



CENTRAL BANK OF NIGERIA COMMUNIQUÉ NO. 144 OF THE MONETARY POLICY COMMITTEE MEETING HELD ON MONDAY 26th AND TUESDAY 27th SEPTEMBER, 2022

The Monetary Policy Committee (MPC) met on the 26th and 27th of September 2022, amidst continued weakening of the global economy due largely to the lingering disruptions to the global supply chain as a result of the Russia-Ukraine war, persisting global inflationary pressure, and lockdowns in China. Other contributing factors include tightening global financial conditions, declining global trade, and increasing risks of a financial meltdown owing to the burgeoning global private and public debt portfolios. The Committee reviewed these and other developments in the global and domestic economies in the third quarter of 2022 as well as the outlook for the rest of the year.

All (12) members of the Committee attended this meeting.

Global Economic Developments

The Committee expressed concern over the heightened risk of spillovers associated with the broadly weakening global recovery. These have been further exacerbated by uncertainties emanating from lingering supply chain bottlenecks, due to the Russia-Ukraine war and continued COVID-19 lockdown in China. Consequently, global trade maintained a steady decline while inflation remained unabating despite aggressive rate hikes by several central banks. The risk of yet another global recession would be extremely damaging for fragile economies still confronted with the lag impact of the 2020 recession, especially for emerging market and developing economies currently confronted with huge capital flow reversals and tightening global financial conditions.

Consequently, the International Monetary Fund (IMF), in its July 2022 growth forecast, further downgraded global output growth for 2022 and 2023 to 3.2 and 2.9 per cent, respectively, from 3.6 per cent apiece.

In the Advanced Economies, inflation remains high and considerably above the long-run objectives of several central banks' threshold despite progressive rate hikes, due largely to persistent increase in the prices of food and energy. In major Emerging Market and Developing Economies (EMDEs), the uptrend in inflation is expected to continue in the medium term, driven by legacy structural issues, elevated exchange rate pressures, rising capital flow reversals, in addition to the outlined shocks from the global economy.

In global financial markets, investors have continued to rebalance their portfolios as yields on fixed income securities improve with the ongoing policy rate increases. Gold price is thus gradually declining, as investors move steadily towards the fixed income market. In addition, risk-averse portfolio investors have continued with reassignment of their portfolios from perceived risky emerging market securities to less risky advanced economy securities.

Domestic Economic Developments

According to the National Bureau of Statistics (NBS), Real Gross Domestic Product (GDP) grew by 3.54 per cent (year-on-year) in the second quarter of 2022, compared with 3.11 per cent in the first quarter of 2022 and 5.01 per cent in the corresponding quarter of 2021. The economy has thus maintained continuous growth for seven consecutive quarters, following its exit from recession in 2020. This consistent positive performance was driven largely by the sustained growth in the non-oil sector, particularly services and agricultural sub-sectors, supported by continued policy interventions, as well as credit expansion to the private sector.

While output growth remains positive, the Committee, was concerned about the contraction in economic activities, as indicated by the Composite Purchasing Managers' Index (PMI), which fell to 47.2 index points in August 2022, below the 50-index point benchmark, compared with 50.4 and 51.9 index points in July and June 2022, respectively, an indication of weakening output growth. The contraction was attributed to a decline in production levels, new orders, inventory levels, employment levels and persisting shocks from the global economy associated with both the Russia-Ukraine war and the unabating Pandemic, as well as other domestic shocks. The Committee, however, expressed optimism on the economy's recovery in the short to medium term in view of the unwavering support by both the monetary and fiscal authorities in Nigeria.

The Committee noted the continued uptrend in inflation for the seven consecutive months, with headline inflation (year-on-year) rising to 20.52 per cent in August 2022, from 19.64 per cent in July. Both the food and core components rose to 23.12 and 17.20 per cent in August 2022, from 22.02 and 16.26 per cent in July 2022, respectively. The hike in energy prices, such as rising price of Automotive Gas Oil (AGO), hike in electricity tariff, as well as the perennial scarcity of Premium Motor Spirit (PMS) contributed significantly to the building of expectations, thus pushing up the cost of transportation and production. Other contributory factors include: the broad-based insecurity across the country, which continue to dampen production activities; legacy structural factors such as the inadequate state of critical infrastructure; high cost of importation of essential grains, such as wheat; and increased demand for money associated with the forthcoming electoral campaign season. The ongoing monetary policy tightening by the US Federal Reserve Bank is also putting upward pressure on local currencies across the world, with pass-through to domestic prices, as investors exit these economies to seek higher yields in US dollar denominated fixed income securities.

The Committee noted that broad money supply (M3) grew by 11.05 per cent in August 2022, compared with 8.66 per cent in July. This was driven largely by the growth in Net Domestic Assets (NDA) of 26.19 per cent in July 2022, compared with 22.78 per cent in the preceding month. The sustained growth in Net Domestic Assets (NDA) was driven largely by increased claims on the Federal government and other financial corporations and the private sector.

Money market rates continued to fluctuate, reflecting liquidity conditions in the banking system. Consequently, the monthly weighted average Open Buyback (OBB) rate declined to 13.21 per cent in August 2022, from 14.15 per cent in July, while the Inter-bank Call rate increased to 15.00 per cent in August 2022, from 13.00 per cent in July.

The Capital Adequacy Ratio (CAR) and the Liquidity Ratio (LR) remained above their prudential limits at 13.4 and 40.1 per cent, respectively, in August 2022. The Committee, applauded the improvement in the Non-Performing Loans (NPLs) ratio to 4.8 per cent in August 2022, compared with 5.0 per cent in June 2022, reiterating its call on the Bank to sustain its tight prudential regime, to ensure that the NPL ratio is kept below its 5.0 per cent prudential benchmark.

The MPC noted the development in the equities market in the review period, as the All-Share Index (ASI) decreased to 49,836.51 index points on August 31, 2022, from 51,817.59 index points on June 30, 2022. Market Capitalization (MC) also decreased to ₦26.88 trillion, from ₦27.94 trillion in the same period. The bearish performance reflected sustained profit taking and sell-off by investors rebalancing their portfolios in favour of higher yields in the fixed income market.

The Committee noted the marginal increase of 0.39 per cent in the level of external reserves to US\$38.46 billion at end-August 2022 from US\$38.31 billion at end-July 2022 despite continued demand pressure. With crude oil price forecast to continue to moderate in the short to medium term, Members urged the Bank not to relent on the various policies put in place to support non-oil exports to shore up external reserves.

Under the Real Sector Facility, the Bank released the sum of ₦66.99 billion to 12 additional projects in manufacturing and agriculture. Cumulative disbursements under the Real Sector Support Facility (RSSF) currently stood at ₦2.10 trillion disbursed to 426 projects across the country.

Furthermore, under the 100 for 100 Policy on Production and Productivity (PPP), the Bank disbursed the sum of ₦20.17 billion to 14 projects in healthcare, manufacturing, and services, bringing the cumulative disbursement under the facility to ₦93.39 billion to 62 projects. In the healthcare sector, ₦4.00 billion was disbursed to two (2) healthcare projects under the Healthcare Sector Intervention Facility (HSIF), bringing the cumulative disbursement to ₦130.54 billion for 131 projects, comprising of 32 pharmaceuticals, 60 hospitals and 39 other services. Under the Export Facilitation Initiative (EFI), the Bank funded several commodity projects in the non-oil export segment for value-addition and production to the tune of ₦3.24 billion, aside the ₦50.00 billion disbursed through the Nigerian Export Import Bank (NEXIM).

In the Micro, Small and Medium Enterprise (MSME) sector, the Bank supported entrepreneurship development with the sum of ₦39.26 million under the Tertiary Institutions Entrepreneurship Scheme (TIES), bringing the total disbursement under this intervention to ₦332.43 million. Under the Intervention Facility for the National Gas Expansion Programme (IFNGEP), the Bank disbursed ₦1.00 billion to support the adoption of Compressed Natural Gas (CNG) as the preferred fuel for transportation and Liquefied Petroleum Gas (LPG) as the preferred cooking fuel.

Outlook

The broad outlook of the global and domestic economies in the medium-term remains clouded by uncertainties associated with lingering headwinds from the Russia-Ukraine war and the residual impact of the COVID-19 pandemic. Others include tightening global financial conditions with elevated shocks to foreign capital flows, as some Advanced Economies continue to pursue aggressive

policy rate hikes; the high level of corporate and public debt with heightened risk of another global financial meltdown; and the high level of inflation across several economies.

On the domestic front, available data on key macroeconomic variables indicate that output growth will continue for the rest of 2022, however, at a much-subdued pace. Some of these domestic shocks include: the high level of insecurity currently disrupting the free flow of economic activities; heightened sovereign risk as the 2023 general elections approach; continued upward pressure on inflation, driven by exchange rate pressures amongst other domestic factors. In addition, domestic price development is expected to maintain the current upward trend in light of the build-up of increased spending and demand for money, as the 2023 general elections approach. Accordingly, the Nigerian economy is forecast to grow in 2022 by 3.52 per cent (CBN), 4.20 per cent (FGN) and 3.40 per cent (IMF).

The Committee's Considerations

At this meeting the focus of the MPC was on the aggressive acceleration of inflation globally and how this had begun to retard growth in both Advanced and Emerging Market Economies. Members noted that though the global economy was progressively weakening due to the various headwinds confronting the recovery. In Nigeria, output growth had been sustained as a result of the combination of development finance interventions by the Bank and fiscal stimulus by the Federal Government. Members noted that in the last 3 years, the CBN has injected over N9 trillion into the economy, in addition to offering 2-year moratorium for 10-year long-term loan facilities. The Committee believe that these interventions have significantly helped engendered growth. However, in light of the persisting pressures on inflation, the Committee encouraged the Bank maintain a close watch on the inflationary implications of the interventions.

The MPC noted the moderate downturn in the equities market, attributing it to a continued outflow of portfolio capital as investors re-assign their portfolios to more attractive US dollar denominated fixed income securities. The Committee, however, also called on the Federal Government to continue to improve the ease of doing business in Nigeria to retain the current patronage of foreign investors through sustained investor confidence in the Nigerian economy.

The MPC applauded the Bank for its continued stringent regulatory measures over the banking system, noting the progressive decline in the Non-Performing Loans (NPLs) ratio of the banking system despite the heightened macroeconomic uncertainties.

The MPC was concerned that within a four-month period, inflation had accelerated aggressively by 280 basis point from 17.71 per cent in May 2022 to 20.52 per cent in August 2022. The Committee was thus, of the view that given the primacy of its price and monetary stability mandate, it was expedient that significant focus must be given to taming inflation.

The Committee was therefore of the view that a hold or loosen option was not in consideration at this meeting. This is also because a loosening will further widen the negative real interest rate gap and worsen the financial market conditions, as savings mobilization and investment inflows would decline further. It was also of the view that with the aggressive policy normalization in Advance economies, loosening the stance of policy would result in a sharp depreciation of exchange rate, leading to further hike in capital outflows.

As regards a hold decision, this would mean a continuous deterioration in real earnings of fixed income earners and the livelihood of middle- and low-income households.

The MPC noted that a tight policy stance would help consolidate the impact of the last two policy rate hikes, which is already reflecting in the slowing growth rate of money supply in the economy. It also felt that an aggressive rate hike

would slow capital outflows and likely attract capital inflows and appreciate the naira.

The Committee's Decision

Members deliberated on the impact of the widening margin between the current policy rate of 14 per cent and the inflation rate of 20.52 per cent. At this Meeting, the option to loosen the policy rate was not considered as this would be gravely detrimental to reining-in inflation. The Committee thus, agreed unanimously to raise the policy rate to narrow the negative real interest rate gap and rein-in inflation.

The Committee thus voted unanimously to raise the Monetary Policy Rate (MPR) and the Cash Reserve Requirement (CRR). Ten members voted to raise the MPR by 150 basis points, one member by 100 basis points, and another member by 50 basis points. Ten Members voted to increase the CRR by 500 basis points, while two Members voted to increase CRR by 750 basis points.

In summary, the MPC voted to:

- I. Raise the MPR to 15.5 per cent;
- II. Retain the asymmetric corridor of +100/-700 basis points around the MPR;
- III. Increase the CRR to a minimum of 32.5 per cent; and
- IV. Retain the Liquidity Ratio at 30.0 per cent.

Thank you.

Godwin I. Emefiele

Governor, Central Bank of Nigeria

27th September, 2022

PERSONAL STATEMENTS BY THE MONETARY POLICY COMMITTEE MEMBERS

1. ADAMU, EDWARD LAMETEK

The global economy continues to reel under the combined weight of the war in Ukraine, coronavirus resurgence in some countries and severe inflationary pressure. These conditions have dampened activity prospects in many countries, prompting yet another downward revision of the world output growth by the International Monetary Fund (IMF) in July 2022 to 3.2 per cent from 3.6 per cent in April. The global economy is experiencing its steepest slowdown in recent years, a situation that appears not likely to reverse anytime soon. Attempts at disinflation have seen little success around the world. Despite rate hikes and rollback of monetary easing, prices have maintained upward track in most geographies. Meanwhile, renewed COVID-19 outbreaks and lockdowns could only worsen the already precarious situation in affected countries, as we have seen in China where output growth continues to slow due to the zero COVID policy. In the face of these developments, central banks are mostly trending in the same direction – rate hikes. Tightening financial condition comes with real costs – to output, employment and financial stability. Doing the opposite may even be costlier – further acceleration in inflation leading to more rapid erosion of living standards and might not even help output.

Effectively, the September 2022 Monetary Policy Committee (MPC) meeting held against the backdrop of a largely uncertain global economic environment. In the domestic economy, price stability continues to be manifestly threatened. However, the outlook for real output remains positive following seven quarters of successive growth. This represents an important departure from previous episodes of high inflation and attests to the effectiveness of the Bank's interventions and other policies aimed at stimulating economic activity in the last two years.

