



**PERSONAL STATEMENTS BY
THE MONETARY POLICY COMMITTEE MEMBERS
MPC MEETING MARCH 25 – 26, 2024**

1. AKU PAULINE ODINKEMELU

I vote to raise the Monetary Policy Rate (MPR) by 150 basis points from 22.75 per cent to 24.25 per cent, retain the cash reserve ratio at 45.00 per cent, adjust the cash reserve ratio of merchant banks from 10.0 per cent to 14.0 per cent, adjust the asymmetric corridor around the MPR to +100/-300 from +100/-700 basis points, and retain the Liquidity Ratio (LR) at 30.00 percent.

My decision is influenced by the following developments:

1. Global Economic Developments

Growth in global output in 2024 is projected to remain at the 2023 level of 3.1 per cent, and expand further to 3.2 per cent in 2025, which is low by historical average of 3.8 per cent for 2000-2019. The key drivers of global growth are the greater than expected resilience in the United States, leading emerging markets, and developing economies, as well as the fiscal stimulus in China.

Output growth in the United States is projected to fall from 2.5 percent in 2023 to 2.1 percent in 2024 and 1.7 percent in 2025, due to softening in labour markets, gradual fiscal tightening, and the lagged effects of monetary policy tightening. Output growth in Euro area is projected at 0.9 per cent in 2024 and 1.7 per cent in 2025. Euro area is projected to recover as the effects of the shock to energy prices subside amid the major geopolitical tension (Russia – Ukraine conflict) and disinflation.

Growth in emerging and developing economies is projected to remain at 4.1 per cent in 2024 and rise to 4.2 per cent in 2025, while growth in Sub-Saharan Africa is projected to rise to 3.8 per cent in 2024 and 4.1 per cent in 2025, due to gradual improvement in supply chain and subsiding negative effect of weather shocks.

Global headline inflation is projected to fall to 5.8 per cent in 2024 and 4.4 per cent in 2024, signalling early indications of a disinflationary process amid tight monetary policy stance. It is projected that about 80 per cent of the world's economies is expected to witness lower annual average headline and core inflation in 2024, however, advanced economies are to witness faster disinflation than emerging market and developing economies. IMF inflation forecast is revised down for both 2024 and 2025 for advanced economies, while it is revised up for 2024 for emerging market and developing economies.

Though IMF projection on the risks to the global outlook are broadly balanced, growth in Sub-Saharan African countries remains fragile due to geopolitical tensions, climate change, tight financial conditions in advanced economies, and disruption to global supply chain. The import dependent nature of the Nigerian economy remains a major source of vulnerability to external shocks. Nigeria's importation of petroleum products exerts upward pressure on domestic prices and erodes the gains of positive oil price for an oil producing and exporting country.

2. Domestic Economic Developments and Outlook

Nigerian economy remains resilient as the economy maintained its growth path. Real GDP grew by 3.46 per cent in the last quarter 2023, from 2.54 per cent in the third quarter of 2023. CBN staff presentations during the MPC meeting in March indicates that real GDP is expected to grow by 3.20 per cent in the first quarter of 2024 and 3.22 per cent in the second quarter of 2024. Despite the growth path of the real GDP, growth still remained fragile because of inflationary pressure, fiscal reforms, persistent structural rigidities, and vulnerabilities from the external sector.

Rise in headline inflation from 29.90 per cent in January to 31.70 per cent in February is attributed to the increase in food and core inflation. Growth in money supply, naira depreciation, insecurity, and infrastructure deficit are largely the drivers of inflation. CBN staff presentations during the MPC meeting in March indicates that inflation would drift to 33.56 per cent in April 2024, hinged on persistent cost-push factors, including the lingering security challenges in food-producing areas, rising energy prices, and the pass through of exchange rate to domestic prices. My decision to vote for further tightening is consistent with the need to effectively anchor inflation expectation.

Broad Money grew year-to-date by 20.57 per cent to N95,557.26 billion in February 2024, compared with N79,252.46 billion in December 2023. The growth in broad money was driven by increase in the Net Domestic Assets. Given the growth in broad money, it is imperative to vote for further

tightening to curtail credit growth and moderate aggregate demand. However, the brevity of the period between the February and March 2024 meetings of the Committee and my understanding that inflation in Nigeria is not purely credit led, influenced my decision to vote for further but gradual tightening.

The underperformance of revenue in the 2023 budget brings to the fore, the importance of improving revenue collection and blocking leakages. Anticipated fiscal deficit of N9.18 trillion is swelling the already existing debt stock of N87.91 trillion and N96.43 trillion by the end of 2024. Achieving sustainable growth in 2024, therefore, entails a delicate balancing of ambitious fiscal reforms with effective budget implementation, while the monetary authority is expected to promote price stability.

The overall balance of payments recorded a surplus position due to accretion to external reserves on account of third-party receipts. This could be attributed to the efforts of CBN in offsetting verified past obligations and stabilizing the foreign exchange market. However, the tight financial conditions and macroeconomic uncertainties adversely affect the external sector. The current account recorded deficit balance in the last quarter of 2023 due primarily to a deficit in the goods account and a higher deficit in the services and primary income accounts.

While subscribing to the argument that the substantial hike in monetary policy rate in February 2024 may still be permeating the real economy, the rise in inflation rate from 29.90 per cent in January to 31.70 per cent in February means that we cannot fold our arms and do nothing till the next Committee meeting in May 2024. In my humble opinion, further, albeit, gradual hiking will moderate inflationary pressures in the short to medium term.

2. ALOYSIUS UCHE ORDU

Economic outlook for the US and the global economy

As inflation recedes around the world, countries are experiencing very different growth patterns. For the US, inflation has come down but remains some distance from the central bank's targets. This leaves the central bank watching and waiting.

The US growth has surprised to the upside with demand supported by strong household fundamentals. Housing and business investments have held up despite elevated interest rates. On the supply side, potential output looks to be growing briskly due to a surge in immigration. Potential output is also bolstered by robust labor force participation and increased productivity growth in recent quarters.

Despite stronger potential output growth, US disinflation looks to be slowing broadly. So, the Fed will lower interest rate slowly, probably with only one rate cut likely in the second half of 2024. A soft landing remains the most likely outcome for the US economy this year.

Even as inflation declines, global growth will probably be 2.4 percent in 2024. G7 economies are seeing softish landings, meaning disinflation without recessions. While the US is experiencing robust growth, the Euro area is showing much less momentum. Japan had a solid 2023 and economic recovery is likely to continue this year. The United Kingdom will muddle along as it struggles with post-Brexit drag.

As indicated in my personal statement last month, China's growth target of 5 percent remains ambitious and fiscal spending by the central and local governments will play greater roles in driving investments. But the intended fiscal boost may fall short if local governments underspend their budgets again this year. Household consumption will remain uncertain due to challenges in the housing sector and weak private sector investments.

Emerging markets, excluding China, are projected to record increased growth of 3.5 percent this year. India stands out; it is forecast to record 6.5 percent, the fastest growth of all major global economies, driven by

government investment and the continued strong performance of the services sector. Growth in other export-oriented Asian countries will accelerate, boosted by growth in domestic demand and regional supply-chain diversification.

For Sub-Saharan Africa, the April 2024 edition of the World Bank's *Africa Pulse* shows that growth slowed to 2.6 percent in 2023 as many countries in the region recorded slower growth in consumption due to high inflation rates, particularly higher food and energy prices, and weaker currencies. Tighter monetary policies to tackle inflation contributed to lower investments.

For 2024, the region's economic growth is expected to rebound to 3.4 percent, on account of lower inflationary pressures in many African countries, recovery in global trade and expected easing, albeit slowly, of global financial conditions in the second half of 2024. In particular, the East African community countries as well as Senegal, Cote D'Ivoire, Niger, Benin, and Togo are projected to record growth performances of well over 6.0 percent this year.

Nevertheless, the *Africa Pulse* suggests that post-Covid economic recovery remains fragile and the region "*still needs to overcome significant challenges regarding low and unstable growth, high levels of extreme poverty and inequality, and difficulty translating growth into poverty reduction*".

At the same time, the region faces debt sustainability problems with many countries at moderate or high risk of debt distress. Notably, market borrowing increased over time as concessional financing declined when donor countries were having fiscal problems of their own. Further, weak fiscal conditions, inadequate attention to value for money, and currency collapses have increased the burden of repaying foreign currency debt. Continued improvements in investment climate to attract foreign direct investments in sectors other than natural resources are urgently needed to strengthen the foundations for long-run growth and development in Sub-Saharan Africa.

Nigeria: Economic Indicators and Outlook

The MPC's February meeting took place against the backdrop of a rapidly depreciating Naira and rising inflation, driven by huge supply shocks and high food prices. Tackling inflation and arresting the currency decline were key imperatives and the MPC deployed tight money and high interest rates.

During the March 25 -26 meeting, available data showed that the domestic GDP outcome for the fourth quarter of 2023 rose to 3.46 percent from 2.54 percent in the previous quarter, driven by the non-oil sector and expansions in the services, agriculture, and industrial sectors. CBN Staff projection is that economic growth will slow to 3.0 percent in 2024 due to inflationary pressures and as monetary tightening leads to a contraction in domestic demand.

CBN Staff presentations also showed that inflation rose to 31.7 percent in February from 29.9 percent in January and driven by a rise in food prices (37.92 percent) with Core inflation rising to 25.13 percent. Food price inflation, which has a particularly large impact on the living costs of lower-income families due to its large share of these families' budgets, remains high.

Following the MPC meeting, some green shoots are already sprouting: the Naira has sustained its appreciation; foreign investment inflows have increased; reserves have risen; and the FX backlog has been cleared. Close observers of emerging markets developments have welcomed the CBN's tight policy stance.

Clearly, hiking interest rates impacts consumer spending and business investments as reflected in the composite purchasing managers' index in February 2024. The Naira appreciation also makes imports cheaper which should contribute to a reduction in inflation through household consumption of imported goods and indirectly as imported products and services are used by Nigerian firms in supply chains. Substantive progress in addressing the supply-chain issues and other cost-push factors is needed to minimize the risk that inflation might remain high for longer. Such an outcome will make life difficult for Nigerians and damage the functioning of the economy. Inflation erodes the value of people's savings, negatively affects household budgets, and makes it harder for small and medium scale enterprises and other businesses to plan and invest. To allow higher inflation to become entrenched in people's expectations would make it much more expensive to reduce later, through even higher interest rates, larger output losses and higher unemployment.

