CENTRAL BANK OF NIGERIA COMMUNIQUÉ NO. 145 OF THE MONETARY POLICY COMMITTEE MEETING HELD ON MONDAY 21st AND TUESDAY 22nd NOVEMBER 2022

The Monetary Policy Committee (MPC) met on the 21st and 22nd of November 2022, confronted with the continued weakening of the global economy due primarily to the persistent increase in energy prices, supply chain bottlenecks, rising inflation, looming food crisis, and sharp increase in interest rates leading to tightening external financial conditions. The volatility of the oil market, driven by policy stance by OPEC+ and the US Government, is also creating considerable uncertainty in the market, thus making the overall direction relatively unclear. Moreover, global trade has dwindled significantly in 2022, with the outlook for 2023 looking rather weak. Global private and public debt portfolios remain high and, in some cases, expanding as several countries around the globe acquire debt to stay afloat. The Committee appraised these and other developments in the global and domestic economies, as well as the outlook for the rest of the year and into the first quarter of 2023.

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

Global Economic Developments

Global output growth remained weighed down by familiar headwinds arising from the war in Ukraine, China's zero-COVID policy and the ongoing normalization of monetary policy in the advanced economies. These have collectively resulted in an energy price shock, historically high levels of price development across several economies and dwindling investment in capital markets of emerging market economies. With the war in Ukraine showing no signs of abating in the near-term, the disruptions to energy and commodity markets associated with it are more than likely to persist well into 2023.

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While the pandemic has mostly dissipated in most parts of the world, China's zero-COVID policy is keeping its impact very significant as the frequent lockdowns in major industrial cities, continue to derail the smooth functioning of the global supply chain. Consequently, the resulting macroeconomic uncertainties and associated shock spillovers, remain heightened, thus increasing the risk of a global recession which would severely retard the recovery of several fragile economies. Those to be most affected would be Emerging Markets and Developing Economies (EMDEs) still confronted with the lag impact of the 2020 recession. The ongoing capital flow reversal from perceived higher risk emerging market securities to US dollar denominated securities with improved yields, is also further hindering orderly global recovery to pre-COVID-19 pandemic levels.

The International Monetary Fund (IMF), having downgraded for 2022 and 2023 several times, retained global output growth at 3.2 per cent for 2022, but further downgraded the 2023 forecast to 2.7 per cent compared with 2.9 per cent in its July 2022 forecast.

Inflation across several Advanced Economies is expected to remain elevated in 2022, despite progressive rate hikes by several central banks in these economies. This is predicated on sustained high energy prices associated with the Ukraine war and continued disruptions to the global supply chain. In the Emerging Market and Developing Economies (EMDES), inflation is expected to remain high for other reasons including, the persistence of exchange rate pressures, dwindling capital inflows and a host of legacy structural issues.

In the global financial markets, activities in several equity markets have gradually declined as investors take advantage of improved fixed-income yields in the Advanced Economies, with the progressive hike of policy rates. Global financial conditions are thus, expected to continue to tighten in the near term, as risk-averse investors reassign their portfolios.

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In general, therefore, the global economy and financial markets, are confronted with significant risks in the short to medium-term. The huge build-up of both private and public debt and the rising risk of default associated with the current trend of rising interest rates, disruptions to the energy market and poorly functioning supply chains may tip several fragile economies into a new era of recession.

Domestic Economic Developments

Data from National Bureau of Statistics (NBS) on Real Gross Domestic Product (GDP) showed that it grew by 3.54 per cent (year-on-year) in the second quarter of 2022 and 5.01 per cent in the corresponding period of 2021. The economy has thus, sustained positive output growth for seven consecutive quarters, following the exit from recession in 2020. The consistent positive performance recorded was driven largely by the positive growth in the non-oil sector, particularly in the services and agricultural sub-sectors, complemented by continued policy support by the Bank.

CBN Staff projections showed that the economy is expected to remain on a path of sustained positive growth, given the expected strong performance in the fourth quarter of 2022 and steady rebound in economic activities.

Members noted with concern, the persisting uptick in inflation for the ninth consecutive month with headline inflation (year-on-year) rising to 21.09 per cent in October 2022 from 20.77 per cent in September 2022, an increase of 0.32 percentage point. On month-on-month basis, however, headline inflation decelerated to 1.24 per cent in October 2022 from 1.36 per cent in the preceding month, an indication that price development is responding to the Bank's recent policy rate hikes.

The persisting uptrend in energy prices and the prolonged period of scarcity of Premium Motor Spirit (PMS), contributed to a sharp rise in transportation, logistics and manufacturing costs, which fed through to consumer prices. Other contributory legacy factors include the lingering insecurity across the country;

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perennial flooding in major food producing states; critical deficit of infrastructure in the country; and poor road networks amongst others.

The Committee noted that broad money supply (M3) grew further by 13.80 per cent in October 2022, (year-to-date) compared with 11.00 per cent in September, 2022. This growth was driven by increased claims on 'Other Sectors' (other financial corporations, public non-financial corporations, and private sector).

In the financial markets, money market rates oscillated below and within the asymmetric corridor of the discount window facilities, in tandem with fluctuating liquidity conditions in the banking system. Consequently, the monthly weighted average Open Buy Back (OBB) rate increased to 15.91 per cent in October 2022 from 11.49 per cent in September 2022.

The Capital Adequacy Ratio (CAR) of the banking system declined in October 2022 to 13.4 but remained within its prudential limit of 10.0 -15.0 per cent. At 40.1 per cent, the Liquidity Ratio (LR) was above its prudential limit of 30.0 per cent. The Non-Performing Loans (NPLs) ratio also improved to 4.8 per cent in October 2022 from 4.9 per cent in the previous month, staying below its prudential benchmark of 5.0 per cent. The MPC thus, called on the Bank to continue to maintain its tight surveillance over the banking system to ensure that the NPLs ratio remains below the prudential benchmark.

The MPC noted with concern the continuing bearish performance of the equities market in the review period. The All-Share Index (ASI) and Market Capitalization (MC) decreased to 43,839.08 and N23.88 trillion on October 31, 2022, from 49,836.51 and N26.88 trillion respectively, on August 31, 2022. This decrease reflected the sustained sell-off and profit taking by investors rebalancing their portfolios to benefit from higher yields in the fixed income market. Other contributory factors include inflationary and exchange rate pressures, and tightening external financial conditions.

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The Committee observed the decline in the external reserves position, as gross external reserves decreased by 1.34 per cent at end-October 2022 to US$36.87 billion, from US$37.39 billion at end-September 2022. With indications of lower crude oil prices in the futures market, Members urged the Bank to sustain its current policies to boost non-oil exports in order to shore up the external reserves.

Between September and October 2022, under the Anchor Borrowers' Programme (ABP), the Bank disbursed ₦41.02 billion to several agricultural projects, bringing the cumulative disbursement under the Programme to ₦1,067.29 billion to over 4.6 million smallholder farmers cultivating 21 commodities across the country. The Bank also disbursed ₦0.30 billion to finance large-scale agricultural projects under the Commercial Agriculture Credit Scheme (CACS). Consequently, the total disbursement under the Scheme for agro-production and agro-processing stands at ₦745.31 billion for 680 projects.

In addition, the Bank released the sum of ₦48.30 billion under the ₦1.0 trillion Real Sector Facility to seven (7) new real sector projects in agriculture, manufacturing, and services. Cumulative disbursement under this Facility currently stands at ₦2.15 trillion to 437 projects across the country, comprising projects in manufacturing (240), agriculture (91), services (93) and mining sector (13). Furthermore, under the 100 for 100 Policy on Production and Productivity (PPP), the Bank disbursed the sum of ₦20.78 billion to nine (9) projects in healthcare, manufacturing, and services. The cumulative disbursement under the Facility therefore, amounted to ₦114.17 billion in 71 projects. Moreover, the Bank disbursed ₦4.00 billion under the Intervention Facility for the National Gas Expansion Programme (IFNGEP) to promote the adoption of compressed natural gas (CNG) for transportation and liquefied petroleum gas (LPG) for cooking.

In support of the resilience of the healthcare sector, the Bank also disbursed ₦5.02 billion to four (4) healthcare projects under the Healthcare Sector Intervention Facility (HSIF), bringing the cumulative disbursement to ₦135.56 billion for 135 projects in pharmaceuticals (33), hospitals (60) and other services (42).

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Under the Micro, Small and Medium Enterprises (MSME) sector, the Bank provided support for entrepreneurship development with the disbursement of ₦1.33 billion and ₦10.00 million under the Agribusiness/Small and Medium Enterprise Investment Scheme (AgSMEIS) and Micro, Small, and Medium Enterprise Development Fund (MSMEDF), respectively. Hence, the total disbursement under these interventions amounted to ₦150.22 billion and ₦96.08 billion, respectively. Under the Export Facilitation Initiative (EFI), the Bank provided support for export-oriented projects to the tune of ₦5.34 billion, such that the cumulative disbursement under this intervention stands at ₦44.58 billion.

Outlook

The overall medium-term outlook for both the global and domestic economies remain clouded by uncertainties associated with the Russia-Ukraine war, lingering COVID-19 pandemic and continued lockdown of major industrial cities in China. The persistent tightening of global financial conditions and slowing global trade are also significant pointers to a weakening global economy.

On the domestic front, available data on key macroeconomic indicators suggest rebound in output growth for the rest of 2022, which may occur at a much-slower pace than earlier anticipated, in the light of unfolding domestic and external shocks to the economy. The domestic shocks originate from the persisting insecurity inhibiting economic agents; rising cost of debt and debt servicing; deteriorating fiscal balances; increased spending as the 2023 general elections approach; and continued uptrend in inflationary pressure. Accordingly, the Nigerian economy is forecast to grow in 2022 by 3.30 per cent (CBN), 3.20 per cent (IMF) and 4.20 per cent (FGN).

The Committee's Considerations

At this meeting, the MPC was concerned that the global inflationary pressures have continued to trend higher and financial markets were also facing challenges. It observed that this was indeed the trend in Nigeria, with inflation attaining 21.09 per cent in October, 2022. The Committee, however, seized the opportunity to appraise the efficacy of its decisions at the last couple of

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meetings, and came up with the conclusion that the decisions were beginning to yield the desired results, given that the rate of increase in inflation was beginning to moderate , in view of the month-on-month deceleration in prices presented by the Consumer Price Index.

Members noted that though the global economy was progressively weakening due to the various headwinds derailing the recovery, domestic output growth remained positive as a result of the combined support from fiscal and monetary policy. The MPC, therefore, urged both authorities to continue to harmonize their various policies to achieve the desired objectives of stable prices and steady growth.

In reaching the decision of whether to loosen, hold or tighten the stance of policy, Committee felt that, given that all the causative factors, such as the Russia-Ukraine war, supply chain disruptions, slowdown in China, rising inflation in advanced economies and other headwinds were still dominant, a loosen option was not desirable at this meeting. The Committee also felt that, with the rising inflation, loosening the stance of policy would lead to a more aggressive rise in inflation and erode the gains already achieved through tightening.

As regards whether to hold, MPC was of the view that a hold stance at a period close to December festive season and expected heavy spending during the 2023 general election at a time of high inflation would greatly jeopadise the gains of the previous policy rates hikes and plunge the economy deeper into the inflation trap.

The MPC therefore decided to continue to tighten, but at a somewhat lower rate, noting that tightening the stance of policy would narrow the negative real effective interest margin and thus improve market sentiment and further restore investor confidence. MPC also felt that recent developments in terms of observed month-on-month deceleration in the rate of increase in inflation, suggests that the previous tightening policies were yielding the expected outcome. It therefore felt that sustaining the tightening would further consolidate the decline in inflation, albeit more significantly.

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The Committee’s Decision

The MPC noted that inflation has continued an uptrend, even though at a decelerating rate, despite its last three consecutive sizeable policy rate hikes.

The Committee’s choices were on whether to further hike rates or pause for the impact of the last three rate hikes to continue to feed through the economy. At this MPC, therefore, the options considered were primarily to hold or further tighten the policy rate. The option to loosen was not considered as this would gravely undermine the gains of the last three rate hikes.

The Committee thus voted unanimous to raise the Monetary Policy Rate (MPR). Nine (9) members voted to raise the MPR by 100 basis points and 2 members voted to raise the MPR by 50 basis points.

In summary, the MPC voted to:

I. Raise the MPR to 16.5 per cent;

II. Retain the asymmetric corridor of +100/-700 basis points around the MPR;

III. Retain the CRR at 32.5 per cent; and

IV. Retain the Liquidity Ratio at 30 per cent.

Thank you.