Among others, I see a strong influence of demand and expectation in the price pressures the economy currently faces. Underpinned by both factors, consumer

price inflation and exchange rate pressures have seemingly become mutually reinforcing. As I indicated in my July statement, there continues to be the need to clearly demonstrate commitment to disinflation to better anchor price expectation. I reckoned nonetheless that, that alone would be insufficient in the face of a significant liquidity surfeit. I, therefore, voted at the September 2022 meeting of the MPC to bring onboard the cash reserve requirement (CRR) to complement a further hike in the monetary policy rate (MPR). Details of my considerations are as follows:

First, the headline inflation continued to drift upwards through August 2022 into the region considered inimical to growth. At 20.52 per cent, it leaves a negative spread of about 6.5 percentage points after the two previous increases in the policy rate. This spread could act as a constraint on savings and the economy's competitiveness and therefore called for further upward adjustment in the policy rate.

Second, the synchronicity of monetary policy tightening by central banks in the advanced economies has led to a tightening of the global financial condition. Yields have improved significantly in these countries in the last one year. The United States (US) dollar, for example, continues to appreciate as the Federal Reserve (Fed) tightens its monetary policy stance. Consequently, emerging market and developing economies (EMDEs) are facing increased prospects of capital flow reversal. Anything contrary to the global trend could increase the vulnerability of the domestic economy to adverse spillovers including, but not limited to, increased pace of capital flight and exchange rate instability.

Third, the pressure on consumer prices and the naira exchange rate had gained significant impetus from the expansion in money and credit following the COVID-19 pandemic. Both domestic asset (net) and claims on the Federal Government had surpassed their programmed levels for the year in annualized terms at end-August. I was concerned that continued expansion in the monetary aggregates at the pace recorded in the first nine (9) months of the year could aggravate monetary and price instability. Meanwhile, foreign asset (net) had remained on

the path of contraction, thereby limiting the scope for sterilizing the expansion in domestic asset through foreign exchange sale. On the other hand, the sale of financial securities alone for the purpose of reining-in excess liquidity may not be sufficient in view of the likely surge in spending in the rest of year as political campaigns gather momentum towards the general election. The unfavourable short-term outlook for system liquidity boosted my inclination towards deploying multiple instruments.

Fourth, the evidence from staff analysis of the factors at work in the current inflation process indicates a dominant influence of increased expectation of inflation. Inflation expectation has been fingered as a major factor in the present episode of global inflation. Monetary policy works in part by anchoring expectation. I saw the need therefore to be a bit aggressive in tightening to regain control of expectation as a proximate path to restoring price stability. Adjusting the MPR and the CRR amply demonstrates commitment to monetary and price stability being the primary goal of the Bank's monetary policy.

Lastly, the positive outlook for growth as suggested by current projections offers some buffer for a more decisive anti-inflation stance. The IMF currently projects 3.4 per cent growth for Nigeria in 2022, while in-house growth forecast for the year is 3.52 per cent. Barring any shock, these projections should be realised despite the prospective tightening of domestic monetary condition owing to continued effect of previous policy support in the real sector of the economy. In this connection, the economy should benefit from sustained effort of government towards improving infrastructure and security. I see further improvement in oil GDP in Q3 and Q4, 2022, as government implements new measures aimed at curbing leakages.

In conclusion, I should emphasise that the risk to domestic economic growth and financial stability of a hawkish stance at this time appears moderate and tolerable. Very much like the outlook for growth, financial stability prospects are evidently strong. At end-August 2022, all the major soundness indicators of the banking industry were within their prudential limits. At 13.4 per cent industry

capital adequacy ratio (CAR) exceeded its benchmark by 3.4 percentage points. Similarly, at 4.8 per cent, the non-performing loans (NPLs) ratio was less than the prescribed 5.0 per cent (prudential) threshold. Meanwhile, industry liquidity ratio stood at 40.4 per cent in August compared to the benchmark of 30.0 per cent. I am of the view, based on these indicators, that the banking system is resilient and able to provide liquidity to sustain economic activity in a modestly constrained financial environment. I, therefore, voted to:

1. Raise the MPR by 150 basis points to 15.5 per cent.
2. Retain the asymmetric corridor at +100/-700 basis points.
3. Raise the CRR by 500 basis points to 32.5 per cent.
4. Retain the Liquidity Ratio at 30 per cent.

2. ADENIKINJU, ADEOLA FESTUS

International Economic Developments

The headwind against the global economy remains strong in September. Inflation is not decelerating as expected, and currently exceeds the benchmark rates in both the Advanced and Emerging Economies. Also, the Russian Ukrainian war is unabated, global trade is still constrained by supply chain bottlenecks, inflationary pressures continue to persist, recurring interest rate hikes, and slow-down of economic growth. On the bases of the sustained headwind, Global output is expected to decelerate from 6.1% in 2021, to 3.2% in 2022, and 2.9% in 2023. Global trade growth is expected to slow down from 10.1% in 2021, to 4.1% and 3.2% in 2022 and 2023, respectively. There is increasing likelihood that many economies may fall into recession by Q1 2023.

The near synchronisation of rates increase across central banks may throw global economy into recession. Public debt/GDP ratio is at all times high. Commodity prices remain elevated. There is turmoil in financial and capital markets. The strong dollar and the interest rate normalization in the US are causing capital flow reversal in emerging and developing economies. Headwinds to FDI growth include high geo-political tensions and uncertain macroeconomic environment. Climate change is causing flooding in many parts of the world. Nigeria is not unaffected by these global trends.

Domestic Economic Developments

The Economic Report presented by the Staff of the Bank showed a mixed picture of the economy. Real GDP in 2022Q2 rose to 3.54% from 3.11% in 2022Q1. The growth was broad based, but mainly driven by non-oil sectors: services, agriculture, and manufacturing activities. However, the industrial sector contracted by 2.3%. The Oil-GDP contracted by 11.1% in 2022Q2. The poor performance of the Oil-GDP sector is due to a slowdown in oil price and decline in oil production and exports. The shortfall in oil production was driven by pipeline vandalism, oil theft and dilapidated oil infrastructure.

However, broad measures of inflation: headline, food, and core, all rose in August 2022. Headline inflation rose from 19.64% to 20.52% between July and August 2022. Food price inflation rose from 22.02% in July 2022 to 23.12% in August 2022; while core inflation increased to 17.20% in August 2022, from 16.26% in July 2022. Headline inflation in August 2022 was the highest in the past 17 years. The increase in prices were due to higher energy prices and cost of logistics, and lingering security challenges in farming communities. The volatile food inflation also rose because of increase in the prices of processed foods, farm produce, bread and cereals. Incidentally, a state-wide breakdown of the inflation figures in August 2022 showed that in August 2022, low food inflation persisted in North-East and North- West, while states like Rivers, Lagos and Kwara experienced high food inflation.

Data showed that broad money supply increased by 11.05% in August 2022 compared to 8.66% in July 2022. The rise in money supply was driven by increase in domestic claims and net claims on Central Government. The growth in broad money was below the 15.21% provisional benchmark for 2022.

The NSE All Share Index declined from 51,339.01 index points in July 2022 to 49,190.34 index points in September 2022. The decline is attributed to fall in investor sentiments, upward inflationary pressure and profit taking activities by investors.

Despite the successive raising of the MPR by the MPC at its last two meetings, the lending rates by the banks are not reflecting these signals from the CBN. Hence, between July and August 2022, prime lending rate rose marginally from 15.53% in July 2022 to 16.44% in August 2022. Maximum lending rate remained flat at 26.86%, while average savings rate rose from 1.07% in July 2022 to 1.79% in August 2022. Time deposits rose to 5.59% in August 2022 from 4.69% in July 2022.

The Balance of Payment's (BOP) position recorded an overall surplus of 0.08% of the GDP in 2022Q2. This was driven by improvement in current account and decrease in NFA. Goods account improved to US\$5,702.74 million in 2022Q2 from US\$3,496.18 million in 2022Q1, due to increase in oil export receipt as well as increase in non-oil and electricity exports receipts. The current account was also buoyed by net inflow of remittances of US\$4,952.70 million.

Gross external reserves increased by 0.39% to US\$38.46 billion at end-August 2022, from US\$38.31 billion at end-July 2022. The increase was accounted for by rise in FX swap transactions, monetisation of MDA FX assets and decrease in total outflows in August 2022. The external reserves at end-August 2022 could provide 6.61 months cover of imports of goods and services.

The Fiscal Sector remains weak. FGN revenue for the first six months underperformed by 49.84%. The underperformance of the FGN revenue was driven by decline in FAAC receipts (48.56%), Independent Revenue (52.12%),

Transfer from Special Levies account (56.57%), FGN Share of Federation account (54.48%), Operating Surplus (82.28%) and Education Tax (89.84%).

As was the norm, capital expenditure underperformed by 47.51%, while recurrent expenditure overshoot the budget by 3.27%. Total debt service exceeded the budget by 4.35%. Interest on Ways and Means Advances accounted for N714.74 billion.

The Banking System Stability Review Report showed that the banking system remain safe, sound, and resilient. Capital Adequacy Ratio declined from 14.1% in June 2022 to 13.4% in August 2022, but still lies within the prudential requirements. Non-Performing Loans Ratios declined from in 5.0% in June 2022 to 4.8% in August 2022. Liquidity Ratio stood at 40.4% in August 2022, which was higher than the 30% prudential requirement. Both Returns on Equity and Returns on Assets rose between June 2022 and August 2022. Interest margins to total operating income rose between June 2022 and August 2022, however, total operating costs to total operating income declined from 76.5% in June 2022 to 74.7% in August 2022, though still way above the values for comparator countries: Turkey, 34.1%, South Africa, 61.5% and Malaysia, 37.9%. The report also showed increase in the aggregate banking system deposits, assets, and credit over the period.

My Concern

An econometric study conducted by the Bank showed that inflation expectation was by far the most significant driver of actual inflation in Nigeria. Inflation expectations rose in August to 25.82%, 5.30% higher than the 20.52% actualised inflation rate. Inflation expectations were driven by high costs of transportation and logistics services and exchange rate pressures. Another study also showed that there is about 4 months lag in the transmission mechanism between changes in the MPR and headline inflation.

Oil subsidy has been a perennial problem of the Nigerian economy. It has gotten to a level where it is a danger to our fiscal sustainability. Between

January and July 2022, Nigeria paid N1.9 trillion on subsidy that benefitted mainly the rich Nigerians, and the citizens and governments of neighbouring countries. Comparatively, capital expenditure in 2022Q1 was N961.67 billion.

The report on the higher repayments on Development Finance Department interventions between July 2022 and August 2022 is quite hearty. As of August 2022, N3.44 trillion out of the total disbursements of N8.89 trillion has been paid. The development finance has been targeted at critical sectors of the economy to drive aggregate supply to the economy and create jobs. These disbursements have played important roles in Nigeria's recovery from the 2020 recessions.

We expect that broad money supply is most likely to increase in the next coming months as we enter the election cycle, and also along the efforts of the current government to complete ongoing projects as it winds down the remaining months of its existence. The continuous borrowing by the Federal Government is also likely to weigh much on money supply, inflation rate and availability of credit to the private sector and monetary policy transmission.

The inability of the retail rates by the deposit money banks to reflect the increase in the MPR suggest either the weakness of the MPR as an effective instrument to target credit creation process by the commercial banks, or the rate increase by the MPC is not sufficient to reduce the liquidity held by the banks.

Fiscal deficit as at the first six months stood at N4,169.64 billion. This was 59% higher than the budget estimates of N2,621.41 billion for 2022. The rise in fiscal deficit also translates into increase in Public Debt which stood at N42.8 trillion as at June 2022. We should be concerned about debt sustainability. There is a genuine fear that Nigeria may be moving towards a debt trap.

We need to get inflation under control as it has the potential to reduce the production capacity of the economy, slow economic growth rate, increase unemployment and reduce investment. The forecast by Bank Staff shows that

inflation in September may further rise to 20.94% from 20.52% in August 2022 is an indication that we cannot lower our guard.

My Vote

In consideration of the worsening inflation, the MPC needs to sustain the tight monetary policy stance to dampen inflationary pressures and moderate negative real interest rate on long term securities to encourage capital inflows. I cast my vote to increase the MPR by 150 basis points, raise CRR by 500 basis points, while retaining other monetary parameters at their extant values. Hence, I vote to:

- 1) Raise MPR by 150 basis points to 15.5%
- 2) Raise CRR by 500 basis points to 32.5%
- 3) Retain LR at 30%
- 4) Maintain asymmetry corridor around the MPR at +100/-700 basis points.

3. AHMAD, AISHAH N.

Rising inflation, slow growth and heightened uncertainty dampen global economic prospects

Global economic prospects have deteriorated considerably through 2022 reflected in high and persistent inflation, aggressive monetary tightening, heightened uncertainties from the Russia – Ukraine war and lingering effects of the Pandemic. Rising commodity and energy prices are triggering an inflation crisis globally – the worst in many decades, and weakening output, particularly in the world's three largest economies (the United States, China and the European Union), with significant spillovers to other countries. At the same time, huge public debts, exchange rate pressures and large capital outflows especially from emerging markets and developing economies, are exacerbating fiscal and balance of payments pressures in these countries with heightened possibility of a financial crisis and global recession.

Against this backdrop, global output is projected to grow at 3.2 per cent in 2022 by the International Monetary Fund (IMF) in its July 2022 World Economic Outlook - a substantial downgrade from previous forecasts. Further downgrade in global growth forecasts is expected, as risks remain overwhelmingly tilted to the downside.

Domestic growth has, thus far remained resilient notwithstanding strong headwinds.

According to the National Bureau of Statistics (NBS), Real Gross Domestic Product (GDP) grew by 3.54 per cent (year-on-year) in the second quarter of 2022, compared with 3.11 per cent in the first quarter of 2022 and 5.01 per cent

in the corresponding quarter of 2021. The economy has, thus, maintained continuous growth for seven consecutive quarters, following its exit from recession in 2020. This consistent positive performance was driven largely by sustained growth in the non-oil sector, particularly services and agricultural subsectors, supported by continued policy interventions and credit expansion to the private sector.