We recognize that monetary policy operates with a lag and that the effect of our February decisions is yet to be fully felt. Nevertheless, with current inflationary pressures emanating from continued domestic shortages of key food items, high transport costs, it is necessary to take further aggressive monetary action to bring headline inflation down as soon as possible. It is important to reiterate and encourage timely whole-of-government actions to address the impact of persistent supply side pressures on food prices, including improvements in security and infrastructure in food producing areas and to support fiscal measures that ensure that government spending is used for purposes intended to sustain growth and development. At the same time, adjustment in the policy interest rate is vital for continued foreign exchange inflows to further strengthen the Naira.

I therefore vote:

- to raise the MPR by 200 basis points

- to hold the CRR unchanged at 45 percent
- to narrow the corridor by +100/-300; and
- to retain the liquidity ratio unchanged at 30 percent.

3. BALA MOH'D BELLO *mon*

Opening Statement

The March 2024 Monetary Policy Committee (MPC) meeting provided an opportunity for the Committee to assess immediate market responses to the sustained hike in the monetary policy rate, foreign exchange management and other complementary initiatives targeted at achieving macroeconomic stability in Nigeria. An evaluation of recent developments in key global and domestic macroeconomic indices such as inflation, output and financial system aggregates, summarised in the ensuing sections, underscores the need for continued policy interventions to guarantee desired results.

Global Economic Developments

Risks to global economic performance and price movements persist due to disruptions to the global supply chain and continued geopolitical tensions amidst other country-specific vulnerabilities. Given these headwinds, global inflation, though decelerating (projected by the IMF in its January 2024 updated World Economic Outlook (WEO) to moderate to 5.8 per cent in 2024 from 6.8 per cent in the previous year), is expected to remain above the long-run targets of major central banks. The monetary policy stance of many advanced economy central banks is, thus, expected to remain tight in the short to medium term.

The prolonged tight global financial conditions have adverse implications for capital flows to emerging markets; external debt servicing, especially for highly indebted developing countries; exchange rate stability; and global output recovery. Central banks in Emerging Market and Developing Economies (EMDEs), must, therefore, remain resolute in the pursuit of policies that would engender domestic economic resilience and effectively manage trade-offs amidst an uncertain and constantly evolving economic landscape. Overall, monetary authorities across the world, particularly in EMDEs, currently face difficult policy choices.

The Domestic Economy

On the domestic front, economic prospects remain broadly positive, with a 3.46 per cent (year-on-year) growth in real gross domestic product (RGDP) in the fourth quarter of 2023, according to data from the National Bureau of

Statistics. Output performance was driven mainly by higher crude oil production, Finance & Insurance Services and increased investments in the Information & Technology sub-sector - a development that points to the efficacy of coordinated implementation of monetary and fiscal policy reforms in growth-enhancing sectors.

Nonetheless, it is concerning to note that the Composite Purchasing Managers' Index (PMI) declined sharply to 39.2 index points in February 2024 from 48.5 index points in the previous month. Economic activity has been contracting for eight consecutive months, mainly due to exchange rate pressures, rising input prices, security challenges, and other idiosyncratic headwinds. This calls for well-nuanced policy decisions targeted at price stability to forestall stifling economic activities and derailing output performance.

Of greater concern is the rising inflationary trend despite sustained hikes in the monetary policy rate with forecasts of further price increases in the near term. Both food and core inflation rose in February 2024, underpinning acceleration in headline inflation to 31.70 per cent in February 2024 from 29.90 per cent in the previous month. This continued rise in inflation was mainly due to persisting high production costs, lingering security challenges and exchange rate pressures. Inflation is currently unacceptably high and requires decisive and coordinated efforts to curb it, given its adverse impact on citizens' purchasing power, investment decisions and broad output performance. The Federal Government's initiatives at addressing food insecurity, such as the release of grains from the strategic reserves, distribution of seeds and fertilisers, and support for dry season farming, are important and commendable.

However, the progressing and significant rise in broad money supply (M3) by 20.52 per cent at the end of February 2024, over the preceding month, is a major headwind for inflation. This reinforces the importance of liquidity management efforts of the monetary authority to help curb inflation.

Recent developments indicate that efforts by the monetary authority to stabilize the exchange rate, are yielding positive outcomes. The reported appreciation / relative stability in the naira exchange rate and accretion to the external reserves over the last month is a welcome development. The improved exchange rate position can be attributed to the policy rate hikes by the MPC and other "non-interest rate" measures, such as re-engineering the operational procedures for the Bureau de Change segment and addressing illegal / speculative tendencies in the market, among others. In view of the high pass-through effects of exchange rate appreciation, it is

expected that inflationary pressures would moderate over the medium term. Sustained monetary policy rate hikes and other complementary measures attracting capital inflows are, therefore, important in that regard.

I should emphasise that sustained resilience of the financial system is critical in the pursuit of disinflation. It is, therefore, comforting to note that as of February 2024, major financial soundness indicators (Capital adequacy, non-performing loans, and liquidity ratios) remained strong. Given the strength of the Banking system, I expect adequate funding of critical sectors of the economy to preserve the positive output performance and mitigate the aggregate supply-demand imbalances.

Policy Decision

Against the foregoing background, the MPC of the Central Bank of Nigeria raised its benchmark rate, the Monetary Policy Rate (MPR), by 400 basis points in February 2024. The Committee was clear on intent—principally to anchor inflation expectations and attract foreign capital. By that decision, the Committee signalled its discomfort with the forecast path of inflation. One month later, at the March 2024 meeting, there is compelling evidence that the monetary policy stance must be tightened further to communicate unambiguously a commitment to disinflation.

However, with output trade-off concerns and the possible strain on financial system stability, a less aggressive policy interest rate hike was considered appropriate in my view. I, therefore, voted to;

- raise the MPR by 150 basis points from 24.75 per cent to 26.25 per cent;
- adjust the corridor around the MPR from +100/-700 to +100/-300
- retain the Cash Reserve Ratio at 45.0 per cent, and
- retain the Liquidity Ratio at 30.0 per cent.

4. BAMIDELE A.G. AMOO

1. International Economic Developments

Global growth estimate for 2024 by the International Monetary Fund (IMF) remained unchanged at 3.1 per cent compared with 2023 but is expected to inch up to 3.2 per cent in 2025. Growth in advanced economies is projected to moderate to 1.5 per cent in 2024, but rise to 1.8 per cent in 2025, reflecting stronger than expected growth in the US, partly offset by projected weaker growth in the Euro Area. In the emerging markets and developing economies (EMDEs), growth is projected to remain at 4.1 per cent in 2024, same as in 2023 despite the mixed performance across the various regions that make up the group but may rise marginally to 4.2 per cent in 2025.

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 several others in Africa. The war in Ukraine/Russia is poised to further cripple the global economy in 2024 as the EU and USA begin to target entities supporting Russia in the war against Ukraine. Climate change and El Niño which is set to peak by mid-2024 threaten food and water security in Africa, Middle East, causing potentials for flood, drought, and heatwaves.

Disruptions in the Red Sea may escalate geopolitical tensions which may drive up oil prices. Interest rates are unlikely to be cut until sometime in Q2/Q3 2024. However, new risks of rate hikes/hold are now emerging linked to potential inflationary pressures and output cut associated with the crisis along major trade routes on the Red sea. When these situations occur, expectation of lower global inflation in 2024 and prospects of rate cuts by major Central Banks, may not happen as the war and its negative impact on Red Sea may incite inflation and higher cost of living during 2024. When this happens, the global monetary policy environment may remain tighter for much longer.

During the month, some social-political developments emerged. In February, the Russia-Ukraine war entered its third year with no end in sight and growing concerns about the state of Western support for Ukraine. In the Middle East, Israel continued military operations in the Gaza Strip following the surprise attack on Israel in October 2023 by Hamas. The expansion of BRICS signals the rise of a formidable economic alliance that could challenge the existing western-centric economic order. General elections will happen in many countries, and we should expect a crucial shift in the future trajectory of

geopolitics, foreign trade and development policies. Some of these developments are putting upward pressure on global trade and inflation as threats to the global supply chain are increasing. ECOWAS recently lifted the sanctions earlier placed on Niger, Mali and Guinea, to improve food security, border security and drive down inflation prospects in the sub-region. Nevertheless, global inflation is expected to sustain its deceleration in 2024 due to the continued decline in global commodity prices and tight monetary policy stance across several countries. Consequently, the International Monetary Fund (IMF) projected global inflation to decline to 5.8 per cent by end-2024 from 6.8 per cent in 2023.

The outlook for global trade and moderation of inflation is subject to various downside risks, including:

- i The Red Sea crisis compounds the ongoing disruptions in the Black Sea resulting from the war in Ukraine, resulting in shifts in oil and grain trade routes.
- ii Additional burden to existing geopolitical and climate-related challenges facing global trade and supply chains, have been compounded by ongoing attacks on commercial vessels in the Red Sea which have severely affected shipping through the Suez Canal,
- iii Additionally, the Panama Canal, a critical artery linking the Atlantic and Pacific oceans, is being confronted by a separate challenge. Dwindling water levels have raised concerns about the long-term resilience of global supply chains, underscoring the fragility of the world's trade infrastructure.
- iv Deepening geopolitical fragmentation and uncertainty.
- v Further rise in protectionist measures across countries may emerge as time goes on.

Staff report indicates that the outlook for the recovery of global trade and growth in 2024 and beyond is expected to continue at a moderate pace as monetary policy tightening progress. The resulting tightening of global financial conditions is thus expected to dampen investment and weaken productivity, thus leading to rising unemployment. The persistence of new and legacy global geopolitical tensions is also expected to contribute significantly to the weakening of the recovery.

2. Domestic Economic Developments

Information from the NBS 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 an annual basis, real GDP grew by 2.74% in 2023 from 3.1% in 2022.

Headline inflation (year on year) rose to 31.7% in February 2024 from 29.9% in January 2024, due to persistent supply gap, lingering ripple effects of the PMS subsidy removal, lingering security challenges and infrastructural deficits. Core inflation increased to 25.13% compared with 23.59% in January 2024, due to persisting high input costs, lingering effects of fuel subsidy removal and exchange rate pass through. Consequently, food inflation rose to 37.92% (yon-y) from 35.41% in January 2024. However, on a monthly basis, inflation moderated to 2.17% from 2.24 per cent in the preceding month. The overall economy witnessed contractions as composite PMI decreased to 48.5 points in January 2024 from 49.1 points in December 2023.