Godwin I. Emefiele

Governor, Central Bank of Nigeria

22nd November 2022

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PERSONAL STATEMENTS BY THE MONETARY POLICY COMMITTEE MEMBERS

1. ADAMU, EDWARD LAMETEK

Prospects of the global economy continue to be overshadowed by the war in Ukraine and its fallouts, lingering coronavirus pandemic and inflationary pressures. These conditions have dampened activity recovery prospects in many countries, prompting the downward revision of the world output growth by the IMF to 3.2 per cent in July 2022. Although the Fund retained this forecast in its update in October, its prognoses of associated parameters like trade, debt as well as fiscal conditions suggest that global slowdown could continue through 2023. Global inflation is now forecast at about 8.8 per cent for 2022 from 4.7 per cent in 2021. Globally, incomes are being eroded as cost of living continues to rise. Poor and low-income households have come under severe pressure as nearly all the gains of recovery post-COVID appear lost to this group. The outlook for the global economy continues to be hazy and largely dependent on the Russia-Ukraine war. Essentially, the November 2022 Monetary Policy Committee (MPC) meeting held against the backdrop of widespread risks to global output stability.

In the domestic economy, inflation continues to be a major challenge, albeit slowly responding to the change in monetary policy. Concomitant with the change in monetary policy stance since May 2022, the pace of development finance interventions by the Bank has slowed and interest rates have begun to rise to rein-in demand. Although we are yet to see a decline in absolute terms in year-on-year inflation rates, there are credible indications that the process of disinflation has begun. Inflation measured on month-on-month basis declined for all 3 categories in October. The NBS Inflation Report for the month shows that headline inflation slowed to 1.24 per cent from 1.36 per cent in September 2022. Similarly, both core and food inflation slowed respectively to 0.93 and 1.23 per

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cent from 1.59 and 1.43 per cent in September 2022. These developments buttress my conviction about the appropriateness of the disinflation strategy of the Committee.

The recent policy orientation comes at a cost, especially to growth. Already, there are indications of this playing out in Q3 and Q4 real growth outcomes, underscoring the need to carefully balance goals against instruments deployment. That said, I believe the balance of risks remains tilted against price stability; hence, my preference for maintaining the trajectory of policy tightening, though cautiously. And so, I chose to be slightly less aggressive at the November meeting by opting for 100 basis point increase in the monetary policy rate (MPR). Details of my considerations are outlined subsequently.

Despite the reorientation of policy since May, financial conditions in the economy have not altered sufficiently. Annualized growth rates of key monetary aggregates - broad money (M3), domestic asset (net) and net claims on FG – exceeded programme in October 2022. In addition, the collateralised inter-bank rate (OBB) continues to be negative in real terms. It rose in October but moderated in November. Meanwhile, the naira exchange rate continues to depreciate at the I&E window. The rather slow transition in these and other financing conditions is understandable given that monetary policy instruments impact the economy with a lag, which in the case of Nigeria could stretch up to eight (8) quarters. Sustaining the tightening stance is mandated by the need to more quickly alter the economy's financing conditions.

In November, Inflation expectation increased owing partly to persistence and widespread floods in major food producing zones of the country. It is estimated to increase further in December due to the expected impact of year-end festivities. The disinflation process requires that the Bank locks-in expectation of further increases in prices. In effect, I saw the need to promptly regain control of inflation expectation by sustaining policy tightening in order not to put credibility at risk.

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The overall outlook for system liquidity obviously calls for a contractive monetary policy at this time. Apart from the expected increase in liquidity related to year-end festivities, political campaign activities related to the general elections in 2023 are expected to intensify in the next two (2) months. The associated increase in spending could buoy up system liquidity and fuel increased demand.

Fiscal activities are expected to gather momentum in the next few months as the present political administrations at the federal level and in many states try to complete ongoing projects before May 2023 when they will be handing over to succeeding administrations. This further complicates the outlook for system liquidity and deserves to be a part of the policy calculations from the monetary side of economic management. On the part of the CBN, the naira redesign is expected to increase DMBs' deposit liabilities significantly during this period and could translate to increased credit creation.

Most central banks are not relenting in tightening monetary policy, leading to a tightening of the global financial conditions. Yields have continued to rise in the advanced economies and especially in the United States driven by the dollar rally. This development is having a straining effect on flows and exchange rates in emerging market and developing economies (EMDEs). I had argued in September that doing anything contrary to this global trend could only increase the vulnerability of the domestic economy to adverse spillovers. Tightening policy would similarly increase domestic yields and by extension, dampen the demand for foreign exchange.

Finally, the positive outlook for real GDP growth, though a bit softening, continues to provide room for the needed adjustment on the monetary side. Real GDP is forecast at about 3.3 per cent for 2022. It is hoped that fiscal policy will continue to complement the Bank's catalytic actions in the real sector to

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deliver robust growth. In this regard, I would urge government to continue to prioritise infrastructure and security.

In conclusion, I believe also that the risk to financial stability arising for further tightening are moderate going into 2023. The banking system continues to be resilient with major financial soundness indicators comparing favourably with the prudential thresholds. Loan repayment and liquidity risks are generally low. The industry is well capitalized and offering relatively good returns on asset and equity.

I, therefore, voted to:

1. Raise the MPR by 100 basis points to 16.5 per cent.
2. Retain the asymmetric corridor at +100/-700 basis points.
3. Retain the CRR at 32.5 per cent.
4. Retain the Liquidity Ratio at 30 per cent.

2. ADENIKINJU, ADEOLA FESTUS

International Economic Developments

The global economy continued to slowdown due to the persistence of macroeconomic fragility and uncertainties, confronted with growing risks of a recession. The uncertainties are driven by the war in Ukraine, energy crisis in Europe, Supply shocks in China, continued high inflation and rising interest rates in Advanced Economies. Arising from these uncertainties, growth in both Advanced Economies (AEs) and Emerging and Developing Economies (EMDEs) will likely moderate in 2023.

Global Composite PMI remained below the 50-Index point mark for the third consecutive month in October 2022. Inflation remained elevated across AEs

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and EMDEs. However, there is a possibility that peak inflation would occur in 2022, as the lagged effects of current monetary tightening policies kick-in, in 2023.

Global commodity prices remained soft as demand moderates. Global equity markets remained volatile reflecting effects of contending forces of higher interest rates and rising possibility of recession in 2023. The US dollar remained strong relative to major local currencies, prompting depreciation of local currencies against the strong dollar. While global FDI flows have recovered to pre-pandemic level, the advanced economies are benefiting more than the EMDEs. So, outlook for 2023 is mixed with strong headwinds to contend with.

Domestic Economic Developments

The Economic Report presented by CBN Staff shows mixed developments in the economy. Growth was recorded in the economy for the 7th consecutive quarters as real GDP in 2022Q2 grew by 3.54% year on year, compared to 3.11 recorded in 2022Q1. The growth in output was driven by the non-oil sector which grew by 4.77%, while the oil sector contracted by a massive -11.77%. Other sectors that recorded negative growth were livestock, and electricity, gas, steam &air conditioner. All the other sectors of the economy posted growth in 2022Q2 relative to 2021Q2.

Headline Inflation rose from 20.77% in September 2022 to 21.09% in October 2022, year on year. This was accounted for by increase in both food inflation and core inflation. Food inflation increased to 23.72% in October 2022, from 23.34% in September 2022. Core inflation also rose to 17.76% compared to 17.6% in September 2022. However, looking at month on month figures, there was a decline in inflation rate, as headline inflation in October 2022 stood at 1.24% compared to 1.36% in September 2022. Similarly, month on month, food inflation and core inflation also declined.

In the external sector, the naira depreciated against the dollars from N440.85 to a dollar in October 2022, to N445.26 to a dollar on November 11, 2022. The trade balance recorded a surplus in October 2022. FDI inflow and remittances rose,

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while net FPI declined. Current account as a share of GDP rose from 2.4% in 2022Q1 to 4.7% in 2022Q2.

On the monetary and financial side, average net liquidity in October 2022 declined to N186 billion from N252.81 billion in September 2022. This was attributed to the impacts of the 150 basis points increase in the policy rate and the 5.0 percentage points increase in the CRR at the September 2022 MPC meeting. Monetary base declined from N15.007 trillion in September 2022 to N14.999 trillion in October 2022. Increase in both Net Foreign Assets and Net Domestic Claims accounted for the growth in total monetary assets (M3) from 11% in September 2022 to 13.8% in October 2022.

The "Naira 4 Dollar Scheme" continues to support the inflow of dollars into the economy. US$280.07 million was sold under the scheme in October 2022, down from US$362,54 million in September 2022.

The fiscal side remained problematic. From January to September 2022, three months to the end of the month, revenue actualization was 35.8% of the budget projections for the year 2022, expenditure actualization was 59.99% of the expenditure projection for 2022, while budget deficit was 0.78% above the budget estimate of N6.38 trillion for 2022. Total public debt rose by 2.98% to N42.85 trillion at end-June 2022.

The Banking System Stability Review Report was also presented at the meeting. The various Financial Soundness Indicators (FSI) showed that the banking systems remain safe, sound, and resilient. All the FSIs are within the prudential requirements and compared well with comparator countries. All measures of industry aggregates: assets, deposits and credit rose year on year. Total assets of the banking industry grew by N12.37 trillion between end-October 2021 and 2022. Similarly, industry credit increased by N5.32 trillion over the same period. In addition, total industry deposits rose by N6.92 trillion between end-October 2021 and 2022. In October 2022, a total of 125,305 new credits valued at N767.06 billion were granted to various customers. There was marginal increase in lending rates in the industry in response to recent measures by the CBN. The

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decline in industry NPL ratio to 4.81% at end October 2022 compared to 5.29% at end-October 2021 is commendable.

My Concern

The large-scale flooding that swept through the country in October will have adverse consequences for food supply, and output growth in 2022Q4 and part of 2023Q1. This may drag down overall GDP growth for 2022 from level projected. Inflation expectations in November 2022 was 19.93%, lower than projected inflation of 21.29%. However, the December festivities may drive up inflation expectations again. Petrol queues in some parts of the country are also likely to impact on output growth and inflation.

There is a need to address the pressures on the naira exchange rate by boosting supply of foreign exchange in the economy. I am also of the opinion that the FX sold by the Bank at the I&E windows should be for productive activities alone. The Bank should review its policy of those who qualify to benefit from FX sold in the official market.

The country should not normalize the negative contributions of the oil sector to economic growth. The oil sector has so much potential to contribute to economic growth, generate employment and increase FX flow into the economy. The government must be deliberate in removing all the encumbrances to oil sector performance and implement the PIA in full.

The worsening fiscal balances should also be addressed. Most indicators of fiscal balances are in the red. The reliance on monetary accommodation to enhance fiscal operations is costly to the economy both in the medium and long term. The revenue challenges of the government should be confronted headlong. The Bank should moderate further financing of the federal government and conclude on the securitization of the FGN exposure to the CBN. In addition, the issue of oil theft and vandalization of pipelines and other government assets must be urgently addressed.

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Finally, the government must sustain current military successes against insurgents and bandits. Government at all levels must also begin to seriously address the problem of climate change to prevent the scale and impacts of future incidence of flooding, desertification, and loss of lives and properties. Timely removal of fuel subsidy and full liberalization of the downstream petroleum sector will address part of the current fiscal challenges, eliminate shortage of refined petroleum products, and drive investment into the sector.

My Vote

The deceleration of the inflation rate going by the month-on-month data, is a positive development. It is an indication that the policies in place to control inflation are working, albeit with a lag. This is also reinforced by the data that shows that inflation expectation is dampening. However, with the anticipated headwinds that are likely to buoy inflation in the near future, the MPC cannot afford to keep its feet off the pedal at this time. 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 100 basis points, while maintaining all other monetary parameters at their extant values. Hence, I vote to:

1) Raise MPR by 100 basis points to 16.5%
2) Retain CRR at 32.5%
3) Retain LR at 30%
4) Maintain asymmetry corridor around the MPR at +100/-700 basis points.

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3. AHMAD, AISHAH N.

The last Monetary Policy Committee meeting for 2022 held within an atmosphere of persistent headwinds and heightened uncertainty; broadly driven by spillover effects of the Russian invasion of Ukraine, cost-of-living crisis, lingering inflation pressures, and the slowdown of economic activities in China.

With the war in Ukraine showing little signs of abating in the near-term, the disruptions to energy and commodity markets associated with it are likely to persist well into 2023. Also, prices have maintained an upward track in most economies, despite significant attempts to rein in inflation, including rate hikes and roll back of monetary easing by various central banks. Indeed, increasing price pressures remain a major threat to global economic prosperity and macroeconomic stability, while the rapid tightening by central banks is stifling global financial conditions, with implications for exchange rate stability especially for emerging markets and developing economies.