While output growth remains positive, **the seeming contraction in economic activities, as indicated by a drop in the Composite Purchasing Managers' Index (PMI), to 47.2 index points in August 2022, below the 50-index point benchmark, from 50.4 and 51.9 index points in July and June 2022, respectively, raises some concern.** According to staff reports, the contraction was attributed to a decline in production, new orders, inventory, and employment levels alongside persisting shocks associated with the Russia-Ukraine war, the pandemic and domestic vulnerabilities. Although evidence is still sketchy given the lag of monetary policy, the aggressive monetary policy tightening to curb inflation, may also impact adversely on output via high borrowing costs. However, there is optimism that ongoing monetary and fiscal interventions in critical growth enhancing sectors will help strengthen output recovery.

Of greater concern is the upward trend in domestic prices which persisted for the seventh consecutive month, with headline inflation (year-on-year) spiking to 20.52 per cent in August 2022, from 19.64 per cent in July. Both food and core components rose to 23.12 and 17.20 per cent in August 2022, from 22.02 and 16.26 per cent in July 2022, respectively. The hike in energy prices, such as rising price of Automotive Gas Oil (AGO), increase in electricity tariff and intermittent scarcity of Premium Motor Spirit (PMS) contributed significantly to rising inflation expectations, thus pushing up transportation and production costs across the country. The need to better anchor inflation expectations has become apparent, in view of its significant role in driving inflation – rising faster than actual inflation in August 2022 and projected to maintain an upward trajectory in the short-term by staff estimates.

Other contributory factors include: the broad-based insecurity across the country, legacy structural factors such as the weak state of critical infrastructure; high cost of importation of essential commodities; and increased demand for money associated with the upcoming electoral campaigns. The ongoing monetary policy tightening by the US Federal Reserve Bank is also exerting upward pressure on local currencies across the world, with pass-through to domestic prices, as investors exit these economies, to seek higher yields in US dollar denominated fixed income securities.

Indeed, the evolution of consumer prices in recent months and its unstable outlook are important grounds for decisive and comprehensive policy actions. While ongoing initiatives to boost food production and drive down food prices are crucial, coordinated efforts at curbing long standing structural challenges, especially with infrastructure are critical in mitigating core inflation challenges. Effective liquidity management tools also remain relevant in the broad disinflation process.

Effective regulatory oversight and innovations in the financial system have supported the banking sector resilience with positive implications for output performance.

The banking industry continued to post strong growth with total assets increasing by N10.72 trillion or 19.13 per cent between end-August 2021 and end-August 2022. Financial Soundness Indicators were also robust and met minimum regulatory requirements - non-performing loans (NPLs) ratio declined further to 4.8 per cent in August 2022, 20 basis points (bps) lower than the rate recorded in June 2022, while capital adequacy and liquidity ratios remained robust at 13.4 per cent and 40.4 per cent, respectively, in August 2022.

Increased credit to growth enhancing sectors of the economy such as agriculture, manufacturing and general commerce helped support output recovery recorded in the domestic economy. Total credit increased by N5.50 trillion from N22.62 trillion to N28.12 trillion between end-August 2021 and end-August 2022 due largely to increase in the level of funding and CBN's Loans to

Deposit Ratio (LDR) policy. The increase recorded in lending rates between June and August 2022 can be partly attributed to the tight monetary policy stance and requires vigilance by the banks to forestall defaults and preserve asset quality. Sustained implementation of the policy on Global Standing Instruction and effective credit risk management policies by banks are useful in that regard, while innovations, especially with payment systems infrastructure, are expected to deepen the financial sector and enhance resilience.

Notwithstanding the strong financial system fundamentals and satisfactory stress test results, the Bank must remain vigilant and proactively manage operational, asset quality and other risks to financial system stability, especially with the challenging global economic environment.

Difficult but necessary policy decision

The Russia-Ukraine war remains the biggest setback to global output recovery after the pandemic induced meltdown in 2020. The attendant spike in commodity and energy prices combined with weakening output (stagflation) has complicated monetary policy responses globally. In the circumstance, the outlook for monetary policy remains uncertain in the short- to-medium term especially in typically low-inflation advanced economies with implications for the rest of the world, given the strong interconnectedness of economies.

While stagflation is an unusual economic challenge, some African economies, including Nigeria, have recent experiences of such conditions and have designed homegrown policies to manage the situation. These policies, particularly the targeted interventions to critical growth enhancing sectors, have been useful in supporting output performance and building domestic economic resilience despite significant global shocks.

For Nigeria, output performance has maintained a positive trajectory since exit from recession in the fourth quarter of 2020, a development that gives the monetary authority latitude to focus on its price and monetary stability mandate which is currently challenged. Indeed, it is worrisome that within a

four-month period, inflation had accelerated aggressively by 280 basis points from 17.71 per cent in May 2022 to 20.52 per cent in August 2022. Given the primacy of the price and monetary stability mandate, it is expedient that significant focus must be given to taming inflation. More importantly, high inflation is very damaging to every fabric of the economy - increases unemployment, erodes real income, thereby entrenching poverty and inequality, dampens investor sentiments, and can reverse the output gains recorded so far, if it persists.

In the last two MPC meetings, I have voted to raise the Monetary Policy Rate by a cumulative of 200 bps. The conditions that prompted the policy choice remain germane, given that inflation has worsened over the course of the months, with inflation expectations rising faster than actual inflation numbers, as reflected by staff estimates.

At this meeting, I remain convinced that an aggressive policy rate hike is appropriate to better anchor inflation expectations, narrow the negative real interest rate, manage system liquidity surfeit, and drive down prices over time. Beyond the policy rate hike, an upward review of the Cash Reserve Ratio (CRR) is expected to further dampen the effects of anticipated liquidity surge from build up to the 2023 general elections and end of year/festive season spending.

Granted, a rate hike would trigger higher borrowing costs, especially by the private sector which has downside risks to output performance. Thankfully, the Bank's interventions in the real sector have supported economic activities via credit growth – injecting over N9 trillion into the economy, in addition to offering 2-year moratorium for 10-year long-term loan facilities. However, considering persisting pressures on domestic prices, the Committee encouraged the Bank to note the inflationary implications of the interventions.

I, therefore, vote to increase the policy rate by 150bps from 14% to 15.5%, retain the asymmetric corridor of +700 and -100 around the MPR; increase CRR by 500

basis points from 27.5% to 32% and retain Liquidity ratio at 30%. **Rising inflation, slow growth and heightened uncertainty dampen global economic prospects**

Global economic prospects have deteriorated considerably through 2022 reflected in high and persistent inflation, aggressive monetary tightening, heightened uncertainties from the Russia – Ukraine war and lingering effects of the Pandemic. Rising commodity and energy prices are triggering an inflation crisis globally – the worst in many decades, and weakening output, particularly in the world's three largest economies (the United States, China and the European Union), with significant spillovers to other countries. At the same time, huge public debts, exchange rate pressures and large capital outflows especially from emerging markets and developing economies, are exacerbating fiscal and balance of payments pressures in these countries with heightened possibility of a financial crisis and global recession.

Against this backdrop, global output is projected to grow at 3.2 per cent in 2022 by the International Monetary Fund (IMF) in its July 2022 World Economic Outlook - a substantial downgrade from previous forecasts. Further downgrade in global growth forecasts is expected, as risks remain overwhelmingly tilted to the downside.

Domestic growth has, thus far remained resilient notwithstanding strong headwinds.

According to the National Bureau of Statistics (NBS), Real Gross Domestic Product (GDP) grew by 3.54 per cent (year-on-year) in the second quarter of 2022, compared with 3.11 per cent in the first quarter of 2022 and 5.01 per cent in the corresponding quarter of 2021. The economy has, thus, maintained continuous growth for seven consecutive quarters, following its exit from recession in 2020. This consistent positive performance was driven largely by sustained growth in the non-oil sector, particularly services and agricultural subsectors, supported by continued policy interventions and credit expansion to the private sector.

While output growth remains positive, **the seeming contraction in economic activities, as indicated by a drop in the Composite Purchasing Managers' Index (PMI), to 47.2 index points in August 2022, below the 50-index point benchmark, from 50.4 and 51.9 index points in July and June 2022, respectively, raises some concern.** According to staff reports, the contraction was attributed to a decline in production, new orders, inventory, and employment levels alongside persisting shocks associated with the Russia-Ukraine war, the pandemic and domestic vulnerabilities. Although evidence is still sketchy given the lag of monetary policy, the aggressive monetary policy tightening to curb inflation, may also impact adversely on output via high borrowing costs. However, there is optimism that ongoing monetary and fiscal interventions in critical growth enhancing sectors will help strengthen output recovery.

Of greater concern is the upward trend in domestic prices which persisted for the seventh consecutive month, with headline inflation (year-on-year) spiking to 20.52 per cent in August 2022, from 19.64 per cent in July. Both food and core components rose to 23.12 and 17.20 per cent in August 2022, from 22.02 and 16.26 per cent in July 2022, respectively. The hike in energy prices, such as rising price of Automotive Gas Oil (AGO), increase in electricity tariff and intermittent scarcity of Premium Motor Spirit (PMS) contributed significantly to rising inflation expectations, thus pushing up transportation and production costs across the country. The need to better anchor inflation expectations has become apparent, in view of its significant role in driving inflation – rising faster than actual inflation in August 2022 and projected to maintain an upward trajectory in the short-term by staff estimates.

Other contributory factors include: the broad-based insecurity across the country, legacy structural factors such as the weak state of critical infrastructure; high cost of importation of essential commodities; and increased demand for money associated with the upcoming electoral campaigns. The ongoing monetary policy tightening by the US Federal Reserve Bank is also exerting upward pressure on local currencies across the world, with pass-

through to domestic prices, as investors exit these economies, to seek higher yields in US dollar denominated fixed income securities.

Indeed, the evolution of consumer prices in recent months and its unstable outlook are important grounds for decisive and comprehensive policy actions. While ongoing initiatives to boost food production and drive down food prices are crucial, coordinated efforts at curbing long standing structural challenges, especially with infrastructure are critical in mitigating core inflation challenges. Effective liquidity management tools also remain relevant in the broad disinflation process.

Effective regulatory oversight and innovations in the financial system have supported the banking sector resilience with positive implications for output performance.

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I, therefore, vote to increase the policy rate by 150bps from 14% to 15.5%, retain the asymmetric corridor of +700 and -100 around the MPR; increase CRR by 500 basis points from 27.5% to 32% and retain Liquidity ratio at 30%.

4. ALIYU, AHMED

The global economy has lost some strength, following prolonged tepid growth and persistent upward inflationary pressure. The Covid-19 pandemic in China and the war in Ukraine continue to put downward pressure on the global supply chain, with resultant escalation in energy and food prices. Monetary policy tightening to address inflationary pressure, particularly in the Advanced Economies, continue to undermine global growth. The combination of declining growth and rising inflation has heightened the risk of economic recession in major Advanced Economies, with apparent negative consequences for Emerging Markets and Developing Economies (EMDEs).

Consequently, the IMF in its October 2022 World Economic Outlook (WEO), revised global growth forecast from 6.0 percent in 2021 to 3.2 percent in 2022, with further moderation to 2.7 percent in 2023. Specifically, growth in the Advanced Economies is forecast to moderate from 5.2 percent in 2021 to 2.4

percent in 2022 and further to 1.1 percent in 2023, while in the EMDEs, growth is projected to slow from 6.8 percent in 2021 to 3.7 percent in 2022 and remain unchanged through 2023.

On price developments, headline inflation for many Advanced Economies, has soared to a record high, well above their 2 percent targets. This prompted the monetary authorities of those countries to respond with aggressive tightening of monetary policy. Recently, the US Federal Reserve Bank increased policy rate by 0.75 basis point, while the Bank of England hiked policy rate by 50 basis points. Similarly, the European Central Bank responded with a 0.75 basis point increase in interest rate. These central banks have signalled more aggressive rate increases to anchor inflation expectations. Global inflation is forecast by the IMF in the October 2022 WEO, to rise from 4.7 percent in 2021 to 8.8 percent in 2022 but to decline to 6.5 percent in 2023.

The aggressive push towards monetary policy normalization has amplified the risk of tightened global financial conditions. This, expectedly, has started to cause huge capital outflows from EMDEs. Likewise, many Advanced Economies, including the UK, as well as EMDEs are witnessing the weakening of their currencies against the US dollar.

Global trade continued its deceleration, from 10.1 percent in 2021 to an estimated 4.3 percent in 2022 and 2.5 percent in 2023. The development is due largely to the supply chain disruptions occasioned by the lingering COVID-19 pandemic in China and the war between Russia and Ukraine.

THE DOMESTIC ECONOMY

The Nigerian economy witnessed sustained recovery for the sixth consecutive quarter, as measured by growth in real Gross Domestic Product (GDP). The economy grew by 3.54 percent (year-on-year) in Q2 2022, which was a 0.44 percentage point increase from the 3.11 percent recorded in Q1 2022. However, on quarter-on-quarter basis, real GDP grew by -0.37 percent in Q2 2022, due to lower economic activities. This is validated by the gradual

slowdown in the monthly composite Purchasing Manager's Index (PMI) which fell to 47.2 index points in August 2022 from 51.6 index points in July 2022, indicating a contraction in business activities.

The non-oil sector remains the major driver of economic growth in the period under review. The sector contributed 93.67 percent to the nation's GDP in Q2 2022, relative to the 93.37 percent, recorded in Q1 2022, indicating significant resilience. Agriculture contributed 23.24 percent, industry (19.40 percent) and services (57.35 percent) to real GDP. Conversely, the Oil sector contracted for the 9th consecutive quarter with a 6.33 percent contribution to real GDP in Q2 2022.

The sectoral growth outcomes are attributed to the Government's effective implementation of its economic and fiscal sustainability measures designed to mitigate the negative impacts of the COVID-19 pandemic and the Russian-Ukraine war. Tailwinds to growth could have been the current recovery in international oil prices. However, domestic production challenges in the oil sector as well as other economic and structural factors, remain major downside risks. Consequently, the output gap remained negative at -7.2 percent in Q2 2022 and is forecast to improve marginally to -6.2 percent in Q3 2022.