The high naira exchange rate and high prices continue to put Nigeria into cost-of-living crisis which comes on the heels of many economic and social factors.

This phenomenon was accompanied with high unemployment rate and low energy per capita, food poverty and social security challenges. Other issues were: low capital importation; low foreign direct investment; low capacity utilization by many local industries; surge in foreign exchange demand to fund the import of consumer items and medical tourism; increased cost of production occasioned by hike in prices of petrol, aviation fuel, kerosene and diesel; lack of focus by the banks which promoted forex arbitrage and speculation, manipulations of forex markets etc; and diversion of cargoes to neighboring countries.

CBN policy responses have been 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 pressure on the naira and payment of backlogs of forex forward obligations. Others were: raising of CRR of banks to reduce system liquidity; increase in interest rates to attract capital inflow into the country; revocation of inactive BDCs which created more sanity in the subsector; clamp down on BINANCE and other amorphous international currency manipulators and money launderers; and the re-capitalization of Banks to reposition them for higher financial intermediation efficiency for development.

On the fiscal side, the economy witnessed some major positive developments and interventions recently. Some of these are: onslaught on illegal oil bunkers; increase in international oil prices boosting national revenue; improvement of Nigeria's credit ratings; implementation of some reforms; successful resuscitation of moribund local petroleum refineries and completion of brand new private sector refinery; decrease in medical tourism; increase in diaspora remittances; serious breakthrough in war against drug trafficking; increasing prospects to reduce foreign exchange demand from airline operators as proxy national carrier commenced business to the UK; and improved social safety nets.

Growth in broad money supply (M3), stood at 20.52% at end-February 2024, recording a 123.4% increase. M2 and M1 reportedly grew by 19.20 and 0.51% respectively. Growth in M3 was reportedly due to high increased activity recorded in securities other than shares, other deposits and transferrable deposits which also grew by 30.76 and 0.66% respectively. 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. Also, the continued growth in the level of money supply, M3, could heighten the current high inflation and put pressure on the foreign exchange market.

The banking industry is adjudged relatively stable as solvency and liquidity levels remained within regulatory requirements. Industry resilience however remain vulnerable to the macroeconomic headwinds due to unfavorable external conditions. Consequently, the key risk factors to watch are credit default risk and concentration risk.

Available information on the Open Buy Back (OBB) facility showed a worrisome development. During the review period, the OBB rate was outside the set asymmetric corridor for a greater period, indicating the need to review the policy rate as well as adjust the asymmetric corridor to anchor overnight rates (OBB) appropriately.

Capital market capitalization index fell at end-February 2024, driven by high yields in the fixed income segment of the money market. The market effect of the February 2024 MPC decisions swayed investors to switch asset classes from the equities to the fixed-income market due to sharply improved yields.

The fiscal sector performance was mixed in February 2024. Federal Government provisional federation revenue receipts improved in February 2024 by 22.9 per cent but stood at 38.8 per cent below the set target. Oil revenue increased by 50.3 per cent relative to its level in January 2024. Non-oil receipts in February 2024 exceeded both target and preceding levels by 41.3% and 15.5% respectively. Provisional FGN expenditure was 33.5 per cent higher than the level in the previous month and 13.8 per cent below the target. Overall, fiscal deficit in February 2024 expanded by 33.7 per cent and 86.2 per cent compared with the preceding month and target respectively. These operations recorded a fiscal deficit at 6.5 per cent of GDP driven by expansion in government capital spending.

Nigeria's Foreign reserves stood at US\$32.87 billion as of March 19, 2024 from US\$33.68 billion in the previous month. The decrease was majorly due to foreign exchange swap transactions. In the foreign exchange market, the average NFEM rate as at March 20, 2024 stood at N1410.90/USD, N 1,536.83/US\$, N1,520/US\$, at the Refinitiv, FMDQ and BDC market segments giving an appreciation of 8.65, 3.65 and 1.94 per cent respectively.

The overall balance of payments recorded a surplus position relative to the preceding quarter, due mainly to accretion to external reserves from third party receipts. Apart from the higher inflow of diaspora remittances, the economy recorded a higher capital inflow of US\$1.24 billion by end-February 2024 relative to US\$0.33 billion in January 2024. The capital inflow came from foreign portfolio investments, specifically through money market instruments and other investments from the loans sub-sector.

3. My Concern

My major focus currently is price stability. Unstable price levels comes with lots of deviation from sector equilibrium levels, often causing distortions in the market. 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. Exchange rate fluctuations in recent past caused lots of instability in production sectors and adversely affects people's welfare in every sector of the Nigerian economy. These accentuate high unemployment, prevalent poverty, and high social insecurity. Consequently, it presents a serious policy dilemma for the MPC given the imperative to sustain the growth trajectory with limited tools at its disposal, low productive capacity, high import dependence as well as the constricted fiscal environment. In fact, the negativity in the real values of our financial rates

must be reduced if it cannot be eliminated now. Our short-term goal is to attain a positive real policy interest rate soon.

It is therefore imperative that the current monetary tightening regime which commenced at the February 2024 meeting of the MPC, should continue, to allow complete policy pass-through in the Nigerian economy. Given the above developments, and since Nigeria is competing for investment capital with comparable EMDEs such as Egypt, Ghana Kenya and others, there is a compelling need to further move the policy rate slightly upwards. Towards this end, all possible legal inflows – whether “hot, cold or warm” – should be explored and attracted into our carefully managed reserves.

The foreign exchange market was positively impacted by the last hike in MPR and other rates. Consequently, further hike in MPR will still help to create the right environment to moderate the volatility levels of naira exchange rate. To prevent overheating the economy and enable the banks to contribute to the nation's development, further hike in CRR will still provide moderate liquidity to fund the productive sectors by the banks. We must get banks to play by the strict rules and apply heavy sanctions to observed infractions. The situation where banks declare huge profits without evidently meeting targets in financial intermediation to the productive sectors must stop.

High inflation and its attendant effects are not unique to Nigeria. All countries of the world are basically addressing certain supply factors: energy prices; food prices and weak domestic currency. The measures being taken are similar to tighten monetary base. In Africa, Ghana, Egypt, South Africa, along with their counterparts in emerging and developing countries have revised their monetary policy rates upwards a couple of times since the beginning of the year. It is also reiterated that monetary tightening regime must be supported with other fiscal and social complimentary measures to achieve price stability consistently.

From the foregoing, more collaboration with the fiscal authorities is inevitable to restore macroeconomic balance through achieving price stability and sustainable economic growth. There is also a need for increased education and enlightenment to promote ethical behaviour by people and leaders to ensure transparency and accountability across sectors. Improvement in electricity generation and supply will also reduce the amount of fuel on demand in the economy, thereby moderate energy prices as an input to the local manufacturers. This feat, if achieved, will reduce the elasticity of demand for foreign goods and create more employment in Nigeria.

4. My Vote

Given the above considerations, I hereby vote as follows:

- A) Raise MPR by 200 basis points - from 22.75% to 24.75%
- B) Maintain CRR for DMBs at 45.0% and raise CRR for Merchant Banks to 14%.
- C) Raise the Liquidity Ratio to 35%.
- A) Move the asymmetric corridor around the MPR to +100/-300 basis points.

5. EMEM USORO

1.0 My Considerations

Headline inflation in Nigeria inched up to 31.70% in February 2024, driven by accelerating food and core inflation. This resulted from ongoing exchange rate pass-through, high inflation expectations and legacy structural issues. The exchange rate depreciation in February was occasioned by speculative activities, and insufficient liquidity in the foreign exchange market despite substantial inflows at the Nigerian Autonomous Foreign Exchange Market (“NAFEM”) from US\$2,399.82million recorded in the preceding period of January 2024, to US\$5,349.51million in February 2024.

In addition, firms and households remain pessimistic due to lingering imbalances and slow recovery in the macroeconomy as the relevant agencies of Government work assiduously to address these imbalances such as the high interest rate, poor infrastructure, and high insecurity leading to the sustained high general price level in February 2024.

Furthermore, the deviation of broad money (M3) growth from its provisional benchmark due to an increase in other deposits (which includes foreign currency deposits) and securities other than shares, indicates that inflationary pressures may persist in the short to medium This increase was attributed to exchange rate revaluation and issuance of government securities during the review period.

In addition to persistent inflation, the decline in the Composite Purchasing Manager’s Index (PMI) to 39.2 index points in February 2024, from 48.5 index points in January 2024 suggests weakened demand and supply, characterised by macroeconomic constraints and dwindling economic activities in February. Notably, contraction was recorded in all sub-sectors of the economy - agriculture, services, and industry.

While the financial system remains resilient, threats emanating from FX revaluation might ensue in the short term, supporting the need to contain exchange rate fluctuations and negative inflation expectations.

The outlook for the domestic economy remains cautiously optimistic as growth is expected to expand in Q1 2024 and Q2 2024, respectively. The outlook for growth in the domestic economy is however confronted with downside risks driven by persisting structural issues such as high insecurity in farming communities and poor infrastructure. Furthermore, expectations around the external position remains optimistic, driven by favourable crude oil prices and increased domestic production of crude oil. In addition, the recent increase in capital inflows is expected to persist, and ultimately

support exchange rate stability. Inflation is, however, expected to remain elevated in the near-term, partly on the account of lingering high import costs, exchange rate pass-through, supply side constraints, high energy prices, and growth in money supply.

A forward-looking assessment reveals existence of several risks to the global economy including increasing geopolitical tensions and the impact of climate change which might heighten uncertainties and disrupt global markets.

Inferences from the foregoing highlight the detrimental role of rising inflation, including erosion of real income and further dampening of economic activity. It is, therefore, imperative to anchor inflation expectations using the various tools available but most importantly enhance policy coordination with the fiscal authorities.

From the foregoing, it is obvious that the continuous rise in inflation is detrimental to the broad recovery of the economy. While the rise can be attributed to both monetary and structural factors, unwavering collaboration between the monetary and fiscal authorities is essential to effectively combat upward price movement and restore macroeconomic equilibrium. Monetary policy must thus focus on two key issues: moderating monetary demand and stabilizing the exchange rate. A tight monetary policy stance is thus essential to achieve optimal monetary demand and improve the attractiveness of domestic assets to both domestic and foreign investors. It will also help support the domestic currency and reduce the cost of imports significantly. This is a huge plus in an import-dependent economy such as Nigeria.

