 2024 (with both food and core inflation increasing). The rise in inflation was owing to the depreciation of the Naira/US dollar exchange rate following the adoption of a liberalized exchange rate regime in June 2023, and other domestic monetary and structural factors.

Global Economic Developments

Global economic growth remained subdued at 3.1 percent in 2023 on account of tepid growth in advanced economies owing to the effects of the tight monetary policies, and weak growth in the emerging markets and developing economies (EMDEs). The International Monetary Fund's (IMF) World Economic Outlook (WEO) in January 2024 forecast global economic growth remaining at 3.1 percent in 2024 and increasing slightly to 3.2 per cent in 2025 due to expected resilience in advanced economies and policy support in China to address weakness in its property sector.

Global inflationary pressures are receding significantly. Inflation was estimated at 6.8 percent in 2023 and is expected to decline to 5.8 percent in 2024 and 4.4 percent in 2025 owing to lower energy and food prices. Inflation in advanced economies is expected to trend down from 4.6 percent in 2023 to 2.6 in 2024 and 2.0 in 2025, with US inflation moderating to 3.1 per cent in January 2024 from 3.4 percent in the preceding month. The level of inflation in emerging markets and developing economies is also expected to moderate from 8.4 percent in 2023 to 8.1 percent in 2024 and 6.0 percent in 2025. While these levels are still above the inflation targets of most major central banks, inflation has declined faster than expected and the outlook is for continued moderation given the tight monetary policy stance.

In February 2024 crude oil prices rebounded (to above US\$82 per barrel for the Opec basket and above US\$85 for Nigeria's Bonny Light crude) after three consecutive months of decline in response to voluntary oil cuts announced by major producers and easing futures selling. In 2024 the crude oil price is expected to average US\$82 per barrel as demand growth concerns in China persist.

Major global equity markets have shown positive performance since the beginning of the year as inflation pressures subsided pointing to expectations about possible cuts in interest rates by leading central banks, although the timing of such cuts remain uncertain. Foreign exchange markets have responded to this uncertainty as most currencies depreciated against the USD since the beginning of the year. Capital flows into emerging markets increased to US\$35.7 billion in January 2024 from US\$29 billion in December as investor sentiments improved. In the medium-term there are prospects that flows into emerging markets would improve partly owing to expectations of relaxation of the tight monetary policies in advanced economies.

Domestic Economic Developments

Output growth picked up strongly in Q4 2023 mostly on account of the strong performance of the oil sector (12.11 percent growth in Q4 2023 versus 2.22 contraction in Q3 2023) owing to higher crude oil production. However, year-on-year GDP growth slowed down from 3.10 percent in 2022 to 2.74 per cent in 2023 reflecting slower growth in agriculture and services and a modest improvement in manufacturing.

Strong inflationary pressures persisted into the new year with the January 2024 headline inflation reaching 29.90 percent compared to 28.92 percent in December 2023 and 21.82 percent in January 2023. Food and core inflation have also spiked reaching 35.41 percent and 23.59 percent respectively in January 2024. The surge intensified in mid-2023 when petroleum subsidies were removed and a market-based exchange rate regime was adopted, eroding consumer purchasing power and threatening to undermine macroeconomic stability as well as economic growth unless a strong policy response adopted to rein in inflation and anchor inflation expectations downwards.

Gross Federation Account receipts at NGN 1,474.43 billion in January 2024 were 10.1 percent higher than the collection in December 2023, but missed the budget benchmark by 16.4 percent. Tax collections improved significantly to 7.1 percent of GDP compared to 6.2 percent of GDP in December 2023, on account of increases in corporate income tax and value-added tax (VAT) collections. However, this level is far below the West African Monetary Zone (WAMZ) tax-to-GDP benchmark of 20 percent.

Oil revenue declined by 14.7 percent relative to December 2023 and was 60.5 percent short of the budget target. Over the past few years, the Nigerian economy has suffered persistent underperformance in oil output and oil revenue owing to decreased production attributed to pipeline vandalization, oil theft, inefficiency and a variety of other factors.

To address the current macroeconomic difficulties effectively all avoidable production and revenue losses in the oil sector must be fixed. Since oil revenues accrue in foreign exchange, restoring the lost revenue by improving security in the oil fields and along the pipelines - and generally insisting on a higher level of efficiency and transparency in the oil sector - should improve both government revenue and the nation's foreign exchange reserves.

From the data reviewed it seems this process has started. The oil sector grew by 12.11% in Q4 2023 compared with 2.22% contraction in Q3 2023. The recent announcement of the agreement between the Federal Ministry of Finance, NNPC Limited and the CBN on the domiciliation of all oil revenues in the CBN is a welcome development and should help improve transparency and accountability in the management of oil revenues. Increasing domestic oil output and a stable oil price at above USD80 per barrel should markedly increase Nigeria's oil revenue, boosting both the fiscal space and the external reserves position.

The Federal Government of Nigeria (FGN) retained revenue in January 2024 was 1.7 percent and 47 percent lower relative to the December 2023 level and the budget target, respectively. On the other hand, expenditure was 3.5 percent and 15.2 percent below the December 2023 and the target, respectively. This means that relative to the budget target, revenue has been more compressed than expenditure resulting in a fiscal deficit that was 17.4 percent higher than the benchmark, and at 6.1 percent of GDP the fiscal deficit was twice the WAMZ benchmark of 3 percent of GDP.