China, the second largest economy in the world, faces output contraction threats as measures to curb spread of the COVID-19 pandemic remain underway, amidst other unique domestic challenges. This development presents significant risks for global recovery in view of China's strategic role in the global supply chain.

Overall, the year has been extremely challenging and economic prospects are generally dampened in many countries, prompting yet another downward revision of world output growth forecast for 2023 to 2.7 per cent by the IMF in its October World Economic Outlook, from 2.9 per cent in its July 2022 forecast.

On the domestic front, the November meeting presented an opportunity to broadly appraise the Committee's policies vis-a-vis global and domestic

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developments over the year, taking stock of their impact on macroeconomic variables and the price stability mandate, in particular.

While global risks and domestic vulnerabilities persist, **domestic policies have yielded some positive results, evidenced by fairly good economic fundamentals with a positive short-to-medium-term outlook.**

Real Gross Domestic Product (GDP) growth maintained seven consecutive quarters of positive growth, following the exit from recession in 2020 with a 3.54 per cent (year-on-year) growth rate by the second quarter of 2022 and 5.01 per cent in the corresponding period of 2021 according to data from the National Bureau of Statistics (NBS). The consistent positive performance recorded was driven largely by the growth in the non-oil sector, particularly in the services and agricultural sub-sectors, partly fueled by continued policy support by the Bank.

Bank staff projections indicate that the economy is expected to remain, al-beit at a slow pace, on a positive growth trajectory, given sustained interventions in critical growth enhancing sectors and steady rebound in economic activities. This projection is supported by estimates from the composite Purchasing Managers' Index (PMI) which expanded to 51.5 index points in October 2022 from 49.5 points in the previous month. The PMI however, declined to 49.0 index points in November 2022, signifying marginal contraction in business activities, a development that highlights the need to strengthen output expansion and forestall reversal of gains recorded so far. Focused implementation of initiatives that seek to strengthen the business environment, improve infrastructure and boost domestic production, such as the National Development Plan 2021-2025, the Economic Sustainability Plan and ongoing targeted interventions by the monetary authority are useful in that regard.

Domestic price pressures remain largely sticky and a source of concern. The uptick in inflation persisted for the ninth consecutive month with headline inflation (year-on-year) rising to 21.09 per cent in October 2022 from 20.77 per cent in September 2022, an increase of 0.32 percentage point. Food and core inflation also increased year-on-year to 23.72 per cent and 17.76 per cent in

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October 2022, from 23.34 per cent and 17.60 per cent in the previous month, respectively. Key drivers of the uptick remain increased production costs following rising energy prices, foreign exchange constraints, increase in transport and logistics costs, along-side other structural issues such as insecurity and flooding.

On month-on-month basis, however, all components of inflation trended downwards with headline inflation decelerating to 1.24 per cent in October 2022, from 1.36 per cent in the preceding month, an indication that inflation may be turning the corner in the near term.

Nonetheless, downside risks to inflation outlook remain elevated considering the traditional end of year spike in prices and build up to the 2023 general elections, while policy trade-offs to address rising prices have become acutely challenging. However, it is expected that the tight monetary policy stance of the Committee will permeate the economy, weigh demand down and gradually subjugate inflation, especially with broad money supply (M3) growing further by 13.80 per cent in October 2022, (year-to-date) compared with 11.00 per cent in September 2022. The combined efforts of the monetary and fiscal authorities to ramp up food supply and tackle age long structural challenges are also expected to moderate inflation expectations and drive down food and core prices in the medium-term.

In addition, ongoing exchange rate demand management policies of the Bank and other initiatives to improve foreign exchange (FX) supply such as the RT 200 policy, are useful in moderating pressure in the FX market, in view of the pass through to domestic prices.

The financial system remains strong and continues to provide significant support for needed domestic economic resilience. Data provided by Bank staff showed stability in broad financial soundness indicators and sustained improvement in asset quality, alongside growing credit to the private sector. Capital adequacy ratio as at October 2022 was robust at 13.40 per cent above the minimum 10 per cent requirement. Industry liquidity was also strong at 40.1 per cent over the

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same period while the non-performing loans (NPLs) ratio declined further to 4.8 per cent in October 2022, compared to 5.3 per cent in October 2021. This reflects improvement in industry risk management practices and implementation of regulatory policies to manage NPLs such as the Global Standing Instruction (GSI) Policy. The results of stress tests conducted by staff, show that financial soundness indicators remained above minimum regulatory thresholds under mild to severe shocks

Notably, total assets rose to N69.67trillion in October 2022 from N57.30 trillion in October 2021, while total deposits rose to N43.05 trillion from N36.13 trillion over the same period. Total credit also increased by N5.32 trillion to N28.81trillion between end-October 2021 and end-October 2022 with significant growth in credit to manufacturing, general commerce, and oil & gas sectors. The continued credit expansion particularly to output enhancing sectors is expected to further support economic activities. However, sustained regulatory vigilance is required to mitigate any potential crystallization of credit risk in the financial system in view of lingering macroeconomic risks.

As anticipated, average lending rates have risen between June and October 2022, partly driven by the tight monetary policy stance of the MPC, which requires vigilance by the banks to forestall defaults and preserve asset quality. Sustained implementation of the policy on GSI and effective credit risk management policies by the banks are useful in that regard, while recent initiatives of the Bank such as the naira redesign are expected to enhance monetary policy transmission via the banking system.

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.

Policy Decision

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Increasing price pressures remain a significant risk with potential to erode real incomes and undermine macroeconomic and financial stability. The persistent and broadening inflation pressures have triggered a rapid and synchronized tightening of monetary conditions, alongside a sharp appreciation of the US dollar against most other currencies, with negative implications for capital inflows, sovereign debt sustainability and broad economic prospects of many economies, including Nigeria.

The energy crisis in Europe triggered by the Russian invasion of Ukraine and China's weakening output, also exerts further burden on the global economy with heightened uncertainty. Overall, the global outlook remains weak and policy makers must brace for the toughest decisions.

Domestically, output is expected to remain positive but relatively weak through 2022, while inflation is forecasted to accelerate further in the near term within the double-digit territory, and far above the Bank's implicit inflation target of 6 to 9 per cent with negative implications for real interest rate and inflation expectations. The current economic condition presents tough policy choices between supporting the fragile economic growth and containing inflationary pressures. Thankfully, the growth outlook offers some buffer for continued anti-inflation stance, while previous and ongoing support for the real sector of the economy, work their way through.

I note that tightening the monetary policy stance to curb inflation has downside risks for output growth, however, the tight stance of policy would narrow the negative real effective interest margin, improve market sentiment, and further restore investor confidence which would translate to improved economic performance over time.

Moreso, the **recent month-on-month deceleration in the rate of increase in inflation, suggests that previous tightening policies in the year are gradually yielding positive outcomes.** I am, therefore, persuaded that further increase in the MPR, combined with the cash reserve requirement policy, would re-anchor

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inflation expectations and consolidate the decline in inflation acceleration rate.

Thus, I vote to increase the Monetary Policy Rate by 100bps to 16.5 per cent from 15.5 per cent; retain the Cash Reserve Ratio (CRR) at 32.5 per cent; retain the Liquidity Ratio (LR) at 30.0 per cent; and retain the asymmetric corridor at +100/–700 basis points around the MPR.

4. ASOGWA, ROBERT CHIKWENDU

Policy Decision:

On the basis of current economic developments at both the global and domestic levels, a continuation of tight monetary policy stance remains necessary so as to contain aspects of the inflationary pressures that are demand driven. This will also ensure that the inflation expectations of domestic agents are well anchored. However, given the growing fears of possible economic slowdown especially with the cumulative policy rate hikes in the past few months, a moderated policy rate increase of not more than 50 basis points will be appropriate for now.

I will therefore vote to:

- Raise the MPR from 15.5 percent to 16.0 percent,
- Retain the CRR at 32.5 percent,
- Retain the Asymmetric Corridor at +100/-700 basis points,
- Retain the Liquidity Ratio at 30.0 percent.

Current Global Economic Developments:

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Global economic indicators especially GDP growth and inflation rates seems to have deteriorated further in the third quarter of 2022 with the risk of recession increasing especially in Europe and the emerging market countries. The slowdown of economic activities is influenced by the same old factors including the protracted Russia-Ukraine war, the energy crises in Europe and the prolonged lockdowns in China. CBN staff report shows that in a number of countries, GDP growth moderated in the third quarter of 2022 compared with the second quarter. In the Euro Area for instance, GDP grew by only 0.2 percent in the third quarter of 2022 compared with 0.8 percent in the second quarter, thus marking its weakest quarterly growth since 2021. In the United Kingdom, early estimates of third quarter 2022 GDP suggests a contraction of -0.2 percent from the 0.2 percent and 0.7 percent growth recorded in the second and first quarters of 2022, respectively. Also, in Japan, third quarter GDP growth estimates show a slowdown to 0.3 percent from 0.9 percent in the second quarter of 2022. There are few exceptions such as the US and China where output turned positive in the third quarter of 2022 from earlier negative territories. The US GDP contracted by -1.6 and -0.6 percent in the first and second quarters of 2022, respectively, but expanded by 2.6 percent in the third quarter. In China, output growth expanded by 3.9 percent in the third quarter compared with a contraction of -2.7 percent witnessed in the second quarter of 2022. The outlook for global growth remains skewed to the downside especially for the last quarter of 2022 and the early parts of 2023 and this is clearly supported by some high frequency data all of which indicate possible slowdown in the pace of overall economic activities. Global Composite PMI contracted to 49.0 index points in October 2022 from 49.7 index points in September 2022. The export order component of the global purchasing managers index (PMI), which is a leading indicator of the volume of trade in the upcoming months remains at a level suggestive of possible future contraction. The actual forecasts for global growth for 2023 have recently been revised further downwards by several international financial institutions and investment houses.

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On global inflation, the environment remains uncertain for most countries despite the recent moderations in the United States, India and Brazil. On average, consumer prices are still high and now more broad based in many countries. CBN staff report shows that in October 2022, both month-on-month and year-on-year inflation rates accelerated in several advanced, emerging and developing market economies. In the Euro Area, month-on-month inflation rose to 1.5 percent in October compared with 1.2 percent in September, while the year-on-year measure accelerated to 10.7 percent in October compared with 9.9 percent in September. In the UK, year-on-year inflation rose to 11.1 percent in October from 10.1 percent in September 2022. In Australia, headline CPI moved to 7.6 percent in October from 7.3 percent in September, while in Egypt, year-on-year inflation rose to 16.20 percent in October from 15.0 percent in September. The few exceptions are in the United States where inflation rates dropped from 8.2 percent in September to 7.7 percent in October, eventhough on a month-on-month basis, it actually rose to 0.4 percent in October from 0.3 percent in September. In India, headline inflation also reduced to 6.8 percent (year-on-year) in October 2022 from 7.4 percent in September. For now, the risks to the global inflation outlook are still heavily skewed to the upside even up to 2023 as the Russia-Ukraine war continues to raise uncertainty in the trajectory of food and energy prices.

The policy responses of Central Banks across the globe have been similar with fairly synchronized aggressive policy rate hikes and reduced holdings of assets purchased under the earlier quantitative easing programmes. CBN staff report shows that most Central Banks in the advanced and emerging economies have on average raised policy rates at least four consecutive times recently. By early November, the US Federal Reserve had accumulated a rate hike of 375 basis points. In early November also, the Bank of England raised its policy rate by a further 75 basis points to 3.0 percent, which is believed to be the highest since 2008. Similar rate hikes also happened in Australia, Canada, Brazil, South Africa amongst several other countries. There are recent renewed commitments by several Central Banks for additional rate hikes in the future if

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the inflationary pressures persist. There are however concerns about this hawkish stance of most Central Banks with growing scepticism on its potency. Besides the unfolding risk of recession in economic activities, volatility in the global financial markets has increased particularly for the equity and bond markets. In the past two months, long term government bond yields in most countries rose significantly but volatilities also increased at the same time. On the currency exchange rate, the US dollar appreciated considerably against other currencies perhaps due to capital rebalancing from various emerging and developing countries to the United States.

