CENTRAL BANK OF NIGERIA COMMUNIQUÉ NO. 148 OF THE 291ST MEETING OF THE MONETARY POLICY COMMITTEE HELD ON TUESDAY 23RD, AND WEDNESDAY 24TH MAY, 2023

The Monetary Policy Committee (MPC) met on the 23rd and 24th of May 2023, confronted with persisting and emerging risks to both the global and domestic economies. On the global scene, the key risks are the fear of contagion arising from the US banking crisis; the ongoing Russia – Ukraine war; and growing tensions between China and the US. In addition to these, the oil market has remained volatile even as global trade figures continue to decline. In the domestic economy, the major risks identified include high public debt, high inflation, declining oil production, and moderate recovery of output growth.

The Committee assessed these developments and the outlook for the rest of the year.

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

Global Economic Developments

The Committee deliberated on the key headwinds confronting the recovery of global growth, including the impact on global trade associated with the Russia-Ukraine war; the risk of contagion from the US banking crisis, as investors exercise caution; and the downside risks from the build-up of hostilities between the US and China. Output growth recovery has thus, remained moderate in some countries and subdued in others.

Members noted that despite concerted efforts by the Advanced Economy central banks, inflation has remained broadly elevated and well above long-run objectives, with consequences for investment spending and the recovery of output growth. In the Emerging Markets and Developing Economies, inflationary pressure remains heightened amid several headwinds.

Global financial conditions have continued to tighten as several central banks maintain their push towards taming inflation. Gold price sustained an uptrend as investors seek a safe haven asset to hedge against losses in the event of a broader market downturn, with growing fears of a global financial contagion associated with the banking crisis in the US and Europe.

Consequently, the International Monetary Fund (IMF), in its April 2023 World Economic Outlook further downgraded the output growth forecast for 2023 to 2.8 per cent compared with its January forecast of 2.9 per cent. Growth is however, expected to improve moderately to 3.0 per cent in 2024.

Domestic Economic Developments

According to the National Bureau of Statistics (NBS), Real Gross Domestic Product (GDP) grew by 2.31 per cent (year-on-year) in the first quarter of 2023, compared with 3.11 per cent in the corresponding quarter of 2022 and 3.52 per cent in the preceding quarter. The economy moderated on its current recovery trajectory, posting positive, albeit lower growth, for the tenth consecutive quarter, in spite of a multitude of headwinds to its full recovery. The growth performance was driven largely by the sustained growth in the services and agricultural sectors; progressive uptrend in economic activities across several sub-sectors; and sustenance of broad-based support by the Bank in growth enhancing sectors. Staff projections showed that output growth recovery is expected to continue reasonably in 2023, given the significant improvements in the Composite Purchasing Managers' Index (PMI), which rose to 51.1 index points in April 2023 from 42.6 index points in March 2023.

The Committee noted the persisting uptick in inflation, as headline inflation (year-on-year) rose to 22.22 per cent in April 2023 from 22.04 per cent in the previous month. While this amounted to a moderate increase of 0.18 percentage point. The recent uptick was driven largely by the increase in both the food and core components, which rose moderately to 24.61 and 20.14 per cent in April 2023 from 24.45 and 19.86 per cent, respectively, in March 2023.

The lingering insecurity in major food-producing areas; high cost of transportation driven by rising energy costs; activities of middlemen in the food distribution channels; as well as the persistence of shocks from legacy infrastructural bottlenecks, remains major drivers of the inflationary pressure.

The MPC observed that the economy continued to be weighed down by high import bills, leading to pressure on foreign exchange and resultant increase in the general price level. The Committee noted that the economy needs to build up the stock of foreign reserves to act as buffers against shocks. In addition, the current trend in price development would continue to be monitored by the Bank with greater collaboration with the fiscal authority, to address the drivers of inflation.

Broad money supply (M3) in April 2023 grew by 22.11 per cent (annualized), largely driven by the increase in Net Domestic Assets (NDA). Money market rates reflected the relatively tight liquidity conditions in the banking system. Consequently, the monthly weighted average Open Buyback (OBB) and Inter-bank Call rates increased to 17.05 and 15.80 per cent in April 2023, from 14.07 and 14.75 per cent in March 2023, respectively.

The Committee noted the sustained stability in the banking system, evidenced by the performance of the Financial Soundness Indicators (FSIs). The Capital Adequacy Ratio (CAR) stood at 12.8 per cent, Non-Performing Loans (NPLs) ratio at 4.4 per cent and Liquidity Ratio (LR) at 45.3 per cent, as of April 2023.

The MPC noted the momentary lull in the equities market in the review period following end-of-year activities by several companies on the Exchange. The All-Share Index (ASI) and Market Capitalization (MC) declined to 52,403.51 and N28.53 trillion on April 28, 2023, from 55,806.26 and N30.40 trillion on February 28, respectively.

The Committee, also, noted the moderate decline in the level of gross external reserves to US$34.91 billion in April 2023, from US$35.14 billion at end-March 2023, attributable to transactions in the foreign exchange market and largely to miniscule accretion to reserves from crude oil exports.

The Bank disbursed the sum of ₦25.6 billion under the ₦1.0 trillion Real Sector Facility to eight (8) new real sector projects in manufacturing packaging, pharmaceuticals, plastic and cosmetic products. Cumulative disbursements under the Real Sector Facility currently stands at ₦2.56 trillion disbursed to 462 projects across the country, comprising 257 manufacturing, 95 agriculture, 97 services and 13 mining sector projects.

Under the 100 for 100 Policy on Production and Productivity (PPP), the Bank disbursed the sum of ₦13.81 billion to three (3) projects in the manufacturing sector. This brings the cumulative disbursement under the facility to ₦173.31 billion, disbursed to 81 projects comprising 45 manufacturing, 23 agriculture, 5 healthcare, and 8 services sector projects with an estimated 23,343 direct jobs created.

Under the Nigerian Electricity Market Stabilisation Facility (NEMSF-2) for capital, and operational expenditure of distribution companies (Discos), the Bank disbursed ₦11.82 billion to ease liquidity constraints and support the recovery of legacy debt. Under the scheme so far, the Bank has disbursed a cumulative sum of ₦254.39 billion.

Outlook

The broad outlook for the full recovery of both the global and domestic economies remained clouded by legacy and emerging risks.

Available data and forecasts for key macroeconomic indicators in the Nigerian economy, suggest that the economy will continue on a moderate recovery path through 2023 as legacy headwinds linger. These include insecurity in food producing areas; high cost of energy and rising cost of debt servicing. Accordingly, the economy is forecast to grow in 2023 by 3.03 per cent (CBN), 3.75 per cent (FGN) and 3.29 per cent (IMF).

The Committee's Considerations

At this meeting, the MPC was concerned that, despite the tight monetary policy stance adopted since its May 2022 meeting, inflation had not decelerated towards the Bank's long run objective. The MPC noted that the continued rise in headline inflation, albeit moderately, remained the biggest challenge confronting macroeconomic stability in Nigeria. Headline inflation in the view of Members, remained high due largely to a host of non-monetary issues outside the reach of the central bank such as the perennial scarcity of Premium Motor Spirit (PMS) and expectations of short-term hikes in the pump price of PMS; high and rising price of various energy sources; and a host of headwinds confronting the food supply chain. In the circumstance, the Committee enjoined the fiscal authority to explore other avenues to expand the fiscal safety net in an urgent bid to improve its ability to respond to legacy and emerging shocks. Non-oil revenue sources, such as the expansion of the tax bracket, will enable the reduction of fiscal deficit and public debt to improve fiscal space.

Confronted by these challenges, the Committee tasked the Bank's Research and Monetary Policy Departments to evaluate the counterfactual evidence from available data, using empirical analysis. The results revealed that following each monetary policy rate hike, the rise in inflation moderated relative to what it could have been, if the MPC had not aggressively raised rates at all.

In fact, the empirical evidence provided showed that whereas inflation in April 2023 stood at 22.22 per cent, the counterfactual evidence suggests that, it could have risen to 30.48 per cent in April 2023, had the MPC not taken any action to raise policy rates as it did since May last year. Indeed, the cumulative effect of MPC's policy rate hikes moderated the rise in inflation by about 800 basis points since last year.

The Committee was also concerned that output growth, on a year-on-year basis dropped to 2.31 per cent during the first quarter of 2023 compared with 3.11 per cent during the first quarter of 2022. The challenge at this meeting, therefore, centered around whether to hold or loosen, in order to refocus on growth, or tighten further, in order to tame the rise in inflation. Members were, however, unanimous that given that rising inflation would hurt growth, it is imperative to continue to focus on price and monetary stability, though in a less aggressive manner.