Consequently, while the removal of petroleum subsidy and the unification of the exchange rate have reduced government expenditure and improved revenues, a stronger fiscal effort is needed to enable the Federal Government fund its necessary programmes without recourse to borrowing.

Total public debt at 39.1 percent of GDP is within the DMO's ceiling of 40 percent of GDP, but the debt-service-to-revenue ratio at 179 percent is more than three times the 50 percent benchmark. This is another reason for reducing expenditure, slowing the accumulation of debt and targeting the collection of more revenue to improve fiscal sustainability.

Loose monetary conditions prevailed in Nigeria for most of 2023. Reserve money increased by 54.28 percent between December 2022 and December 2023, while broad money (M3) increased by 50.88 percent over the same period, well above the provisional benchmark of 28.21 percent. The 50.88 percent increase in broad money from NGN 52.2 trillion in December 2022 to NGN 78.7 trillion in December 2023 was driven mostly by a 46.27 percent increase in net domestic assets (NDA) which rose by NGN 22.4 trillion. In other words, this represents additional credit created in the economy. While reserve

money declined by 2.34 percent in January 2024 relative to December 2023 driven largely by decline in liabilities to Other Depository Corporations (ODCs), broad money (M3) increased by 18.25 percent over the one-month period, thereby adding to the high level of excess liquidity in the system.

The banking system remained sound over the review period with capital adequacy ratio was above 10 percent and non-performing loans (NPLs) of 4.15 percent. Liquidity ratio was 42.83 percent in January 2024, significantly above the regulatory minimum liquidity ratio requirement of 30 percent and 20 percent for commercial and merchant banks, respectively.

The capital market equities witnessed a bullish performance as the All-Share Index (ASI) rose by 35.28 percent in January 2024 while market capitalization increased by 35.29 percent over the respective levels in December 2023. Foreign participation in the capital market is gradually increasing as the recent economic reforms begin to improve foreign investor confidence.

The overall balance of payments deficit narrowed. This was on account of a higher current account surplus owing to favourable export developments and decline in merchandise imports which moderated the deficit on the financial account where significant outpayments accrued to non-residents as investment income (returns on investment - interest and dividend). Personal home remittances from Nigerians in the Diaspora declined.

The external reserves stood at US\$34.54 billion as of 21 February 2024 an increase of US\$2.31 from the level in December 2023. This could finance 6.9 months of imports of goods and services.

Policy Decision

The key issues that the MPC must confront at this meeting are the rapidly rising inflation and the significant depreciation of the Naira. My preference was for the MPC to signal its resolve to fight inflation by significantly raising the monetary policy rate (MPR) and adopting strong measures to limit excess liquidity in the banking system.

I noted the concerns about the effect of a high MPR on economic growth. However, the first priority of the MPC is to fight inflation and try to re-anchor inflation expectations because unchecked inflation also has a negative effect on growth in addition to its other adverse consequences.

The data show that the relationship between growth and inflation is multidimensional – at lower levels, inflation energizes growth, while after the threshold it begins to hurt. The computed threshold for Nigeria and other EMDEs is in the range 11-16 percent. Thus, at the current 29.9 percent inflation, the adverse effect on growth is easy to see, especially considering

the effects of inflation on consumption. The erosion of purchasing power reduces the aggregate level of consumption, which in turn would drag the growth of the national income. Also, the lower savings rate implies inadequate accumulation of capital which is essential for long-term investments and growth.

Rising inflation and exchange rate depreciation are self-reinforcing, as an increase in inflation exacerbates the depreciation of the exchange rate via increasing interest rate differentials, while the deterioration of the exchange rate worsens inflation through the pass-through effect.

The Naira has depreciated by over 66 percent as a result of the policy switch to a more flexible exchange rate system. This was nurtured and worsened by the excess liquidity in the banking system as indicated by the marked increase in reserve money and broad money over the last one year.

With the depreciation of the Naira, another concern is bank asset quality. While the banking system remained resilient during the review period, with capital adequacy, liquidity and non-performing loan ratios all within normal prudential limits. It was therefore very necessary that policy action be taken to slow and reverse the implied undervaluation of the Naira.

In consideration of the foregoing, I voted as follows:

Tighten the Monetary Policy Rate (MPR): by 300 basis points to 21.75%

Increase the Cash Reserve Requirement (CRR): by 1750 basis points to 50%

Retain the Liquidity Ratio (LR) at 30%

Widen the asymmetric corridor: to +100/-600 basis points around the MPR.

8. MUHAMMAD SANI ABDULLAHI

My Vote

In recognising the current inflationary trend and developments in the foreign exchange market, the extant monetary policy stance should be further tightened to address inflationary concerns, raise real interest rates towards positive trajectory and incentivize capital inflows. I am convinced that a decisive step to raise the Monetary Policy Rate (MPR) significantly will align our stance with the urgency of the situation and signal our unwavering commitment to tackling inflation. In effect, I voted to:

- 1) Raise the MPR by 400 basis points to 22.75 per cent from 18.75 per cent.
- 2) Adjust the asymmetric corridor to +100/-400 from +100/-300 basis points around the MPR.
- 3) Raise the CRR to 45 per cent from 32.5 per cent; and
- 4) Retain the Liquidity Ratio at 30 per cent.

My Considerations

As a member of the Monetary Policy Committee, I am deeply concerned about the prevailing inflationary pressures and our imperative to address them effectively. Having listened to all the technical presentations, surveyed cross-country experiences, and held enlightening conversations with other MPC members, we cannot afford to allow inflation to persist as a lingering issue. The urgency of the current situation demands swift and resolute action from the MPC. The Committee must convey a clear message that we are not only willing but determined to decisively confront inflation head-on.