While striving to attain price stability, I'm aware of the potential short-term impact on borrowing costs, economic growth, and financial stability. However, de-anchoring inflation expectations and leaving inflation unchecked, poses a more significant risk to long-term economic performance and the stability of the financial system.

2.0 My Decision

I remain unwavering in my support for the Committee's efforts to bring about macroeconomic stability and improve the well-being of ordinary Nigerians.

Consequently, I vote to:

- i. Raise the MPR by 200 basis points to 24.75%. This will further tighten financial conditions, moderate money demand, and reduce the negative interest gap to attract more capital inflow,
- ii. Adjust the asymmetric corridor to MPR +100/-300 from MPR +100/-700 basis points. This is targeted at improving the transmission mechanism of monetary policy through improved efficiency of the overnight interbank call market.

- iii. Adjust the CRR for Merchant Banks from 10% to 14% to help moderate monetary demand.
- iv. Retain the CRR of Commercial Banks at 45% to moderate monetary demand by moderating the credit creating capacity of deposit money banks, and
 - a. Retain the LR at 30.0% to support the stability of the banking system.

6. LYDIA SHEHU JAFIYA

The March 2024 Monetary Policy Committee meeting held against the background of recovering global economic growth and slowly declining inflation. At 3.1 per cent in 2023, growth was higher than envisaged, considering the setbacks occasioned by geopolitical tensions, and the slowdown in the Chinese economy. Prospects of improvement in 2024 is, however, mixed. Tailwinds to growth include strong consumer spending in the United States, a rebound in the manufacturing sector as indicated by recent expansion in the Global Composite Purchasing Managers' Index, and indications that central banks may soon commence monetary policy easing. The positive sentiments are threatened by weak global demand for commodities, tight financing conditions, tensions in the Red Sea, and more recently, the Baltimore bridge collapse which could course a shut down to one of the United States largest ports.

The IMF in its January 2024 World Economic Outlook (WEO) forecasts global growth at 3.1 per cent and 3.2 per cent in 2024 and 2025, respectively. Growth in Advanced Economies is projected to moderate to 1.5 per cent in 2024 before rising to 1.8 per cent in 2025, while in Emerging Market and Developing Economies (EMDEs), growth is expected to remain at 4.1 per cent in 2024 and rise to 4.2 per cent in 2025.

Global inflation is declining, though remaining above central bank targets. The IMF-WEO update, January 2024, projects inflation to moderate to an annual average of 5.8 per cent in 2024, reflecting the impact of several months of monetary policy tightening across the globe, and declining energy and food prices. In 2025, global inflation is set to decline to 4.4 per cent.

Global trade growth is expected to rise to 3.3 per cent in 2024, from 0.4 per cent in 2023, and further to 3.8 per cent in 2025 (IMF, WEO January 2024). The outlook, is however, constrained by rise in protectionist measures, and regional crisis, particularly in the Red Sea.

Oil prices are likely to remain stable, as the risk of geopolitical actions and weak demand from China is offset by abundant production from both the US and OPEC.

Financial conditions remain tight on account of rising interest rates in the Advanced Economies which reflects the lagged effects of rate increases in 2023. This has resulted in continued capital outflows from EMDES as well as left lower income countries with high debt service burdens. Several Advanced

Economy central Banks have given guidance of likely interest rate cuts from the second quarter of 2024 as the deceleration in inflation progresses.

THE DOMESTIC ECONOMY

Real GDP (year-on-year) grew by 3.46 per cent in Q4 2023, driven by the non-oil sector which recorded a growth rate of 3.07 per cent, with a contribution of 2.93 per cent to overall GDP growth. The oil sector also experienced robust growth at 12.11 per cent, contributing 0.53 per cent to total GDP. Despite the sharp decline in the Composite Purchasing Managers' Index (PMI), which dropped to 39.2 index points from the previous month's 48.5 index points, the economy remains on track for a projected output growth of 3.2 per cent in Q1 2024, in view of the expected short-term impact of current monetary and fiscal policy reforms.

Comparatively, Ghana's growth increased by 3.8 per cent in Q4 2023 from 2.0 per cent in Q3 2023. Kenya's output growth expanded by 5.9 per cent in Q3 2023 and is forecast to moderate to 2.7 per cent in 2024. South Africa's economic growth improved by 1.2 per cent in Q4 2023 from a contraction of -0.7 per cent in Q3 and is estimated to grow at 1.0 per cent in 2024.

Headline inflation (year on year) rose to 31.70 per cent in February 2024, from 29.90 per cent in January 2024. Food inflation (year-on-year) rose to 37.92 per cent from 35.41 per cent in January 2024 on account of cost push factors and other structural rigidities, while core inflation (Headline less farm produce and energy) increased to 25.13 per cent, from 23.59 per cent in January 2023, due to exchange rate pass through, persisting high cost of inputs, and inflationary expectations.

Monetary developments showed that at end-February 2023, Broad Money Supply (M3) surpassed its 15.60 per cent benchmark for 2024. Over the preceding December, M3 expanded by 20.57 per cent at end-February 2024, while M2 and M1 grew by 19.20 per cent and 0.51 per cent, respectively.

On external sector developments, exchange rate volatility has stabilised on account of policy measures by the Central Bank of Nigeria (CBN) to address exchange rate pressures; as well as improved inflows from foreign portfolio investors. A higher capital inflow of US\$1.24 billion was recorded in February 2024, relative to US\$0.33 billion in January 2024, as money market instruments and other investments became attractive. As at March 19, 2024, the external reserves stood at US\$32.87 billion compared with US\$33.68 billion in the previous month due majorly to foreign exchange swap transactions offset in the review period. The level of reserves could finance 4.5 months of import of goods and services and 5.7 months of import of goods only.

According to the banking system stability report, the banking industry remains stable, as solvency and liquidity ratios were within the regulatory requirements.

CONSIDERATION FOR VOTING

At the February 2024 meeting, the Monetary Policy Committee took an unprecedented step by raising the MPR by 400 basis points, as well as tighten other policy parameters, in a bid to restrict the growth in money supply and tackle the persistent rise in inflation. Despite these policy actions, inflation outcome in February revealed strong persistence, on account of demand and supply side factors, as well as sustained inflationary expectations. Whilst monetary policy transmission comes with a lag, making it too early to assess the impact on inflation, of the policy measures taken in February, there is no doubting the fact that the risks to inflation remain skewed to the upside, strengthening the resolve to further tighten policy.

It is noteworthy, that the policy decisions of the previous meeting and other measures by the CBN to address foreign exchange volatility, have contributed to stabilise the foreign exchange market, and to narrow the negative real interest rates, leading to improvement in inflows, and expected near-term moderation in domestic prices.

Domestic economic growth though positive, remains fragile. This is corroborated by the 19.2 per cent decline in the Composite Purchasing Managers' Index (PMI) in February 2024, a key measure of the level of economic activity. Further policy tightening may weigh on the real sector by discouraging investments, particularly in agriculture and manufacturing which hitherto, were major drivers of growth and employment. Also, higher borrowing costs will raise government borrowing requirements and debt service costs, thereby widening the fiscal deficit.

To reduce public debt and deficit financing, the fiscal authority continues to deploy innovative technological solutions to improve non-oil collections and enhance measures to increase the rate of tax compliance, as well as increased collaboration with other stakeholders to broaden the tax bracket. The recent increase in the Federation Accounts Allocation Committee (FAAC) reflects a positive shift in the nation's revenue streams.

The government remains strongly committed to fighting insecurity to enable improved agricultural harvests in farming communities and crude oil production in the Niger Delta. Efforts are also being made to end the smuggling of food to neighboring countries in a bid to address food scarcity.

Overall, deciding on an optimal policy choice remains a delicate balance between output growth and low inflation. In the outlined circumstance, I

believe that the decisions taken at the February MPC are working their way through the economy and evidence at the next meeting would provide more insights for policy.

On this note, I voted for a hold on the Monetary Policy Rate at the current 22.75 per cent; an adjustment in the asymmetric corridor around the MPR by +100/-300 basis points; a retention of the Cash Reserve Ratio of Deposit Money Banks at 45.0 per cent; adjustment of the Cash Reserve Ratio of Merchant Banks from 10.0 per cent to 14.0 per cent; and maintenance of the Liquidity Ratio at 30.0 per cent.

7. LAMIDO ABUBAKAR YUGUDA

Global economic growth is forecast to hold steady at 3.1 percent in 2024, as in 2023, with a slight uptick in 2025. Global Inflation is anticipated to continue to decline, with advanced economies experiencing swifter disinflation compared to EMDEs. Domestically, Nigeria's GDP grew by 2.74 per cent in 2023, slower than in the preceding year. Headline inflation rose to 31.70 percent in February 2024, with food inflation at 37.92 percent and core inflation at 25.13 percent.

Global Economic Developments

In its January 2024 World Economic Outlook (WEO), the International Monetary Fund (IMF) projected global economic growth to remain steady at 3.1 percent in 2024, mirroring the 2023 figure, with a slight uptick to 3.2 percent in 2025. However, this projected growth rate remains below the historical average of 3.8 percent observed between 2000 and 2019, owing primarily to the tight monetary policy stance in major economies.

Inflation is declining more rapidly than initially anticipated, with decline in commodity prices and sustained restrictive monetary policy stance. The IMF forecasts global headline inflation to decrease to 5.8 percent in 2024, followed by a further decline to 4.4 percent in 2025. Advanced economies are anticipated to experience swifter disinflation, with inflation expected to decrease by 2.0 percentage points in 2024 to 2.6 percent, compared to a more modest decline of 0.3 percentage point to 8.1 percent in EMDEs.

In March 2024, crude oil prices rebounded, with the OPEC basket surpassing US\$82 per barrel and Nigeria's Bonny Light crude exceeding US\$85, driven by voluntary production cuts and tensions in the Middle East. OPEC projects a strong global oil demand, expecting a 2.25 million barrels per day increase in 2024 and an additional 1.85 million barrels per day in 2025. The OPEC daily basket price stood at US\$90.62 a barrel as at April 11, 2024.