Recent price developments point to persistent upward pressure in headline inflation, which increased by 0.88 percentage point to 20.52 percent in August 2022. This was mainly on account of increasing energy and food prices, and other domestic macroeconomic conditions which contributed to heightening negative sentiments, thus, driving inflation expectations in the short term.

Food and core inflation increased by 1.10 and 0.94 percentage points, respectively. Whilst high food inflation remains a matter of concern, the rapid increase in core inflation is worrisome and requires urgent measures. Month-on-month inflation trend indicated that prices may be declining, as headline inflation month-on-month declined by 0.05 percentage point to 1.77 percent in August 2022.

Monetary aggregates indicate high level of liquidity in the system, even though broad money supply (M3) was -4.16 percentage points below the 2022 provisional benchmark of 15.21 percent. Interest rates fluctuated in the review period, reflecting liquidity conditions in the banking system.

It is heart-warming to note that, the banking system remain safe, sound and resilient, showing robust performance in key financial soundness indicators and strong capacity to intermediate funds. Capital Adequacy Ratio (CAR) at 13.4 percent at end-August 2022, is above the 10 percent regulatory minimum, while Non-Performing Loans (NPLs) improved to 4.8 percent at end-August 2022, below the 5.0 percent supervisory threshold. It is noteworthy that gross credit has been on an upward trajectory since 2019 due largely to increased industry funding base and CBN's directive on Loan to Deposit Ratio (LDR).

On the external sector, gross external reserves increased by 0.39 percent to US\$38.46 billion at end-August 2022 and could cover 6.61 months of import of goods and services and 8.55 months of import of goods only.

CONSIDERATION FOR VOTING

In deciding on the appropriate policy choice, I considered the various competing objectives of monetary policy, which include price stability, output growth and exchange rate stability. In view of the aggressive increase in headline inflation, I believe that it has become necessary to take urgent steps to address the current inflation threat.

Whilst the negative implication of monetary tightening on credit creation, investment and economic growth is well known, growth as it were, has shown a lot of resilience, on account of the Bank's targeted interventions on the economy. Indeed, Staff forecasts indicate that output growth will continue on a positive direction for the rest of the year, albeit, at a slow pace. As at this meeting, the Nigerian economy is forecast to grow in 2022 by 3.52 per cent (CBN), 4.20 per cent (FGN) and 3.40 per cent (IMF).

Domestic price development is envisaged to sustain the current upward trajectory for the rest of the year. Upside risks to inflation, includes exchange rate pressures, the looming electioneering campaign spending and high energy costs, as well as shocks to food, petrol and other consumable supplies, occasioned by floods in some parts of the country.

It is noteworthy that several Advanced Economies and EMDEs facing rising price level have commenced the tightening of monetary policy, through policy normalization. On our part, not taking a bold and decisive action to tame inflation at this stage could result in negative consequences for households, businesses and investments.

In my view, a tightened policy stance has the efficacy to address the already high negative real interest rates and adjust sentiments and inflationary expectations. It will also retain foreign capital seeking better yields in other jurisdictions, whilst restoring stability in the foreign exchange market, through increased accretion to reserves.

There is no doubt that developmental interventions have contributed significantly to keeping the economy afloat. To address the current inflationary pressure, it will be counter intuitive to inject funds into the economy on the one hand and raise interest rates on the other. Therefore, development interventions should now be aligned with a tight monetary policy stance by channelling resources to critical output inducing and employment generating activities, with large potentials to narrow the output gap and increase the foreign exchange earnings capacity of the economy. There is also an urgent need to improve productivity by addressing structural impediments to the supply chain in order to aid the fight against inflation.

In light of tightened financial conditions globally, there is need to intensify demand management measures particularly to reduce the propensity for consumption of foreign goods, complemented with supply management policies, to achieve a stable exchange rate. At this point, therefore, policies that encourage import substitution which will lead to export-oriented

industrialization and less dependence on crude oil is invaluable. Noteworthy, are the CBN's incentives to boost remittances and other complementary measures to promote non-oil exports and improve foreign exchange inflows.

In the light of the foregoing, I voted to increase the Monetary Policy Rate by 150 basis points and the Cash Reserve Requirement by 50.0 basis points, whilst leaving other policy parameters unchanged as follows:

- MPR at 15.5 per cent
- The asymmetric corridor at +100/-700 basis points around the MPR
- Liquidity ratio at 30.0 per cent
- CRR at 32.5 per cent

5. ASOGWA, ROBERT CHIKWENDU

Policy Decision:

On the basis of the global and domestic macroeconomic outlook especially the persisting inflationary pressures and the balance of risks, I will prefer a continuation of the process of monetary tightening and the gradual withdrawal of existing accommodative stances. While an aggressive monetary tightening will look realistic so as to bring demand more in line with supply, the fact that demand-side inflationary pressures appear to be limited in Nigeria, means that a moderate tightening will somewhat be sufficient in stoking the inflationary concerns. Going forward, a regular balancing act will be key to ensure that future policy rate changes are able to address price jumps without necessarily jeopardizing the growth recovery process. In this circumstance, I will therefore vote to:

- Raise the MPR from 14.0 percent to 14.5 percent,
- Raise the CRR from 27.5 percent to 32.5 percent,
- Retain the Asymmetric Corridor at +100/-700 basis points,
- Retain the Liquidity Ratio at 30.0 percent.

The highlights of the assessments, and outlook of risks are presented below.

Global Economic Context:

Global GDP growth has been hit by the protracted conflict in Ukraine and the aggressive policy rate hikes in major advanced economies with risks now

shifting from inflation towards growth. As at the second quarter of 2022, growth performance has been mixed across countries. CBN staff report shows that while output in the second quarter of 2022 contracted in the US, UK and China, it however expanded in the Euro Area, Japan, India and Brazil at the same period. Specifically, for the USA, there are now two consecutive quarters of negative GDP growth, -1.6 percent for 2022 quarter 1 and -0.9 percent for 2022 quarter 2. In China, output contracted by 0.1 percent in the second quarter of 2022, compared with a growth of 0.8 percent in the preceding period.

Looking ahead for the third and fourth quarters of 2022, leading indications are pointing to an extended period of subdued growth with strong predictions for possible recession in a number of countries. The global manufacturing PMI fell to a 26-month low of 50.3 points in August from 51.1 points in July. In the USA, manufacturing PMI dropped to 51.3 points in August from 52.2 points in July, while in the Eurozone, PMI dropped to 48.9 points in August from 49.9 points in July. In Japan also, PMI had its worst performance in August, dropping to 48.9 points from 50.2 index points recorded in July. In addition, third quarter production losses have been recorded in such countries as the USA, Eurozone, Japan and indeed several other strong economies, all pointing to the likelihood of further GDP decelerations in the remaining part of 2022. Revised forecasts for global growth by the World Bank suggest a slowdown from 5.7 percent growth in 2021 to 2.9 percent in 2022 which is significantly lower than the 4.1 percent anticipated earlier in January, while the IMF in a revised forecast also predicts a slower global GDP growth rate of 3.2 percent in 2022 before dropping further to 2.9 percent in 2023.

On global inflation, there are expectations of even additional increases over the remaining months of 2022 due to the trend of commodity prices and the persistence of supply constraints to production arising from the ongoing Russia-Ukraine war. Recent data however show marginal inflation slowdowns in a few countries by August 2022, but a key concern was that in many other countries, price increases were becoming broad based with huge jumps in the core component. CBN staff report shows that year-on-year inflation in the Euro Area

accelerated to 9.1 percent in August from 8.9 percent in July, while in India, year-on-year measures rose to 7.0 percent in August from 6.7 percent in July. The August marginal inflation declines were noticeable in the US, UK, China and Brazil. In the US for instance, the year-on-year inflation rate eased for a second straight month in August to 8.3 percent from 8.5 percent in July and 9.1 percent in June 2022. In the UK also, year-on-year inflation rate also eased to 9.9 percent in August from 10.1 percent in July, while in China, it declined to 2.5 percent in August from 2.7 percent in July.

Global central banks have adopted somewhat similar responses to the persisting high inflation rates with more focus on aggressive normalization of policy rates, thus further tightening global financial conditions. CBN staff report shows that besides the Central Bank of Russia and the Peoples Bank of China that lowered their policy rates recently because of growth concerns, most other central banks across the globe raised policy rates, but with different intensities. The US Federal Reserve pushed its policy rate further by 75 basis points in July, while the Bank of England, the European Central Bank, the Reserve Bank of South Africa, the Reserve Bank of India and the Bank of Indonesia all raised rates by 50, 75, 75, 50 25 basis points, respectively, between July and early September 2022.

With regards to the global financial markets, a higher-than-normal volatility has been witnessed in recent times partly because of the sporadic policy rate adjustments across several countries. The observed retrenchment of capital flows from emerging and developing markets appears to have triggered the surges of volatility in the global equity and bond markets with major stock market indices on the declining trend since February 2022. Bond yields are now faced with increased surges of volatility, somewhat unprecedented. There are also waves of currency depreciations across the globe partly because of the aggressive adjustments in the US interest rates which have led to a rather strong US dollar, almost to a 20-year high as of August 2022. Consequently, most currencies in emerging and developing markets as well as some advanced

markets have since July witnessed varied currency depreciations in favour of the US dollar.

Domestic Economic Context:

The Nigerian economy continues to expand, albeit at a much slower pace, weighed down by persisting supply side disruptions. Recently released 2022 second quarter GDP growth rate stood at 3.54 percent (year-on-year), up from 3.11 percent in the first quarter of 2022, marking seven consecutive quarters of real GDP growth. Strong monetary policy measures underpinned by credit expansion to the private sector contributed to the good domestic growth performance. On a quarter-on-quarter basis, real GDP contracted by -0.37 percent in the second quarter of 2022 when compared with a contraction of -14.66 percent recorded in the first quarter of 2022. In terms of the growth outlook for the third and fourth quarters of 2022, modest declines are expected given the recent moderation in the pace of domestic economic activity. Most demand indications seem to have softened since July 2022. CBN staff report shows that the composite Purchasing Managers Index (PMI) stood at 47.2 index points in August 2022 compared with 50.4 index points and 51.9 index points in July and June, respectively. Recent large-scale flooding in several Nigerian states, especially the food producing regions creates additional bottlenecks for agricultural production in the remainder of 2022. With uncertainties associated with domestic oil production and externally driven supply side disruptions, growth downturns in the second half of the 2022 is clearly inevitable.

Inflation rates in Nigeria remained high in July and August 2022 on a year-to-year basis but has commenced a deceleration process on a month-on-month basis, partly because of the statistical base effect. Headline inflation on a year-on-year basis increased from 18.60 percent in June 2022 to 19.64 percent in July and further to 20.52 percent in August, 2022. There were increases in both core and food inflation on a year-on-year basis, but on a month-on-month basis, headline rates remained stable at 1.82 percent in June and July 2022, but declined to 1.77 percent in August 2022. The month-on-month deceleration for

both core and food inflation may be driven partly by the subdued aggregate demand pressures resulting from the tight monetary and fiscal conditions. Looking ahead, it is expected that inflationary pressures will rise further between September and December 2020, but at a moderated pace and driven mainly by direct and indirect effects of oil prices, domestic agricultural supply shocks and some existing rural and urban market price formations, sometimes not fully supported by economic fundamentals.

The Nigerian financial sector remains resilient eventhough there are volatility concerns in the capital market, perhaps arising from global financial market movements. The banking sector is strong with increasing total assets and stable profitability indicators, despite the slight reduction in capital adequacy ratio by August 2022. The non-performing loans ratio declined further to 4.8 percent which is a historic level, while the increases in both total deposits and total credit in the banking industry as compared with the position at the last MPC meeting further demonstrates the capacity of the banking industry. The sector upside risks are mainly in the equity market where sustained sell-off activities have continued since the last MPC meeting thus heightening market volatility. Based on the CBN staff report, market capitalization and the All-Share index have declined consistently since July with both the number of deals and value of traded shares declining on a daily basis. The naira exchange rate to the US dollar at the officially recognised I&E window depreciated marginally by 0.94 percent between end-July and end-August 2022, partly due to the recent strengthening of the US dollar, but it is still in line with currencies within the African region. A related concern is the growth of money supply. CBN staff report shows that broad money (M3) grew by 11.05 percent in August 2022, compared with 8.66 percent in July 2022, which although below the provisional benchmark of 15.21 percent for 2022, may pose additional barriers to combating the existing inflationary pressures.

Finally, on the fiscal risk which remains elevated on the back of worsening government debt scenario with poor fiscal revenues similar to the situation at the last two MPC meetings. CBN staff half year economic review for 2022 shows

a significant rise in government expenditure and an underperformance in revenue generation which increased the size of deficits and total debt stock. As oil revenues decline further because of the increasing oil thefts in the Niger Delta region and with non- oil tax revenues still exhibiting sluggish growth patterns, the fiscal outlook becomes even more scary. For now, a transparent expenditure rationalization strategy is imperative, while aiming for a prudent debt level. This will also be socially preferable rather than attempts to either broaden the tax base or impose additional burden on those already in the tax net.

6. OBADAN, MIKE IDIAHI

INTRODUCTION

The Monetary Policy Committee met on September 26 – 27, 2022, at a time of continuing global uncertainties, and the outlook for the global economy continues to be clouded as the prospects of complete elimination of the COVID-19 pandemic and ending soon the Russia-Ukraine war remains dim. As the Russia-Ukraine war progresses, geo-political tensions are becoming persistent and widespread. The COVID-19 pandemic has continued to exert a downward pressure on the global supply chain and upward pressure on prices as new infection rates rose significantly with the spread of new strains of the Omicron variant particularly in China. Similarly, the un-abating Russia-Ukraine war has continued to exert upward pressure on inflation through high prices of energy and food especially in countries heavily dependent on imports of these commodities. Against the backdrop of Nigeria's heavy dependence on food and energy importation, its inflation rate has worsened significantly due to imported inflation.