Current Domestic Economic Developments:

Turning to the domestic front, Nigeria's output growth may have slowed in the third quarter of 2022 compared with the second quarter, but still exhibits some resilience. The official 2022 quarter 3 GDP growth rate by the National Bureau of Statistics (NBS) are yet to be released at the time of this November MPC meeting, but flash estimates suggests a marginal slowdown from the 3.54 percent and 3.11 percent recorded in the second and first quarters of 2022, respectively. This brake on domestic growth recovery in the third quarter of 2022 may have been triggered partly by rising costs in the economy which perhaps created some uncertainties and sluggishness in the aggregate demand conditions. Besides, the observed deceleration in agricultural and other non-oil sector based activities within this period also weighed down overall growth. There are signs that 2022 fourth quarter GDP growth may somehow be better than quarter three especially as activities in the industry and service sectors are now in an expansion mode as reflected in the purchasing manager indices (PMIs) and other high frequency data. CBN staff report shows that Nigeria's composite Purchasing Manager's index (PMI) rose to 51.2 index in October 2022 compared with the two previous months of contraction at 49.5 and 47.2 index points in September and August 2022 respectively.

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On domestic inflation rate, the increases have lately been at a decelerating pace. The October 2022 year-on-year headline inflation rates rose to 21.09 percent from 20.77 percent and 20.53 percent in September and August 2022, respectively, with both food inflation and core inflation increasing marginally within this period. On a month-on-month basis, headline inflation decelerated from 1.77 percent in August to 1.36 percent in September and further down to 1.24 percent in October 2022. This month-on-month deceleration is expected to continue in the coming months, perhaps pivoting towards an envisaged disinflation path in the second half of 2023. CBN staff report points to a moderation in inflation expectations in September and October 2022 partly reflecting the subdued aggregate demand pressures from recent monetary tightening measures.

Overall domestic liquidity remains high despite the tightening measures. CBN staff report shows that broad money supply (M3) declined from 11.96 percent (year-on-year) in August 2022 to 11.00 percent in September, but surprisingly increased to 13.80 percent year-on-year in October 2022. Also, the aggregate banking sector credit to the economy increased by 3.53 percent between August and September 2022, driven more by credit to central government. Although the current M3 stock remains below the provisional benchmark set for 2022, it may however pose additional barriers to combating the inflationary pressures.

The domestic financial sector is still resilient at the time of this meeting except for observed volatilities in the stock market. The banking sector indicators are robust, similar to the position at the last MPC meeting, with non-performing loans ratio declining further from 4.9 percent to 4.8 percent in October 2022 and with further increases in total assets. Of particular interest is the addition of above one trillion Naira in total industry deposits between September and October 2022. Of marginal concern, is the consistent decline in the capital adequacy ratio of the banks between June and October 2022, but this is attributed to increases in total risk-weighted assets, which for some time has been higher than the total qualifying capital. However, the fact that deposit money banks

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still maintain high levels of capital and loan loss provision partly addresses this concern. The challenges in the equity market are still there as it remains bearish with performance perhaps sensitive to recent portfolio rebalancing behaviour by investors. CBN staff report shows that the All Share Index decreased by 12.03 percent between August and October 2022, and market capitalization also decreased by 11.17 percent during the same period. In terms of the foreign exchange market, the US dollar has remained strong with the heightened global market uncertainty intensifying depreciatory pressures on all currencies globally including the Nigerian naira. At the official I&E foreign exchange market, the naira depreciated by 0.94 percent against the dollar between July and August 2022 but depreciated further by 1.47 percent between September and October 2022.

The external sector is now looking resilient with reduced balance of payments pressures compared with the position in 2021. CBN staff report shows that in the second quarter of 2022, the balance of payments recorded a surplus equivalent to about 0.08 percent of GDP and this emanated from the current account balance which has now recorded a positive surplus for a fifth consecutive quarter. The recent drop in external reserves is, however, linked to the decline in oil exports even at a time of higher oil prices. Interestingly, the publicised reduction in oil thefts across the Niger delta and the rising prospects of increased overseas remittances would likely boost the gross external reserves to a large extent in early 2023.

The domestic fiscal risk remains elevated on the back of an unimproving government revenue position, which is similar to the situation during the last MPC meeting. With considerable increases in government expenditure in the midst of low revenue as at September 2022, the overall debt stock keeps ballooning. As at September 2022, the country's total debt as reported by the Debt Management Office had reached over forty-four trillion naira with debt servicing costs also at alarming levels. Clearly, attempts at limiting the size of the fiscal deficit through some expenditure wisdom will certainly rebalance the risk.

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5. OBADAN, MIKE IDIAHI

As at the time of the Monetary Policy Committee's meeting, the global economy and the individual national economies continued to face numerous challenges which magnified in the context of serious economic and political shocks, and uncertainties that had been very visible for quite some time. Not only have the economies experienced weakening growth, they have also been confronted with notable headwinds. The socio-economic shocks have adversely impacted global production and growth, trade, inflation, commodity and financial markets, public debt, exchange rates and their stability, among others. The negative impacts have continued to elicit strong fiscal and monetary policy responses with their own implications.

GLOBAL ECONOMIC FEATURES AND THEIR IMPLICATIONS

The global economy has continued to grapple with uncertainties and vulnerabilities amidst geopolitical tensions. As the Russia-Ukraine war progresses without abating, geo-political tensions are becoming persistent and widespread. Consequently, the outlook for the global economy continues to

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be dim as the prospects of complete elimination of the covid-19 pandemic and ending soon the Russia-Ukraine war remains uncertain.

The global economy has continued to expand but at a slower pace such that global output is expected to decelerate from 6.1 percent in 2021 to 3.2% in 2022 and further to 2.7% in 2023. The Global Purchasing Managers' Index has also shown a downward trend. Global growth/economic recovery is weakened by several headwinds:

- Global supply chain bottlenecks;
- Spill-overs from the unending Russian-Ukraine war;
- Continued high inflation rates;
- Tighter global financial conditions, policy rates/interest rates hikes in the major economies due to monetary policy normalisation;
- Growing public debt;
- Zero covid-19 policy/strict covid-19 containment measures in China; entails lockdown in parts of China with negative implication for supply chains;
- Persistent increase in energy prices and potential energy crisis in Europe as the winter sets in.

While the disruptions in energy and commodity markets show no signs of abating, the various headwinds have resulted in energy price shock, historical inflation rates and dwindling investment in the capital markets of the Emerging Market and Developing Economies (EMDEs).

Global inflation had escalated in a worrisome manner in several countries necessitating strong monetary and fiscal responses. Although there are indications of moderation as a result of the easing of supply disruptions in the Advanced Economies (AEs), the inflation rates are still very high and worrisome. Consequently, central banks in the Advanced Economies (AEs) and Emerging Market and Developing Economies (EMDEs) have prioritised inflation and continued to hike their monetary policy rates to curtail inflation and anchor inflation expectations. In response, inflation is expected to recede in 2023.

Global trade position is also worrisome. It slowed in the first half of 2022 as supply chains remained constrained. From 8.0 percent in 2021, global trade growth is

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expected to slow to 4.1% in 2022 and 3.2% in 2023 due to lower than expected economic growth, persisting inflationary pressures, interest rate hikes and tightening global financial conditions, and supply chain disruptions arising from geopolitical tensions.

The phenomenon of tightened global financial conditions has remained due to: aggressive policy rate hikes in the AEs and EMDEs to tame inflationary pressures (the number of central banks hiking rates increased in 2022 as inflation escalated); and persistent upward trending global inflation even though it eased in the US and UK. The tight financial conditions have resulted in high levels of unsustainable debt in many countries.

Weakening of national currencies against the strong USD. The EMDEs are experiencing capital outflows and loss of external reserves, exacerbating risks, and threats to growth and financial stability. Specifically, African currencies are depreciating against the USD due to:

- Capital outflows to US dollar-denominated assets as the FED aggressively hiked interest rates;
- Rise in energy prices;
- Persistent uncertainty in the global oil and gas industry.

The crude oil market has continued to experience volatility. After peaking in June, 2022, oil prices moderated as global economic recovery remained fragile. As at November 18, 2022, the OPEC basket stood at US$ 91.72 pb from US$ 94.43 pb on November 1. Bonny Light stood at US$ 87.07 pb from US$ 97.73 on November 1, 2022. Even at these relatively high prices, Nigeria was not able to meet its OPEC quota and benefit maximally because of subsisting domestic production challenges.

What have emerged from the global context are as follows:

- The global economy is currently battling with serious challenges, two of which are raging inflation rates at historical levels and weak economic recovery/threats of recession, resulting in policy dilemma for many countries including the AEs. The point though is that while the AEs have robust fiscal positions and can use fiscal policy to support growth and

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exit recession/ low growth trajectory while the monetary authority tackles inflation with rate hikes, most African countries, Nigeria included, do not have strong fiscal positions and they face serious policy dilemma. The AEs are at ease to prioritise inflation.

- The strong need to effectively tackle the high inflation which is eroding incomes and pushing people into poverty and threatening growth and employment.
- The need to recognise the multi-dimensional nature of the current inflation; it derives from both domestic factors and external shocks, especially the intermittent crisis in the global oil market, covid-19 effects and geopolitical tensions; hence the need for appropriate policy responses to complement interest rate hikes.

- The need for monetary policy to also support economic growth; in particular, in African countries which, unlike their AEs counterparts, could inject trillions of dollars into their economies, lack the resources to support growth and are consequently burdened by unsustainable public debts.

THE NIGERIAN ECONOMIC CONTEXT

The economic situation in Nigeria has remained very challenging. The second quarter growth rate of 3.55 percent, is less than what is desired for the country; even then, this is now threatened by various headwinds. Credible sources project much lower rate for the 3rd and 4th quarters. The IMF is reported to have downgraded the country's growth rate to 3.0 percent. Domestic growth gives cause for concern especially in view of unpalatable global developments including the fears of possible recession.

Nigeria's measures of inflation –headline, food and core – have continued to trend upwards, the monetary policy responses so far notwithstanding. The headline inflation stood at 21.09 percent in October. However, the good news is the observed decline in the month-on-month measures of inflation from August to October. Nevertheless, the year-on-year headline inflation rate is still worrisome. This requires an understanding of the causal factors in formulating policy responses.

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The causal factors of inflation are not just monetary factors. They include monetary growth although below the projected benchmarks, imported inflation, rising production costs, following consistently high energy prices, foreign exchange insufficiency and the associated naira depreciation, transport and logistic challenges, impact of insecurity and banditry in the food producing communities, current flooding in many parts of the country, anti-competition practices and arbitrariness of economic agents in pricing of goods and services, etc. What these suggest is the need to address the current inflation with both monetary and non-monetary responses.

The foreign exchange market crisis elicits deep concerns. The crisis derives fundamentally from the undiversified nature of the economy, low productivity, exogenous shocks and recently to the 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 Bank's interventions aimed at boosting foreign exchange supply are significant. But such interventions have tended to be misunderstood in relation to its primary mandate. And so, the fiscal authority must appreciate its role in boosting foreign exchange supply with fiscal incentives and also tackling frontally the unacceptable leakages from the country's erstwhile major source of supply of foreign exchange – oil export – which, in recent times, has produced little in accretion to foreign exchange reserves and naira revenue.

Government's fiscal deficit has continued on a ballooning trajectory with unacceptable implications for CBN's financing and public debt. Fiscal deficit for the first half of 2022 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. The public debt servicing, by absorbing a very large percentage of government revenue, has tended to crowd out other desired public expenditures.

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Although as at now, the fiscal capacity of the government to stimulate the economy and put it on a sustainable growth path is still weak because of revenue constraints and lack of fiscal buffers, the CBN must do the needful to protect its primary mandate of ensuring price, monetary and exchange rate stability which is under serious threat in the face of escalating inflation and depreciating exchange rate.

OPINION

The Bank, has since May 2022, rightly responded to the inflation challenge, by sustained implementation of a tight monetary policy which has become tighter at every meeting of the MPC. But can this address all the triggers of inflation? I doubt; it can tame demand arising from monetary expansion but not the inflation arising from other sources. Although the American Nobel laureate and monetary economist, Milton Friedman, had posited that inflation is everywhere a monetary phenomenon, he did not envisage the impact of the Nigerian peculiarities of low productivity of the economy, insecurity and banditry, oil theft, legacy infrastructure and logistics challenges, undiversified economy and heavy import dependence, among others. Importantly, we need to be mindful of the recessionary implications of too much policy tightening; the trade-off in terms of growth and recession may be significant. Someone may argue that the fall-outs of the policy measures should not bother the CBN. I believe that it should.

Importantly, it is not certain how much rate hikes need to be implemented to tame inflation. Empirical estimates may be helpful but there is no certainty about it; moreover, there is no one-to-one correspondence between policy rate hikes and inflation reduction because of the existence of numerous extenuating factors beyond monetary policy influence.

So, while the monetary policy stance should remain generally tight, policy rate hike should now be moderately done while a strong appeal is made to the fiscal authority to complement the Bank's efforts by implementing necessary

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bold reform measures aimed at addressing insecurity, significantly boosting revenue and foreign exchange and also ensuring fiscal consolidation.