The Committee called on the Management of the Bank to continue to explore avenues to improve the exchange rate policy to moderate pressure in the foreign exchange market. Members were optimistic that the continued progress made with the RT200, Naira-for-dollar and other policies targeted at attracting trade and diaspora remittances, would continue to support accretion to reserves and improve liquidity in the foreign exchange market.

While output growth remains on a positive trajectory, the MPC noted the need for increased monetary and fiscal coordination to support recovery in light of the identified risks confronting the domestic economy.

Members expressed satisfaction with the banking and financial system stability indicators presented to the Committee. They, however, noted that the risk of global financial contagion is yet to dissipate. To this end, Management was enjoined to maintain strict vigilance to insulate the banking system from potential spillover effects. So far, the Bank has sustained stringent micro-and macro prudential measures to ensure that the banking system remains resilient with adequate buffers to ward-off both external and domestic shocks.

In its consideration as to whether to hold, loosen or tighten, the MPC was of the view that a hold or loosen option was not desirable at this time given that a hold may compromise the Bank's decision to tame the rising inflation, particularly when its in-house staff estimates have projected that headline inflation would continue to rise in the immediate months ahead before decelerating. As to whether to loosen, this option was considered undesirable, because loosening, in the face of persistently rising headline inflation would compound the inflationary pressure and trigger further macroeconomic instability.

The Committee also felt that loosening would further widen the negative real interest rate margin and worsen domestic financial and money market conditions: including triggering a naira depreciation.

The Committee's Decision

In the opinion of the Committee, the key policy dilemma at this meeting was whether to hold or hike the policy rate marginally to offset the moderate increase in headline inflation.

Considering the option of a hold policy, the Committee reiterated the empirical counterfactual evidence of a '*do-nothing*' and believed that the rate hikes have indeed helped moderate the continued rise in inflation, albeit, month-on-month. In addition, the evidence revealed that the policy rate hikes have also moderated growth in new credit and reduced the pent-up aggregate demand contributing to the inflationary pressures. Members were unanimous in their conclusion, that the current policy stance is indeed impacting the targeted parameters and yielding the expected outcome, although slowly.

Reviewing the argument to further hike the policy rate in a bid to subdue aggregate demand, Members noted that the current uptrend in inflationary pressure was driven by a combination of both demand and supply side issues. The MPC observed the continued upward risk to price development driven primarily by expectations of rising energy and food prices; unabating security challenges in food producing areas; as well as persisting exchange rate pressure. The Committee thus felt it was expedient to continue to address the demand-side issues falling within the ambit of its policy tools.

The balance of the argument thus leaned sufficiently in favour of a further hike (albeit less aggressively), considering the adverse impact of rising inflation on real income. The MPC therefore opted to tighten, though moderately, so as to:

i. indicate the MPC's conviction that the current policy stance is moderating the rising inflation, albeit month-on-month, and sustaining the stance would consolidate the gains made so far;

ii. support the efforts toward moderating the demand-pull inflation, as cost of funds increases, and discourages further build-up in aggregate demand, in the face of declining output growth;
iii. narrow the negative real interest rate gap and moderate the associated consequences, including discouraging domestic savings mobilization and waning investors confidence;
iv. effectively moderate the monetary phenomenon in the current drivers of inflation by tapering both economic and financial conditions and sweep-up excess liquidity in the system; and
v. boost the Bank and Committee's credibility following its earlier forward guidance to continue to tighten when confronted with unabated rising inflation.

Members, thus, resolved by a unanimous vote to raise the Monetary Policy Rate (MPR), moderately. Ten (10) members voted to raise MPR by 50 basis points and one (1) member voted to raise the MPR by 25 basis points. All members voted to keep all other parameters constant.

In summary, the MPC voted to:

I. **Raise the MPR to 18.5 per cent from 18.0 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
24th May 2023

PERSONAL STATEMENTS BY THE MONETARY POLICY COMMITTEE MEMBERS

1. ADAMU, EDWARD L.

Global output recovery is expected to continue albeit at a slower pace amid financial market uncertainties sparked by the recent wave of banking system troubles in the United States and Europe. Because of this and other established geo-political headwinds like the war in Ukraine, the International Monetary Fund (IMF) lowered its 2023 world output growth projection in April to 2.8 per cent. Meanwhile, high inflation continues to be the more urgent macroeconomic challenge globally. Towards addressing this challenge, most central banks have embarked on monetary tightening since 2022 despite widespread concerns about its potential offsetting impact on growth and financial stability. It is relieving though that some economies have started to see moderation in inflation on account of policy tightening.

In the domestic economy, the situation is not entirely different. The Monetary Policy Committee (MPC) has in the past one-year prioritized disinflation by raising the monetary policy rate (MPR) severally. This has had the effect of slowing the pace of increase in inflation measured on year-on-year basis. It needs to be emphasized that the seemingly slower response of the current episode of inflation to policy adjustment is not entirely unexpected. Compared with the last episode of high inflation pressure (2016/2017), the shocks that triggered the current episode were much larger. The pandemic-induced shutdown affected both economic activity and prices, and thus necessitated a cautious policy approach in order not to ground the economy. In effect, monetary policy adjustment took a bit of time to kick-in. In addition, there have been indications of increased inflation persistence which is also understandable. The economy was hit simultaneously by both supply and demand shocks of considerably larger magnitudes. It is my view that this context continues to be important in assessing the impact of the rate hikes so far, and in the way monetary policy proceeds broadly in the short- to medium-term.

With headline inflation rising to 22.2 per cent in April 2023, reflecting increases in both food and core sub-categories, there is a clear sense in which monetary policy should continue to remain tight. And so, I voted to further raise the monetary MPR at the May 2023 meeting of MPC. Details of my considerations are presented subsequently.

First, the short-term outlook for inflation and its major drivers remains unfriendly. Although the pace of increase has subsided, year-on-year inflation could continue to rise according to in-house estimates. To ensure that flattening is quickly achieved to pave the way for deceleration, the stance of monetary policy needs to be firmer. This is against the backdrop of an uncertain outlook for fiscal policy, energy prices and wages in the rest of the year. The much-anticipated removal of subsidy on premium motor spirit (PMS) in the second half of the year contributes significantly to current inflation outlook and therefore, cannot be ignored. Likewise, the strong possibility of upward adjustment in the minimum wage cannot be totally discounted. Unless monetary policy remains tight, these risks could easily crystalize in greater inflation pressure in the rest of the year.

Second, although much of the impact of the initial shocks to inflation may have dissipated, inflation expectation has remained significantly elevated. This needs to change, and quickly so. I believe communication is key in this regard, but equally important is what the market can see the Bank doing. Raising MPR sends a clear signal that the MPC is not comfortable with the projected path of inflation, and therefore continues to be committed to altering that path. I am persuaded that policy must strive to rein-in inflation expectation as a deserving complement to effective liquidity management.

Third, economic activity expanded in Q1 2023 by 2. 31 per cent. Although much lower compared with 3.52 per cent recorded in the preceding quarter, the decline needs to be viewed against the backdrop of seasonality, the cash crunch in February/March and tighter monetary conditions. In-house staff projections suggest a lift in subsequent quarters. Other indicators of economic activity like the purchasing managers' indexes (PMIs) lend credence to the optimism around growth in the coming quarters. Though the volume of new credit is slowing on account of the prevailing monetary policy direction, the stock of credit up to May 2023 remained considerable high. In essence, the outlook for economic activity continues to be positive, offering room for monetary policy tightening to contain inflation pressures.

Fourth, growth in money supply is yet to be adequately curtailed, at least to the benchmarks for the year. In addition to tightening the stance monetary policy to slow credit creation, a fiscal orientation tailored towards reducing public sector borrowing requirements will be immensely helpful. Among other benefits, slowing the growth of money supply at this time should contribute to rebuilding monetary buffers to improve the economy's resilience against future shocks. It is in this context that despite posing a risk to inflation, I see the planned removal of subsidy on PMS as appropriate as it should significantly reduce the need for monetary accommodation going forward.

Strong exchange rate passthrough to inflation continues to be an important factor in the current inflation pressure. Exchange rate depreciation fuels expectation of consumer price increases in the domestic economy. While the pressure on the naira reflects both supply and demand conditions in the foreign exchange (FX) market, I believe that policy tightening would dampen the demand pressure. It could also have a positive impact on autonomous FX supply as domestic yields improve.