CURRENT FEATURES OF THE GLOBAL ECONOMY

As at now, the two major shocks to the global economy are the lingering COVID-19 pandemic and the effects of the Russia-Ukraine war. There is also the policy shock from the monetary policy normalisation by the Advanced Economies (AEs) and some Emerging Market Economies (EMDEs).

In light of the shocks, the global economy is now slowing with several key economies having recorded at least one contraction; the US economy has experienced contractions in the first two quarters of 2022, described as

technical recession. Consequently, global output growth forecast for 2022 and 2023 has been downgraded further by the IMF to 3.2 and 2.9 percent, respectively.

Persistently rising inflation across the economies to historically high levels is another very worrisome development in the global economy arising from the above shocks. Individual country inflation figures (e.g., US, 8.3% and U.K, 9.9%) have remained worrisomely above their central bank long-run objectives. Global central banks are now confronted with the difficulty which the Nigerian economy has faced for some time, namely, attempting to combat inflation which has both supply and demand dimensions. Pressures from both the supply and demand sides complicate efforts to tame inflation.

As central banks attempt to tame this rise in inflation with tight monetary policies, the fragile recovery of output growth is increasingly hampered and truncated. Thus, Central Banks across the globe are confronted with a trade-off between dealing with rising inflation, avoiding a near to medium term recession and preventing a global debt crisis.

Global trade has not fared better. Its growth is expected to continue to slow in 2022 and only recover moderately into 2023 and 2024. The decline in trade is forecast to be driven by the continued disruptions to the supply chain, arising from the Russia-Ukraine war and the lingering COVID-19 pandemic causing epileptic lockdowns in China.

While the prices of some major commodities declined in the review period, energy and food prices in general have remained high. However, oil prices have shown weakness. They declined from US\$101.44 per barrel at end-July and US\$102.82 per barrel at end -June 2022 to US\$95.64 per barrel at end-August, due to growing concerns about the slowdown in global growth.

Even the declining oil prices are still high. But unfortunately, the impact of the high regime of oil prices in the global market on the Nigerian economy as an oil exporter has not been favourable. This is due to the country's net oil importer

status. The country not only exports crude oil, it is also a heavy importer of refined petroleum products. This status undermines the gains arising from export revenues at a time most other oil exporting countries are enjoying revenue windfall.

MAJOR DEVELOPMENTS IN THE DOMESTIC ECONOMY

Recent developments in the Nigerian economy point to a serious economic crisis or threat of crisis. Although the growth rate of the economy has remained in the positive terrain, there are indications that it could slow down just as there are fears that most economies could go into recession. Nigeria's real GDP grew by 3.54 per cent (year-on-year) in the second quarter of 2022 from 3.11 per cent in Q1 2022, showing seven quarters of consistent growth. The growth in output was due to the sustained growth in the services and agricultural sub-sectors, supported by continued policy interventions, and credit expansion to the private sector. Growth however, contracted quarter-on-quarter by -0.37 per cent in Q2 compared with - 14.66 percent recorded in Q1 2022. However, the growth achieved is still fragile, considering the several downside risks and array of policy responses to the rising inflation.

The overriding challenge at present is the escalating inflation. It is the major downside risk to growth, investment and living standards in the country. From 15.7 percent in February 2022, headline inflation consistently increased to 18.6 percent in June to 20.52 percent in August, 2022, the highest in 20 years. Core inflation, and food inflation have similarly trended upwards causing strong concerns. Although, there are the legacy causal factors of inflation in the country, recent global shocks have played prominent roles, for example, increased energy and food prices in the world market consequent upon post-recovery increased demand in the AEs and the supply chain disruptions of the Ukraine-Russian war. In the context of globalisation and Nigeria's heavy dependence on imports, imported inflation has played a major role in the country's inflation acceleration. The domestic triggers of inflation include: food shortages caused by insecurity in the food producing areas of the country;

increasing cost of logistics; monetary expansion in relation to the need to support growth; domestic increases in energy prices; depreciating exchange rate arising from foreign exchange shortage in the market; and government's weak fiscal position resulting in money supply increases and unsustainable public debt. Appropriate domestic policies to address the domestic factors can also help to mitigate the impact of exogenous shocks.

Two other challenges of the economy relate to ballooning fiscal deficit and the associated unsustainable public debt (internal and external) and foreign exchange market crisis. The performance of the Federal government's budget for some time now elicits deep concerns. It showed a significant rise in government expenditure and underperformance in revenue generation, which increased total debt stock and fiscal deficit. As at the end of the first half of 2022, the realised revenue of the government was N2,260.34 billion, which was 50.1 per cent of the budgeted revenue for the same period, while N6,429.98 billion was spent. Hence, fiscal deficit for the first half of the year rose by 59.1 per cent from the projected N2,621.41 billion to N4,169.64 billion. Consequently, in the first half of 2022, Nigeria's total public debt stock expanded year-to-date by 8.2 per cent to N42.85 trillion (US\$103.3 billion), from N39.56 trillion (US\$95.80 billion) recorded in December 2021. Total debt service is also ballooning to unsustainable levels, from N1.433 trillion in the first half of 2021 to N1.883 trillion in the first half of 2022. What seems to be clear is that the country is facing high fiscal sustainability risks from low revenues, rising debt servicing costs and crowding-out of capital expenditure.

Finally, is the crisis in the foreign exchange market which is due, not to the CBN's poor management, as claimed by some critics, but to the undiversified nature of the economy, low productivity, exogenous shocks and brazen activities of unpatriotic citizens and enterprises. Against the backdrop of serious supply – demand imbalances, foreign exchange scarcity has persisted in the foreign exchange market while the naira exchange rate has experienced serious depreciation in recent times.

The gross external reserves position is not comfortable. At US\$ 38.46 billion as at end-August, 2022, the foreign reserves could cover 8.55 months of import of goods and 6.61 months of import of goods and services. Although these may be said to be higher than international thresholds, they do not provide the flexibility for the country to use more reserves to support the exchange rate.

Signs of economic crisis not heeded

There are obvious signs of economic crisis that has enveloped the country for quite some time. The crisis has manifested in the country's consistent living beyond its means and the associated issues: persistent and escalating fiscal deficits, rising public debt and debt servicing, the latter taking the lion's share of government revenue, inability of the country to earn adequate foreign exchange to support the exchange rate, excessive foreign exchange demand, hence the persistent depreciation of the naira in the foreign exchange market; growth rate concerns and escalating inflation; and macroeconomic instability, among others. All these complicate monetary policy decision-making.

Even with the presence of this situation in the country, there seems to be no due recognition by stakeholders of the real problem – consuming more than the country earns, in both naira and foreign exchange. Political and economic managers do not seem to appreciate this and so engage in unproductive spending in the face of limited revenue and foreign exchange. Thus, there is a strong need to recognise the economic crisis in the country and embrace strong reforms – stabilisation and adjustment measures – of course, with a human face.

To actualise this, the fiscal authority needs to complement the measures that the CBN has put in place by reviewing the structure of public spending to bring down expenditure on non-essential goods and services at this point in time; it is highly desirable to do so. Some measures to be considered are as follows:

- Suspension of establishment of new government institutions; many of the existing institutions and even the new ones being established duplicate the existing ones;

- Develop the political will to implement the recommendations of the Oronsaye Committee set up by Government some time ago on the rationalisation of Government enterprises and institutions;
- Effect a drastic cut in the emoluments of political office holders including members of the legislatures;
- Consider deregulation of petroleum product prices (premium motor spirit) to free the nation from the payment of fictitious subsidies and associated corruption, and save money for welfare programmes;
- Suspend all unnecessary foreign travels which put pressure on the nation's highly limited foreign reserves and the naira exchange rate;
- Similarly, review the merchandise imports structure to ensure that only imports of merchandise that cannot be produced in the country benefit from official foreign exchange;
- Provide political support to the CBN to review access to foreign exchange for invisibles; to this end, official foreign exchange should be suspended for school fees for new students while foreign exchange access for existing students should continue until they graduate;
- Under the situation of economic crisis in which the country currently is, it will not be out of place to review the Basic Travel Allowance (BTA) downwards while only critical cases of illness should benefit from official foreign exchange.

On its own part, there is the compelling need for the CBN to introduce strong measures, which though may be tagged by some people as harsh, to check the trend of dollarization of the economy and the large volumes of cash floating in the economy with serious implications for inflation and exchange rate stability.

OPINION

Against the backdrop of the global and domestic economic features, my monetary policy opinion is predicated on the subsisting worrisome features of the domestic economy, in particular inflation, the primary mandate of the CBN, and recent empirical findings by the Bank on the Monetary Policy Rate (MPR) – inflation nexus.

The primary mandate of the Bank, according to the CBN Act, 2007, remains monetary and price stability. The support to economic growth by the Bank,

although provided for in the Act (Section 31), is to me ancillary. For some time now, the Bank has supported the nation's growth objective rather massively and understandably. The initiatives have yielded encouraging results in terms of leading the economy out of two recessions and enabling steady recovery, the Russian-Ukraine war notwithstanding.

But at this point in time, the Bank's primary mandate is threatened by rising monetary expansion and worrisome increases in the rate of inflation, for the seventh consecutive month. The inflation has been driven by both monetary and non-monetary/structural factors including insecurity challenges, exchange rate depreciation, energy prices, infrastructure deficits, and exogenous shocks arising from the lingering effects of covid-19 and the adverse effects of the Ukraine-Russian war on supply chains.

In response, the CBN has since May 2022 pursued a tighter monetary policy strategy entailing upward adjustments in the Monetary Policy Rate to address the escalating inflation. But, perhaps, because of policy lags, the significance of the non-monetary factors at work, and structural nature of some of the factors, a deceleration of inflation has not yet happened.

However, a recent policy study by the Research Department of the Central Bank on "The Impact of Monetary Policy Rate Adjustment on Key Indicators" including the rate of inflation, provides hope on the effectiveness of the monetary policy strategy in reversing the upward trend of inflation on a sustained basis from September/October 2022, till June 2023.

The study showed that raising the MPR from the extant 14.0 percent to 14.5 percent or 15.0 percent would reduce headline inflation faster than leaving the rate at 14.0 percent. It also shows that holding the policy rate at 14.0 percent is more growth-inducing compared to raising it to 14.5 or 15.0 percent. The growth outcomes of raising the MPR to 14.5 percent or 15.0 percent were found to be lower than those of holding the rate at 14.0 percent. It tends to confirm the hurtful nature of high interest rates in relation to growth.

Nevertheless, the growth projections under interest hikes are not bad as generally perceived. Even if they were to be worse than those suggested by the empirical findings, the Bank would still need to do the needful at this time of serious threat to its primary mandate. Trade-offs are inevitable under the present circumstances. The fiscal authority would need to support growth more vigorously, while the monetary authority focuses more on monetary and price stability.

Therefore, guided largely by the empirical insights, among others, and the need to have a good handle on inflation, I will support a further tightening of the monetary policy stance by raising the MPR by 100 basis points to 15.00 percent and the Cash Reserve Requirement by 5 basis points to 32.5 percent. Other parameters should be held constant.

7. OBIORA, KINGSLEY ISITUA

The Bank must maintain focus on inflation especially as its persistence continues to have severe impact on every economic agent, but most especially poor and vulnerable households. It is in light of these adverse trends that I voted to raise the Monetary Policy Rate (MPR) to 15.5 per cent from 14.0 per cent, increase the Cash Reserve Ratio (CRR) to 32.5 per cent from 27.5 per cent, retain the Liquidity Ratio (LR) at 30.0 per cent and the asymmetric corridor of +100/-700 basis points around the MPR, respectively. I believe this stance will help re-anchor inflation expectations, restore price stability, and engender inclusive growth.

The global inflationary pressures continue to intensify amid economic slowdowns. Although drivers of inflation vary across regions and countries, key developments that are aiding the current inflationary pressures across the world include rising food and energy prices occasioned by the ongoing Russia-Ukraine war, post-pandemic increasing demand and supply chain disruptions, tight financial conditions and China's economic slowdown. The Russia-Ukraine war, in particular, has further disrupted the world commodity markets, adding to rising food and energy prices globally. These factors are weighing heavily on global economic activity. As a result of these factors, global inflation has been revised upward and projected to remain elevated. In Advanced Economies (AEs), inflation is expected to increase by 6.6 per cent in 2022 from estimated

3.1 per cent in 2021. Inflation in Emerging Market Developing Economies (EMDEs) is projected to increase by 9.5 per cent in 2022, up from 5.9 per cent in 2021, respectively (IMF July 2022, World Economic Outlook). In advanced economies, inflation is currently far above the target rate of 2.0 per cent set by the Central Banks under inflation targeting framework. In the United States and the United Kingdom, inflationary pressures remained persistently high though they eased to 8.3 and 9.9 per cent in August from 8.5 and 10.1 per cent in July 2022. In the Euro Area, inflation increased to 9.1 per cent in August from 8.9 per cent in July 2022. In some Emerging and Developing Economies (EMDEs), inflation is getting more entrenched, with Turkey, Argentina, Ghana and Egypt recording 80.2, 78.5, 33.9 and 14.6 per cent in August 2022, up from 79.6, 71.0, 31.70 and 13.60 per cent in July 2022, respectively.