While the fiscal policy is poised to emphasize social interventions and revenue generation in the current year, and shifting the focus towards growth in 2025, it becomes incumbent upon the monetary policy realm to take a proactive stance to dampen the lingering inflationary pressure. Neglecting the significance of addressing inflation or delaying policy adjustments can lead to prolonged economic woes, as evidenced by the experiences of various countries that have had to grapple with soaring inflation before implementing corrective measures.

In our conversations in the past two days, we analysed the drivers of inflation to include the global nature of the phenomenon, the persistence of food, rising energy costs, the liquidity risks posed by significant monthly injection through the Federal Account Allocations Committee (FAAC), the effect of excess liquidity from the CBNs quasi-fiscal development finance interventions, credit to government or Ways and Means advances going as far back as quantitative easing during the Covid-19 era, the risks posed by emerging

technologies and cryptocurrencies and the foreign exchange pass through to inflation.

Notwithstanding, the CBN in response to the drivers above has already taken some deliberate actions particularly the restriction of Ways and Means advances to the statutory provisions, the halt of development finance interventions and various measures to stem banking system liquidity. At this MPC meeting, it is critical that we expand on these measures to achieve holistic response to achieving price stability. Furthermore, as we navigate this economic landscape, it is crucial to consider the vital role of foreign portfolio investments (FPIs) in bridging the supply gaps in the foreign exchange market. By concurrently raising interest rates, we can create an environment that attracts FPIs, thereby bolstering the stability of our foreign exchange reserves and signaling our resolve and commitment to ensure price.

The strategy of implementing gradual rate hikes, while often perceived as a cautious approach, may inadvertently prolong the corrective process and economic uncertainties. Research and historical evidence suggest that, singular substantial rate hikes can yield more effective outcomes in addressing inflationary pressures and restoring macroeconomic equilibrium.

It is also critical that we revisit the efficacy of our monetary policy transmission mechanism to enhance our decisions. In adopting a proactive approach to communication, it is critical that this MPC meeting sees significantly improved communication through all channels and curated for all stakeholders given the current interest of the nation in the decisions of this Committee. By taking these assertive measures, we aim to instill confidence in the economy, reinforce price stability, and create a conducive economic environment for sustainable growth prospects.

I acknowledge the bold reforms by both the monetary and fiscal authorities as the trajectory suggests that the reforms would successfully anchor inflation expectations and lead the markets towards the attainment of the price stability objective of the Bank. I am mindful that my decision will certainly have some trade-offs. I have carefully weighed the empirical evidence of the sacrifice ratio for growth which showed possible output loss in the near term. Nonetheless, I am convinced that the CBN monetary policy must defy gravity and give greater value to Nigerians by safeguarding the economic well-being of our nation and its citizens. It is therefore paramount that we act decisively and collectively in ensuring that monetary policy delivers on its mandate as inflation could become more persistent and pervasive and eventually hurt output growth if not dealt with expeditiously.

Global and Domestic Developments

Despite several lingering downside risks and uncertainties, global output recovery remains resilient as key indices show a positive outlook for the global economy. The International Monetary Fund (IMF) projects global output expansion of 3.1 per cent in 2024 and 3.2 per cent in 2025 due to stronger than expected resilience in advanced, emerging market, and developing economies. Globally, the robust response by monetary and fiscal authorities will continue to support the recovery and create jobs required to push the global economy to full recovery. The moderation in global inflation is projected to continue in 2024, anchored on lower core inflation because of still-tight monetary policies, a related softening in labour markets, and pass-through effects from earlier and ongoing declines in relative energy prices. Global inflation is projected to decline to 5.8 and 4.4 per cent in 2024 and 2025, respectively.

Nigeria has had to simultaneously confront slow output recovery, persistent inflationary and exchange rate pressures. Activities in the domestic economy expanded further for the twelfth (12) consecutive quarter by 3.46 per cent (year-on-year) in Q4 2023 compared with 2.54 per cent in Q3 2023 driven majorly by the services sector which recorded a growth of 3.98 per cent and contributed 56.55 per cent to the aggregate GDP. The industry sector grew by 3.86 per cent while agriculture sector grew by 2.10 per cent. On an annual basis, GDP grew by 2.74 per cent in 2023 relative to 3.10 per cent in 2022. Staff forecast indicate a faster pace of GDP growth of 3.20 per cent in Q1 2024. Domestic crude oil production ramped up to 1.43mbp on account of deliberate measures by the FGN to enhance security around oil infrastructure in the Niger Delta region.

Inflationary pressure continued to persist as headline inflation rose further for the twelfth consecutive month to 29.90 per cent in January 2024, driven largely by food prices. Both food and core components have consistently risen over since the past three (3) months. Staff projection indicates that inflationary pressure would remain in the near term.

Money supply increased in the period under review and was above the provisional benchmark when annualised. Broad money supply (M3) rose year-to-date by 18.25 per cent to ₦93.72 trillion at end-January 2024, from ₦79.25 trillion over the preceding December, driven by an increase in both Net Domestic Assets (NDA) and Net Foreign Assets (NFA), indicating the existence of excess liquidity in the system and the need for further tightening. Banking system aggregate credit, on a year-to-date basis, also increased by 23.14 per cent in January 2024.