I therefore vote to raise the policy rate by 100 basis points while leaving the CRR at its extant level – 32.5 percent.

What the Fiscal Authority needs to do to effectively complement the Monetary Authority in the fight against inflation and exchange rate instability

1. Avoid actions/measures that tend to undermine monetary policy. In other words, ensure proper coordination of fiscal policy with monetary policy.
2. Engage in aggressive non-oil revenue mobilisation through innovative taxes, proper taxation of high income groups and abolishing tax waivers.
3. Undertake fiscal consolidation to prevent the need to accumulate Ways and Means advances. Fiscal consolidation involves measures to reduce the fiscal deficits. A thorough review of the public expenditure programme to eliminate non-critical expenditures is indispensable. Need to recognise that the economy is in crisis and it requires bold reform measures.
4. Ensure the functioning of the country's four refineries to prevent the spending of very scarce foreign exchange on the importation of refined petroleum products.
5. Consider deregulation of petroleum product prices (premium motor spirit) to free the nation from the payment of opaque subsidies and associated corruption.
6. Effectively address the oil theft challenge in the Niger Delta Region. It will enhance oil production, export earnings and naira revenue, boost external reserves and ensure exchange rate stability in the short-term.

If robust fiscal actions are lacking, the burden of adjustment may be solely on consumption and investment demand through monetary actions. This could trigger economic contraction and worsen poverty.

On its part, in addition to the monetary measures and development finance interventions being implemented, the CBN would need to seriously consider bold reforms of the foreign exchange market, in particular, the operation of Foreign Currency Domiciliary Accounts (FCDA) by Individuals. These accounts have tended to be grossly abused in recent years to the detriment of exchange rate stability. Exporting firms that maintain FCDAs must be effectively monitored.

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6. OBIORA, KINGSLEY ISITUA

On the basis of persisting negative real interest rates, recent flooding that might worsen consumer prices, upcoming year-end festivities, and the need for consistency and credibility in the fight against inflation, I voted to raise the Monetary Policy Rate (MPR) to 16.5 per cent from 15.5 per cent, retain the Cash Reserve Ratio (CRR) to 32.5 per cent, the Liquidity Ratio (LR) at 30.0 per cent and the asymmetric corridor of +100/-700 basis points around the MPR, respectively. I believe this stance will contain inflationary pressures without reversing the modest recovery already achieved.

Global output growth continues to hobble amid rising inflationary pressures and other significant headwinds. These headwinds include rising cost of living occasioned by broadening inflation pressures, the Russia-Ukraine war with negative spillovers across the world, tightening of financial conditions, with increasing borrowing costs for the emerging and developing economies, China's zero-COVID policy and the related economic slowdown. The combination of these shocks continued to weigh on global economic recovery. Inflationary pressures continue to affect households and businesses across advanced, and emerging and developing economies. As a result, global inflation is projected to remain elevated. The lingering impact of the COVID-19 pandemic, the war in Ukraine and China's zero-COVID policy, are expected to widen the supply-demand gap, leading to rising food and energy prices. Global inflation is forecast to increase from 4.7 per cent in 2021 to an estimated 8.8 per cent in 2022. In Advanced Economies (AEs), inflation is expected to increase by 7.2 per cent in 2022 from an estimated 3.1 per cent in 2021. Also, in Emerging Market Developing Europe it is forecast to rise from 9.5 per cent in 2021 to 27.8 per cent in 2022. In Sub-Saharan Africa, inflation is expected to increase from 11.1 per cent in 2021 to 14.4 per cent in 2022 (IMF October 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 the inflation targeting framework. It is already double digits in the United Kingdom, reaching 11.1 per cent for the first time in forty (41) years in October and 10.6 per cent in the Euro Area for the first time since the start of the European Union in October 2022. Although it has

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slightly eased to 7.7 per cent in October from 8.2 per cent in the United States, it remains far above the target rate of 2.0 per cent.

Central Banks worldwide remain consistent in raising interest rates to contain inflationary pressures. Several advanced-economy central banks, including the Bank of England, the Federal Reserve, the Bank of Canada, and Reserve Banks of Australia, and New Zealand, are raising the policy rates to contain the rising inflation. In Africa, Angola, Egypt, Ghana, Kenya, Morocco, Nigeria, South Africa, Tunisia, and others have increased the policy rates to rein in inflationary pressures that have become more persistent in these economies. As global inflation continues to rise, Central Banks worldwide, especially in some emerging and developing economies must act resolutely to bring it under control. Apart from the central bank's efforts in containing global inflation, diplomatic solution is urgently needed to end the war in Ukraine. There is also a need to increase climate financing in Sub-Saharan Africa to mitigate the adverse effects of climate change such as floods and droughts. With this, we will be able to avoid rising food prices and food insecurity in the region where it is projected that 123 million people or 12.0 per cent of sub-Saharan Africa's population will face acute food insecurity at the end of 2022 (IMF, Regional Economic Outlook, Sub-Saharan Africa, October 2022).

Given these, global growth is projected to decline sharply in 2022 compared with 2021. The J.P. Morgan Global Composite Purchasing Managers Index (PMI) declined to 49.0 points from 49.6 points, making it the third successive month of contraction and the lowest since June 2020. It was driven by a decline in new order inflows, downturns in economic activity and business optimism, a development that confirms the continued weakening of the global economy. Consequently, in the October 2022 World Economic Outlook (WEO), the International Monetary Fund (IMF) projected the global economy to slow down to 3.2 per cent in 2022 from an estimated 6.1 per cent in 2021. It is, however, expected to decline further to 2.7 per cent in 2023. This was due to supply chain disruptions associated with the lingering effect of the COVID-19 pandemic, soaring inflationary pressures, tightening financial conditions, the Russia-Ukraine war, and the slowdown in China. As a result of this, in Advanced Economies, growth in the United States, the United Kingdom, and the Euro area is projected to slow down to 1.6, 3.6, and 3.1 per cent in 2022 from an estimated 5.7, 7.4, and 5.2 per cent in 2021, respectively. In Emerging Market Economies, China - a significant driver of the global economy, is expected to slow down to 3.2 per cent in 2022 from an estimated 8.1 per cent in 2021, reflecting China's zero policy on the COVID-19 pandemic and the downturn in the property sector.

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Following the expected spillovers, the Nigerian economy is expected to moderate slightly in 2022. Official Data from the National Bureau of Statistics (NBS) revealed that real GDP (year-on-year) grew by 3.54 per cent in Q2 2022 and 3.11 per cent in Q1 2022. It, however, moderated, compared with 5.01 per cent in the corresponding quarter of 2021, showing a decline of 1.47 percentage points. The moderate growth was mainly driven by the non-oil sector, especially services and agricultural sub-sectors. They include 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. The non-oil sector, however, moderated to 4.77 per cent, compared with 6.08 per cent in Q1 2022, showing a decline of 1.31 percentage points. The oil sector, further contracted for the 9th consecutive quarter in Q2 2022. It contracted by -11.77 per cent (year-on-year) in Q2 2022, indicating, however, a moderation in contraction by 14.27 percentage points, compared with a contraction of -26.04 per cent in Q1 2022. The contraction in the oil sector has been attributed to the operational issues, increasing oil theft, pipeline vandalism, and divestments by international oil companies. This development has adverse implications for Federal Government fiscal space, accretion to external reserves and exchange rate stability. As a result, IMF projected the economy to moderate to 3.2 per cent in 2022 from an estimated 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).

The banking system remained sound, safe and resilient to headwinds. The industry Non-Performing Loan (NPLs) ratio was 4.8 per cent at the end of October 2022, compared with 5.3 per cent at the end of the corresponding period of 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. Total assets of the banking industry showed an increase of ₦12.37 trillion or 21.58 per cent from ₦57.30 per cent in October 2021 to ₦69.67 trillion in October 2022, driven largely 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 ₦23.49 trillion in October 2021 to ₦28.81 trillion in October 2022, representing an increase of 22.66 per cent to the key sectors of the economy, including Oil and Gas, Manufacturing, General, Governments and commerce.

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Domestic economic recovery continues to be fraughted by persistent inflationary pressures. Headline, food, and core inflation (year-on-year) continued to rise, driven by persisting high energy prices, exchange rate depreciation, increase in transport and logistics cost, as well as lingering structural issues, such as flooding, insecurity, inequality, and poverty. Although inflation on a month-on-month basis has been declining, an indication of the impact of the Bank's aggressive increase in interest rates, on a year-on-year basis, it has continued to rise persistently. Headline rose to 21.09 per cent in October from 20.77 per cent in September 2022, the nineteenth consecutive month of persistent increase since February 2022, driven by rising food and core components. Food inflation increased by 23.72 per cent in October from 23.34 per cent in September 2022. The continued rise in food inflation was driven by farm produce, transportation costs, flooding, the rising cost of fertilizer, and security challenges in food-producing areas. Core inflation also increased to 17.76 per cent in October from 17.60 per cent in September 2022. driven by the rise in the prices of processed foods, housing, water, electricity, gas and other fuel, clothing, footwear, and transport. Amid these soaring inflationary pressures, the monthly Composite Purchasing Manager Index (PMI) declined to 49.0 index points in November 2022 from 51.5 points in October 2022, signifying a contraction in the overall economic activity. Also, the economic recovery is still fragile, as it is projected to moderate to 3.2 per cent in 2022, partly driven by the continued oil sector contraction, thereby widening the fiscal deficit amid the rising cost of borrowing.

Considering all the above factors, both global and domestic, the best course of action is for the MPC to tighten the policy rate. Because as inflation becomes more entrenching, it is fast eroding the real income of households and is detrimental to stable and inclusive growth. The Bank must, therefore, continue to act decisively to contain it by raising the monetary policy stance. This will not only help to tame inflationary pressures in the short-to-medium term but also sustain the recovery, anchor inflation expectations, and minimize the effect of exchange rate pass-through to domestic prices.

On the basis of persisting negative real interest rate, flooding that might worsen inflation, festivities and election spending and the need to be consistent and credible, I vote to raise MPR by 100 basis points.

- Increase the Monetary Policy Rate (MPR) from 15.5 percent to 16.5 percent.
- Retain the Cash Reserve Ratio (CRR) at 32.5 percent.
- Retain the Liquidity Ratio (LR) at 30.0 percent; and

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Retain the asymmetric corridor to +100/–700 basis points around the MPR.

7. OMAMEGBE, MO'

Global Economic Developments

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The global economy currently reflects a bleak outlook with rising financial and geo-political uncertainties.[1] According to the International Monetary Fund's World Economic Outlook (October 2022), the world is in a volatile period and is growing more slowly. Three critical forces - the Russian Ukrainian war, broadening inflation pressures, and the slowdown in China - continue to impact the world economy.[2] The IMF forecast that global growth will decline by more than a third from 6.0 percent in 2021 to 3.2 percent in 2022 and 2.7 percent in 2023.[3] The IMF also believe that there are gloomier days ahead, and for many people 2023 will feel like a recession.[4]

The war in Europe and related events is amplifying upward pressure on inflation and pushing up global food prices. In addition, the war has created an energy crisis raising gas prices in Europe more than four-fold since 2021. Russia deliveries are now down to less than 20 percent of their 2021 levels increasing the prospect of energy shortages over the next winter and beyond.[5]

China's "dynamic-zero" COVID-19 policy and the frequent lockdowns, especially in the second quarter of 2022 as well as the crisis in its property sector are taking a toll on the Chinese economy with significant consequences for global supply chains, global trade and economic activity. Currently, COVID-19 case numbers are on the rise in the cities of Guangzhou, Beijing, Shanghai and Chongqing. Several airports across China have cancelled majority of their flights.[6]

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[1] UN (2022), World Economic Situation and Prospects: September 2022 Briefing, No. 164, p.1 https://www.un.org/development/desa/dpad/wp-content/uploads/sites/45/publication/Monthly_Briefing_164.pdf

[2] IMF(2022) *World Economic Outlook*, October 2022, Washington, International Monetary Fund , p.xiii, Foreword by Pierre-Olivier Gourinchas, Economic Counsellor. https://www.imf.org/en/Publications/WEO/Issues/2022/10/11/world-economic-outlook-october-2022

[3] IMF, World Economic Outlook, Executive summary, p.xvi

[4] IMF, World Economic Outlook, Foreword, p.xiii

[5] IMF, World Economic Outlook, Foreword, p.xiii

[6] Global Times (2022) Beijing, Guangzhou airports see large-scale flight cancellations amid surge in COVID-19 cases nationwide https://www.globaltimes.cn/page/202211/1279133.shtml

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The October 2022 edition of the IMF's Global stability report, observed that the world economy is experiencing stubbornly high inflation, a challenge it has not faced for decades. Inflation in advanced economies reached rates last seen since 1982; however, the most severe impact on human health and living standards is in lower-income groups in developing economies where up to half of household consumption expenditure is on food.[7] Global inflation is forecast by the IMF to rise from 4.7 percent in 2021 to 8.8 percent in 2022 but to decline to 6.5 percent in 2023 and to 4.1 percent by 2024. [8]

The growing fears and prospect of a global economic recession pushed International Crude prices to roughly $80 a barrel from more than $120 in early June.[9] However, in October, OPEC and non-OPEC partners agreed to impose deep output cuts by 2 million barrels per day to shore up prices, seeking to spur a recovery in oil prices.[10]

Soaring Inflation has prompted rapid monetary policy tightening as Central Banks across the globe focused on restoring price stability, and the pace of tightening has accelerated sharply. Countries are feeling the impact from the dollar's appreciation to multi-decade highs fueled by the Federal Reserve's aggressive tightening cycle, the strong dollar is pushing up the cost of imported goods, constricting financial conditions and feeding inflation in other economies. [11]

Domestic Economy

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[7] IMF (2022), Global financial stability report, p.19 https://www.imf.org/en/Publications/GFSR/Issues/2022/10/11/global-financial-stability-report-october-2022

[8] IMF, World Economic Outlook, Executive summary, xvi

1 **[9] Sam Meredith (2022) OPEC+ to cut oil production by 2 million barrels per day to shore up prices, defying U.S. pressure, p.1**
https://www.cnbc.com/2022/10/05/oil-opec-imposes-deep-production-cuts-in-a-bid-to-shore-up-prices.html#:~:text=Crude%20prices%20have%20fallen%20to,of%20a%20global%20economic%20recession.