To contain these global inflationary pressures, Central Banks across the world are responding by aggressively raising interest rates. The Federal Reserve, the Bank of England, the European Central Bank, the Bank of Canada, and the Reserve Bank of Australia are aggressively lifting interest rates and have further signalled for more interest rate hikes in 2022. In terms of frequency, the Federal Reserve has raised its interest rate five times since March 2022. Also, the Bank of Canada, and Bank of Australia have raised their interest rates four and three times, respectively, since March 2022. The Bank of England has increased its interest rate seven times since December 2021. While South Africa has raised its interest rate six times since November 2021, Nigeria has increased its rate for the 3rd consecutive time since May 2022. Other African countries, including Angola, Egypt, Ghana, Morocco, Tunisia, and Kenya are also aggressively hiking the rates to rein in inflationary pressures that have become more persistent in these economies. Inflation is rising rapidly worldwide, and Central Banks must act quickly to contain it, especially in low-income countries where soaring food prices and other necessities are worsening food insecurity, inequality, and poverty. It is estimated that about 345 million peoples' lives, and

livelihoods are in immediate danger of acute food insecurity worldwide, with the majority living in Low-income countries (UN World Food Programme, 2022)

Against this backdrop, global growth is expected to slow down significantly in 2022 compared with 2021. The J.P. Morgan Global Composite Purchasing Managers Index (PMI) declined for the first time since June 2020. It fell to 49.3 in August from 50.8 in July 2022 due to simultaneous contraction in both manufacturing and services sectors, occasioned by a decline in the volume of international trade and new order inflows. This development confirms the continued weakening of the global economy. Accordingly, the IMF has projected global growth to slow down to 3.2 per cent in 2022 from an estimated 6.1 per cent in 2021. The downward revision was due to supply chain disruptions, rising commodity prices, tight financial conditions, the Russia-Ukraine war and weak growth in China. As a result, growth in the Advanced Economies (AEs) is forecast to moderate to 2.5 per cent in 2022 from 5.2 per cent in 2021. In the EMDEs, it is expected to slow down from an estimated 6.8 per cent in 2021 to 3.6 per cent in 2022 (IMF, WEO July 2022). In the United States, growth is projected to decline to 2.3 per cent in 2022 from an estimated 5.7 per cent in 2021, driven by soaring inflation and a tight monetary policy stance. In the Euro Area, growth is forecast to slow down to 2.6 per cent in 2022 from an estimated 5.4 per cent in 2021. This is due to negative spillover from the Russia-Ukraine war, potential energy crisis and tight monetary policy stance. Also, in China, growth is expected to decrease by 3.3 per cent in 2022, from 8.1 per cent in 2021, due to zero-COVID policy and a struggling property market.

Following these global developments, growth in domestic economy appears to have cooled, albeit slightly. The latest official figures from the National Bureau of Statistics (NBS) showed a moderation of real GDP growth (year-on-year) to 3.54 per cent in Q2 2022 from 5.01 per cent in the corresponding quarter of 2021, representing a decline of 1.47 percentage points. It, however, increased compared with 3.11 per cent in the preceding quarter. The moderate growth

was mainly driven by the non-oil sector, including Road Transport; Financial Institutions; Telecommunications, Manufacturing (Food, Beverage & Tobacco); Trade; and Agriculture (Crop Production) which grew by 56.38, 20.06, 7.70, 5.11, 4.51 and 1.54 per cent, respectively. Overall, the non-oil sector moderated by 4.77 per cent, compared with 6.08 per cent in Q1 2022, reflecting a decline of 1.31 percentage points. In terms of relative contribution, the non-oil sector contributed 93.67 per cent to the GDP in Q2 2022. The real growth of the oil sector, however, contracted for the 9th consecutive quarter in Q2 2022. It contracted by -11.77 per cent (year-on-year) in Q2 2022, indicating, however, an increase of 14.27 percentage points, compared with a contraction of -26.04 per cent in Q1 2022. The contraction in the Oil sector was mainly due to pipeline vandalism and oil theft, with adverse implications for Federal Government revenues and accretion to external reserves and exchange rate stability. Overall, the Oil sector contributed 6.33 per cent to GDP in Q2 2022. As a result, IMF projected the economy to moderate slightly to 3.4 per cent in 2022 from 3.6 per cent in 2021. However, the Balance of Payment's (BOP) position recorded an overall surplus of 0.08 per cent of the GDP in Q2 2022, compared with a deficit of -2.22 in the corresponding quarter of 2021, driven by an increase in the current account balance, decrease in the Net Acquisition of Financial Assets (NFA) and increase in Net Incurrence of Financial Liability (NFL). Consequently, the gross external reserves increased (month-on-month) by 0.39 per cent to US\$38.46 billion at the end of August 2022 from US\$38.31 billion at the end of July 2022, thereby contributing to the relative stability of the exchange rate at the Investors and Exporters (I&E) windows. Overall, the modest growth was driven, in part, by the continued intervention programmes of the Central Bank of Nigeria (CBN).

Despite these headwinds, the banking system remained sound, safe and resilient amid slowing economic growth. Total assets of the banking industry showed an increase of ₦10.72 trillion or 19.13 per cent from ₦56.04 per cent in August 2021 to ₦66.76 trillion in August 2022, driven by balances with

CBN/banks, investments, and credit expansion to the real sector. As a result, the total flow of credit to the economy increased from ₦22.62 trillion in August 2021 to ₦28.12 trillion, representing an increase of 24.3 per cent to the key sectors of the economy, including Oil and Gas, Manufacturing, General, Governments and commerce. Also, lending to individuals and households increased from ₦1.848 trillion in Q2 2020 to ₦2.496 trillion in Q2 2022. The industry Non-Performing Loan (NPLs) ratio was 4.8 per cent at the end of August 2022 compared with 6.0 per cent at the end of August 2021, which was below the prudential maximum of 5.0 per cent. The decline in NPLs was attributable to write-offs, restructuring of facilities, Global Standing Instruction (GSI) and sound credit risk management by banks.

Upward pressure on domestic prices have caused significant imbalances in the economy. Inflationary pressures have continued to intensify in the country as headline inflation increased to a 17-year high. Headline rose to 20.52 per cent in August from 19.64 per cent in July 2022, the seventh consecutive month of surging since February 2022, driven by rising food and core inflation. Food inflation increased by 23.12 per cent in August from 22.02 per cent in July 2022. The sustained rise in food prices is driven by spill-over effects of increased transportation costs, exchange rate pressure on input costs, and security challenges in food-producing areas. Core inflation also increased to its highest level since January 2017, reaching 17.20 per cent in August from 16.26 per cent in July 2022. This is the fifth consecutive month of increase in core prices. This is driven by the rise in the prices of processed foods, housing, water, electricity, gas and other fuel, clothing, footwear and transport. The economy grew by 3.6 per cent in 2021 and is expected to moderate to 3.4 per cent in 2022, indicating the growth is still fragile. This is partly because domestic crude oil production continued to trend below the OPEC quota of 1.83 mbpd. The continuous shortfall was attributed to the renewed cases of oil theft and pipeline vandalism, leading to increasing fiscal deficit and rising debt burden. The monthly Composite Purchasing Manager Index (PMI) fell to 47.2 index points in

August 2022 from 50.4 pts in July 2022, indicating a contraction in the overall economic activity after four consecutive months of expansion. Furthermore, lingering security challenges, rising poverty, inequality, unemployment and widening infrastructural deficits continued to drag growth recovery.

The MPC needs to respond to inflation and its associated imbalances: With inflation far above our implicit target of 6-9 percent, it is necessary that we continue to act because rising inflation is a threat to inclusive growth, poverty reduction and job creation. Having achieved some modest growth for the seventh consecutive quarter, we must remain focused and act aggressively to bring this inflation under control and assist the Bank to re-anchor inflationary expectations on a downward trajectory, restore price stability and achieve sustained economic growth.

On these bases, I voted to:

- Increase the Monetary Policy Rate (MPR) from 14.0 percent to 15.5 percent.
- Increase the Cash Reserve Ratio (CRR) from 27.5 percent to 32.5 percent.
- Retain the Liquidity Ratio (LR) at 30.0 percent; and
Retain the asymmetric corridor to +100/-700 basis points around the MPR.

8. OMAMEGBE, MO'

Global Economic Developments

The global economy continues to be weighed down by inflationary pressures, high energy prices, the Russian/Ukraine war and rising uncertainty. The effects of these headwinds have been extensive as several economies are in a recession or some form of financial crisis. The IMF's bailouts to economic troubled nations have reached an all-time high. As at the end of August 2022, the fund has disbursed US\$140 billion in 44 separate programs.

In a recent research paper titled "*Risk of Global Recession in 2023 Rises Amid Simultaneous Rate Hikes*," The World Bank warned that the simultaneous nature of interest rate hikes in response to increasing inflationary pressure may trigger a global recession in 2023 as well as a number of other financial crises. The bank further observed that the degree of synchronicity by which central banks around the world have been raising interest rates has not been seen in the past fifty years.

Inflation remains a concern globally as a number of countries continue to experience a rise in general price levels. Inflation data shows the US recorded an 8.3% rate in August 2022, from the record four-decade high of 8.5% in July 2022. While in the Euro area inflation rose to the ninth consecutive record high at 9.1 % in August 2022, up from 8.9 % in July 2022.

In the African continent, inflation in Egypt was recorded at a high of 14.6% in August 2022, up from July 2022 rate of 13.6%. This is the highest rate since November 2018. South Africa's inflation eased to 7.6% in August 2022 after hitting a record high of 7.8 % in July 2022, its highest level in 13 years. In Ghana inflation rose to a record 33.9%, the highest since 2001, despite raising the benchmark interest rate to a record high of 22% the previous month.

In the US, The Federal Reserve raised the benchmark interest rate by 75 basis points, the third of such consecutive rate increases bringing the Fed rate to 3%-3.25%. In the United Kingdom, the Bank of England raised its benchmark interest rate by 50bps to 2.25%, this is the highest since 2008 raise and represents the seventh consecutive increase in its policy rate.

Domestic Economy

According to the National Bureau of Statistics (NBS), Nigeria's Gross Domestic Product (GDP) grew in Q2 by 3.54% (YoY) relative to 3.11% in Q1 2022.

NBS data also showed Nigeria's inflation rate in August 2022 increased to 20.52% (YoY). This is the highest point since October 2005. Food inflation rate was 23.12%, 2.82% higher than the 20.3% recorded in the preceding month. Core inflation rose to 17.2% from 16.26 % in July 2022, the highest point since January 2017. Urban and rural inflation were 20.95% and 20.12% respectively. These rising price levels have been attributed to the disruption in the supply of food products, rising input prices and import costs.

Nigeria's 2022 fiscal budget continues to experience further shocks as crude oil production fell to an all-time low of 0.972 mbpd in August 2022 from 1.08 mbpd in July 2022 according to the National Upstream Petroleum Regulatory Commission (NUPRC). Crude oil production continues a steady decline since January 2022 as the country lost about 13.21 million barrels of crude oil estimated at N603.64 billion between January 2022 and August 2022.

The total cost of Nigeria's fuel subsidies rose to N 2.568 trillion in August 2022, according to the latest data from the Nigerian National Petroleum Company Limited (NNPCL). There has been a sustained loss in crude oil production due to large scale theft with an estimated monthly revenue loss of about US\$1.2 billion. The country external debt profile continues to be a concern and global rate hikes will likely impact debt servicing obligations.

Nigerian Capital Market

The complexity of the Nigerian capital market is growing. However, with the development of the market and expansion of product offerings, the derivatives market presents a great opportunity for the next phase of growth of the market.

Derivatives will play a major role in the development of innovative products to not only deepen the capital market and provide liquidity, but also complement the benefits of the Commodities market by providing hedging opportunities for various types of risks. The use of derivatives in global financial markets has grown rapidly in response to increased volatility in exchange rates, interest rates, commodity prices and the need to manage risk in a complex financial environment.

The development of derivative products in our market will go a long way in hedging against foreign currency fluctuations and encourage foreign direct investments.

Monetary policy tightening is beginning to negatively impact the equities market as the market witnessed a reduction in the value and volume of securities traded in the major Exchanges in the past month. The NGX All Share Index lost about 6% as of September 27, 2022 and this underperformance was witnessed across all indices and most investment classes.

There has been a gradual reallocation of portfolios in favour of fixed income securities as investors seek downside protection from a potential bear market. Increase in Treasury Bills yields further dampens the outlook for equities in the coming months. While a contraction in the market performance may be further envisaged due to a sustained tightening policy, however, low equity prices present a buying opportunity for investors.

Overall consideration

Inflation is high in the country and remains high globally. The rising inflation reflects the disequilibrium between increased demand and supply shortfall due

primarily to the pandemic and the Russian/Ukraine war. Pressures on supply chains around the world have eased considerably, but their operations are still far short of pre-pandemic levels. On the domestic front, we continue to see increased pressures on supply chains, food and energy prices.

According to the NBS, food inflation rate rose to 23.12% in August 2022. Elevated global price pressures on imported goods will likely further pass through to domestic prices. The rising inflation significantly impacts Nigerians especially those in the low-income demographic. This class of citizens spend nearly all their income on food and necessities and consequently mostly impacted by increasing food and energy prices.

The Monetary Policy Committee tightened policy in the past couple of cycles to tame inflation. We have seen simultaneous policy tightening across the world with additional implications for our country. While growth has held somewhat steady due to CBN's targeted intervention in priority sectors, the transmission of the effect of the Bank's tightening policy in the economy to bring down inflation will take some time to manifest.

The global economic outlook appears dim and uncertain, and this uncertainty and associated headwinds requires we pay increased attention to both local and global risks. Several central banks in developed economies and the Euro zone have continued to aggressively tighten monetary policy with rates increases of 125 basis points or more in the past six months. Additional shocks emanating from the Russia/Ukraine war, China's zero-Covid 19 policies and the pandemic are anticipated to adversely affect not only the global economy but also our domestic outlook. Spillovers from the synchronous global tightening as well as cross border effects of interest rates and exchange rates poses significant tradeoffs for monetary policy.

As the inflation rate continues to trend upwards, it would be premature to loosen policy at this time. It will take some time for the cumulative effect of tightening to work its way broadly through the economy and reverse the current inflationary trend. Therefore, monetary policy should maintain a restrictive stance to ensure we get a handle on the inflation trajectory.

My Policy Decisions

I therefore vote to:

- Raise MPR by 150 basis points to 15.50 percent;
- Retain the Asymmetric Corridor of +100/-700 basis points around the MPR;
- Raise the CRR by 500 basis points to 32.5 percent;
- Retain the Liquidity Ratio at 30 percent.