In the external sector, the current account posted a higher surplus of US\$3.28 billion (4.0 per cent of GDP), in Q3 2023 compared to US\$0.81 billion (0.8 per cent of GDP) in Q2 2023, due largely to a higher trade surplus associated with favourable oil export development, the performance of the external sector remained subdued by global economic uncertainties amid tight financial conditions.

The performance of the banking sector remains safe, sound, and resilient, largely due to the proactive monetary policy stance of the Bank and other complementary regulatory measures.

9. MURTALA SABO SAGAGI

Context

Over the last 10 years, the Nigerian economy remains weak and vulnerable to external shocks and volatilities mainly due to domestic structural challenges. The oil price shocks of mid 2015 continued to slow down the economy forcing the country into recession by the second quarter of 2016. Even though, the economy exited recession in the second quarter of 2017, the attempts to diversify the economy away from oil, such as the Zero-oil Plan and Economic Recovery and Growth Plan 2017-2020 were, at best, unsuccessful. Nigeria's export earnings, local revenues and, predictably, economic growth slumped. With an elevated fiscal constraint, the country resorted to massive and unprecedented borrowing. The limited agricultural productivity and value addition coupled with limited progress in tapping into high value services and the knowledge economy conditioned Nigeria to massive imports and persistent balance of payment challenges. The impact of the current global food and energy crisis induced by the Russia-Ukraine war underscores the fragility and vulnerability of the Nigerian economy to persistent global commodity price instability. The causes of inflationary tendency of the economy is a subject of intense debate. However, the combined effects of years of policy inconsistencies, dearth in dynamic governance from both the fiscal and monetary sides, deteriorating domestic security and falling productivity in key sectors have contributed to the worsening of the economy's fundamentals.

Global and Regional Dimensions

The world is gradually adjusting to the shocks emanating from conflicts and volatilities. The policy responses to the shocks varied among the developed and developing economies. As many developing economies grapple with increasing costs, United States, European Union and Japan were able to curtail inflation by lowering consumer cost elements in the form of reduced energy, food, housing costs as well as the effective use of social safety nets. In general, inflation is projected to decline in 2024 mainly due to anticipated reduction in food and energy prices as global supply chain improves and efforts to target inflation are sustained. This explains why most countries retain or ease interest rates. It is interesting to note, however, that a number of countries in Africa are also expected to witness noticeable economic improvements. The recent Macroeconomic Performance and Outlook (MEO) released by the African Development Bank Group included eleven African countries among the world's 20 fastest-growing economies in 2024. Unfortunately, Nigeria did not make the list. This is at a time when the expected growth in Africa of 4.1% exceeds the projected global averages.

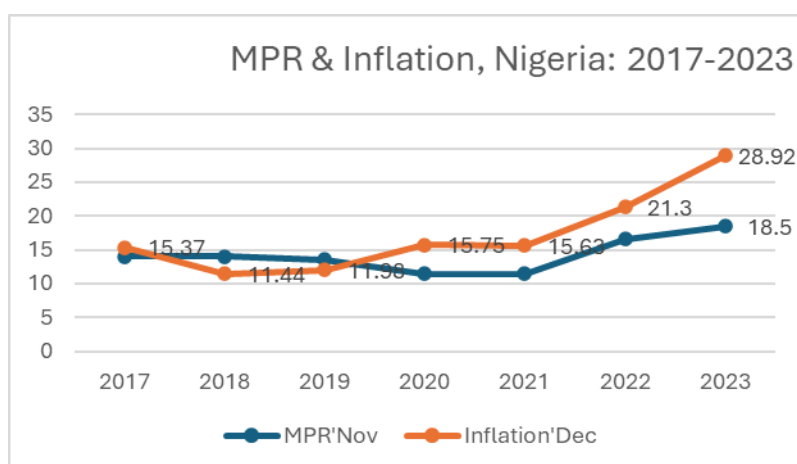
Domestic Dynamics

The asymmetry between GDP growth rates and welfare in Nigeria has been well established. This is mainly because the gains of the little economic growth that has occurred do not effectively trickle down suggesting non-inclusive/rentier economic landscape. The dominance of oil revenue in export earnings created massive economic dislocation and it will be perilous to base the nation's economic prospect on the temporary relief from increased oil export and its effect on the balance of payment. With the current foreign exchange crisis and aggravating inflationary pressures, a fresh look at policy tool kits is imperative.

Today, inflation is at its record high in Nigeria and, as a norm, the Bank will contemplate an adjustment to the MPR to attain a short-term stability. However, there is evidence to suggest that previous attempts have been largely unsuccessful. Possible reasons include:

- a. A weak link between the banking sector and the real sector. Only few sectors have access to formal bank loans.
- b. Only about 5% of nearly 35 million small and medium enterprises, providing 60-70% of output, have access to formal loans.
- c. Food inflation which is generally structural, not monetary, is a huge contributor to core inflation basket and there is no credible evidence to suggest that the country is moving towards attaining food security in the medium term.

It is, therefore, not surprising that approaches to tame inflation in the short run tend to negatively impact on medium term growth in the last decades. The Figure below shows the relationship between inflation and MPR in Nigeria.



Source: NBS & CBN Data

Since early 2022, the reduced confidence in Naira induced many Nigerians to take refuge largely in the US Dollar. Also, the country's balance sheet, macroeconomic indices, and deteriorating business conditions scared away foreign investors leaving only a handful of speculative portfolio investors. This coupled with massive currency speculation led to the free fall of Naira thereby worsening the inflation.