[10] Meredith, OPEC+ to cut oil production by 2 million barrels per day to shore up prices, defying U.S. pressure, p.1

[11] Enda Curran and Garfield Reynolds (2022). Dollar Pain Spreads From Emerging Markets to Developed Economies https://www.bloomberglinea.com/english/dollar-pain-spreads-from-emerging-to-developed-economies/

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Consumer price inflation[12], on a year-on-year basis rose to 21.09% in October 2022. This is 5.09% points higher compared to the rate recorded in October 2021, at 15.99%. On a month-on-month basis, the Headline inflation rate for October 2022 was 1.24%, this was 0.11% lower than the rate recorded in September 2022 (1.36%). The percentage change in the average CPI for the twelve months ending October 2022 over the average of the CPI for the previous twelve months period was 17.86%, showing a 0.91% increase compared to the 16.96% recorded in October 2021.

Nigeria ranked 103rd in 2022 global hunger index according to the 2022 global hunger index (GHI) report.[13] The severity of hunger in Nigeria is said to be 'serious' having scored 27.3. The report also stated that 12.7 percent of Nigeria's population is undernourished. Sixty-three percent of people—133 million—are multi-dimensionally poor.[14]

The ongoing rising inflation pushed Nigeria's consumption expenditure to N57.08tn in the first half of 2022 according to the 'Nigerian Gross Domestic Product Report (Expenditure and Income Approach)15 by the National Bureau of Statistics16. This represent a 14.39 per cent increase from the N49.89tn in the corresponding period of 2021.

According to data from the Nigerian Upstream Petroleum Regulatory Commission, in October 2022, Nigeria's oil production recorded an increase to 1.014 mbpd. For the first time since June 2022 the country's oil production averaged 1,014,485 barrels per day last month indicating an increase of 8.18% compared to the September figures of 937,766 barrels per day. According to data from the monthly oil market report from the Organization of Petroleum

[12] NBS(2022) CPI and Inflation Report October 2022 https://nigerianstat.gov.ng/elibrary?queries=cpi

2 [13] GHI(2022) Nigeria : Global Hunger Index https://www.globalhungerindex.org/nigeria.html

[14] NBS(2022) Nigeria Multidimensional Poverty Index (2022) https://nigerianstat.gov.ng/elibrary/read/1241254

[15] NBS(2022) Nigerian Gross Domestic Product Report (Expenditure and Income Approach) (Q1, Q2 2022) https://nigerianstat.gov.ng/elibrary/read/1241252

[16]NBS(2022) Nigerian Gross Domestic Product Q3 2022 https://nigerianstat.gov.ng/elibrary/read/1241259

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Exporting Countries (OPEC) Nigeria is Africa's third-largest crude oil producer for October 2022 after Algeria and Angola.17

Fitch Ratings downgraded Nigeria's Long-Term Foreign-Currency Issuer Default Rating (IDR) to 'B-' from 'B'. According to Fitch, the Outlook is Stable and the downgrade to 'B-' reflects continued deterioration in Nigeria's government debt servicing costs and external liquidity despite high international crude oil prices this year. Nigeria's dwindling and low oil production in addition to an unsustainable and costly subsidy on petrol used up most of the fiscal benefit of high oil prices in 2022 and will continue to stress already low government revenue levels.

Nigerian Capital Market

The Nigerian Capital Market Master Plan (2021-2025) [18]

Nigeria in the last decade has firmly emerged as one of the leading frontier markets in Africa with immense potential for significant growth. The aspiration of the Government to create opportunities for the private sector to be a major engine of growth that guarantees improvement in the welfare and standard of living of the citizens of our country has been diligently articulated in Nigeria's Medium-Term National Development Plan (MTNDP) 2021-2025. The MTNDP emphasizes development of a deep, broadened and competitive financial system that is better positioned to support private sector growth and economic diversification.

Capital Markets provide a useful means to mobilize capital and harness economic interests in an efficient manner to drive innovation and growth. The last decade has been characterized by significant volatility in the global

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[17] Omono Okonkwo (2022), Nigeria maintains position as Africa's third largest crude oil producer for October 2022 https://www.african-markets.com/en/news/west-africa/nigeria/nigeria-maintains-position-as-africa-s-third-largest-crude-oil-producer-for-october-2022?idU=1&utm_source=newsletter_145&utm_medium=email&utm_campaign=the-latest-on-african-markets-

[18] The Revised Capital Market Master Plan (2021-2025) https://sec.gov.ng/nigerian-capital-market-masterplan/

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financial system caused by various economic and health shocks. At the same time innovative technologies have significantly disrupted how markets operate.

The Revised Capital Market Master Plan 2021-2025 (RCMMP), developed by the Securities and Exchange Commission (SEC) Nigeria in collaboration with stakeholders, captures the challenges of our capital market in actualizing its role to drive national economic growth and more importantly, provides a blueprint to harness these opportunities to better position the capital market as the engine of our economic growth and development.

The first five years of the original Capital Market Master Plan 2015-2025 (CMMP) implementation focused on market and governance reforms in the aftermath of the global financial crises of 2008 and the Nigerian market correction that continued into 2009, with significant success. During that period, stock certificates were dematerialized, dividend management was automated, corporate governance standards were improved, intermediaries were strengthened through revised capital requirements and risk based supervision, amongst several other initiatives implemented under the CMMP.

Today, we face new challenges and opportunities. The pursuit of innovation and growth requires that we are open to opportunities and risks. Our choices are limited if we only seek opportunities within our traditional boundaries. Similarly, we inhibit our ability to grow if we do not curtail the threats of unregulated risk taking. Promoting entrepreneurial and innovative outcomes, therefore, requires balancing our openness and more appetite for risk-taking with the critical need to protect investors. It is important to contextualize our aspirations within the fundamental objectives of market integrity and investor protection while pursuing economic growth. The RCCMP has provided a framework and outlined strategic initiatives that will help embrace and unlock these opportunities in our capital market.

The Securities and Exchange Commission and market stakeholders recently launched the Revised Capital Market Master Plan. The diligent implementation of the strategic initiatives in the plan will help better position the capital market

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to take advantage of opportunities the market presents to catalyze our country's economic growth and development.

Overall Consideration

Inflation has continued to rise both domestically and globally. The economies of China, United States and Europe are projected to slow in the coming quarters and consequently growth in the rest of the world and emerging markets will slow as well. The response in most countries to rising and persistent inflation has been to calibrate monetary policy to maintain price stability.

Policy trade-offs to address the cost-of-living crisis emanating from sustained inflationary pressures have become acutely challenging. The risk of monetary, fiscal, or financial policy mis-calibration has risen sharply. There is also the risk of both under and over tightening to reduce inflation. Under-tightening would further entrench inflation and de-anchor inflation expectations. On the other hand, over-tightening risks pushing the economy into an unnecessarily prolonged and harsh recession. Financial markets may also struggle to cope with an overly rapid pace of tightening as evidenced in international capital markets getting more expensive resulting in capital flight from emerging and frontier economies.

On the domestic front, we have seen growing fiscal deficits, projected growth in public debt and debt servicing obligations and oil production fallen to historically low levels. It is critical for the fiscal authorities to continue to seek viable ways to address the root causes of these challenges and take advantage of opportunities to mitigate the effects.

Inflation continues to take a toll on Nigerians – food prices remain very high (food inflation at 23.72% yoy) and combined with persistent high energy prices pose an important threat to current and future prosperity by squeezing real incomes and undermining macroeconomic stability. By reducing citizens real incomes and driving up costs for firms, inflation continues to dampen spending and production.

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The importance and effect of deploying a strong monetary policy response in curtailing price pressures is well established. Consequently, in response to significant ongoing inflationary pressures, the monetary policy committee has maintained a tight stance. It is very critical not to prematurely take the foot off the pedal at this time and for monetary policy to stay the course of tightening to restore price stability, alleviate the cost-of-living pressures and guard against the risk of a persistent upward shift in inflation expectations.

My Policy Decisions

I therefore vote to:

- Raise MPR by 100 basis points to 16.50 percent;
- Retain the Asymmetric Corridor of +100/-700 basis points around the MPR;
- Retain the CRR at 32.5 percent;
- Retain the Liquidity Ratio at 30 percent.

8. SALISU, MOHAMMED ADAYA

Global Developments and Economic Outlook

The global economic recovery has continued to be adversely affected by high and rising inflation, the Russian war in Ukraine, ongoing energy crisis in Europe, continued policy rate hikes in major economies, and supply chain disruptions in China due to its zero Covid policy that is impacting negatively on manufacturing output. These and other related factors could further slowdown the pace of economic recovery in both Advanced Economies (AEs) and Emerging Market and Developing Economies (EMDEs). This had prompted the International Monetary Fund (IMF) on several occasions to revise down its global

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output growth forecasts for 2022 and 2023, with the forecasts for both years now put at 3.2 per cent and 2.7 per cent respectively.

The disruptions to the global economic recovery have also continued to impact negatively on global output gap (difference between actual and potential output growth). According to the Central Bank of Nigeria (CBN) staff report, output gaps in the AEs and EMDEs are expected to widen in the short term.

It is not surprising to note that the slow global economic recovery is mirrored by the purchasing managers index (PMI) score. For three consecutive months to October 2022, the composite PMI remained below the 50 basis points – a mark that separates economic expansion from contraction. Analysts have suggested that the global composite PMI, at 49 points, reflected a dip in business optimism to a 28-month low on the back of rising global social, economic, and political pressures.

The aggregate global output performance, however, exhibits considerable variation across regions. For instance, a quarterly analysis of output growth shows that the US economy expanded in Q3, 2022 after a contraction in the first half of the year. This was largely driven by an increase in both trade balance and non-residential investments. In contrast, the UK economy contracted by 0.2 percent in Q3 2022, largely driven by rising energy and food prices as well as hikes in policy rate by the Bank of England. In the Euro area, output growth in Q3, 2022 was positive but slower than in the preceding quarter. The sustained positive economic growth in the Eurozone was majorly driven by an increase in tourism and leisure-related sectors despite the negative impact of the rising energy prices on output. In Japan, output growth in Q3, 2022 was positive on account of an increase in trade balance and improvement in business sentiment. However, economic recovery there is still adjudged to be fragile.

The data outside the AEs also provided mixed results. For instance, in China, output expanded by nearly 4 percent in Q3 2022 following a contraction of

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2.7% in Q2 2022. This was driven by the introduction of new policies and stimulus packages by the Chinese government and a rebound in economic activities due to easing of lockdown measures. In India, however, output contracted by 1.4 percent in Q2 2022 due to high and rising energy prices which impacted negatively on the transportation and manufacturing sectors. Similarly, output in South Africa contracted significantly in Q2 2022 due to declines in the outputs of the manufacturing, mining, quarrying, and agriculture sectors.