I do appreciate the legitimate concern for financial stability in the event of a prolonged monetary tightening cycle. However, I see this risk as reasonably controlled given the resilience of the banking system. At end-April, the major financial soundness indicators (FSIs) – capital adequacy (12.8 per cent), non-performing loans ratio (4.4 per cent) and liquidity ratio (45.3 per cent) were within their prudential thresholds. Industry earnings ratios have also remained comparatively strong. Nonetheless, there is the need to strengthen macroprudential buffers. In particular, I see the need to build countercyclical capital buffers to further improve industry resilience to future shocks.

Overall, I believe that the balance of risks continues to be tilted against price stability. As such, maintaining a tight monetary policy stance over the short- to medium- term horizon is ideal. In terms of choice of instrument, my preference continued to be the MPR at the May 2023 meeting of the Committee. As more information and assessments become available it might become feasible to consider other instruments as well.

In summary, I voted to:

1. Raise the MPR by 50 basis points to 18.5 per cent.

2. Retain the asymmetric corridor at +100/-700 basis points around the MPR.

3. Retain the CRR at 32.5 per cent.

4. Retain the Liquidity Ratio at 30 per cent.

2. ADENIKINJU, ADEOLA F.

International Economic Developments

Global economic recovery remains weak because of widespread uncertainties. The IMF projected global growth to slow down to 2.8% in 2023 from 3.4% in 2022, but rise to 3.0% in 2024. The factors driving the trend are high level of inflation, impact of the ongoing Russian Ukrainian war, and unabated rise in interest rates in both the Advanced Economies (AEs) and the Emerging and Developing Economies (EMDEs). Global PMI rose by 1.5% between March 2023 and April 2023, driven mainly by services. Global inflation is decelerating and is expected to decline from 7.3% in 2022 to 4.7% in 2023, and further to 2.6% in 2024. The crude oil market was soft on fears of a weakening U.S. economy, disagreement over raising the US debt ceiling among US politicians and slowing Chinese demand. The state of the crude oil market has direct impact on Nigeria's economy given the role of petroleum sector. Between January 31, 2023, and May 19, 2023, price of crude oil declined from US$86.30/b to US$74.9/b. Most central banks around the world continue the path of interest rates normalization, albeit at a moderate pace. Interest rates in those countries are at the highest historical levels. Portfolio capital flows to emerging markets rose to US$9.8 billion in April 2023 from US$9.4 billion in March 2023 as investors' enthusiasm for Emerging Market securities improves. Finally, global debt is expected to remain elevated in 2023 and 2024, as both the AEs and the EMDEs have ramped up debts to historical levels driven by legacy debts and slow economic growth.

Domestic Economic Developments

Staff report on the Nigerian Economic Developments and Outlook at the Meeting showed that real gdp (y-o-y) grew by 3.52% in Q4, 2022. The non-oil sector grew by 4.27%, while the non-oil sector growth decelerated by -13.38% (y-o-y). Overall annual growth for 2022 was 3.10%, down slightly from 3.4% recorded in 2021. Non-oil sectors of services and agriculture expanded by 6.66% and 1.88%, respectively, while industry contracted by -4.62%. However, quarter on quarter, real gdp (Q-o-Q) grew by 10.99% in Q4 2022; showed that the non-oil sector grew by 12.55%, while the oil sector contracted by -14.93%. Information and Communications contributed 1.57% to the real GDP growth in Q4, 2022, followed by Trade 0.71% and Crop Production 0.59%. Mining and Quarrying contributed -0.6%. Oil production decreased to 1.00mbd in April 2023 from 1.27mbd in March 2023 due to pipeline vandalization and technical issues. Oil price also declined in the world market, further compounding the woes in the petroleum sector.

PMI expanded in April 2023, after 9 months of contraction. The Industry PMI rose above the 50.0 benchmark to 51.6 index points in April 2023. Services PMI increased to 50.9 index points in April 2023 from 42.9 index points in March 2023. Agriculture PMI increased to 51.4 index points in April 2023 from 43.6 index points in March 2023. In addition, Industry Employment PMI and Business Expectations recorded significant improvements. Business expectation rose from -28.9 index points in March 2023 to 14.57 index points in April 2023.

With respect to price developments, headline inflation increased to 22.22% in April 2023 from 22.04% in March 2023 due to the impact of elevated transport costs on production and logistics. Food inflation rose to 24.61% from 24.45% in March 2023. Core inflation also increased to 20.14% in April 2023 from 19.86% in March 2023. The increase in core inflation came from processed foods, education, clothing& footwears, and transport, in that order. Month-on-month, headline inflation, and food inflation also rose between March 2023 and April 2023, while core inflation declined. Data also showed a marginal increase in inflation expectations between March 2023 and April 2023. The marginal increase may also be suggestive of de-anchoring of inflation expectations.

All domestic components of monetary aggregate rose between March 2023 and April 2023. Monetary Base increased from N15.975 trillion to N17.543 trillion due to increase in currency-in-circulation and reserve requirement. Broad Money (M3) rose by annualized 22.11% above the 2023 benchmark, between March 2023 and April 2023. Domestic Claims rose by an annualized 50.28%, above the 2023 benchmark of 15.78%. Claims on Central Government (net) rose by annualized value of 112.05% compared with the 2023 benchmark of 19.64%. However, Net Foreign Assets declined by an annualized value of -77.13%, lower than the 2023 benchmark of 38.82%. Major sources of net liquidity to the economy in April 2023 are Net OMO Maturity (N47 billion), FAAC N322 billion, Net Financing (N443 billion) and Net FGN Operations N813 billion.

Interest rate spread month-on-month narrowed to 23.02% in April 2023. On average, prime lending, maximum lending and average savings rose between March and April 2023. Average OBB rate month-on-month rose from 14.07% in March 2023, to 17.05% in April 2023. In May 2023, relative to April 2023, Nigerian Treasury Bonds (NTB) rates declined, there was lower recourse to Standing Lending Facility (SLF) and a decrease in Open Buy Back (OBB) transactions. The Nigerian Exchange Limited (NGX) recorded a bearish performance between February 28, 2023, and May 19, 2023. All Share Index (ASI) decreased by 6.48%. from 55,806.26 on February 28, 2023, to 52,187.93 on May 19, 2023.

The external account recorded an overall balance of payments deficit position of US$1.11 billion in Q4, 2022. The goods account recorded a surplus of US$2.8 billion in Q4, 2022. The services sector deficit narrowed by 22.7% to US$3.13 billion. Service payments for the transport, insurance & Pensions and Telecommunication sector fell in the review period. The primary income deficit narrowed by 34% to US$2.26 billion due to a fall in repatriation of dividends.

As of May 17, 2023, the gross external reserves stood at US$35.19 billion. The gross external reserves position at end-April 2023 could provide 6.46 months cover of import of goods and services or 8.88 months cover of import of goods.

With regard to the fiscal sector, both the government revenue and expenditure underperformed in January and February 2023. FG retained revenue stood at N1,133.53 billion, lower than the pro-rata target of N1,840.85 billion. This was due to the underperformance of FAAC receipts, Gross independent revenue. In the same vein, total FGN expenditure as of February 2023, was N2,225.01 billion, 40.63% lower than the budget estimate of N3,637.86 billion. The shortfall came mainly from allocation for debt service and capital expenditure. Overall budget deficit reduced by -39.26% in the first two months of 2023. The underperformance of the budget is especially felt in the capital expenditures, thus impacting negatively on economic development.

The report on the Banking System Stability Review was presented to members of the MPC. The financial soundness indicators remain positive and showed that the banking system remains strong, sound, and resilient. The capital adequacy ratio (CAR) stood at 12.8% in April 2023, still within the prudential requirement of between 10% - 15%. Non-performing loans (NPLs) ratio declined from 4.5% in March 2023 to 4.4% in April 2023. Liquidity ratio (LR) rose to 45.3% in April 2023, from 43.8% in March 2023. This is above the minimum 30% recommended by the prudential requirement. Both the Return on Equity (ROE) and Returns on Asset (ROA) increased between March 2023 and April 2023. ROE rose from 21.6% to 22.6%; while ROA increased from 1.6% to 1.7% between March 2023 and April 2023, respectively. Interest margins to total operating income declined from 58.1% in March 2023 to 50.5% in April 2023. However, operating cost to operating income declined marginally from 70.6% to 70.5% between March and April 2023. The high operating cost environment of the banking sector should be addressed. In other climes, the ratio is 23.5% in Turkey, 50.6% in Brazil, 41.0% in Malaysia, 62.0% in South Africa, 43.2% in Angola, 35.2% in Egypt, Kenya is 45.2% and Ghana, 46.1%.