Global equity markets have also continued to rally on the back of expected rate cuts and higher stock earnings. The rally was across board, except in China. The US dollar appreciated during the period

Domestic Economic Developments

Output growth at 3.46 per cent was strong in Q4 2023, driven mainly by the robust performance of the non-oil sector. Year-on-year GDP growth moderated from 3.10 percent in 2022 to 2.74 percent in 2023, as a result of sluggish growth in agriculture and services.

In February 2024, headline inflation rose to 31.70 percent, up by 1.80 percentage points from January 2024, Month-on-month inflation was 3.12 percent, a 0.48 percent increase from January 2024. Similarly, food inflation rose to 37.92 percent, while core inflation rose to 25.13 percent.

Gross Federation Account receipts at NGN 1,834.81 billion in February 2024 surpassed the level in January 2024 by 22.9 percent but fell short of the budget target by 4.0 percent. The relatively improved performance reflected significant increase in collections from companies' income tax (CIT) and FGN independent revenue. Oil receipts increased by 50.3 percent compared to the previous month's collections, but still fell short of the target by 73.0 percent.

In February 2024, the Federal Government of Nigeria (FGN) recorded a 33.0 percent increase in retained revenue compared to January, primarily due to higher receipts from independent sources. However, it fell short of the monthly target by 29.5 percent, indicating a significant revenue shortfall. As a result, relative to the budget target, revenue has been more constrained than expenditure, leading to a fiscal deficit that was 86.2 percent higher than the benchmark. The total public debt, at 39.1 percent of GDP, is only marginally below the 40.0 percent threshold set in the Medium-Term Debt Strategy 2020-2023.

Reserve money decreased by 14.17 percent, compared to the level at the end of December 2023. However, currency in circulation (CIC) increased by 1.10 percent by the end of February 2024, which slowed down the rate of contraction in the monetary base. Average banking system liquidity grew, compared to the previous month, primarily due to injections from FAAC disbursements, coupon payments for FGN bonds, CRR refunds, OMO maturities, and NTBs maturities.

Broad money supply increased by 20.57 per cent relative to December 2023 owing to a 26.08 percent increase in net domestic assets (NDA) attributed mostly to a rise in claims on the private sector.

The banking sector has remained safe and sound with the key indicators within the prudential benchmarks. The CAR was above the 10 per cent mark in February. Non-performing loans (NPLs) ratio at 4.5 percent was up marginally by 0.3 percentage point compared to January 2024 but remained below the prudential benchmark of 5.0 per cent. The Industry Liquidity Ratio (LR) was 42.7 percent, exceeding the minimum regulatory requirement of 30.0 per cent and was higher than the 42.1 percent recorded in the previous month.

The equities market was bearish in February 2024, owing in part to portfolio switching to fixed income investments following the tight policy stance. This resulted in a 1.2 percent decline in the All-Share Index (ASI) to 99,980.30 index points. Market capitalisation also declined by 1.2 per cent relative to January.

There was a surplus of US\$0.32billion in the overall balance of payments in 2023Q4, due mainly to third party receipts. However, the current account switched from surplus in 2023Q3 to a deficit of US\$3.48 billion. This was attributed to the deficit in goods, services and primary income accounts. The developments in the current account should be viewed as a wake-up call for continued diversification of the economy, especially, towards exports of non-oil commodities. As of March 8, 2024, the external reserves stood at US\$34.98 billion. This represents a cover equivalent to 6.8 months of import for goods and services, or 9.7 months of import for goods only, highlighting a robust buffer for the economy's external trade requirements.

Policy Decision

The key issues which confronted the MPC at this meeting remained the rapidly rising inflation and the undervaluation of the naira, both significantly aided by loose monetary conditions over an extended period. The sharp increase in broad money (M3) in February 2024 will no doubt exert significant pressure on aggregate prices and the naira exchange rate.

Headline and food inflation at 31.70 per cent and 37.92 per cent in February 2024, reflect accelerating inflation and require a robust policy response through more tightening and mopping-up of banking system liquidity.

My Vote

In consideration of the foregoing, I voted to:

1. Raise the MPR by 100 basis points to 23.75 per cent from 22.75 per cent.
2. Adjust the asymmetric corridor around the MPR to +100/-300 basis points.
3. Raise the CRR to 50.00 per cent from 45.00 per cent.
4. Adjust the CRR of merchant banks from 10.00 to 14.00 per cent.
5. Retain the liquidity ratio at 30.00 per cent.

8. MUHAMMAD SANI ABDULLAHI

My Vote

In considering voting for a further hike in the Monetary Policy Rate (MPR), I am encouraged by the need to sustain the current momentum to curtail the possible ascent to higher inflation and its insidious form. This decision remains consequential as we cannot afford the luxury of taking our foot off the pedal at this time as the credibility of monetary policy and the integrity of the Monetary Policy Committee (MPC) would be impugned if we do not turn the curve and achieve our headline inflation target. In the prevailing circumstance, I am convinced that a further hike in MPR at this meeting will be consistent with my stance at the February 2024 meeting of the Committee. Consequently, I voted to:

- 1) Increase the MPR by 150 basis points to 24.25 per cent.
- 2) Adjust the asymmetric corridor to +100/-300 from +100/-700 basis points around the MPR.
- 3) Retain the CRR at 45 per cent.
- 4) Adjust the CRR for Merchant Banks to 14.00 per cent from 10.00 per cent; and
- 5) Retain the Liquidity Ratio at 30.00 per cent.

My Considerations

At the February 2024 meeting of the MPC, I expressed deep concerns about the prevailing inflationary pressures and our resolve to urgently address it. This urgency has not waned as empirical evidence suggests that we haven't reached the turning point. The February 2024 headline inflation figure of 31.70 per cent further substantiates this standpoint. The data shows that the February headline inflation figure reduced the gains in real interest rate by 180 basis points. This is still high and signals that inflation has not yet been defeated. Also, consumers expectations of inflation over the next three months remain high. At that meeting, while the alternative of a gradual rate hike was canvassed as a cautious approach to achieving our objective, I voted for a significant rate hike in consideration of the need to shorten the recovery period to low and stable inflation as well as close the wide gap between the policy and inflation rate.

We have a responsibility to steer inflation towards our desired target of low and stable inflation, and to continue to convey the message that we are willing and determined to pursue this objective. It would be considered a loss if inflationary pressure persists leading to continued rate hikes. That means that monetary policy must change course, with the CBN keeping the policy rate high to attract the much-needed inflows that would support foreign exchange market liquidity and dampen exchange rate pass-through.

From available data, prices of domestic food items remain the major driver of headline inflation because of supply shortages and high cost of logistics and distribution. While this cannot be directly influenced using monetary policy tools, the Bank's response to the drivers of headline inflation is targeted at addressing identified monetary drivers such as money supply growth, exchange rate depreciation and Currency-Outside-Banks, the combined impact of which will dampen inflationary pressure significantly. We must, however, also strengthen the conversation with the fiscal authority around combating food inflation, addressing food security and the entire food production ecosystem. Growing the food economy will complement our monetary policy actions as well as lead to job and wealth creation and push the Nigerian economy to full recovery. To this end, I must applaud the efforts of the Federal Government in boosting food production and supply through deliberate and targeted interventions in the entire agricultural value chain.

The fiscal deficit expanded by 33.70 per cent and 86.20 per cent in February 2024 compared with the preceding month and target, respectively. The tax-to-GDP ratio remains one of the lowest in the sub-region and could compromise long-term fiscal sustainability, if not enhanced. Notwithstanding the constrained fiscal space, the fiscal performance and overall outlook appears positive with improved overall fiscal operations and crude oil production.

As we review the impact of our decisions at the last MPC, it is incumbent that we acknowledge the deserved respite and how it has improved foreign portfolio inflows and stemmed volatility in the foreign exchange market with greater potential for price discovery. As a forward-looking MPC, we will remain resolute and committed to the inflation cause and will continue to deploy our suite of policy tools to address developments in the domestic price level. We would consolidate the process for the adoption of inflation targeting as a strategic approach to addressing inflation concerns. This is in addition to enhancing the Bank's existing framework for monetary policy communication to anchor expectations and ensure that monetary policy delivers on its mandate of price stability conducive for growing the economy and shaping economic outcomes for businesses, consumers and the government.

Global and Domestic Developments

The global economy remains confronted with lingering downside risks despite the International Monetary Fund (IMF) maintaining its global output projection at 3.1 per cent in 2024 and 3.2 per cent in 2025. This is due to stronger than expected resilience in the advanced, emerging market, and developing

economies. Globally, monetary, and fiscal policy continue to support the recovery, and create jobs required to push the global economy to full recovery. Global commodity prices are forecast to sustain their downwards trend even though at a slower pace. The deceleration in global inflation is thus, projected to continue at a faster pace in 2024, anchored on the sustained decline in commodity prices. Global inflation is projected to decline to 5.8 and 4.4 per cent in 2024 and 2025, respectively, from 6.8 per cent in 2023.

Nigeria's Gross domestic product (GDP) expanded by 3.46 per cent (year-on-year) in Q4 2023 compared with 2.54 per cent in Q3 2023, indicating twelve (12) consecutive quarters of GDP growth. The improved performance in Q4 2023 was driven majorly by the services sector which recorded a growth of 3.98 per cent and contributed 56.55 per cent to aggregate GDP. On an annual basis, GDP grew by 2.74 per cent in 2023 relative to 3.10 per cent in 2022. The composite Purchasing Managers Index (PMI), however, remained below the threshold at 48.50 index points in January 2024 compared with 49.10 index points in December 2023.

Headline Inflation reached 31.70 per cent in February 2024, from 29.9 per cent in January, the 13th consecutive month of increase. While the rise was driven mainly by food inflation which rose to 35.41 per cent in January 2024 from 33.93 per cent in December 2023, both food and core components have consistently risen over the past four (4) months. The recent re-opening of the border with Niger may, however, improve food supply and dampen food prices in the near-to-medium term.

The broad money supply (M3) rose by 20.57 per cent in February 2024 compared with the preceding December, rising to ₦93.72 trillion at end-February. The growth in broad money was driven by an increase in both Net Domestic Assets (NDA) and Net Foreign Assets (NFA).

The performance of the external sector remained subdued by global economic uncertainties amid tight financial conditions. The current account posted a deficit of US\$3.48 billion or 4.3 per cent of GDP in Q4 2023, against a surplus of US\$1.55 billion (1.9% of GDP) in the preceding quarter, due, mainly, to higher import bills for goods and services, as well as higher claims of dividends by non-resident investors. Notwithstanding, the overall balance of payments recorded a surplus position of US\$0.32 billion in Q4 2023, against a deficit of US\$0.69 billion in Q3 2023.