Global inflation remained elevated across AEs and EMDEs owing to a number of factors, including pressures from elevated food and energy prices, rising wages, and lingering COVID-19 pandemic that has caused supply chain disruptions especially in China with a zero Covid policy. Global inflation is, however, predicted to decelerate in 2023 as the monetary policy tightening by central banks across the world begins to rein inflation and the slower economic growth starts to dampen demand. It is noteworthy, however, that high energy and food prices still pose significant upside risks to global inflation. Thus, inflation in EMDES in particular is likely to remain elevated due to additional reasons such as declining capital inflows, exchange rate volatility and structural issues.

Domestic Developments

As at the November MPC meeting, the Q3 2022 GDP data were yet to be released by the National Bureau of Statistics (NBS). However, the data for the Second Quarter showed that output grew by 3.54 per cent (year-on-year) and by 5.01 per cent in the corresponding period of 2021. The economy has sustained positive output growth for seven consecutive quarters since it exited from recession in 2020. The consistent growth performance was largely driven by the non-oil sector, especially Services and the Agricultural sectors. In contrast, the oil sector contracted by 11.77 per cent in Q2, 2022, due to several factors, including crude oil theft and other production challenges that currently prevent Nigeria from meeting its own OPEC output quota. The challenges in the oil and non-oil sectors pose real threats to economic recovery, but projections

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by several Institutions including the IMF, CBN, and the NBS suggest that the economy is expected to remain on a path of sustained growth in 2022.

Despite the continuous growth in real GDP and optimistic output growth forecasts, Nigeria is still faced with a persistent rise in inflation over the past nine months. For instance, headline inflation (year-on-year) rose to 21.09 per cent in October 2022 from 20.77 per cent in September 2022. On a month-on-month basis, however, headline inflation decelerated to 1.24 per cent in October 2022, from 1.36 per cent in the preceding month, an indication that inflation is responding to the recent policy rate hikes by the CBN's Monetary Policy Committee (MPC). Some of the factors that contributed to the persistent rise in inflation include the continuous rise in energy and food prices, insecurity, incessant flooding, rural road infrastructure deficits, supply chain disruptions, post-harvest losses and imported inflation pass-through. The rise in energy prices, for instance, has resulted in a sharp rise in the cost of transportation, logistics and manufacturing, which in turn fed into consumer prices. The insecurity situations in the country have curtailed farming activities which, together with the perennial flooding in major food producing areas, have caused food scarcity, thereby resulting in high food prices. Inflation in the country is also caused by rapid growth in monetary aggregates, resulting in too much money chasing few goods. A presentation by CBN staff showed that broad money supply (M3) grew by 13.80 per cent in October 2022 (year-to-date), compared with 11.00 per cent in September 2022. This growth was driven by increased claims on 'Other Sectors' (consisting of other financial corporations, public non-financial corporations, and private sector).

Policy Decision

Despite increases in the Monetary Policy Rate (MPR) in recent months, the gap between inflation rate and the policy rate as at end of October 2022 was 559 basis points, indicating that there is still a room for monetary policy tightening. Although hiking the policy rate may help to tame inflation from the demand side, it could also dent output growth from the supply side. This calls for a

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delicate balancing act in achieving price and output growth objectives. It is also noteworthy that factors outside the monetary environment play a key role in influencing the performance of the economy. Addressing these factors to complement the actions by the monetary authorities would help tackle inflation and boost economic growth. However, given the challenges that are facing the fiscal authorities, the CBN will have to continue to do whatever it takes within its powers to curb inflation in Nigeria. Thus, the monetary authorities should continue to use all the monetary policy tools at its disposal to tackle the inflationary pressures in the country.

In view of the foregoing, there is room for hiking the policy rate to narrow the gap between it and the inflation rate and I support the decision to raise the rate by a sizeable margin.

Accordingly, I voted to:

- Raise the MPR by 100 basis points to 16.5%
- Retain the CRR at 32.5%
- Retain the Asymmetric Corridor at +100/-700 basis points around the MPR
- Retain the Liquidity Ratio at 30.0%

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9. SANUSI, ALIYU RAFINDADI

1.0 Decision

I voted to tighten the monetary policy stance, which I believe is necessary to rein in inflation and ease the pressure on the foreign exchange market. I am convinced that, although the month-on-month inflation has begun to moderate and the rate of rise in the headline inflation decelerated, the expected increase in spending for Christmas celebrations and electioneering campaigns could be significant sources of inflationary pressure. Additionally, the monetary policy normalisation in the Advanced Economies, which continues to raise real yield, requires domestic policy to focus on mitigating the foreign exchange market pressure from the impending capital flow reversals. However, because of the rising domestic public debt and fragile output growth, especially as the fear of another global recession thickens, the monetary policy environment should not be over-tightened. On the balance of these concerns, therefore, I vote to raise the Monetary Policy Rate (MPR) only marginally for its signalling effects and to tame the inflation expectations further.

2.0 Background and Justification

2.1 Global Economic Development

The global economy continues to grapple with high inflation amidst weak output recovery as a result of the Russia -Ukraine war, continues disruption of the global supply chain due to the re-introduction of COVID-19 containment

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measures in major Chinese industrial cities, rising global debt levels as well as the synchronised policy responses of the major central banks.

Global economic developments continue to be shaped by the lingering consequences of the Russia-Ukraine war, the COVID-19 resurgence in China, rising global debt levels and monetary policy normalisation. Consequently, global inflation remained significantly high amidst the continued weakening of global output, threatening another episode of recession.

The Russia-Ukraine war has caused significant disruptions to the global commodity supply chain, especially in food and energy, raising inflation across Advanced Economies (AEs) and Emerging Markets and Developing Economies (EMDEs). With no signs of abating, the energy supply disruptions in Europe during the high winter demand for energy further threaten global output and inflation. Although the COVID-19 pandemic has slowed in most countries, its resurgence in some Chinese cities has necessitated the re-introduction of lockdown measures in some major industrial cities, further disrupting the global supply chain, especially of manufactured goods. This disruption continued to slow down the global output recovery. In addition, the tightening global financial condition flowing with the aggressive pace of policy normalisation by most central banks in AEs and EMDEs amidst mounting global corporate and public debt portfolios has continued to increase the risk of another global financial meltdown. Consequently, the IMF has further downgraded its global output growth forecast for 2023 to 2.7% from 3.2% in 2022. In the Advanced Economies (AEs), output growth is similarly forecasted to decline progressively from the 5.2% achieved in 2021 to 2.4% in 2022 and 1.1% in 2023. In the EMDEs, output growth is projected to slow down from the 6.6% achieved in 2021 to 3.7% flat in 2022 and 2023. Q-o-Q output in the US has expanded by 2.6% in Q3 2022, following the second quarterly contraction of -0.6% in 2022Q2. Output in the UK economy is also forecasted to contract by -0.4% in 2022Q3 compared to 0.2% in 2022Q1 due to a rise in energy and food prices and interest rate hikes. Output in the Euro area and Japan has also declined in Q3 2022. In the EMDEs, Q-o-Q output has increased in China, Russia and Nigeria, but fell in India and South Africa in

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Q3 2022. The composite Global PMI of JP Morgan also indicated a decrease in economic activity in October 2022 to 49.0 from 49.6 in September 2022. Both the Global Manufacturing and Global Services components of the PMI also declined, suggesting global output contraction.

Since reaching a peak in June 2022, international oil prices have moderated as the global economy has remained fragile. Consequently, OPEC+ has agreed to cut production by 2 million barrels per day to reduce global inventory. By 18th November, 2022, OPEC Basket has declined to $91.72/b from $94.43/b on 1st November, 2022. Global demand is forecasted to grow from 99.52 million barrels per day in 2022 to 101.49 million barrels per day in 2023, while the supply is expected to average 101.28 million barrels per day in 2023.

Global inflation has remained elevated and significantly well above the long-term targets in most AEs and EMDEs due to pressures in global food and energy prices, rising wages and disrupted manufacturing supply chain due to COVID-19 lockdown in major Chinese industrial cities. However, global inflation is expected to recede in 2023 due to the ongoing synchronised monetary policy tightening across AEs and EMDEs. Inflation in the US has continued to ease since July 2023. Inflation in the Advanced Economies is forecasted to rise to 7.5% in 2022 from 4.9% in 2021 but will decline to 3.1% in 2023. In the EMDEs, inflation is forecasted to rise to 10.9% in 2022 from 6.2% in 2021. In 2023, it is expected to decline to 6.1%. As of October 2022, year-on-year inflation has declined in China (2.1%), India (6.77%), and South Africa (7.30%) but increased in Ghana (40.4%), Egypt (16.2%) and Nigeria (21.09).

In response to the inflationary pressures, Central Banks in both AEs and EMDEs have aggressively raised their rates. The Bank of England has increased its repo rate by 75 basis points to 3.00% in November 2022. The US Fed has also raised its rate to 3.75 -4.00%. The ECB also raised its rate by 75 basis points to 2.00% in October. In the EMDEs, Ghana, Egypt, South Africa, and Indonesia have similarly raised their rates. The monetary tightening in the EMDEs is in response to their rising inflation and anticipated capital outflows associated with rising

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yields in the major advanced economies. Consequently, net capital flows to EMDEs were positive in August (US$27 billion) and October (US$9.2 billion) but negative in September 2022 (- US$2.9 billion).

These global developments have important implications on the domestic economy, including, for instance, rising imported inflation, tougher external borrowing conditions, higher debt service payments, and higher pressure on foreign exchange reserves and the foreign exchange market.

2.2 Domestic Economic Developments and their Implications

The NBS shows that the domestic output grew by 3.54% (y-o-Y) in Q2 2022 compared with 3.11% in Q1 2022. The Output growth was driven by the non-oil sector, particularly Services, Agriculture and Manufacturing. This is the seventh consecutive positive output growth since the last recession in 2020, despite the contraction in the oil sector GDP for nine successive quarters because of oil theft and pipeline vandalism. The oil production problems have continued to deprive Nigeria of the opportunity to build external reserves and plug the widening fiscal gap that has continued to raise deficits and public debt. Output is forecasted to grow between 2.36% and 3.30% in 2022.

Data from the NBS shows that domestic headline inflation has risen (year-on-year) from 20.77% in September 2022 to 21.09% in October 2022, representing a 33-basis points increase. Food inflation increased from 23.32% in September to 23.72% in October 2022, representing a 33-basis points increase. The Core Inflation increased by 16 basis points from 17.6% in September to 17.76% in October 2022. These increases are significantly smaller than the previous, suggesting that inflation may be decelerating. This evidence of slowing down inflation is shown by the month-on-month decline in all the measures of inflation. Headline inflation, for instance, declined from 1.36% in September to 1.24% in October 2022. Food and Core inflation declined similarly by 20 and 66 basis points, respectively, between September and October 2022. The relatively higher deceleration of the Core inflation suggests that inflation may indeed be responding to the aggressive monetary tightening. The widespread, large-scale

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flooding across the federation may have also reduced the dampening effect of the harvest season on food inflation as over 146,734 hectares of farmlands spread across 370 Local Government Areas in the 36 States and FCT were destroyed. The Staff estimates from surveys show that in October and November 2022, expected inflation was significantly lower than forecasted. Developments in the monetary sector show that broad money (M3) grew by 13.8% in October 2022 compared to 11% in September 2022. The annualised growth rate in September was 16.56%, which was greater than the provisional benchmark of 15% for 2022. The rise in M3 was driven by the rise in claims on government, which was 63.87% in October 2022 and significantly above the 11.4% benchmark for the year. The roles of monetary and fiscal factors in the current inflationary processes may be important. Staff forecasts show that headline inflation would increase from 21.09% in October 2022 to 21.29% in November 2022.

The banking system stability report shows that the Capital Adequacy Ratio has remained above the regulatory minimum at 13.4% as of October 2022. The Non-Performing Loan (NPL) ratio was 4.8%, below the regulatory maximum of 5%. The industry's total credit to the economy has increased by N5.32 trillion or 22.66% between October 2021 and October 2022. Gross industry credit, which stood at N28.81 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

The data on domestic inflation and the staff projections suggest that inflation may, indeed, have started to respond to the sustained tightening of the policy stance as indicated by the slower pace of increase in the year-on-year measures for headline, food and core inflation. It shows that all the month-on-month measures have declined. However, the expected rise in spending for Christmas celebrations and electioneering campaigns may add significant inflationary pressure to the economy. In addition, the widespread flooding that destroyed farmlands across the country may have exacerbated the supply-

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side pressures and delayed the anticipated decline in inflation. Additionally, the rising yield in Advanced Economies requires domestic policy to focus on mitigating the foreign exchange market pressure from the impending capital flow reversals. In choosing the policy stance, I am convinced that raising the MPR is the optimal policy choice for reining inflation and mitigating the foreign exchange pressure. However, given the level of public debt and the concern about output growth, especially due to the renewed threat of another global recession, I vote to raise the MPR only by 50 basis points mainly because of its signalling effects and to tame the inflation expectations further.