Finally, all the measures of banking size, assets, deposits, and credits also rose. Total Assets of the banking industry grew by N16.65 trillion or 25.88% between

April 2022 and 2023. Industry credit increased by N4.54 trillion or 17.40% between end April 2022 and end-April 2023. Gross credit has been on an upward trajectory since 2019. Total industry deposits increased by N8.84 trillion or 21.4% between the end of April 2022 and April 2023. The stress tests conducted on the industry show that it can weather the major risks and vulnerabilities in the system.

My Concern

The development in the international market continues to pose a challenge to the Nigerian economy. The softening of the crude oil market is not a very good omen, as the sector plays a significant role in export and official foreign exchange earnings.

The persistent contraction in the Oil-GDP growth in Nigeria should not be normalized. The oil sector's contribution to the GDP, government revenue and foreign reserves have been on the southward trends for the past few quarters. Declining oil production is also affecting natural gas production and capacity utilization of the NLNG, Nigeria's gas flagship company. Hence, the government should focus on reversing the trend.

The soft fiscal situation of the FGN drives up public debt which rose by 16.92% between December 2021 and December 2022. This further worsened debt service payments and increased the rise of debt sustainability. The high debt service/revenue ratio is a threat to macroeconomic stability and the growth of the economy. Government should focus on driving up revenue. Removing the unproductive fuel subsidy should be on top of the list.

The various price distortions in the economy must be addressed to address the weak output growth of the economy recorded in 2023Q1, the expansion of PMI in April 2023, after 9 months of contraction is heartening. These figures suggest that the economy is rebounding from the effects of the Naira redesign Policy.

Finally, there is a need to tackle the stubborn inflation. Data on monetary aggregates showed clearly that money supply and liquidity growth, both domestic components of monetary aggregate rose between March 2023 and April 2023. This is due mainly to unbridled growth in the credit to the government. This is not sustainable.

My Vote

The MPC needs to sustain its current tight monetary policy stance to dampen inflationary pressures. This is in addition to other administrative measures by the Bank to control liquidity in the system. Hence, I cast my vote to increase the current MPR by 50 basis points and retain other monetary parameters at their extant values. Hence, I vote to:

1) Raise the MPR to 18.5% from 18.0%

2) Maintain the asymmetry corridor around the MPR at +100/-700 basis points.

3) Retain the CRR at 32.5%

4) Retain the LR at 30%

3. AHMAD, AISHAH N.

Domestic prices remain sticky requiring sustained policy intervention

At the May 2023 MPC meeting, **I voted to raise the monetary policy rate (MPR) by 50 basis points** from 18.0 to 18.5 per cent, whilst keeping all other policy parameters constant. My decision to sustain the tight monetary policy stance was guided by data on key domestic macroeconomic indicators, especially headline inflation which continues to rise to record levels, with an uncertain outlook.

According to the National Bureau of Statistics (NBS), headline inflation (year-on-year) rose to 22.22 per cent in April 2023 from 22.04 per cent in the previous month, driven by increases in both food and core components. Food inflation increased to 24.61 per cent from 24.45 per cent in the same period, while core inflation rose by 0.28 per centage point to 20.19 per cent in April 2023 – the highest level since 2004.

Risks to domestic price movements are expected to remain elevated due to anticipated rise in cost of energy, which could heighten the supply-demand imbalance and production costs. This development is reflected in staff projections which show near-term increases in inflation.

In addition, monetary aggregates have maintained an upward trend with annualized Broad Money Supply (M3) growing by 22.11 per cent in February 2023, rising above the provisional benchmark of 17.18 per cent for 2023, driven by the increase in Net Domestic Assets. This further validates the hawkish stance of monetary policy.

Thankfully, **previous rate hikes are yielding some results al-beit slowly.** Month-on-month inflation numbers depict a decline in the rate of inflation acceleration (rate of month-on-month increase in headline inflation declined from 8.6 per cent in February to 2.9 per cent in March 2023). This position is also buttressed by counterfactual evidence presented by staff research reports which indicated that inflation could have risen to 30.48 per cent in April 2023 without the aggressive rate hikes by the MPC. Thus, further rate hikes are expected to drive inflation down over the medium term, however, concerted effort is required to confront the host of headwinds impacting on food supply chain, which also have pervasive influence on domestic prices.

Lastly, a rate hike is an important counterbalancing signal to curtail the development of negative inflation expectations, ensuring that the monetary authority is proactively positioned to curb rising prices.

Sustaining output growth in the face of multiple headwinds

A possible fallout of prolonged contractionary monetary policy is a reversal of the domestic growth trajectory. Therefore, a cautious and phased program of policy tightening is recommendable in the current circumstance to preserve economic activities, whilst reigning in price developments.

Based on data from the NBS, Real Gross Domestic Product (GDP) grew year-on-year by 2.31 per cent in the first quarter of 2023, compared with 3.11 per cent in the corresponding period of 2022 and 3.52 per cent in the preceding quarter. **This represents the tenth consecutive quarter of real output expansion, following the economy's exit from recession in 2020.** The output expansion was driven largely by sustained growth in the services and agricultural sectors; progressive uptrend in economic activities across several sub-sectors; and sustenance of broad-based support by the Bank in growth enhancing sectors.

The dip in output performance in the first quarter of 2023 relative to the 2022 position was anticipated. This is reflected in the manufacturing purchasing manager's index (PMI), which contracted for three consecutive months in the first quarter of 2023 before improving to 51.1 index points in April 2023.

Nonetheless, policy decisions that support output expansion, especially improved banking industry lending to growth enhancing sectors are critical to forestall derailment of the positive output performance.

Preserving financial system stability amidst tight monetary policy

Sustaining banking sector lending to critical sectors of the economy as monetary policy tightens to contain inflation, therefore, remains paramount. Given the positive correlation of market lending rates to the MPR, borrowing costs have risen, while growth in credit has slowed.

Industry credit increased by N4.54 trillion between end-April 2022 and 2023 with significant portions of the credit granted to output elastic sectors (manufacturing, general commerce, agriculture, information and communication), and has been in an upward trajectory since 2019, yet the monthly trend in credit growth declined from 1.31per cent in March 2023 to 0.05 per cent in April 2023. Lending rates also remain high in response to the contractionary monetary policy stance. These developments point to the importance of balanced actions in the pursuit of the price stability mandate.

Gratuitously, the CBN's intervention loans targeted at selected industries and Small and Medium Enterprises, are currently at single digit to stabilize access to affordable finance for employment generating sectors. This should be positive for the macroeconomy, stimulating further output growth and positioning businesses to maintain strong cash flows, whilst minimising default risk and preserving financial stability.

Industry soundness indicators also remain strong as of April 2023, with capital adequacy ratio at 12.8 per cent, non-performing loans ratio at 4.4 per cent (from 5.3 per cent in April 2022) and liquidity ratio at 45.3 per cent (above the 30.0 per cent minimum) even as credit to the real sector continued to grow.

Stress test results showed that industry solvency and liquidity positions could withstand mild to moderate shocks in the short to medium term. Nonetheless, the sector must continue to build adequate capital buffers – ongoing implementation of the Basel III capital standards (which prescribes additional capital buffers) are relevant in this regard.

On the global front, economic prospects remain threatened by the fear of contagion arising from the US banking crisis; the Russia – Ukraine war, growing tensions between China and the US, and other country specific challenges. In addition, the oil market has remained volatile even as global trade figures continue to decline, while emerging market and developing economies grapple with tightened financial conditions and risk of debt sustainability as central banks raise rates to curb rising prices.

Output growth recovery has, thus, remained challenged. This is reflected in the International Monetary Fund (IMF), April 2023 World Economic Outlook which projects further downgrade in output growth for 2023 to 2.8 per cent compared with its January forecast of 2.9 per cent. Growth is however, expected to improve moderately to 3.0 per cent in 2024.

Globally, central banks are consequently faced with the dilemma of curbing inflation as output slows. As noted in my March 2023 statement, recent economic developments are testing the capacity of policymakers to navigate an uncertain and constantly evolving landscape, manage their policy trade-offs, and sustain global economic recovery.