The Bank has remained focused on ensuring that the Banking system remains stable due to its key role, not only in the transmission mechanism of monetary

policy, but also in the overall stability of the macroeconomy. Thus, using extant regulatory and macroprudential measures, the Bank has continued to ensure that the Nigerian banking sector remains safe, sound, and resilient. Given the challenges of the operating environment, strengthening the Bank's surveillance and risk management framework, and plans to recapitalize deposit money banks to support the FGN's one-trillion-dollar economy agenda by 2030, remain key to sustaining banking system stability.

9. MURTALA SABO SAGAGI

Context

The persistent rise in inflation rate, which was recently turbocharged by the currency depreciation, remains Nigeria's critical concern. The reasons for the high inflation and currency volatility are not farfetched. The structure of the Nigerian economy remains undiversified with crude oil representing 81.23% of export earnings even though it contributes only 5.40% of the GDP (NBS, 2023). The limited competitiveness of the non-oil sector due to years of neglect and high cost of doing business engenders exclusive growth and inadequate foreign reserve.

The capacity of the economy to achieve inclusive growth and macroeconomic stability is also constrained by the widespread informality in the operations of a large percentage of Micro, Small and Medium Enterprises (MSMES). The informal sector of the economy provides 92.3% of total employment and over 40% of output (NBS, 2023; PwC, 2022). It is, therefore, not surprising that Nigeria's Tax-to-GDP ratio, which is about 10.6%, is below the African average of 15.6% (FIRS, 2021; OECD, 2023). The low incentive for businesses to formalize, grow, make profit and pay taxes has been worsened by limited access to credit, government procurement, technical and logistic support.

In the formal sector, manufacturers grapple with low productivity and profit due to the high cost of energy which is estimated at N458.12 billion annually. In contrast, the services sector, especially the financial and ICT sub-sectors, continue to flourish and experience modest growth. The challenge is that the skewedness of economic activities and the over-concentration of credit to few large scale obligors, especially, in the oil and gas sub-sector, is unhealthy to medium and long term macro-economic stability of the country.

The above notwithstanding, stabilizing exchange rate, which tends to worsen inflation at the moment, is essential to permit the difficult task of rejuvenating economic activities. Therefore, the tightening stance of the Bank needs to be complimented with innovative fiscal interventions to achieve enduring macro-economic stability.

Global, Regional and Domestic Developments

In 2024, the prospect for steady global economic recovery is discernable. Global GDP is expected to be 3.1%, unchanged from 2023. Interestingly, global trade is expected to rise from 0.4% in 2023 to 3.3% in 2024. Also, global inflation is expected to slow down from 6.6% in 2023 to 5.8% in 2024. The anticipated reduction in global commodity prices by 4.0% is associated with the reduction in global inflation. Similarly, the normalization of cross border

trade among the Economic Community of West African States (ECOWAS) is likely to increase movement of food and livestock among member states.

On the whole, the expected modest recovery in global economic activities, reduction in global commodities prices and inflation as well as the normalization of cross border trade in ECOWAS are indications of positive domestic outlook for Nigeria where output is expected to increase from 3.20% in Q1 2024 to 3.22% in Q2 2024. This outlook is even more promising when inflation is tamed and if global conflicts do not escalate further and impact the supply chains.

Overtime, the Nigerian approach to achieving price stability has been largely ineffective. Headline inflation rose from 29.70% in January to 31.70% in February 2024 with rising food prices worsening inflation in the country. This is reflected in food inflation, which increased from 35.41% in January to 37.92% in February in 2024. The recent wave of escalating food prices is not unconnected to the delay in the implementation of the Federal Government's National Agricultural Technology and Innovation Policy (NATIP), 2022-2027. Also, the persistent increase in the cost of energy, in particular, the recent hike in electricity tariff, could further spike inflation during the difficult adjustment period. Therefore, inflation in Nigeria, which is mainly cost-push, should be approached holistically.

Taming Inflation

In a bold move to tame inflation, the 293rd meeting of the MPC voted in favour of an MPR hike by 400bps from 18.75% to 22.75% from 18.75%. The immediate outcome of this decision was the appreciation of the by about 25%. The confidence in the naira and the outlook for the foreign reserves are projected to improve through 2024 due to fresh inflows of portfolio investments and remittances as well as steady increase in oil revenues. Nigeria's external reserves, which stood at US\$ 34.98 billion as of March 8, 2024 is estimated to reach about US\$35.06 billion by end-April 2024. However, attracting portfolio investment, which is short term and rather costly, and the dominance of petrodollars as the main source of foreign exchange are potential risk factors that should not be overlooked.

It is worth noting that several Emerging Markets and Developing Economies such as Nigeria, Egypt, and Ghana have grappled with severe financial crisis. Various response approaches were pursued by the three countries to exit the crisis and restore stability and confidence. In the case of Ghana, its Central Bank's inflation targeting framework was complimented with efforts by the Ghanaian fiscal authority in 2023 and 2024 to prioritize fiscal consolidation, sound public financial management, domestic resource mobilization, and private sector development. In Egypt, the Central Bank hiked its policy

benchmark rate by 600 basis points in February 2024 and devaluated the currency. Simultaneously, a significant investment deal of \$35 billion from the UAE was finalized. It is expected that, in the medium term, the associated chains of investments and financing in different sectors of the Egyptian economy will reach about \$200 billion. The synergy exhibited by the monetary and fiscal authorities in Ghana and Egypt further demonstrated renewed efforts by several central banks around the world to achieve macro-economic stability.

In Nigeria, the Central Bank recently responded to the crisis by further tightening. This coupled with efforts to reduce liquidity and discourage crypto speculations have seen the naira gradually regaining strength. In spite of this, inflation has not slowed down possibly due to the associated policy transmission time lag, rising food prices and the fact that it is difficult to gauge the correlation between money supply and prices in Nigeria. This is in addition to the erstwhile limited synergy, which is however gradually improving, between the monetary and fiscal institutions to pursue comprehensive macroeconomic policies.

Decision Parameters

On the basis of the forgoing context, it is acknowledged that:

- i. Exchange rate fluctuation, as an important driver of inflation, has not been effectively stabilized.
- ii. There is a risk of policy missteps if the policy pass-through is not properly monitored and evaluated.
- iii. In Africa, Egypt is gaining momentum as a desirable location for foreign capital inflows, suggesting that Nigeria must demonstrate a measure of policy consistency in inflation targeting and foreign exchange stability to sustain the capital inflows it really needs.

My Vote

I voted to maintain the current tightening approach as follows:

- Raise the Monetary Policy Rate (MPR) by 100 basis points.
- Adjust the Asymmetric Corridor around the MPR to +100/-300 basis points.
- Retain the Cash Reserve Ratio of Deposit Money Banks at 45.0 per cent.
- Adjust the Cash Reserve Ratio of Merchant Banks from 10.0 per cent to 14.0 per cent.
- Retain the Liquidity Ratio at 30.0 per cent.

Recommendations

- Research: The Bank should critically examine the underlying shocks to help understand the transmission of exchange rate movements to inflation.
- Debt Management Strategy: With increasing debt stock and debt services obligations (Debt Service-to-Revenue ratio reaching 179.0%, is way above the international benchmark of 50.0%, with the risk of further exposure to international indebtedness. The Bank and fiscal authority should therefore formulate effective debt management and possible debt exit strategies.
- Competitiveness: To augment the current portfolio capital inflows, the Bank should be deliberate in partnering with the relevant arms of the fiscal policy authority, especially state governments, to attract the much needed investments/financing, in the form of Foreign Direct Investment, Impact Investments, Public Private Partnership, SUKUK etc., into agriculture, MSMEs, mining and infrastructure.
- Wealth Creation: Instead of palliative measures, MSME Development interventions and their formalization should be prioritized to generate economic growth, jobs and tax revenues.

10. MUSTAPHA AKINKUNMI

Context

Since Monetary Policy has a lagged effect on inflation and Nigeria's inflation rate is too high, I recommend continued tightening of monetary policy for as much and as long as would be necessary. I also advocate raising the policy rate until there is a substantial decrease in the underlying trend of month-on-month inflation. Considering the delayed impact of monetary tightening on inflation, I recommend that we achieve the necessary level of monetary tightness to set a course for disinflation and maintain it for as long as necessary. Therefore, it is essential to address these elevated inflation rates without compromise. There may be some cost in the short run, but over the long run tighter monetary policy should also significantly improve the purchasing power of ordinary Nigerians.

While higher interest rates may slow growth in the short run, they will also bolster confidence among foreign investors by providing positive real investment returns. Tighter monetary policy should also limit domestic price increases due to exchange rate pass-through especially in food and the retail energy sector. Hence, I support my colleague's proposal to raise the Monetary Policy Rate (MPR).

The Global Economy

Projected global economic growth is poised to reach 3.1 per cent in 2024 and 3.2 per cent in 2025, propelled by advancements in monetary policy tightening. However, this tightening may precipitate tight financial conditions, potentially impeding investment and diminishing productivity, thus leading to a decline in employment. Anticipated growth in advanced economies is slated to hit 1.5 per cent in 2024, with a subsequent rise to 1.8 per cent in 2025, buoyed by robust economic expansion in the United States. Conversely, growth in the Emerging Markets and Developing Economies (EMDEs) is projected to reach 4.1 per cent and 4.2 per cent in 2024 and 2025, respectively, approximately three times higher than that of the Advanced Economies.

In Q4 2023, the US economy decelerated to 3.4 per cent from 4.9 per cent in Q3 2023, mainly due to a slowdown in consumer spending and residential investment. However, IMF projections indicate that the US economy is expected to grow by 2.1 per cent and 1.7 per cent in 2024 and 2025, respectively.

Conversely, the European economy remained stagnant at 0.0 per cent in Q4 2023, following a contraction of the German economy which offset growth in Italy and Spain. This performance was attributed to persistent rises in

borrowing costs, weak external demand, and high inflationary pressure. The UK economy further contracted by 0.3 per cent in Q4 2023 from 0.1 per cent in Q3 2023, mainly due to a decline in the service sector. However, Japan saw a modest economic expansion of 0.1 per cent in Q4 2023, contrasting with a contraction of 0.8 per cent in Q3 2023, driven by growth in capital expenditure.