Consequently, I voted to:

Raise the MPR by 50 basis points to 16.00 per cent;

Retain the CRR at 32.5 per cent;

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

Retain the liquidity ratio at 30.0 per cent.

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10. SHONUBI, FOLASHODUN A.

Global economic activities have remained subdued for most of 2022 on account of disruptions to trade and production due to prolonged Russia-Ukraine crisis, high inflation, and generally tighter financial conditions caused by general monetary policy normalisation. These developments continued to exacerbate uncertainties in the global macroeconomic environment, constituting significant limitations to policy options available to central banks. This current state of the global economy has not helped the case in emerging and developing economies, including Nigeria, where the spillovers have manifested in the form of rising imported inflation, drying capital flows and lower remittances. At this juncture, the Bank faces the dilemma of assuring itself that the potency of ongoing monetary policy measures will be far-reaching enough to moderate the impact of other domestic and external underlying non-monetary factors, even as other authorities are expected to act decisively to complement effort of the Bank to address the challenges.

Global and Domestic Economic Developments

Impact of growth in the US and China in the third quarter of 2022 after contraction in the previous periods was subdued by muted expansion in the rest of advanced economies. Growth across Emerging and Developing Economies were generally lower and fragile, including contractions in India and South Africa. Global growth was thus projected at 3.2 per cent in 2022 by the International Monetary Fund, reflecting further moderation in the forecasts for the advanced, emerging market and developing economies, even as many nations grapple with rising risk of defaulting on obligations arising from huge buildup of debt stock.

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High inflation has been a major threat to prospects of domestic growth and macroeconomic stability. General prices continued its upward trend, though it is slowing down, month-on-month, on account of aggressive actions of the Bank to curb inflationary pressure. Headline inflation reached 21.09 per cent in October 2022, reflecting further increase in food and core inflation to 23.72 per cent and 17.76 per cent, respectively. However, on month-on-month basis headline inflation slowed to 1.24 per cent in October 2022 from 1.36 per cent in the previous month. Similarly, food and core inflation decelerated to 1.23 per cent and 0.93 per cent, respectively, on month-on-month basis.

Against the backdrop of the most recent output data which showed the non-oil sector as the major driver of growth over last 6 quarters, recent widespread flood and lingering insecurity have heightened the likelihood of a slowdown. Most hit was the agriculture subsector, which has been a major contributor to expansion in the non-oil sector. Contractions in the composite and component PMIs to levels below the 50.0 index point mark in November 2022 portends slowdown in real economic activities, reflecting impact of a challenging business environment.

The banking system has remained resilient so far in 2022, even as it continues to grapple with the effects of a challenging macroeconomic environment on businesses. Industry non-performing loan ratio was 4.8 per cent in October 2022 below the 5.0 per cent threshold, while industry liquidity ratio was 40.1 per cent, above the 30.0 per cent minimum level. Of note is the sustained growth in total industry deposits, credits, and assets, reflecting positive impact of various measures by the Bank. Industry capital adequacy, though lower at 13.4 per cent, was above the 10.0 per cent prudential minimum. Significant rise in domestic claims on private sector and the government has however pushed annualised growth of major monetary aggregate slightly above the benchmark for fiscal 2022, highlighting monetary aspect of the drivers of inflationary pressure.

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Though expenditure and overall deficit moderated over the last two periods, due mainly to decrease in aspects of recurrent expenditure, government finance has largely been stressed and less robust for most part of 2022. Overall, rising deficit and huge debt stock have constituted significant strain on the capacity of the fiscal authority. The external sector has not fared better either, as low oil production, dwindling foreign exchange revenue, high import prices (bills), drying capital and muted remittance flows have become major drags on external reserve accumulation, precipitating exchange rate pressure.

Overall Considerations and Decision

Whereas the US recorded growth in the third quarter of 2022 after two quarters of contraction, general lull in the rest of advanced economies, including probability of a recession in the UK economy, and subdued growth across the emerging and developing economies, have heightened prospects of a global recession. Elevated inflation, amidst aggressive monetary policy tightening, disruptions from the protracted war and slowing trade continued to aggravate uncertainties in the global macroeconomic environment, thereby weakening growth prospects.

The actions we have taken so far to curb domestic inflation is not only in tandem with the trend of monetary policy globally but is also strongly supported by economic theory. While moderation in month-on-month inflation is a slow reflection of the positive outcomes of these monetary policy actions, overall trend in high prices underscores the impact of underlying primary factors, including recent flood, insecurity, and externalities from ongoing Russia-Ukraine war, all of which have exacerbated food inflation.

We have done a lot on the supply side through our interventions and the result can be gleaned from the rising importance of the non-oil sector as a driver of domestic growth. Impact of exogenous factors is, however, limiting effectiveness of monetary actions on the real environment. While we must at this point, pay attention to the transmission mechanism to ensure our actions to control rising prices do not inadvertently choke aggregate demand and

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output, we cannot afford to relent on our effort to control aggressive rise in inflation.

Despite the success of CBN actions to control banking system liquidity, the nature and structure of government finances is another source of liquidity pressure. This is because as obligations of the government remains huge on one side, ample government liquidity on the liability side of the Bank contributes to more pressure on prices as such funds are deployed by the government. This requires deliberate resolve by fiscal authority to align the structure of its finances with the overall objective of ensuring optimal liquidity that do not fuel inflationary pressure.

Clearly, dealing with the primary drivers of the lull in production requires more than the effort of the monetary authority. While the Bank continues with its targeted intervention to promote investment for expansion in the productive sectors, the fiscal authority must take decisive action from different fronts to improve and ease the constraints to growth. Complementing the effort of the Bank is now more imperative than ever. Intervention and subsidy by the government can be strategically targeted at organisations, entities and processes with assured prospects of future benefits over and above immediate cost.

On exchange rate, we must continue to juggle our options around demand management and supply enhancement policy mix, without forgetting that improving supply is the ultimate solution. Leveraging a model driven approach to price discovery and keeping an eye on subtle threat of dollarization will be a good start to embracing the bold adjustment type of approach required at this time to effectively address the fundamental issues. This of course is not without regard for the macroeconomic implications but with a focus on the direction that ensures expected benefits surpasses the costs.

As we consider slowing down without relenting, having regard for the lag in the manifestation of the full effects of our actions, I am convinced that we must continue to do all it takes to curb the aggressive rise in inflation.

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I therefore vote to:

- Raise the MPR to 16.50 per cent;
- Retain the Asymmetric corridor of +100/-700 basis points around the MPR
- Retain Cash Reserve Ratio (CRR) at 32.50 per cent; and
- Retain Liquidity Ratio at 30.0 per cent.

11. EMEFIELE, GODWIN I.

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

With global inflation entrenched at historic heights due to strong energy price shocks and as elevated domestic inflation impair business confidence and corrode the purchasing power of households, my policy inclination today is to further tighten stance to avert inflation trap. Global inflation dynamics reflect the cost-of-living and energy crises that emanated from the acute supply-chain disruptions due to the raging Russian-Ukraine war and the continued strict Covid-19 restrictions in China. Amidst these developments, the global economy continued to face significant challenges as intensifying headwinds

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slow growth momentum, worsen global conditions, amplify risks and uncertainties, and dampen global outlook.

Owing to widespread slowdown in many economies and continued risk of recession, the IMF has repeatedly downgraded short-term global growth prospects, as nearly one-third of economies may contract next year. Global growth was projected at 3.2 percent in 2022 and reduced to 2.7 percent for 2023 even as soaring global inflation remain high for both years. Global growth is further encumbered by the reactive monetary tightening, especially in key economies, which have worsened financial market vulnerability and macroeconomic fragility in EMDEs as capitals flow-out and exchange rates debilitate.

Tumultuous global economic conditions are impeding Nigeria's situation even as the domestic economy continued to withstand external shocks. Though, domestic outlook remains delicately positive, its prospect is threatened by global spill-overs, local imbalances, and high inflation. Following the 3.54 percent year-on-year growth in 2022q2 from 3.11 percent in 2022q1, output growth is expected to consolidate in the remaining quarters of 2022. This is on the backdrop of the continued robustness of non-oil activities, which grew 4.77 percent in 2022q2 following the 6.70 percent expansion in services and 1.20 percent in agriculture. The strong outcome of the non-oil sector reflected the continued impact of CBN's support to critical economic activities. Oil GDP contracted by a further -11.77 percent due to pervasive production losses, vandalism and theft. This structure does not only underscore the urgency of diversifying from oil but, more importantly, buttresses the imperatives of insulating the economy from unpredictable shocks. The various CBN interventions to enhance non-oil productivity, aid diversification, ease supply deficits, and correct domestic imbalances, are buoying economic outlook and modulating structural inflation.

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Although inflation is beginning to plateau, it remained high and growth-inhibiting. Year-on-year headline inflation rose by 0.32pp to 21.09 percent in October 2022 vis-à-vis the 0.25pp uptick in September, 0.88pp in August, 1.04pp in July and 0.89pp in June, suggesting slowing impetus and falling expectations following monetary tightening. The reduced pace of increase is further illustrated by the slowing month-on-month rates from 1.36 percent in September to 1.24 percent. These outturns reflected the 0.38pp rise in food inflation to 23.72 percent and 0.16pp in core inflation to 17.76 percent. The unacceptably high levels of inflation were due to constricting energy prices, inhibitive infrastructure deficits, widespread flooding, persistent insecurity issues, and global spill-overs. Short-term projections indicate further descents in inflation expectations through tighter monetary stance complemented by targeted interventions to resolve supply rigidities.

Analysis of financial conditions indicated a mixed outcome during the review period. Monthly weighted average open-buy-back rate rose 4.42pp in October 2022 to 15.91 percent from 11.49 percent in September, in tandem with the recent hikes in the monetary policy rate. Monetary aggregates, however, quickened in October vis-à-vis provisional targets as annualised broad money growth, at 16.56 percent was 1.35pp above benchmark. The observed growth was attributable to the substantial overshoot of domestic claims above programmed benchmark and 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 resilient and stable as NPL ratio (4.81 percent), liquidity ratio (40.14 percent) and CAR (13.39 percent), outperformed their prudential limits. In order to insulate our economy from adverse external developments, it remains imperative to fortify our economic base by de-risking the productive sector and diversifying completely. This is especially as frozen oil receipt impedes the FX market, shrinking external reserves from US$37.39 billion in September to US$36.87 billion in October, and abetting exchange rate pressures.

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In my consideration, I note the enormity of the global conditions especially as the war in Ukraine, the energy and cost-of-living crises, pervasive inflation upsurge, and the slowdown in China combine to undermine growth outcomes and outlook. These undercurrents are not expected to relent soon as their long-lasting impact permanently dents potential output globally. I note that, inflation is becoming increasingly entrenched in economies with hitherto low rates, triggering global monetary tightening which are destabilising FX markets especially in EMDEs. These global developments hold critical ramifications for the domestic economy. I note that whilst the Nigerian economy has remained resilient, its prospects are susceptible to global shocks and domestic imbalances. Short-term growth output is positive, but inflation expectations remain unacceptably high.

It is thus imperative to maintain coordinated and decisive policies to tackle inflation and inflation expectations. I note that the current trajectory of inflation seems to be flattening reflecting the dampening effect of recent monetary tightening and other supply-side actions of the CBN. Yet, current level of inflation is not conducive for growth. Failure to adequately tackle inflation threats now will entrench it at high levels and detrimentally normalise expectations. This will harm economic growth in the long-run and depress potential output while concurrently blunting the efficacy of macroeconomic policies. Accordingly, I support strong disinflation measures, at this time, in order to attain price stability conducive to growth. I reiterate that current inflation is higher-than-desired and needs to be curbed decisively, even as I acknowledge the attendant GDP loss.

Overall, I note that earlier tightening measures are yielding desired results as inflation impetus is waning. It is requisite to not reverse course hastily as this could jeopardise immanent successes. I opt for cautious, practical, and well-balanced decisions that bring inflation to tolerable levels while optimising output considerations. Given its depressing effect on household income, I believe that further tighten is apt to resolutely tame inflation. Thus, I vote to:

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i. Raise the MPR by 100 basis points to 16.50 percent;
ii. Retain the asymmetric corridor at +100/–700 basis points
iii. Retain the CRR at 32.50 percent; and
iv. Retain liquidity ratio at 30.00 percent.

GODWIN I. EMEFIELE, CON

Governor

November 2022

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