For Nigeria, containing inflation in line with the price stability mandate is the appropriate monetary policy priority in my opinion. It will be prudent however to be cautious in raising the policy rate, recognizing underlying structural factors driving price developments and the potentially negative effect of a significant rate hike on credit expansion, financial system stability and economic growth.

Therefore, at this meeting, it was appropriate to vote to

- Raise the MPR by 50 basis points to 18.5%

- Retain the CRR at 32.5%, liquidity ratio at 30% and asymmetric corridor of +100 and -700 basis points around the MPR.

4. ALIYU, AHMED

The global economy continues to face high inflation rates, tightened financing conditions, financial markets turmoil in the US and Europe and uncertainties arising from the lingering effects of the Russia-Ukraine war. As such, the pace of economic growth in Advanced Economies and Emerging Market and Developing Economies (EMDES) has been slow. Consequently, global growth is expected to moderate to 2.9 percent in 2023 from an estimated 3.4 percent in 2022 before rising to 3.1 percent in 2024. Nevertheless, mitigating food and energy prices, complemented by improved supply chain, following the reopening of the Chinese economy, are expected to stimulate growth recovery in the medium term.

Global inflation remains elevated, but has moderated in most Advanced Economies and EMDEs. Accordingly, headline inflation is expected to ease to 6.6 percent in 2023, from 8.8 percent in 2022 and further to 4.3 percent in 2024. These optimistic scenarios are based on expected decline in food and energy prices, continued monetary policy tightening and easing of disruptions to the global supply chain. Potential sources of risks to the overall inflation outlook include the uncertainties around the Russia-Ukraine war and its wider consequences, stronger than expected aggregate demand, pass-through effects of high input costs, rising wages especially in Advanced Economies, and currency depreciation, particularly in EMDEs.

On the back of persistent elevated inflation levels, is tightened global financial conditions, which portend significant contraction of capital flows to EMDEs. In addition, tighter credit environments are starting to weigh on economic activity, cost of debt service and financial markets stability.

Crude oil prices are declining amidst fears of a weakening US economy and slowing Chinese domestic demand. From an average of 83.86 percent on January 31, 2022, price trend of the OPEC Basket, Bonny Light and UK Brent averaged 74.17 percent on May 19, 2023.

THE DOMESTIC ECONOMY

Real GDP (year-on-year) grew by 2.31 percent in Q12023 from 3.52 percent in Q42022. Growth performance was also less than the 3.11 percent recorded in Q12022. The National Bureau of Statistics (NBS) attributed the decline to the adverse effects of the cash crunch experienced earlier in the year. Real GDP performance in the review period was driven mainly by the services sector, which recorded a growth of 4.35 percent and contributed 57.29 percent to the aggregate GDP. The agriculture sector grew by -0.90 percent, lower than the growth of 3.16 percent recorded in the first quarter of 2022, while the industry sector improved to 0.31 percent relative to the -6.81 percent recorded in the first quarter of 2022.

The Purchasing Managers' Indices (PMI) pointed to some rebound in economic activity in April 2023. The monthly composite PMI improved to 51.1 index points from 42.6 index points in March 2023, above the 50.0 index points benchmark. This is indicative of expansion in business activities, driven by optimism for output expansion in the economy. The development is corroborated by the moderate improvement in the output gap, which though negative, narrowed by 1.11 percentage points to -6.58 percent in the fourth quarter of 2022, on account of marginal improvement in resource utilization and productivity.

Inflation (year-on-year) increased by 0.18 percentage points to 22.22 percent in April 2023 from 22.04 percent in March 2023. The food and core components of the index increased by 0.16 and 0.28 percentage points to 24.61 percent and 20.14 percent, respectively, in April 2023. Likewise, on a month-on-month basis, the index at 1.91 percent in April 2023 was 0.05 percentage points higher than the 1.86 percent recorded in March 2023. Generally, price developments have been driven by elevated inflation expectations.

Monetary aggregates in April 2023 showed a strong growth in liquidity. Broad Money Supply (M3) grew by 7.37 percent year-to-date, reflecting the increase in Net Domestic Assets, which grew by 12.46 percent. Similarly, Net claims on Other Sectors increased by 5.72 percent, while Net Claims on Government grew by 37.35 percent. Monetary Base increased by 9.81 percent month-on-month, driven by the increase in Currency-in-Circulation (CIC) which grew by 41.32 percent, month-on-month. Also, Net Foreign Assets (NFA) declined by 25.71 percent year-to-date.

Gross external reserves stood at US$35.19 billion on May 17, 2023. The reserves position at end-April 2023 could finance 6.46 months cover of import of goods and services, and 8.88 months cover of import of goods, only.

Financial Soundness Indicators remained satisfactory, indicative of the thorough regulatory environment in place. The industry Capital Adequacy Ratio (CAR) at 12.8 percent at end-April 2023 was above the 10 percent and 15 percent regulatory requirements. Asset quality improved with the marginal decline in the industry's Non-Performing Loans (NPLs) from 4.5 percent in March 2023 to 4.4 percent in April, 2023, below the 5 percent supervisory requirement. The performance of NPLs was due to recoveries, restructuring of facilities during the year and sound risk management practices, amongst others. Return on Equities (ROE) and Return on Assets (ROA) improved from 21.6 percent and 1.6 percent in March 2023 to 22.6 and 1.7 percent in April 2023, respectively. At 45.3 percent, Liquidity Ratio substantially exceeded the regulatory requirement of 30 percent. Industry Total Credit increased by N4.54 trillion or 17.40 percent between end-April 2022 and end-April 2023, reflecting increased industry funding base and adherence to the CBN's Loan to Deposit Ratio (LDR) directive.

On fiscal developments, the recent removal of Petroleum Subsidy is expected to engender significant fiscal space and improvement in Federal Government of Nigeria's (FGN's) overall fiscal operations.

In analyses, pressure points remain the persisting high level of domestic inflation, rising growth of domestic money supply, lowered global and domestic growth outlook, high but receding global inflation, rising interest rates across the world, and rising global debt which reflects higher primary deficits and higher interest bills particularly in EMDEs.

CONSIDERATION FOR VOTING

The Nigerian economy remains confronted with persisting inflationary pressure. While growth has sustained its positive trend since the country's exit from the COVID-19 induced recession, it has however, not shown strength. In a situation of rising inflation and tepid GDP growth, achieving the mutually reinforcing objectives of price stability conducive to economic growth requires a delicate balance.

Since May 2022 when the Bank commenced monetary policy tightening to rein-in inflation, the Committee has raised policy rates by a total of 700 basis points in a bid to attain a stance of monetary policy that is sufficiently restrictive to return inflation to the long run objective of 6-9 percent.

It may seem that policy rate hikes have not achieved the desired objectives given that inflation at 22.22 percent in April 2023 is intolerably high. But what could have been the counterfactual had the central bank not tightened the stance of policy in the last one year?

Empirical evidence by Bank staff, show that in the absence of the policy rate increases, headline inflation could have been 30.22 percent in April. The result submits that interest rate hikes narrowed what could have been the actual rate of inflation by 800 basis points, which suggests that tightening has had some disinflationary impact. The result is validated by the Banking Stability Report in which despite observed growth in deposit, there is an absence of a corresponding growth in lending.

There is no contradiction that high inflation imposes significant hardship on the citizens, as it erodes purchasing power, especially for the low-income earner, including the poor and vulnerable. The regime of monetary policy tightening, though at some point could negatively impact on investment through the credit channel; low and stable inflation, however, engenders a stable macroeconomic environment, which drives investment and growth.

The observed improvement in Performance Managers Index (PMI), business expectations, the current account and output gap, suggest strong potentials for growth rebound in the near to medium term.

In the recent past, I had maintained in my statements that, the current inflationary pressure is propelled by both monetary and structural factors. The Economic Report noted the rising trend on all monetary aggregates, with the exception of Net Foreign Assets. Bearing in mind that inflation remains skewed to the upside and inflationary expectations appear to have de-anchored as reflected in surveys on economic agents, I believe that there is still some headroom for further policy tightening, while actions are being taken to remove structural impediments to price stability and economic growth.

Nonetheless, considering that monetary policy affects economic activity and inflation with a lag, and taking note of the cumulative increases in the monetary policy rate since May 2022, a significant tightening action may not be required at this time. I, therefore, vote for a moderate hike in the policy rate by 50 basis points.