In the EMDEs, China's economy expanded to 5.2% in Q4 2023 from 4.9 per cent in Q3 2023, driven by increased industrial production and retail sales. Similarly, India's economy grew to 8.4 per cent in Q4 2023 from 8.1 per cent in Q3 2023, attributed to expansion in the manufacturing sector, particularly real estate and construction. The Brazilian economy remained unchanged at 0.0 per cent in Q3 2023 and Q4 2023. Despite ongoing conflicts, Russia's economy expanded by 5.5 per cent (year-on-year) in Q3 2023 compared to 4.9 per cent in Q2 2023.

In sub-Saharan Africa, Ghana recorded a growth rate of 3.8 per cent in Q4 2023 compared to 2.0 per cent in Q3 2023. South Africa's economy transitioned from a contraction of 0.2 per cent in Q3 2023 to an expansion of 0.1 per cent in Q4 2023, attributed to growth in transport, manufacturing, and mining sectors. Kenya expanded its economy by 5.9 per cent in Q3 2023 compared to 5.5 per cent in Q2 2023, due to favourable weather conditions boosting agricultural outputs, complemented by growth in manufacturing and service sectors.

In the Middle East and Central Asia, Saudi Arabia remained in an economic recession, with its contraction increasing to 0.4 per cent in Q4 2023 from 3.2 per cent in Q3 2023, primarily due to a substantial decline in the oil sector. Similarly, Egypt's year-on-year economic growth dropped to 2.7 per cent in Q3 2023 from 2.9 per cent in Q2 2023, mainly attributed to weaknesses in trade, agriculture, and communication sectors.

Brazil's economy is expected to grow by 1.7 per cent in 2024 and 1.9 per cent in 2025, while Russia is anticipated to grow by 2.6 per cent and 1.1 per cent in 2024 and 2025, respectively. Ghana's economy is forecasted to grow by 2.8 percent in 2024 and 4.4 per cent in 2025, with South Africa expected to grow by 1.0 per cent in 2024 and 1.3 per cent in 2025. Kenya's projected growth would be 5.0 per cent in 2024 and rise to 5.3 per cent in 2025. Saudi Arabia is expected to grow by 2.7 per cent in 2024 and considerably by 5.5 per cent in 2025, while Egypt's economy is forecasted to grow by 3.0 per cent and 4.7 per cent in 2024 and 2025, respectively.

Global inflation is expected to decrease as the world continues to see a decline in global commodity prices under a tight monetary policy environment. IMF projections indicate 5.8 per cent and 4.4 per cent in 2024

and 2025, respectively, compared to 6.8 per cent in 2023. Inflation in advanced economies is expected to move towards central banks' targets, with a forecast of 2.6 per cent in 2024, compared to 4.6 per cent in 2023 and 7.6 per cent in 2022. EMDEs inflation is also expected to drop to 8.1 per cent in 2024, compared to 8.4 per cent and 9.8 per cent in 2023 and 2022, respectively. However, this expected inflation is exposed to risks such as climatic conditions, supply chain disruptions linked to conflicts in Ukraine and Gaza, and ongoing US-China geopolitical tensions.

In February 2024, US inflation slightly rose to 3.2 per cent from 3.1 per cent in January 2024, driven by increases in the cost of energy, housing, and medical care. Eurozone headline inflation dropped to 2.6 per cent in February 2024 from 2.8 per cent in January 2024, primarily due to moderation in the cost of services, food, alcohol & tobacco, and non-energy industrial goods. Japan's inflation reduced to 2.2 per cent in January 2024 from 2.6 per cent in December 2023, driven by decreases in the cost of food, healthcare, culture & recreation, communication, and energy, among others. UK headline inflation decreased to 3.4 per cent in February 2024 from 4.0 per cent in January 2024, attributed to declines in the cost of household goods, electricity, and transport.

Global commodity prices are expected to continue falling at a slower pace in 2024. Energy prices are projected to drop by approximately 5.0 per cent in 2024 and then remain stable in 2025. The World Bank projects price falls for agricultural commodities and metal in 2024, but metal prices are expected to rebound by 6.0 per cent in 2025 due to supply disruptions from ongoing geopolitical tensions and attacks in the Red Sea. Global crude oil prices are forecasted to decrease by about 2.3 per cent and 2.4 per cent in 2024 and 2025, respectively, compared to a 16.0 per cent fall in 2023. The IMF attributes the projected oil price fall to a weak growth outlook, ongoing geopolitical conflicts, rising crude oil production by non-OPEC members, among other factors. However, global commodity prices become riskier amid climate and geopolitical shocks, such as the escalation of the Russia-Ukraine war and persistent geopolitical tensions, which could disrupt both supply and prices, posing a dual shock to global commodity markets and the global economy.

Monetary policy instruments remained largely unchanged, especially in developed economies and India. For instance, the US Federal Reserve Bank retained its rate range of 5.25 – 5.50 per cent at its January 2024 meeting, the Bank of England at its January meeting, and the European Central Bank (ECB) at its March 2024 meeting retained their policy rates of 5.25 percent and 4.50 per cent, respectively. However, the Bank of Japan increased its short-term policy rate to between zero and 0.1 percent in March 2024, from between -0.1 per cent and zero, marking the first interest rate hike since 2007.

Similar moves to retain policy rates were observed in EMDEs in their most recent monetary policy meetings. Russia and India kept their policy rates at 16.00 and 6.50 per cent, respectively. China retained its policy rate at 3.45 per cent. However, Brazil and Kenya reduced their policy rates by 50 basis points to 10.75 per cent and 13.0 per cent, respectively, while Egypt raised its rate by 600 basis points to 27.25 per cent on March 6th, 2024.

Domestic Context

The persistent rise in inflation poses a significant threat to Nigeria's economic growth trajectory. Headline inflation in the country surged to 31.7 percent in February 2024, up from 29.9 per cent in January 2024, attributed to exchange rate pass-through to inflation and deficit in food supply. Food production is failing to keep pace with the rate population growth.

Of particular concern, year-on-year food inflation, which constitutes a significant portion of the inflation basket, increased to 37.9 per cent in February 2024 from 35.4 per cent in January 2024. This surge is mainly driven by elevated prices of essential food items like maize, meat, fish, eggs, yams, fruits, and vegetables. Month-on-month inflation also rose to about 3.8 per cent in February 2024 from 3.2 per cent in January 2024, primarily due to increased transportation costs and security challenges. Additionally, month-on-month core inflation decreased to 2.17 per cent from 2.24 per cent in January 2024, but its year-on-year figure increased to 25.13 per cent in February 2024 compared to 23.59 per cent in January 2024, largely due to exchange rate pass-through, persistently high input costs, and expectations of further increases.

Moreover, Nigeria's reserve money declined by 24.91 per cent to approximately N22.2 trillion by the end of February 2024, while broad money (M3) supply increased to N93.7 trillion, exacerbating inflationary pressures within the country. Additionally, Nigeria's external reserves decreased to US\$32.87 billion as of March 19, 2024, from US\$33.68 billion in February 2024. Although the current reserves could cover imports for 5.7 months of goods only and 4.5 months of goods and services, the country's ability to repay short-term debts using reserves stood at 104.0 per cent against the threshold of 100.0 per cent. Nevertheless, the reserves-to-broad money ratio of 33.1 per cent surpasses the 20.0 per cent threshold, bolstering the country's capacity to manage capital flows.

In terms of the balance of payments, Nigeria achieved an overall surplus of US\$0.32 billion in Q4 2023, compared to a deficit of US\$0.69 billion in Q3 2023, primarily due to the accumulation of external reserves from third-party receipts. However, the current account recorded a deficit of US\$3.48 billion, against a surplus of US\$1.55 billion in Q3 2023, driven by higher import bills for

goods and services as well as increased dividends claimed by non-resident investors. Furthermore, the increased influx of diaspora remittances resulted in a surplus of US\$5.74 billion in secondary income in Q4 2023, compared to US\$5.30 billion in Q3 2023.

Decision

Given the critical importance of managing inflation among macroeconomic variables, I express my endorsement for raising all parameters. This endorsement aligns with my firm dedication to maintaining price stability. I voted increasing the Monetary Policy Rate (MPR) by 200 basis points to alleviate inflationary pressures and enhance our yields to attract Foreign Portfolio Investment (FPI). Furthermore, to tackle excessive liquidity within the banking system, I propose raising the Cash Reserve Ratio (CRR) to 50 per cent. Similarly, I recommend enhancing the effectiveness of the Asymmetric Corridor by adjusting the floor to -300 basis points and the ceiling to +100 basis points. However, I concur with my colleagues in maintaining liquidity at 30 per cent.

11. PHILIP IKEAZOR

Given the persistent inflationary pressures, improvements in the foreign exchange market, and moderation in the economy-wide liquidity surfeit, my stance aligns with measures aimed at continuing to steer the economy towards price stability to achieve long-term sustainable economic growth.

I therefore voted as follows:

1. **Monetary Policy Rate (MPR):** To increase the MPR by 150-basis points, to elevate it to 24.25 from 22.75 per cent. This adjustment sought to further address inflationary pressures and foster investment incentives.
2. **Asymmetric Corridor:** To adjust the asymmetric corridor around the MPR to +100/-300 from +100/-700 basis points. This is to improve the effectiveness of the operational target and enhance policy transmission.
3. **Cash Reserve Ratio (CRR):** To retain the Cash Reserve Ratio of Commercial Banks at 45.00 per cent and raise the Cash Reserve Ratio of Merchant Banks to 14.00 per cent from 10 per cent, aligning it with evolving market realities and prudential considerations.
 - i. Retain the Liquidity Ratio at 30 per cent.

Developments in the Global and Domestic Economy

The global macroeconomic outlook for 2024 remained largely consistent with earlier projections, with notable resilience for 2025. This is contingent upon anticipated stronger growth in advanced, emerging, and developing economies, alongside potential fiscal expansions. However, despite expectations for a decline in inflation, factors such as tightened global financial conditions, low productivity, and reduced fiscal support in the face of high debt burdens are anticipated to subdue growth in 2024.

The International Monetary Fund projected that growth in the Advanced Economies will moderate to 1.5 per cent in 2024 before rising to 1.8 per cent in 2025, reflecting stronger growth in the US, while the emerging market and developing economies will grow by 4.2 per cent in 2025. This is marginally higher than the projected growth of 4.1 per cent for 2024 partly due to the expected rise in net-capital flows and loosening financial conditions that improved macroeconomic conditions since the end of 2023.