In view of this, I would be more inclined to ascribe the current price instability to (a) domestic policy inadequacies and (b) internal structural rigidities rather than any external factors such as the prolonged Russia-Ukraine conflict and other global volatilities. This does not, however, imply that global dynamics are inconsequential.

Accordingly, I summarized the recent and systemic policy actions and inaction that engender macro-economic instability in Nigeria as follows:

Recent

- i. The closure of Nigeria's land border with the neighboring countries, particularly, between 2017 and 2023, has disrupted the movement of food and livestock.
- ii. Excessive abuse of ways and means which compromised previous monetary stance, especially in 2021 to 2022.
- iii. Large scale sectoral injection of funds by the CBN without effective due diligence on the sub-sectors and the private sector beneficiaries.
- iv. The poorly-conceived Naira redesign policy towards the end of 2022 and its spill-over effects up to the second half of 2023.
- v. Removal of fuel subsidy with a limited pathway to cushion its wider social impact.
- vi. Exchange rate unification after prolonged foreign exchange market manipulations which resulted in the unprecedented depreciation of the Naira.
- vii. Climate change, especially unchecked and persistent flooding and deforestation

Systematic

- i. Lack of crude oil refining capacity often leading to domestic shortages and high cost of energy. This also aggravated Nigeria's fiscal crisis;
- ii. Neglect of agricultural transformation, thereby worsening food security –low productivity and value addition, and high post-harvest losses in the region of 40-60%, leading to off-season shortages and high food prices;
- iii. Mismanagement and corruption in the administration of the subsidy regimes;

- iv. Massive debt accumulation and high debt-service to revenue ratio;
- v. Weak non-oil export diversification drive;
- vi. Poor governance and weak public financial management practices, and
- vii. Persistent domestic insecurity.

Considering these, it is my view that monetary policy consideration (i.e. re-adjustments) will have limited impact on inflation rates unless they are complimented with efforts to address insecurity and food shortages. This is in addition to holistic and disciplined roadmap for economic and social rejuvenation.

Prospect for 2024

From 2015 to mid-2023, the CBN had assumed the role of economic managers in addition to its mandate as regulator and price stabilizer. The erratic policies and interventions pursued created deficit of confidence. Interestingly, from January, 2024, the determination of the Bank to take corrective measures, implement swift action against currency speculators and infractions by banks has been glaring as reflected in the renewed boost in the activities of the financial market. With clearer policy statements, solution orientation towards achieving disciplined policy implementation, conscious efforts to restore confidence on the Naira, the future policy outlook is promising. As noted by the World Bank, inflation is expected to ease in 2024 mainly due to alignments and adjustments to the shift in policies. However, PwC cautioned that the marginal decline in inflation and 3.1% rise in GDP may not be sufficient to achieve price stability without credible effort to aligning fiscal and monetary policy required for sustainable growth.

My Conclusion

At the moment, the main task before us is foreign exchange stability as appreciation in the value of Naira could lead to reduced inflation. This, however, requires massive inflow of foreign exchange. Therefore, targeting remittances and investments becomes imperative and urgent. Ironically, significant Greenfield and Brownfield investments can hardly be attracted to Nigeria under the present hostile business environment leaving the country at the mercy of speculative portfolio investors with high appetite for hike in rates. Therefore, a balancing act is required to attain consistency on the Bank's tightening stance needed to enhance investors' confidence and, at the same time, to be mindful on the increasing cost of doing business which is threatening the country's ability to produce and repay its financial obligations.

Accordingly, I voted for tightening to rise rates mildly and reducing excess liquidity as follows:

- i. MPR: +100 points to 19.75%
- ii. CRR: From 32.5% to 45%
- iii. AC: from +100/-300 basis points to +100/-700
- iv. LR: Retain 30%

Recommendations

Evidently, structural factors would continue to limit transmission of monetary policy in Nigeria. To achieve a balanced approach, it may be wise for the Bank to consider it worthy and strategic to initiate strategic partnerships to develop effective framework for dealing with the major components of inflation in Nigeria, namely food and energy. In specific terms, the Bank may work with various MDAs and private sector in the following areas:

- i. Inflation: medium term strategy that targets inflation should be validated and completed in earnest.
- ii. Agriculture: immediately commence the implementation of Federal Government's National Agricultural Technology and Innovation Policy (NATIP)-2022-2027 to enhance food security, bring down food prices and increase exportable commodities
- iii. Energy: the country should work with the private sector and foreign investors to achieve energy security by 2030.
- iv. Industry: there should be a careful selection and development of high potential export-oriented industries.
- v. Speculations: maintain strict supervision of all crypto operations and banks.
- vi. Lending to Real Sector: there should be effective management of concentration risks and re-design instruments for de-risking lending to genuine Micro Small and Medium Enterprises.
- vii. Logistics: efficiency in the ports should be prioritized and addressed.

- viii. Prudence: the country should enhance transparency and accountability in public finance.

- ix. Wealth and Jobs: youth and women employment and enterprise development should be embedded in any public funded programme and project nationwide.

10. MUSTAPHA AKINKUNMI

Context

The Nigerian economy grew consistently at about 3 percent annually in 2022 and 2023. Growth may slow modestly in 2024 as Nigeria sacrifices some growth to contain inflation. A depreciation of the Naira will help Nigeria competitiveness and stimulate non-oil exports. These adjustments are not without pain as rising food prices reduce the purchasing power of low to middle-income Nigerians.