5. ASOGWA, ROBERT C.

Background:

Monetary policy still faces difficult trade-offs despite stronger than anticipated economic recovery in many countries. There are genuine worries that despite sustained global monetary tightening, inflation remains persistent. At the moment, some advanced economies stand in a better position as they appear to have less intense inflationary pressures unlike developing countries especially in Africa where widening fiscal deficits and huge public debt levels seems to have eroded potential gains from recent monetary policy actions. A judgement on the future interest rate path for Nigeria should therefore be anchored on the need to quickly stabilize inflation rates while addressing output and financial stability concerns. Such considerations must be data dependent, requiring assessments of recent changes in the domestic and external economic environments.

External Economic Developments:

On the global front, currently available information suggests that economic growth may turn out more favourable in the second quarter of 2023, compared with the first quarter, especially for advanced economies. In the US for instance, growth in the first quarter of 2023 moderated to 1.1 percent from 2.6 percent in the fourth quarter of 2022 but recent data on composite PMI shows an increase from 49.2 index points in March 2023 to 52.4 and 54.3 index points in April and May 2023, respectively. The Euro-area economy grew by 0.1 percent in the first quarter of 2023 compared with 0.0 percent in the fourth quarter of 2022 and the recent composite PMI shows further expansion as it rose to 54.1 index points in April from 53.7 in March 2023, which is the fastest in an eleven-month period. In the UK, output rose by 1.0 percent in the first quarter of 2023 compared with 0.1 percent in the fourth quarter of 2022 and the preliminary composite PMI indicate further expansion from 52.2 index points in March 2023 to 54.9 index points in April 2023. Similarly, in Japan, real GDP for the first quarter of 2023 grew by 1.6 percent as compared with 0.0 percent in the fourth quarter of 2022, while latest composite PMI shows further expansion from 51.9 index points in March to 52.9 index points in April 2023. Despite this slight improvement in economic activities for advanced economies in this second quarter of 2023, overall global growth prospects are still bleak especially for developing countries in Africa and Latin America. The April World Economic Outlook of the IMF has further downgraded global growth forecast for 2023 to 2.8 percent, compared with its earlier forecast of 2.9 percent.

Global headline inflation is coming down in most economies especially the advanced ones, eventhough not fast enough. The core component of inflation remains high almost proving persistent in a number of countries. Inflation expectations are also tracking down in several of these countries. CBN staff report shows that in April 2023, year-on-year inflation measure in the United States moderated for a tenth consecutive month to 4.9 percent compared with 5.0 percent in March, but the month-on-month rates rose to 0.4 percent in April compared with 0.1 percent in March 2023. In the Euro Area, while month-on-month inflation reduced to 0.7 percent in April 2023 compared with 0.9 percent in March, the year-on-year measure increased marginally to 7.0 percent in April 2023 compared with 6.9 percent in March 2023. In Jamaica, headline inflation rate in April 2023 lowered to 5.8 percent which is marginally below the Bank of Jamaica's expectation and also represented a return to the target range for the first time since July 2021. In Brazil, month-on-month inflation declined to 0.6 percent in April 2023 compared with 0.7 percent in March, with the year-on-year measure also declining marginally from 4.65 percent in March to 4.18 percent in April 2023. On balance however, global inflationary pressures have eased lately but its future path may still be affected by global oil prices and exchange rates.

In the global financial market, recent evidence shows that activities have been somewhat quiet in April and early May 2023 after recent volatilities associated with the banking sector stress in the United States and Europe. The US dollar has weakened with currencies of many economies appreciating against the dollar since the last MPC meeting in March 2023. CBN staff report shows that in Europe, the British pound and the euro appreciated against the US dollar by 3.75 and 4.40 percent, respectively, between March and April 2023. In North America, the Canadian dollar and the Mexican peso also appreciated against the dollar by 0.74 and 1.78 percent, respectively, between March and April 2023. Stock prices and long-term government bond yields have risen somewhat between March and April 2023 in many advanced economies, although the increases are still lower than in January and February this year.

On the prevailing global monetary policy regime, evidence from across several countries indicate that a monetary tightening regime has continued even though, the pace of interest rate hikes is now slow especially as inflationary pressures are easing. Most policy rate announcements since May 2023 have adopted a more cautious approach to hikes. At the May 2023 meeting, the US FED raised its policy rate to a range of 5.00 -5.25 percent. The European Central Bank also raised its policy rate to by 25 basis points in May 2023, while the Bank of England at its May 2023 policy rate meeting moved its benchmark rate to 4.50 percent which is also a 25 basis point increase. Also, the Australian Reserve Bank and the South African Reserve Bank raised their policy rates in May 2023 by 25 basis points and 50 basis points, respectively. The Central Banks of Korea, Mexico and Chile however kept their policy rates unchanged in their May 2023 rate setting meetings.

Domestic Economic Developments:

Turning to the domestic economy, there are signs that the Nigerian economy has picked up since the second quarter of 2023. In the first quarter of 2023, the economy grew by 2.31 percent (year-on-year) which is a decline compared with the 3.52 percent growth in the last quarter of 2022, but this is attributed to the adverse effects of the Naira cash crunch. The 2023 first quarter performance of the economy was driven mainly by the services sector which contributed 57.29 percent of the aggregate GDP following improvements in the telecommunication, financial institutions and trade sub-sectors. There are however expectations that the second quarter 2023 GDP will record more positive improvements as post-election stability drives resurgence of economic activities. The composite PMI for April 2023 is out and very encouraging at 51.1 index points compared with 42.6 index points in March 2023. Overall, GDP growth projections for Nigeria in 2023 remains strong especially as perceptions of the economy by households and businesses sound pessimistic despite downside risks related to oil sector volatilities.

Domestic headline inflation has continued to increase eventhough moderately but is still a source of concern especially with recent monetary policy rates increases. In April 2023, headline rates rose to 22.22 percent which is an increase of 0.18 percent from March 2023 level. Both food and core indicators increased year-on-year in April 2023 but the food component has surprisingly shown a resistance to decline in recent times, signalling risks around logistical constraints. On a month-on-month basis, while both headline and food inflation increased consistently since 2023, the core component declined in April 2023 to 1.46 percent from 1.84 percent in March 2023. This decline is related largely to the lowering cost of processed foods. Generally, the balance of risks on the trajectory of inflation for the second half of 2023 is still heavily biased on the upside especially with recent fuel price increases but a disinflationary process is anticipated as from early 2024.

Growth in monetary aggregates has been somewhat mixed. Broad money (M3) grew by 7.7 percent in April 2023 compared with 4.66 percent in March 2023 but below the 2023 benchmark of 17.18 percent and also not as high as the growth rate of 17.35 percent recorded in December 2022. There was also an increase in the growth of credit to the core private sector from 1.96 percent in March 2023 to 7.60 percent in April 2023 but much lower than the growth of 19.95 percent recorded in December 2022 which is apparently consistent with the effects of the ongoing tight monetary policy regime.

The domestic banking system remains sound with good safety and profitability indicators. The Capital adequacy ratio declined in April 2023 compared with March 2023, but it is well above the statutory minimum requirement of 10 percent. With non-performing loan ratio declining further in April 2023 to 4.4 percent, there are generally no threats to the current capital situation of banks. Bank profitability indicators in Nigeria are still on the upward (month-on-month) move with both return on assets and return on equity rising markedly since December 2022 despite the vulnerabilities of some banks in several developed countries. Total bank deposits also increased by 1.48 percent between March and April 2023, while total bank total assets increased month-on-month by 1.78 percent between March and April 2023. Interestingly, within this same period, spread between maximum lending rate and the average savings interest rates narrowed after a long time as market lending rates declined while savings rates increased. The domestic stock market took a surprising heat in April 2023 after the significant recovery recorded between December 2022 and February 2023. The All- Share Index increased by 8.89 percent between end- December 2022 and end-February 2023, while the Market Capitalization increased by 8.90 percent during this same period, attributed at that time to investors optimistic sentiments. CBN 'staff report' however shows that between end-February 2023 and end April 2023, the All-Share Index decreased by 6.10 percent with the market capitalization also decreasing by 6.14 percent during this same period, all reflecting investors profit taking and sell-off activities.

The domestic formal foreign exchange market has been relatively stable since the last monetary policy meeting in March 2023, evethough there were some temporary week-on-week fluctuations. CBN staff report indicate, that at the I&E window, the end-period naira to dollar exchange rate appreciated marginally by 0.20 percent between March 2023 and April 2023 largely as a result of Central Bank measures to boost foreign exchange earnings whilst minimising unnecessary foreign exchange demand pressures. The gross external reserves declined month-on-month by -0.1 percent between March and April 2023 but may likely reverse in the coming months with recent recorded current account surplus. The major risks are still around oil prices which remain volatile and sensitive to ongoing global geopolitical shocks.