However, uncertainties persist, and the anticipated improvement in the global macroeconomy is approached with cautious optimism. The previously overlooked impact of the Red Sea attack on commodity prices could pose a significant disruption in commodity markets, leading to a contraction in real trade and exacerbating inflationary pressures, particularly for Africa's trade.

Despite inflation decelerating in most economies and expectations for significant rate cuts in 2024, China and Japan remain exceptions in the global tightening cycle. Japan raised interest rates for the first time in 17 years to address the long-term effects of prolonged negative rates, while China tightened regulations on consumer finance companies. Additionally, uncertainty surrounding the US election could escalate trade tensions between the US and China, with potential implications for global markets.

As consumers and businesses grapple with lingering inflationary pressures and high interest rates, the subdued global economic activity, and the anticipated mild rollback of previous rate hikes by major economies, could translate into weak global demand.

In the domestic economy, inflation has persisted in its upward trajectory with headline inflation rising to 31.72 per cent in February from 29.90 per cent in January, driven by food and imported food inflation. Imported food inflation rose to 23.0 per cent in February up from 20.8 per cent in January. In terms of real output, the CBN and IMF average estimate projected that real output would grow by 3.29 per cent in 2024.

The fiscal space continues to shrink with low tax-to-GDP ratio and high debt obligations. The tax-to-GDP ratio at end-2023 was 10.6 per cent which is lower than the global average of 14.0 per cent and the WAMZ benchmark of 20.0 per cent, while the public and domestic debt-to-GDP ratios stood at 41.5 and 25.2 per cent in Q4-2023. In addition, domestic crude oil production fell in February 2024 by 7.7 per cent, while the value of exports rose to ₦12.69 Trillion in Q4-2023, an increase of 22.68 per cent compared to Q3-2023. Nonetheless, the negative trade balance of N1.4 trillion will likely impart pressure on the maintenance of both internal and external balance.

The banking sector has remained resilient as most financial soundness indicators were within their regulatory thresholds. Despite this, the moderate increase in NPLs and the slight decline in CAR reinforces the importance of recapitalizing the banking system.

Credit to individuals and households declined significantly by 11.1 percentage points, down from 11.82 per cent at end-January to 0.71 at end-February 2024. The decline in consumer credit is due to the tightening stance of the Bank to curb inflation.

My Considerations

In the February MPC meeting, I noted the importance of distilling the drivers of price i.e., inflation, exchange rate, and interest rate, before deciding on the appropriate instruments and in what proportions to adjust the instruments to address the current inflationary and exchange rate pressures. Accordingly, statistics and contextual analysis identified two related pass-throughs as key drivers of headline inflation: imported food and the psychology of seller's inflation. The seller's inflation pass-through, reflects the use of the exchange rate at the time of purchase of current stock of inventory as a guide to markup for domestic market prices, despite a real-time appreciation in the exchange rate. This psychology further extends to the price of commodities which are foreign exchange-neutral or not affected by the dynamics in the exchange rate.

To this end, I am inclined to support an increase in the policy rate this time, partly to attract the projected capital inflow of the \$200.0 billion in emerging markets to Nigeria while being mindful of the crowding out effect of the foreign portfolio inflow on domestic investors and its associated volatility. In addition, the asymmetric corridor in its present form is distortionary and does not anchor the interbank market thereby necessitating contractions of the corridor to make it more responsive. However, the tweaking of the corridor, especially its ceiling (upper bound), should be modest to allow banks the flexibility to meet their overnight reserve targets without creating an oligopolistic market that allows the bigger banks to control the market.

Whereas the settlement of the backlog of valid FX transactions and clearing of \$7.0 billion in claims has helped stabilize the market and improved transparency in the operations, projections show that market volatility may persist in the short term. The combined effects of the policy rate and the adjustment of the asymmetric corridor (through the operating target) are meant to moderate volatility and address the inflationary pressure through the exchange rate channel. Given the estimated 62.0 per cent association between the overnight interest rate and the exchange rate, the contractionary effect of the policy rate and the corridor will simultaneously increase liquidity in the foreign exchange market and moderate liquidity in the money market.

Consequently, the envisaged naira appreciation from the contractionary stance will increase the value of net foreign assets with a corresponding decrease in reserve money due to the FX effect on the revaluation of foreign liabilities and the consequent decline in risk premium.

Encouraged by the continued moderation in the growth of reserve money which fell by 24.91 per cent at end-February 2024, coupled with the reduction in the growth of currency outside depository corporations, retention of the CRR will allow the effects of the previous adjustment of the CRR, to fully permeate the economy.

The imbalance between the exposure of the oil and manufacturing sectors and their poor contribution to growth is worrisome, even as non-performing loans (NPLs) continues to rise. Considering their vulnerability to rate hikes, consecutive aggressive tightening will further depress the economy. The pressure point is already manifesting as indicated in the projected contraction of PMI in the industrial sector by 7.1 index points occasioned by rising input cost and low-capacity utilization.

Overall, as the various economic reforms implemented by the Federal Government of Nigeria continues to yield results, economic growth will be sustained in 2024 and boosted in 2025. Further harmony of fiscal and monetary policies is thus, imperative to achieve a non-inflationary growth and stable macroeconomic environment.

12. OLAYEMI CARDOSO

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

Our first Monetary Policy Committee (MPC) meeting held on February 26th and 27th 2024, was one month ago with a deliberate short date in the following month to enable us to review the impact of the initial 400 basis point hike in the policy rate. Despite notable stability in the foreign exchange market resulting from decisions taken at that 293rd MPC meeting, inflationary pressure remains unabated. While there is the argument that the significant tightening since the last MPC meeting is yet to fully permeate the system and yield its expected impact, the risk of galloping inflation persists. If such a hyperinflationary scenario is to become reality, available options to control inflation could be severely constrained. From facts presented to the MPC, there is clear indication that the monetary factors contributing to inflation are diminishing in their significance. This could be considered as evidence of the impact of decisions reached at the 293rd MPC meeting. Staff reports show that the principal drivers of acceleration in inflation are hikes in food and energy prices which are associated with structural factors. Further, new dimensions to inflationary pressure are emerging. First, 'seller inflation' arising from the oligopolistic structure of commodity markets such as noticed in the prices of local commodities is gaining significance. In addition, huge purchases by the government for distribution as palliatives to vulnerable citizenry is adding another dimension to the food price inflation, with seasonal factors of food price increases during religious fasting and festive periods, adding price cyclicalities. Some of these new sources of inflation are better addressed by the fiscal authorities to complement the efforts of monetary policy in achieving all round price stability.

Having identified these non-monetary components of the current inflationary pressure, the major concern of the MPC at the March 2024 meeting was to ensure that the negative real interest rate is reduced to attract capital flows to improve liquidity in the foreign exchange market and stabilize the exchange rate. In the short term, attracting capital flows via foreign portfolio investments and moderating the exchange rate pressure is a proper course of action, bearing in mind the impact of exchange rate pass-through on inflation in an import-dependent economy like Nigeria.

Moderate growth rate in the global economy supports improvement in the outlook for commodity prices. The possibility of improved oil output and rising oil prices in the international market would create more fiscal space for the Federal Government to implement impactful infrastructure projects and rebuild external reserves, which is crucial to stimulating investor and consumer

confidence in the economy. On the downside, however, the high debt and high interest rate levels remain major concerns for domestic monetary policy. While the high yield in advanced economies presents a challenge to capital flows to emerging markets and developing economies (EMDEs), the continued disinflation in these economies presents an opportunity for EMDEs to address underlying structural challenges, preparatory to attracting new capital inflows as advanced economy policy rates begin to ease. In addition, the current tight financial conditions in the advanced economies, imply that EMDEs must also maintain tighter financial conditions to compete and attract capital flows. The argument for further monetary tightening is therefore compelling.

On the domestic front, the low Purchasing Managers Index (PMI) is indicative, in part, of diminished access to credit by critical sectors. Consequently, there is need to unlock the flow of credit, especially to agriculture, small and medium enterprises (SMEs) and manufacturing, as these sectors are key drivers of domestic output growth. Further, we are aware of the potential risk of economic recession and the challenge it poses to tax revenue generation from the non-oil sector and hence broad fiscal operations.

While the short-term trade-off between inflation and output growth is well acknowledged in economic literature, in the long term, this trade-off tends to dissipate. In developing countries such as ours, with prevailing high poverty and unemployment rates the popular dictum among policymakers is to give greater weight to economic growth. In keeping with this, it could be recalled that at the inception of this administration, low interest rates were identified as essential in channeling credit to the real economy. However, there is consensus among monetary and fiscal authorities that containing inflationary pressure through policy action that sacrifices output growth in the short term is a necessary course of action. The emphasis should therefore be on ensuring that this period of pain is as short as possible. Considering the reduction in flows to EMDEs, our target should be to act swiftly and take advantage of the window available to attract capital flows to the economy as soon as possible. In the short term, we must do all that is necessary to attract inflows to ensure the FX market remains liquid at a level that stabilizes the exchange rate. Failure to tame inflationary pressure using the exchange rate channel may jeopardize not only price stability, but also long-term growth.

In the prevailing circumstances, it is my view that the argument for a further hike in Monetary Policy Rate (MPR) to complement the rate hike at the last MPC meeting is valid. This increase in the MPR will help curb inflationary pressure and reduce the negative real policy rate. Most importantly it will further strengthen the anti-inflationary signal of the Central Bank of Nigeria (CBN) as we transition to an inflation targeting regime. This, however, is

predicated on the assumption that sustained fiscal and monetary policy coordination will result in policies that address the multitude of structural factors required for long-term investment and economic growth in Nigeria. Without addressing the structural issues in agriculture, electricity, and energy sectors we may continue to see persistent increases in food inflation.

For these reasons, I align with other members of the MPC in voting for further tightening of monetary policy stance. My vote is to:

1. Increase MPR by 200 basis points from 22.75 per cent to 24.75 per cent.
2. Adjust the asymmetric corridor from +100/-700 to +100/-300 around the MPR.
3. Increase Cash Reserve Requirement (CRR) for merchant banks to 14.0 per cent from 10.0 per cent.
4. Retain Cash Reserve Requirement (CRR) for deposit money banks at 45 per cent.
5. Retain liquidity ratio at 30 per cent.

OLAYEMI CARDOSO

Governor

March 2024