The Fisher equation summarizes Nigeria's dilemma: to keep real interest rates positive, the interest rate must be greater than the rate of inflation.

The rising cost of food and other necessities are eroding the purchasing power of ordinary Nigerians. We must act immediately to bring Inflation down. Timing is critical in applying all monetary tools to be effective in the short to medium term.

I appreciate increasing the rate is a trade-off for growth. However, the investment community needs strong commitment and confidence from the CBN to bring FDI to Nigeria. An attractive yield is crucial at this moment considering the growth we are experiencing in the OECD countries. In the thought process of managing inflation at the expense of growth, we must also notice the exchange rate pass-through to domestic prices. I align with my colleagues to increase the MPR.

The Global Economy

The modest upgrade of global GDP growth projections by the IMF (2024) is estimated at 3.1 percent in 2024, and 3.2 percent in 2025, due to resilience in the United States and many large emerging markets and developing economies (EMDEs) with fiscal support in China. This anticipated global economic performance is premised on gradual inflation decline and steadily rising growth.

While China and the UK have been identified as the biggest rebounders, consumer confidence seems to be trending down across most developed and emerging economies. However, the US Consumer Confidence Index increased to 110.7 in December 2023, indicating more optimistic views of personal income prospects, favourable business conditions, and job opportunities. Despite robust recovery in Russia's sales growth as well as in China, Russia's growth pace is likely to be dragged down due to its monetary tightening, thus cooling household demand. Core inflation in advanced economies, fell to 3.9 percent in December 2023 (against 4.0 percent in November 2023), while Eurozone year-on-year headline inflation decreased to 2.8 percent in January 2024 from 2.9 percent in December 2023 due to

winter. This rise was driven largely by energy prices as all other inflation components moderated. The UK headline inflation rose in the midst of unexpectedly unchanged core inflation at 5.1 percent. A similar story was witnessed in some emerging economies. India's headline inflation climbed to 5.7 percent in December 2023 from 5.6 percent in November 2023, while Russia inflation remain unchanged at 7.4 percent in December 2023 and January 2024. By contrast, China continued to battle deflation which stood at -0.8 percent in January 2024. In the meantime, Brazil's inflation dropped for five consecutive months to a record 4.5 percent in January 2024 from 5.2 in September 2023.

Global commodity prices maintained their post-financial crisis level. Energy prices maintained high levels after peaking in 2022, while metal prices remained stable after a period of high inflation in 2022. The trend in food prices was similar to the 2011 period of inflation. Thus, inflation is expected to be stable between 2 percent and 2.3 percent for both the medium and long term. Interest rates remained stable, especially in developed economies and India. Brazil set the Selic annual rate at 11.8 percent in January 2024, the same as December 2023 in order to mitigate weather-related disruptions to staple crops such as rice and potatoes, with further reduction expectations.

The US real GDP growth surpassed the expectation by recording 3.2 percent year over year in the fourth quarter of 2023. This outpaced economic performance in Europe, pushed down by the Eurozone's third-quarter 2023 contraction (-0.1 percent). The UK real GDP reduced by 0.2 percent over the three months to November 2023, compared with the three months to August. China's economy recorded a robust growth of 5.2 percent in 2023 to reach US\$17.7 trillion, with consumption accounting for over 80 percent. India's growth target of 7 percent is anticipated in 2024-25, as Russia's wartime economy is expected a rebound to witness a growth rate of about 2.7 percent to 3 percent in 2024. This economic performance is most likely driven by resilient domestic demand, robust government spending, and wage growth.

Domestic Context

The challenge of persistently increasing inflation remains a significant concern in Nigeria, with the country's headline inflation rising to a near 28-year high of 29.9 percent in January 2024, up from 28.9 percent in December 2023. Of particular note, food inflation, which comprises a substantial portion of the inflation basket, rose to 35.4 percent from 33.9 percent in December 2023. This increase is largely driven by higher prices of essential food items including bread, fish, meat, fruits, and eggs. Month-on-month inflation also climbed to

3.2 percent from 2.7 percent in December 2023, primarily due to increased transportation costs and panic buying resulting from uncertain commodity prices stemming from exchange rate fluctuations. Additionally, core inflation increased to 2.2 percent from 1.8 percent, largely due to the elevated cost of imported goods associated with the high exchange rate. The decline in the labor participation rate has contributed to an increase in the unemployment rate, which rose to 5 percent in Q3 2023 from 4.2 percent in Q2 2023. Notably, the informal sector remains the largest employer in Nigeria, accounting for 92.3 percent of total employment. Despite this, a significant proportion of employed individuals are engaged in self-employment, comprising 87.3 percent of the workforce in Q3 2023.

Furthermore, Nigeria witnessed a decrease in its reserve money to approximately N24.2 trillion by the end of January 2024, while broad money (M3) supply increased to N93.7 trillion. This exacerbates inflationary pressures within the country.

Additionally, Nigeria's external reserves increased to US\$34.54 billion in February 2024 from US\$32.23 billion in January 2024. The current reserves could finance 6.9 months of imports of goods and services. The reserves-to-broad money ratio of 40.6 percent surpasses the 20.0 percent threshold, strengthening the country's capacity to manage capital flows.