With reduced tax and general federal revenues, the fiscal sector outlook still looks fragile similar to the position at the last MPC meeting. Already, the debt levels are at astronomical levels and with the desire of the new government to embark very early on human development and infrastructure expenditures, the fiscal gap may further widen in the coming months. The removal of petroleum subsidy is useful and will help curtail the fiscal deficits but additional efforts at revenue expansion and diversification as well as expenditure prioritization should be key aspects of any future fiscal sector reforms.

Policy Decision:

It is important for MPC to keep prioritizing price stability but the extent to which current inflation rates in Nigeria can be contained by monetary policy alone is also in doubt. As such, a more cautious and moderated approach to MPR hikes is necessary. This will additionally address risks related to financial stability and broader economic activity recovery. An interest rate hike of between 25 to 50 basis points at this meeting will be adequate as the bank continues to monitor the global and domestic economic environments to identify other potential threats to price stability.

I will therefore vote to:

- Raise the MPR from 18.00 percent to 18.25 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.

6. OBADAN, MIKE I.

INTRODUCTION

As at the time of the Monetary Policy Committee's 3rd meeting of the year in May, 2023, global economic prospects remained cloudy due to widespread uncertainties arising from the following: persisting Russia-Ukraine war; high level of global inflation although there is evidence of its deceleration, especially in the Advanced Economies (AEs); vulnerabilities in the global financial system due to the impact of continued interest rate hikes in both the AEs and Emerging Markets and Developing Economies (EMDEs). Already the financial systems in the US and Europe have shown signs of stress considering the collapse of three banks in the US and the take-over of Credit Suisse by UBS in Europe. Also, the continued monetary policy normalisation is having a dampening effect on recovery of global output growth. High inflation and high interest rates have continued to put downward pressure on business and consumer spending.

Geo-political tensions and conflicts across the world impacting the full recovery of global output growth remain heightened, considering the following: Russia-Ukraine war which is now in its second year and with no clear signs of resolution; the territorial dispute in the Southern China Sea between China and Taiwan - an extension of China's One-China Policy -which is generating increased tensions between both superpowers with a rising risk of a military stand-off; and the unabating war in Sudan, with rising instability in the region.

Considering the numerous risks and headwinds, the major areas of concern in 2023 remain the weakening global growth, high inflation and the associated monetary policy normalisation, threats to the stability of the global financial system, weakening global trade, worrisome public debt position, especially of the EMDEs, etc.

GLOBAL ECONOMIC DEVELOPMENTS CONTEXT

Against the backdrop of various headwinds, global growth appears to be slowing down considering the available projections from the International Monetary Fund's World Economic Outlook. In this regard, the Fund's global growth forecast of April 2023 reduced to 2.8 percent compared to the earlier forecast of 2.9 and 3.4 percent in 2022. Similarly, GDP growth of the major groups is projected to decline: the AEs from 2.7 percent in 2022 to 1.3 percent in 2023 and that of the EMDEs is expected to reduce marginally to 3.9 percent in 2023 from 4.0 percent in 2022. However, with China having lifted restrictions under its zero-COVID policy and reopened its economy, moderate improvement is expected in global output in 2023.

The global trade outlook for 2023 mirrors the output growth prospects. Growth in global trade volume is projected to decline from 5.1 per cent in 2022 to 2.4 per cent in 2023 reflecting a sharp slowdown in global demand and weakening economic activities in both the major Advanced Economies and the EMDEs. Global trade continues to be hampered by increasing national barriers and restrictions, driven by the rising threat of de-globalisation. However, the IMF's World Economic Outlook forecast global trade to rebound to 3.5 per cent in 2024.

For the oil exporting countries, the weak oil market outlook in 2023 is not comfortable although it is a blessing to the oil consuming nations that are currently striving to contain energy price-induced inflation. Energy prices in 2023 are expected to be 23.0 per cent lower than in 2022 and remain broadly stable in 2024. The Brent oil price fell sharply to a 15-month low (US$ 70.00 per barrel) in mid-March, but quickly returned to the previous range in early April following a cut in production quotas by OPEC+. The price of Bonny Light declined by 36.95 per cent to US$80.69 per barrel on May 6, 2023, compared with the peak of US$127.98 on March 08, 2022. The US dollar prices of crude oil per barrel as at January 31 and May 19, 2023 were, respectively, as follows:

OPEC basket: US$ 81.95/b and US$ 76.06/b

Bonny Light: US$ 86.30 and US$ 74.90/b

UK Brent: US$ 83.36 and US$ 71.55/b

The crude oil price decline is traceable to fears of weakening US economy and slowing Chinese demand as factory activity contracted unexpectedly in April. Crude oil futures market suggests that prices would fall further in 2023 and into 2024 as supply is expected to increase in the medium term. Indeed, the six-month crude oil price forecast is slightly below US$ 70.00 per barrel from April to September 2023. This is not good news for Nigeria which is currently faced with serious oil supply challenge due to oil theft. This has resulted in a significant gap between the OPEC quota for the country and actual production.

There is good news relating to global inflation and that of the AEs. In 2023, global inflation is projected to decelerate gradually to 7.0 per cent, from 8.7 per cent in 2022, dropping further to 4.9 per cent in 2024. Similarly, inflation in the AEs is expected to decline from 7.3 percent in 2022 to 4.7 percent in 2023 and further to 2.6 percent in 2024. A similar pattern is projected for the EMDEs as a group. In this direction, the inflation rate is projected to decline from 9.8 percent in 2022 to 8.6 percent in 2023 and further to 6.5 percent in 2024. The drivers of the expected disinflation include sharp reversals to energy and food prices, moderate weakening global demand, and easing disruptions to the global supply chains. But the inflation rates are expected to remain above pre-pandemic levels and above the long-run objectives of central banks. And the downside risks remain, including uncertainties about the Russia-Ukraine war. The structural differences between Nigeria's economy and most other EMDEs are manifested in the inflation trends. While inflation rates are declining in some countries such as Saudi Arabia, China, India, Russia, Nigeria's monthly inflation trend showed consistent upward movement from January to April, 2023 mainly because of the structural factors including supply constraints driving inflation in the country.

Monetary policy stance remains tight in both AEs and EMDEs. In the AEs, central banks in many countries have committed to interest rate normalisation and further increased policy rates to dampen demand and contain inflation. However, policy rate hikes are moving in the direction of less aggressive pace, in light of the possible negative impacts. The rapid adjustment of monetary policy to ease the rising trend of inflation in several countries, is taking a huge toll on entities that were previously highly exposed when interest rates were considerably low. And following the emergence of stress in parts of the banking system in the US and Switzerland, some central banks have emphasised greater uncertainty over the outlook for policy rates. Amidst tightening financial conditions, growing uncertainties associated with the recent banking crisis have doused the prospects of continued aggressive rate hikes. In this regard, key advanced economy central banks are expected to moderate their rate hike cycles in 2023. In the EMDEs, some central banks have similarly maintained a tight monetary policy stance, although less aggressively, signalling nearness to the end of the era of the tightening cycle. Underlying the tight policy stance is the high inflation driven by high energy and food prices, and exchange rate depreciation which drives capital outflows. However, some central banks have paused their monetary tightening cycle as growth concerns become elevated, for example, South Africa, Brazil, Russia and China.

What are the messages from the global socio-economic situation? Although growth prospects are improving, they remain clouded by heightened uncertainty around geo-political tensions, financial stability concerns and the pace and extent of monetary tightening to tame inflation.

The expectation for a continued interest rate hike by key central banks, especially in the AEs, would further help in taming inflationary pressures but the attendant negative consequences of slowing global output recovery, financial instability and debt default should moderate the pace of policy rate hiking.

Otherwise, tightening financial conditions may ultimately tilt the global economy into a recession.

KEY DOMESTIC ECONOMIC DEVELOPMENTS

The Nigerian economy has remained in a vulnerable state with many worrisome economic issues that would confront the new Federal Government expected to be inaugurated on May 29, 2023. The economy remains vulnerable to both internal and external shocks without meaningful fiscal buffers to withstand the shocks. Against the backdrop of weak fiscal management, monetary policy has been seriously stressed from attempts to accommodate fiscal inadequacies and keep the economy afloat. But the situation cannot continue as it is. The new government must therefore develop the political will to implement the desired reforms – fiscal, monetary, and other reforms – to put the economy on a stronger footing although the challenges appear daunting.