9. SALISU, MOHAMMED ADAYA

Global Developments and Economic Outlook

The global economy is in a straitjacket, as since the last meeting of the Monetary Policy Committee on 18th and 19th July, 2022. The growth in global output has continued to slow down due to the same set of factors, including the continued Russian war in Ukraine, rising inflation, and supply chain disruptions in China. Thus, it is now apparent that the global economy is faced with material downside risks to growth and upside risks to inflation, which could further undermine the pace of economic recovery and expansion. It is therefore highly likely that the 2022 global output growth forecast of 3.2 percent earlier projected by the International Monetary Fund (IMF) may not materialise.

It is noteworthy, however, that the global growth forecast masks considerable variation across the regions of the World, with the outlook in emerging markets and developing economies (EMDEs) outperforming that in advanced economies (AEs), especially in the Euro Area, whose economies may be more adversely affected by their dependence on Russia and Ukraine for energy and agricultural commodities and inputs. For instance, Saudi Arabia, which grew by 12.2 per cent year-on-year in Q2, 2022 up from 9.90 per cent in Q1, 2022, is projected to be the world's fastest growing economy in 2022, outperforming most AEs and emerging economies (Trading Economics, August 2022, reported in the Economic Research Report of the CBN's Monetary Policy Department). Despite this impressive growth performance, fuelled largely by rising energy prices, the Saudi Arabian Monetary Authorities have been tightening policy in line with the US Federal Reserve due to the pegged exchange rate system between the two countries.

Countries such as India and Indonesia have also recorded impressive growth performance, while many other countries have been affected by the continued Russian war in Ukraine, which is causing serious downside risks to many European countries as well as the global economy. The slowdown in China's economic growth is another source of concern to the global economy. As is well known, China is the world's manufacturing powerhouse. Thus, the re-introduction of stricter Covid-19 containment measures in China has slowed down economic activities, with devastating consequences for output, supply, and exports. These supply-related disruptions have exacerbated inflationary pressures globally. As is being observed, global inflation sustained an upward trend, remaining well above the long-run objectives of almost all central banks across the globe. Although inflation in the United States slowed down to 8.30 per cent in August 2022, compared with 9.10 per cent in July 2022, it was four times higher than the 2.0 per cent inflation target rate and above the market forecast of 8.0 per cent. In contrast, inflation in the United Kingdom surged to

double digit in September 2022 – the highest level in 40 years. In the euro area, the consumer price index (CPI) rose to 9.10 percent compared with the corresponding period in 2021 – its highest level since the inception of the monetary union.

Domestic Developments

On the domestic front, the Nigerian economy has continued to grow despite global and domestic challenges. Real gross domestic product (GDP) grew at 3.54 per cent in Q2, 2022, compared with 3.11 per cent in the preceding quarter, driven largely by the non-oil sector, especially the services and agriculture sub-sectors. In contrast, the oil sector contracted by 11.77 per cent in Q2, 2022, due to crude oil theft and other production challenges that constrain Nigeria from meeting its quota under the Organisation of Petroleum Exporting Countries (OPEC) oil production policy. In addition, Nigeria has not taken full advantage of the high international oil prices due to the high cost of imported refined petroleum products, which translates to high fuel subsidy with attendant consequences for Government revenues and foreign exchange management. Despite the unsatisfactory performance of the oil sector, the Nigerian economy is expected to continue a positive growth trajectory, with medium term growth projections ranging from 3.52 per cent (CBN) to 4.20 per cent (Federal Ministry of Finance, Budget and National Planning) in 2022. Both the World Bank and the IMF have, however, forecasted that the Nigerian economy will grow by 3.40 per cent in 2022. Even so, there is room for improvement in economic performance as the Nigerian economy appears to be operating below its full potential. Analysis by CBN staff found credible evidence of an existence of a substantial output gap between the real GDP and potential GDP, which increased from 7.10 per cent in Q1, 2022 to 7.23 per cent in Q2, 2022. This is not surprising in view of the underutilization of productive resources in the country with unemployment in excess of 33.0 per cent according to the National Bureau of Statistics.

In spite of the continuous growth in real GDP, Nigeria is faced with a serious problem of rising inflation, especially food inflation. In August 2022, inflation rose to 20.52 per cent, up from 19.64 and 18.6 per cent in July and June 2022, respectively, despite successive increases in the monetary policy rate. Food prices have risen astronomically due to structural issues as well as the effects of the war in Ukraine, which have exacerbated food inflation through high prices of farm inputs such as fertilizer. Other drivers of inflation, especially food inflation, in Nigeria include disruption to farming activities because of worsening security conditions, flooding, rural road infrastructural deficits, persistent supply chain disruptions, post-harvest losses, and imported inflation through sustained exchange rate pressures with pass-through to domestic prices. Thus, if high inflation is to be curbed in Nigeria, there is an urgent need for the fiscal authorities to do more to complement the efforts of the monetary authorities.

Policy Decision

The Monetary Policy Rate (MPR) in July 2022 was raised by 100 basis points to 14 per cent, even though I voted to raise the rate by 75 basis points in the hope that a cumulative rate hike of 225 basis points in May and July would be enough to tame inflationary pressures. I was, however, proved wrong, as a study on the time lag between policy rate hike and deceleration in inflation by CBN staff suggests that in the past, the increase in consumer prices began to decelerate three months after the first hike in policy rate, and the pace was further strengthened one month after the second hike. However, given the forthcoming 2023 elections, the food insecurity challenges, and the uncertainty around the war in Ukraine, it is likely that inflation will remain elevated for much longer and at higher levels than previously assumed. Thus, the Central Bank of Nigeria must not relent in using the MPR and other monetary policy tools to curb the inflationary pressures in the country, especially now that the fiscal authorities have limited tools in view of the constrained fiscal space. This calls for a drastic action on the part of the fiscal authorities, to do more to complement the efforts of the monetary authorities, including reducing the size of fuel subsidy, reducing

the cost of governance, exploring ways of generating more non-oil revenue, increasing the volume of crude oil production by tackling crude oil theft, and security generally.

Since inflation in Nigeria is stubbornly high and it is likely to continue to rise unabatedly in the medium term, I was clear in my mind that an increase in both the MPR and CRR was necessary to have any significant impact on inflation.

Accordingly, I voted to:

- Raise the MPR by 100 basis points to 15%
- Raise the CRR by 500 basis points to 32.5%
- Retain the Asymmetric Corridor at +100/-700 basis points around the MPR
- Retain the Liquidity Ratio at 30.0%

10. SANUSI, ALIYU RAFINDADI

1.0 Decision

My vote to raise the MPR and CRR in the September's meeting reflects my conviction that, given the trend and level of inflation as well as staff forecasts, monetary policy has to continue to tighten to rein in inflation. Although the present inflationary episode has some significant supply-side, structural, cost and imported components, available data show that the roles of their second-round effects, monetary factors, and high inflation expectations assume a very important influence. In addition, central banks' synchronised monetary policy responses that raise real yield across the globe require further tightening to mitigate the foreign exchange market pressure from the impending capital flow reversals. Besides the unabating fiscal deficits and rising public debt amidst the electioneering spending expected during this pre-election year, further tightening is required to rein in inflation and stabilise the exchange rate. I, therefore, voted to further tighten the policy stance at this meeting.

2.0 Background and Justification

2.1 Global Economic Developments

The unabating global inflationary consequences of the Russian -Ukrainian war have continued to shape the policy responses of the major central banks amidst the re-introduction of COVID-19 containment measures in major Chinese industrial cities, have disrupted the global supply chain and depressed global manufacturing output. Consequently, the risk of recession is heightened.

On the one hand, the disruptions to the global supply chain occasioned by the Russia-Ukraine war and the re-introduction of lockdowns in some major industrial cities in China to contain the resurgence of the COVID-19 pandemic have continued to slow down the global output recovery. On the other hand, the continued global inflationary pressure arising from the fallout of the war in Ukraine, especially in energy and food prices, has caused most central banks in both Advanced Economies (AEs) and Emerging Market and Developing Economies (EMDEs) to aggressively raise their policy rates to rein in inflation. Given the mounting global corporate and public debt portfolios, the tightening global financial condition following the aggressive rate rise has increased the risk of another global financial meltdown. These developments have caused the IMF to further downgrade its output growth forecast for the global economy for 2022 from 3.6% to 3.2% and from 3.6% in 2023 to 2.9%. In the Advanced Economies (AEs), output growth is similarly forecasted to decline progressively from the 5.2% achieved in 2021 to 2.5% in 2022 and 1.4% in 2023. In the EMDEs, output growth is projected to slow down from the 6.8% achieved in 2021 to 3.6% in 2022 before rising to 3.9% in 2023. Y-o-Y output in the US has recorded the second quarterly contraction of -0.6% in 2022Q2 compared to -1.6% in 2022Q1. The UK has also recorded an output contraction of -0.1% in 2022Q2 compared to 0.8% in 2022Q1. Similarly, China and South Africa recorded output contraction in 2022Q2. However, the Euro Area, Japan, Russia, Brazil and Nigeria, all recorded some improvements in 2022Q2. JP Morgan's global PMI decreased in August 2022 to 49.3 from 50.8 in July 2022. The Global Manufacturing and Global Services PMIs also declined, suggesting global output contraction.

International oil prices have remained high because of Russian supply concerns and rising oil demand in China. As of 22nd September 2022, the price of OPEC Basket stood at \$96.31/b. Global demand is forecasted to grow from 99 million barrels per day in 2022 to 101.49 million barrels per day in 2023. Global commodity prices, including prices of agricultural produce, have generally declined as Russia suspends the blockade of Ukrainian wheat export. The global food price index has also continued to decline.

Although inflation remains high and significantly well above the long-term targets in most advanced economies, inflationary pressures in the US and UK have started to ease as global commodity prices and global supply constraints ease. Inflation in the Advanced Economies is forecasted to rise to 6.6% in 2022 from 3.1% in 2021 but will decline to 3.3% in 2023. In EMDEs, inflation is forecasted to rise to 9.5% in 2022 from 5.9% in 2021. In 2023, it is expected to decline slightly to 7.3%. As of August 2022, inflation (year-on-year) has risen in all the major EMDEs economies, including Ghana (33.9%), Egypt (14.6%), India (7.0%) and Nigeria (20.52%), but declined in China (2.5%) and South Africa (7.6%).

As inflation continues to rise, Central Banks in Advanced Economies and EMDEs have continued with aggressive rate hikes to rein in inflation. The Bank of England raised its repo rate by 50 basis points to 2.25%. The US Fed also raised its rate by 75 basis points to 3.00 - 3.25%. The ECB also raised its rate by 075 basis points to 1.25%. In EMDEs, most central banks are shifting to monetary tightening in response to their rising inflation and an anticipated rise in capital outflows associated with the rates hike in major advanced economies. Capital outflows from the EMDEs have continued, with several countries experiencing reserves loss, currency depreciation and heightened risks to growth and financial stability. Consequently, the South African Rand, the Egyptian Pound and the Ghanian Cedi have all depreciated against the US dollar. Although the net portfolio outflows were recorded in the last five months (since March 2022) in EMDEs due to the policy normalisation in the AEs, a net inflow of US\$27billion was recorded in August 2022.

One key implication of these global developments on the domestic economy is that while the rising global inflation increases the costs of an imported component of the domestic CPI, the tightening global financial condition could substantially raise the sovereign debt and its servicing payments and weaken access to external funding. In addition, the capital outflows could raise pressure on the external reserves and foreign exchange market.

2.2 Domestic Economic Developments and their Implications

Domestic output grew by 3.54% (y-o-y) in Q2 2022 compared with 3.11% in Q1 2022. This better-than-expected growth was driven by the non-oil sector, particularly Services, Agriculture and Manufacturing. This is the seventh consecutive positive growth since the last recession in 2020. The oil sector GDP contracted for the 9th successive quarter because of seemingly unabating production problems associated with oil theft and pipeline vandalism. These problems have continued to deprive Nigeria of the opportunity presented by the high oil prices to build external reserves, stabilise the exchange rate, as well as mitigate the pass-through effects of imported inflation. Output is forecasted to grow at 3.51% in Q3 2022, 3.94% in Q4 2022 and 3.52% in 2022. The outlook is predicated on the effective implementation of the Medium-Term National Development Plan (MTNDP), improvement in manufacturing activities, as well as the positive impact of CBN interventions.

NBS data show that domestic headline inflation has continued to rise from 19.64% in July 2022 to 20.52% in August 2022, representing 88 basis points increase, driven by 110 and 94 basis point increases in the food and core components, respectively. A closer analysis of the inflation data reveals two important facts: first, out of the 88 basis points increase in the headline inflation, the three largest components accounting for 75% of the headline inflation (Food & Non-alcoholic beverages, Clothing and Footwear, and Energy) recorded an increase of 78 basis points. This implies that 89% of the rise in headline inflation was due to a rise in these three, the largest being a 66bp increase in Food and Non-alcoholic beverages. The increase in Food inflation

(110 bps) was mostly from Processed Food, Bread & cereal, Yams, Potatoes & other tubers, Fish & Seafood, Meat and Vegetables. The rise in core inflation (by 94bps) was generalised, but with the processed food component, Energy, clothing & wear recorded the highest increases. These generalised increases in headline inflation imply that the inflationary process is driven by a combination of demand and supply side factors, owing to the second-round effects due to the persistence in food and energy inflation leading to high inflation expectations. Staff estimates from surveys show that in August 2022, expected inflation was significantly higher than actual, which partly implies that there is a role for monetary policy action despite the relative prominence of cost-push factors. In addition, analysis of the available data suggests that developments in the monetary sector may also have a significant role in the inflationary process. For instance, although broad money (M3) grew by 11.05%, less than the provisional benchmark of 15% for 2022 because the rise is driven by rising claims on the government, its role in the current inflationary processes may be substantial. Since March 2022, the net claims on government have grown faster than the provisional benchmark of 11.42% for 2022. For example, it grew from 45.28% in July 2022 to 51.75% in August 2022. This largely reflects the difficult fiscal situation, characterised by declining revenue, rising expenditure and mounting public debt stock and repayment, which forces the government to borrow. Staff forecasts show that headline inflation would further accelerate to 20.94% in September 2022 from 20.52% in August 2022.