In terms of balance of payments, Nigeria reduced its overall deficit to US\$0.28 billion in Q3 2023 from US\$1.34 billion in Q2 2023, primarily due to a decline in merchandise imports. Furthermore, the current account recorded a higher surplus of US\$3.28 billion compared to US\$0.81 billion in Q2 2023, driven by favorable export developments. However, net financial liabilities increased to US\$3.74 billion from US\$1.25 billion in Q2 2023, mainly due to a significant rise in portfolio investment inflows. Despite these positive trends, global economic challenges, particularly in developed economies, led to a decline in diaspora remittances to US\$4.58 billion in Q3 2023, reflecting a decrease of 7.4 percent.

Decision

I am in favour of increasing all parameters. In my view, managing inflation is paramount among macro variables. I am deeply committed to this cause. I propose increasing the MPR by 400 basis points to tame inflationary pressure. Additionally, I believe it's crucial to enhance our yield to attract FDI. Moreover, I believe that banks remain awashed with liquidity and so I advocate for increasing the Cash Reserve Ratio (CRR) to 50 percent. Furthermore, I suggest making the Asymmetric Corridor more effective by

adjusting the floor to -600 basis points and the ceiling at +100 basis points. However, I concur with my colleagues in maintaining liquidity at 30 percent.

11. PHILIP IKEAZOR

In view of the prevailing challenges occasioned by excess money supply, exchange rate depreciation, and the resultant heightened inflation that poses a threat to macroeconomic stability, I voted to:

- i. Raise the MPR by 300 basis points to 21.75 per cent from 18.75 per cent.
 - ii. Adjust the asymmetric corridor around the MPR to +100/-700 from +100/-300 basis points.
 - iii. Raise the Cash Reserve Ratio from 32.50 to 45.00 per cent.
 - iv. Retain Liquidity Ratio at 30.00 per cent.
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Summary of key Global and Domestic Developments

Global inflation is expected to decelerate at a faster pace in 2024, on account of tight monetary policies, slack in labour markets, and pass-through effects of declining energy prices. The International Monetary Fund (IMF) projects global inflation to decline to 5.8 per cent in 2024 from 6.8 per cent in 2023. Whereas, emerging and developing economies continue to grapple with still elevated price levels due to peculiar structural and pass-through factors, inflation in the advanced economy have trended downward, albeit slowly, as a result of aggressive tightening of the policy environment in 2023.

The IMF projects the global economy to grow at a 3.1 per cent in 2024, driven largely by stronger than expected resilience in advanced economies. Decelerating inflation and easing of policy interest rates in advanced economies, signaling an end to monetary tightening, could be an impetus to growth in the advanced economies in 2024. Growth in Emerging Markets and Developing Economies is expected to remain at 4.1 per cent in 2024, the same as in 2023.

Despite the positive outlook, the global economy continues to face downside risks, including geo-economic fragmentation and rising geo-political tensions like ongoing Russia-Ukraine and Israel-Gaza war and China property crisis, among others, all of which have constituted a drag on global growth. This has created uncertainty on the paths for policy rates by major central banks, especially in the emerging and developing economies.

In the domestic economy, real GDP grew by 3.46 per cent in Q4 2023 compared with 2.54 per cent in Q3 2023. Growth in Q4 2023 reflected expansion in Services sector by 3.98 per cent, Agriculture sector by 2.10 per cent and the oil sector by 12.11 per cent, on account of higher crude production. The composite Purchasing Managers Index (PMI) remained

below the threshold at 48.5 index points in January 2024, compared with 49.1 index points, showing a decline in economic activity. Industry PMI, however rose to 50.4 index point which is above the threshold in January 2024, due to expansion in employment and production levels, Agriculture PMI also expanded in January 2024, after four months of contraction, reflecting improvement in farm yield, new orders, inventory, and general farming activities.

Headline inflation (year-on-year) increased further to 29.90 per cent in January 2024 from 28.92 per cent in December 2023, driven largely by the increase in both food and core inflation. The current persistent inflationary pressures reflect the effects of a combination factors including rising food and energy prices, exchange rate pass-through, high growth in money supply, underscored by significant growth and level of Currency Outside Depository Corporations (CODCs).

The performance of the external sector remained subdued by the effects of uncertainties in the global economy, amid tight financial conditions thereby contributing to the current exchange rate pressures. The overall balance of payments deficit narrowed to US\$0.28 billion (0.4 per cent of GDP) in Q3 2023, relative to US\$1 .34 billion in Q2 2023, due to moderation in the drawdown of external reserves to finance the balance of payments obligations.

The banking system continues to be resilient as the industry financial soundness indicators (FSIs) like the capital adequacy ratio (CAR) and non-performing loan (NPL) ratio are still within the regulatory threshold and the recapitalization of banks is imminent, to preserve the stability of the financial system, which is a key priority on its own, and for effective transmission of monetary policy.

My Considerations

The economy is currently witnessing accelerating inflation, sluggish output growth, and a depreciated exchange rate. A tight monetary policy stance at this period therefore seems to be the most viable option to moderate inflation and mitigate exchange rate passthrough that has eroded households' purchasing power in recent past. The challenges inform a hawkish monetary policy, whilst still been mindful of the effect of higher interest rates on loans for borrowers, especially in the real sector of the economy. Undue hikes could, therefore, worsen costs of borrowing, curtail lending and hurt economic growth without moderating inflation to a level

sufficient to achieve the desired outcome.

The need for a trade-off between inflation and growth constitutes a binding constraint on the policy decision. In the present circumstance, price stability must take priority over economic growth to preserve the primary goal of monetary policy and prevent progression to hyperinflation at which point monetary policy becomes ineffective. Of course, consideration must be given to what is optimal for growth without sacrificing price stability.

In terms of the choice of policy instruments, the current inflation is apparently not credit related but largely fueled by excess liquidity in the system as indicated by the significant growth of monetary phenomenon. Deploying MPR only without complementary tools might not achieve the desired result of moderating inflation. Complementary tools like the Cash Reserve Ratio (CRR) and the asymmetric corridor have direct impact on liquidity, thereby potent in taming inflation if applied consistently over required periods. Considering our unique circumstance where personal credit constitutes only 5.21 per cent of the banking industry total lending at end-January 2024, the CRR and the asymmetric corridor would be a most potent tools to moderate excess liquidity.

Significant increases in rates are required to signal the intention to address the current negative real interest rate that is a disincentive to foreign investment. Raising the rates will encourage capital inflow to boost foreign exchange supply and strengthen the naira.

Ultimately, as an import-dependent economy the exchange rate channel of monetary policy transmission is now more active than ever and requires close attention. Notably, the pressure on exchange rate is gradually dissipating due to various reforms in the foreign exchange market by the Central Bank of Nigeria. This includes unification of exchange rate, review of the operational guidelines for International Money Transfer Organization (IMTO) and Bureau De Change (BDC) reforms.

The concerted effort between the monetary and fiscal authorities in driving national economic goals is critical to navigating current economic challenges and delivering significant expected results. Measures such as various agricultural and CNG initiatives by the fiscal authorities are expected to help manage food inflation, moderate energy prices and transportation cost, thereby ameliorating the high cost of living. It is crucial that export operations and policies are streamlined to boost non-oil exports and improve foreign exchange liquidity to support price stability.

In conclusion, a tight monetary policy stance would be effective in curbing excess liquidity and significantly elevated price levels. Fiscal policies and reforms should be formulated to make our economy more productive and assist to gradually moderate high public debt.

12. OLAYEMI CARDOSO

Governor of the Central Bank of Nigeria and Chairman, Monetary Policy Committee

I wish to acknowledge the significance of presiding over the inaugural Monetary Policy Committee (MPC) Meeting as the Governor of the Central Bank of Nigeria (CBN) amidst a backdrop of profound economic challenges: escalating inflationary pressures, sluggish economic growth, volatile exchange rates of the naira, and a rising cost of living. The anticipation among Nigerians for this meeting to deliver viable solutions that will steer the economy towards sustainable growth and position Nigeria as an attractive investment destination is palpable.

On a global scale, economic growth remains subdued while inflation, persistently exceeding the targets of most central banks, exhibits a gradual decline. Geopolitical conflicts continue to disrupt global supply chains, contributing to escalating debts reaching unprecedented levels. Domestically, Nigeria witnessed a surge in inflation to 29.9 percent in January 2024, up from 28.9 percent in December 2023. Despite the resilience of weak economic growth, the depreciation of the naira against major currencies, driven by a persistent shortage of foreign currency liquidity, has led to price pass-through effects. Notably, the equities market has shown promising performance in 2024.

The post-COVID-19 fiscal support and subsequent deficit financing have created a lax financial environment, culminating in surplus liquidity within the banking system. This surplus liquidity has not only directly fueled inflation but also intensified pressure on the foreign exchange market due to heightened demand for foreign currency as an alternative store of value. The fiscal authorities have exhibited commitment to fiscal prudence by reducing the fiscal deficit and emphasizing revenue generation in the 2024 Appropriation Act. Given staff projections of sustained inflationary pressures in the short term, it is imperative to deploy monetary policy tools to mitigate these pressures and foster price stability.

Moreover, adopting a tighter monetary stance will steer us towards achieving positive real interest rates, a crucial goal to stimulate savings and investment within the domestic economy. This strategic move also holds the potential to attract the capital inflows necessary to enhance liquidity in the foreign exchange market and bolster the currency in the immediate term.

Recognizing that the current inflationary pressures are multifaceted and not solely monetary in nature, particularly exacerbated by the surge in food prices due to various factors, including low productivity, insecurity, and elevated energy costs post fuel subsidy removal, underscores the necessity for a comprehensive approach beyond monetary policy. Addressing these structural challenges calls for a holistic response involving non-monetary stakeholders to implement appropriate actions.

The price stability mandate vested in the Central Bank necessitates making difficult decisions to steer the economy towards recovery. After carefully weighing the costs against the risks confronting the economy, I firmly advocate for an assertive tightening approach to counter the prevailing inflationary pressures. While cognizant of the potential drawbacks of a contractionary monetary policy stance, such as impacting output growth and lending rates, constraining credit availability and affordability to small-scale businesses and consumers, as well as affecting government borrowing costs and liquidity management, I believe these short-term sacrifices are crucial in our pursuit of achieving price stability and sustained economic growth.

Given the imperative to curb inflationary pressures, which could pose social challenges and impede long-term growth prospects, I am persuaded that the MPC must adopt an assertive stance by tightening monetary policy measures, with a medium-term inflation target of 21.40% by the end of 2024 in mind. Therefore, I cast my vote in favor of increasing the Monetary Policy Rate (MPR) by 425 basis points to 23.0 percent, raising the Cash Reserve Ratio (CRR) by 1250 basis points to 45.0 percent, and adjusting the asymmetric corridor to +100 and -500 basis points around the MPR.

OLAYEMI CARDOSO

Governor

February 2024