The banking system stability report shows that the banking system has remained safe, sound and resilient and continues to contribute to the real sector. Capital adequacy has remained above the regulatory minimum at 13.4% as of August 2022. The Non-Performing Loans (NPLs) ratio was 4.8%, below the regulatory maximum of 5%. The industry's total credit to the economy has increased by N5.50 trillion or 24.31% between August 2021 and August 2022. Gross industry credit, which stood at N28.12 trillion in August 2022, has risen steadily since 2019, largely due to the Bank's LDR policy.

3.0 The Basis for My Policy Choice

Given the trend and level of domestic inflation, as well as the staff projections suggesting that inflation would continue to rise, price stability must be the major consideration of monetary policy decisions. Although the present inflationary episode may have originated from significant supply-side, structural, cost and imported components, available data show that the roles of their second-round effects, monetary factors, as well as high inflation expectations have also assumed prominence. This suggests that tightening the policy stance is required to rein in inflation. In addition, the synchronised monetary policy responses of central banks that raise real yield across the globe require further tightening to mitigate the foreign exchange market pressure from the impending capital flow reversals. Besides, the unabating fiscal deficits and rising public debt amidst the electioneering spending expected during this pre-election year, further tightening is required to rein in inflation and stabilise the exchange rate. I, therefore, voted to further tighten the current policy stance.

Consequently, I voted to:

Raise the MPR by 150 basis points to 15.50 per cent;

Raise the CRR by 500 basis points to 32.5 per cent;

Retain the asymmetric corridor at +100/–700 basis points; and

Retain the liquidity ratio at 30.0 per cent.

11. SHONUBI, FOLASHODUN A.

As the Russian-Ukrainian war evolves into a stalemate, with very slim likelihood of a resolution soon, pressures from disruption to global supply chain, rise in energy & food prices, and financial market uncertainties have constituted significant downside risk to growth. Moreover, the aggressive tightening to curb spiraling global inflation has further exacerbated risks of the global economy plunging into stagflation, thereby compounding the dilemma of policy makers. Impact of pass-through from this precarious global economic situation on the Nigerian economy is worsened by fundamental and peculiar anomalies in the domestic macro-economic environment. I reckon that the task at this moment is to review our recent actions with a view to recalibrating less-effective policies and strengthening measures that have shown potency, to consolidate the gains.

Global and Domestic Economic Developments

Global economic recovery faced downside risks from many fronts. Record level inflation and slimmer policy options in most economies are further limitations to expansion opportunities for a global growth that is already bedeviled by slowing trade, contracting business activities and tighter financial conditions. Coming from a less than full recovery position, after the pandemic-induced recession, recent steady drag in global growth and unabating rise in inflation have heightened the risk of the global economy slipping into stagflation.

Accordingly, the International Monetary Fund projected global growth downward to 3.2 per cent in 2022 and further down to 2.9 per cent in 2023.

Domestic economic growth, at 3.54 per cent (year-on-year) in the second quarter of 2022 reflected sustained expansion of the non-oil sector, which has been the major driver of growth since the beginning of 2021. Dismal performance of the oil sector continued with a contraction of 11.77 per cent in Q2:2022, while the non-oil sector grew by 4.8 per cent, driven by the expansion in the agriculture and services sub-sectors. Composite purchasing managers' index, contracted significantly to 47.2 per cent in August 2022, from 50.4 per cent in July 2022, on account of the slowdown in activities across the agriculture, industry and services sub-sectors.

Rising logistic cost, constrained food supply, imported inflation and strong expectations continue to push up domestic prices. Consequently, headline inflation reached 20.52 per cent in August 2022, reflecting further increase in food and core inflation to new highs of 23.12 and 17.20 per cent, respectively. Notably, headline inflation, on a month-on-month basis, trended downward to 1.77 per cent in August 2022, from 1.82 per cent in the preceding month, as food and core inflation exhibited similar trend.

Improvement in resilience of the banking sector was underscored by the sustained positive trend in major prudential ratios. Industry non-performing loans ratio declined to 4.8 per cent in August 2022, below the regulatory maximum of 5.0 per cent, just as the industry liquidity ratio, at 40.4 per cent, was above the minimum benchmark of 30.0 per cent. Industry capital adequacy ratio, at 13.4 per cent, was above the industry benchmark of 10.0 per cent.

Growth in net claims on the Federal Government in particular, and increased banking sector credit were the main sources of liquidity and driver of growth in monetary aggregates. Consequently, the trend in broad money supply (M₃) reflected annualised growth above the benchmark for fiscal 2022. The monthly weighted average Open-Buy-Back rate was lower at 13.21 per cent in August

2022, compared with the level in July 2022 and reflected liquidity conditions in the banking system.

Notwithstanding the marginal rise in stock of external reserves, the external sector has not reflected the full benefit of the current fortunes of the global oil market. Dwindling crude oil revenue due to low productivity and theft, drying capital flow and high import bill continue to worsen conditions in the sector. The fiscal sector remained significantly challenged by below budget revenue flow, high expenditure, recurring deficit, and huge debt stock.

Overall Considerations and Decision

Disruptions from the protracting Russian-Ukrainian crisis and broad-based high inflation are major threats to global growth prospects. Aggressive policy tightening across different world economic blocks to curb escalating inflation is feared to be capable of causing sudden stop and reversal in growth. Whereas high commodity prices may have overstated global trade, even as volume may have risen modestly close to pre-pandemic levels, recent trend showed slowing trade volume due to muted demand and low industrial production. Heightening risks of recessions in Europe and the US, due to prolonging geopolitical tensions constitute downside risks to global growth.

Domestically, output remain positive, but fragile. Same cannot be said of other aspects of the economy where all possible triggers of inflation expectation exist. General prices (goods and services, interest, and exchange rates) are elevated, fiscal deficit keeps rising, financed by borrowings, and contributing to growth in money supply. Clearly, we face a significantly challenging situation where the populace now holds strong sentiment about inflation, which has become self-fulfilling. As the agency responsible for price stability, we cannot allow such sentiments to keep growing. Though difficult, our situation is not uncharted. We need to deploy strong measures to curb inflation, while being mindful of unintended effects.

To preserve output and productivity, the stability of the banking system must be protected so that it can continue to serve as veritable transmission channel for our interventions, which must now be refocused more towards productive investment and less on consumption. Actions of the fiscal authority to rationalize expenditure, address widespread insecurity and eliminate the bottlenecks (weak infrastructure, theft, subsidy) in the oil industry will be a fundamental impetus for increased productivity to provide a lifeline for the realization of the full benefits of measures by the Bank to stimulate growth, safe foreign exchange and promote export.

Current domestic inflation is fueled by negative sentiments that is precipitating high expectations. This unprecedented nature and level of inflation therefore requires more than tepid measures. Growth in money supply need to be aggressively managed not only to address current pressure but also to take proactive action against other likely drivers of increase in the short to medium-term. To further deal with the monetary impulse, fiscal authority will do well to review and prioritize the structure for deploying liquidity from borrowings.

To anchor expectations and dilute its impact, we must show sign that we are ready and willing to do more. Just like the global unison in dealing with the pandemic, the whole world is responding to inflation. it is therefore imperative for us to curb inflation. What we have done in recent past is in line with theory. Though future tightening may affect growth, but the persisting rise in inflation will eventually be injurious to growth.

I reckon that increasing rate alone won't be sufficient if we must be as aggressive as the situation demands. Of course, there is cost to every action, measures to bring down inflation cannot be costless. But inflation at its current level already hurts purchasing power, aggregate demand, and worsen poverty. Beyond aligning with the belief that the Bank is expected to act to arrest inflation, there is a compelling need for the Bank to demonstrate

readiness to do all that is necessary to decisively uphold its price stability mandate.

I therefore vote to:

- Raise the MPR to 15.50 per cent;
- Retain the Asymmetric corridor of +100/-700 basis points around the MPR
- Raise Cash Reserve Ratio (CRR) to minimum of 35.0 per cent; and
- Retain the Liquidity Ratio at 30.0 per cent.

12. EMEFIELE, GODWIN I.

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

Amidst lingering impact of the Covid-19 pandemic, the ongoing war in Ukraine is fragmenting global economic dynamics, thereby weakening macroeconomic conditions, exacerbating uncertainties, and impairing

outlook. Household capacity and business confidence have waned considerably, as the spiralling cost of living crisis dampen private expenditure. Likewise, public policy has become increasingly hectic as worsening energy and food price complexities strain social safety-net spending, while constraining tax revenue. Global economic turmoil is compounded by encumbrances in China, supply-chain drawbacks, and inflaming rhetoric on the Russian-Ukraine war. While these muted output in many countries, especially in advanced economies with negative growths, they also sparked severe spikes in inflation.

Accordingly, 2022 IMF global growth forecast is downgraded 0.4pp to 3.2 percent and reduced 0.7pp to 2.9 percent for 2023, while global inflation projection surged 0.9pp for both years. Global growth is further modulated by widespread monetary tightening aimed at curtailing the unprecedented overshoot of inflation targets. The imminence of global recession is thus elevated, as higher yields expose fragile economies to deeper structural failures and weaker fundamentals. For EMDEs, tightening in advanced economies is overturning portfolio flows, intensifying currency volatility, and escalating financial markets vulnerabilities.

As the negative spillover from deteriorating global conditions drag many economies, domestic outlook remained resilient, *albeit* subject to upward inflation pressures. Real GDP grew by 3.54 percent in 2022q2, year-on-year, from 3.11 percent in 2022q1. This reflected the sustained buoyancy of the non-oil sector, which grew 4.77 percent –propelled by services (6.70 percent) and agriculture (1.20 percent) sub-sectors– as oil GDP shrank -11.77 percent due to persistent production losses, vandalism and theft. Performance of the non-oil sector followed the policy supports to households and high-impact economic sectors and the impact of various CBN interventions. However, declining PMI, at 47.2 points in August from 50.4 and 51.9 points in June and July, respectively, underlines the fragility of the domestic economic cycle and accentuates the need to act appropriately and timeously.

Annualised inflation rate quickened above the tolerance-limit of the domestic economy, due to global spillovers and local drivers that exacerbated existing supply-demand mismatches and invigorated expectations. A higher-than-expected headline inflation, at 20.52 percent in August, soared further into growth-detering heights, showing a hefty 0.88pp ascent over July outcome and 4.92pp year-to-date. The spike followed the 1.10pp jump in food inflation to 23.12 percent and the 0.94pp rise in core inflation to 17.20 percent, and reflected stifling energy costs, cumbersome infrastructure deficiencies, pervasive security challenges, and the effects of global monetary tightening on exchange rate pass-through. Noting the adverse effect of spiralling inflation on inertia and expectations, and with foreseeable spillovers from global conditions, decisive actions are urgently imperative to curtail inflation towards the tolerance-band and to growth-supportive levels. The CBN will, nonetheless, sustain its supply-correcting interventions in critical sectors to minimise excess demand gaps.

Rising inflationary trend paralleled prevailing liquidity conditions as broad money momentum quickened by 11.05 percent in August 2022 from 8.66 percent in July following a faster 26.19 percent expansion of NDA from 22.78 percent. While this derived, largely, from the sizeable claims on Federal government, it importantly reflected the sustained growth of banking system credits to the private sector, consistent with the CBN policy to finance high-impact sectors. Despite rising private sector credits and elevated uncertainties, the banking system remained safe, sound and stable as NPLs ratio (4.80 percent), liquidity ratio (40.10 percent) and CAR (13.40 percent), bested their respective thresholds. With tumultuous global dynamics and the need to insulate Nigeria from foreign shocks, it is important to fast-track diversification and ensure inclusive growth through continued de-risking of lending to productive sectors.

In my consideration, I note the deteriorating global conditions, precipitating output contractions, elevated inflation pressures, and likely spillover

domestically. This is complicated by prevalent monetary tightening and associated currency volatility, which upended capital flows, reversed expected recovery from the Covid-19 shock, and signpost imminent global recession. I note that heightened global uncertainties and weakened outlook have dire implications for the domestic economy. While domestic output growth has remained positive, unchecked acceleration of inflation, now at 17-year high, threatens long-run macroeconomic stability and could permanently depress our potential GDP. The effects of persistent structural rigidities, nationwide security challenges, FX pressures, and infrastructure deficiency, are compounded by anticipated elections spending and amplifying inflation expectations.

I note that although the cyclical upturn of Nigerian economy continued, it is important to ensure that inflation expectations are effectively anchored. Recent inflation rates, driven by global and domestic shocks, have remained at growth-detering levels and urgently need to be curtailed within the tolerance-band. In-house projections suggest continued ascent in the next few periods, if we delay to act assertively. While remaining mindful of inflation-output trade-off, the major threat to our economy today is the quickening inflation momentum and levitating expectations. Given the established response lag of policy actions, I am certain that the previous hikes will begin to impact inflation trend in the next few quarters. However, further monetary tighten is required to shorten the response lag and effectively curb inflation inertia. Failure to tighten impulse today will not benefit the output, as the higher-than-beneficial inflation deters actual and potential GDP both in the short- and the long-run. In my view, a rate hike today may dent output slightly in the short-run, but the long-run benefits of lower inflation, at this time, outweighs it cost.

I emphasise that failure to tighten will intensify inflation pressure and undermine long-run growth. Since the key mandate of the CBN remains price and monetary stability, I remain committed to cautious, practical, and well-

balanced decisions that bring inflation to tolerable levels, while optimising output considerations. Overall, I am convinced that additional policy tightening is needed to better balance the objectives of price stability and output growth. Therefore, I vote to:

- i. Raise the MPR by 150 basis points to 15.50 percent;
- ii. Raise the CRR by 500 basis points to 32.50 percent;
- iii. Retain liquidity ratio at 30.00 percent; and
- iv. Retain the asymmetric corridor at +100/−700 basis points.

GODWIN I. EMEFIELE, CON

Governor

September 2022