The key current economic issues can be highlighted as follows.

Fiscal management is not how it should be. Revenue generation is very low and consistently below government expenditure, resulting in accumulation of fiscal deficits and public debt. The 2023 Federal Government budget, for example, shows the expected total revenue to be generated as N10.49 trillion while the total expenditure is projected to be N21.83 trillion, resulting in a projected deficit of N11.34 trillion, a large part of which is to be financed by borrowing from the Central Bank of Nigeria (CBN). In the first two months of 2023, an actual deficit of N1.091 trillion was incurred. The associated public debt accumulated, and the corresponding debt service payments have become a national burden as debt service absorbs a huge proportion of revenue. Debt service and interest payments on Ways and Means Advances (W&MA) totalled N5.66 trillion in 2022, reflecting ongoing debt build-up, and pressure on government revenue. Total public debt (internal and external) stood at N46.25 trillion at end-December, 2022 from N39.56 trillion at end-December, 2021 while the Ways and Means Advances stood at N22.7 trillion. The initiative to securitise the W & MA would provide some relief to the Government. Nevertheless, the public debt profile remains daunting and necessary reforms are inevitable to prevent unsustainable debt build-up. There are already fears about this. Excessive borrowing from the CBN blunts the effectiveness of monetary policy aimed at controlling inflation. There is thus the need to prevent a recourse to W&MA as a matter of routine.

Stakeholders have tended to question the efficiency and productivity of public spending. Therefore, going forward, it is imperative for the new Government not only to prioritise revenue generation but also significant improve the efficiency of public expenditure through restructuring of such expenditure to eliminate wastes and corrupt practices. Importantly, the Government needs to revisit its mode of financing capital projects, in particular, infrastructure. The present financing method entailing borrowing, and Tax Credit Schemes are unsustainable. The Tax Credit Scheme involves loss of tax revenue to the Government. Therefore, the Federal Government should develop the will to cede key infrastructure financing to the Infrastructure Corporation of Nigeria (INFRACO). This will benefit the Government as it does not entail loss of tax revenue, the projects are developed and the country/citizens benefit. Patronising INFRACO will provide room to expand the fiscal space for priority pro-poor spending. The most vulnerable in the society deserve fiscal support to cope with the soaring food and energy prices while in other areas, fiscal consolidation is inevitable in support monetary policy to control inflation and also reduce debt accumulation.

There is good news though for the in-coming government relating to the rolling out of petroleum products sometime in July by the Dangote Refinery. The coming on stream of the Refinery should provide an opportunity for the government to eliminate subsidy on petroleum products and save the foreign exchange used to import refined petroleum products, improve fiscal management and build fiscal buffers, among others. A proper positioning of the oil sector through effective resolution of the legacy challenges of the sector including insecurity and oil theft in the oil producing areas should also strengthen Government revenue and foreign exchange earnings. As at now, these challenges have prevented the oil sector from contributing meaningfully to Government revenue and external reserves. The country, for some time now, has not been able to meet its OPEC production quota of 1.83 million barrels per day (mbpd). From 1.27 mbpd in March 2023, oil output declined to 1.0 mbpd in April – a production shortfall of 83,000 barrels per day. Correspondingly, oil export declined to 0.55 mbpd, negatively impacting foreign exchange earnings, external reserves, and exchange rates. The downward trends have occurred despite the private security architecture put in place not long ago by the Buhari Government. The important question then is how effective is the private security company along with the arsenal of government security presence in the oil producing areas of the Niger Delta Region? A good handle on the security challenges in the region should enable the new government to improve macroeconomic management, in particular, fiscal management.

The economic growth rate is not where it is expected to be – over 7.0 percent, employment-generating and poverty-reducing. Against the backdrop of severe exogenous shocks and two recessions in the last eight years, Nigeria's economic growth rate has shown resilience even though the annual growth rate post-2020 recession has shown some weakness, declining from 3.4 percent in 2021 to 3.03 percent in 2022 and further to 2.31 percent in the first quarter of 2023. In contrast, the quarter-on-quarter growth gradually and consistently improved from -14.66 percent in Q1 2022 to 10.99 percent in Q4 2022. Monetary policy has played a vital supportive role in the growth process. Nevertheless, the growth rate is still fragile and not robust to reduce poverty and unemployment. Importantly too, the continued contraction of the oil sector makes it a major drag on growth, just like the industrial sector. The non-oil sector remains the saving grace for growth through the Services and Agricultural sectors. But then, the pattern of growth reaffirms the de-industrialisation of the economy with the Services sector having 56.3% share of the GDP in Q4, 2022 while the Industry and Agriculture sectors lost shares (17.3 and 26.5%, respectively) in Q4, 2022. Industry is not serving as the employment sponge as expected in the country's current stage of development. A strong focus on the industrial sector is thus indispensable to reverse the trend of de-industrialisation in the country.

Inflation remains a major challenge in the country, despite the aggressive monetary measures of the CBN since May, 2023. Headline inflation (year-on-year) rose from 22.04 percent in March 2023 to 22.22 per cent in April 2023, its highest level since 2009 when the National Bureau of Statistics adopted the current consumer price index (CPI) consumption basket. Since May 2023 when the upward trend in the inflation rate elicited greater concerns, the Bank has implemented what can be considered as a very tight monetary policy stance with the Monetary Policy Rate successively hiked to the present level of 18.5 percent as of May 24, 2023, and Cash Reserve Requirements standing at 32.5 percent. These measures have kept the inflation rate much lower than what it would have been in their absence. The challenge is the many non-monetary factors, mostly structural, including escalating government fiscal deficit, that have tended to blunt the effectiveness of monetary policy. This is where fiscal and monetary policy coordination is crucial. As I had written in my MPC Personal Statement in March, the Fiscal Authority needs to be mindful of the implications of its actions for monetary policy effectiveness. Importantly, fiscal policy actions must complement the monetary policy actions to effectively address the upward-trending inflation in the country. This means embracing fiscal restraint by the Government to achieve smaller fiscal deficit which would cool aggregate demand and inflation. This is the essence of complementary fiscal policy to monetary policy to combat inflation. The other legacy factors of inflation in the country are also within the purview of the Government to resolve.

So far, the financial system has remained sound, stable and resilient. But there is need to be watchful of possible headwinds arising from tight monetary policy implementation, the banking stress in the US and to a lesser extent, Europe. The CBN needs to stand ready to safeguard financial system stability by providing liquidity support to banks should the need arise. Aggressive monetary policy tightening by central banks across the globe has led to high interest rates which portend a risk to global output recovery, and debt servicing capacity.

Both global and domestic conditions amidst growing risks continue to weigh on Nigeria's external performance. The phenomena of low productivity, insecurity, legacy infrastructure deficits, and exogenous shocks have continued to impact negatively on external sector aggregates – export earnings and foreign exchange inflows, capital inflows, balance of payments, external reserves and exchange rate stability. These aggregates/indicators are far from where they should be and remain causes for concern. As at end-April 2023, the gross external reserves declined by -0.1 per cent (m-o-m) to US$34.91 billion from US$34.94 billion in March 2023. The stock could, however, finance 6.5 months of imports of goods and services or 8.9 months of imports of merchandise. Strong demand management measures have sustained this coverage. The new Government must consider the foreign exchange supply constraint as binding and implement policies to support the non-oil sector to produce for exports.

THE CONSIDERATION

A review of global and domestic developments suggests a dampened economic outlook. The recovery of the global economy is expected to progress moderately in 2023 through to 2024. Several key economies face the risk of subdued growth, thus mitigating the prospects of a full global recovery in 2023. But the fears of recession have somehow receded. This more so as the pace of monetary policy normalisation is being moderated.

Nigeria faces numerous challenges relating to the economy's growth, fiscal sustainability, external finances, and macroeconomic stability. These are aggravated by low revenue generation, low-performing oil and industrial sectors, unprecedented magnitude of crude oil theft and less than prudent fiscal management. Although output growth is projected to remain positive in 2023, it faces numerous headwinds including the possible effect of monetary policy tightening and less favourable developments in the oil market relating to low export and subdued prices.

The primary mandate of the CBN remains price stability. Despite the monetary measures implemented, inflation remains high, mostly because of the numerous non-monetary factors at work. And inflationary pressures may persist in the short to medium term, except if the new Dangote Refinery moderates petroleum product prices, imported inflation reduces with the observed moderation in global inflation and energy and food prices, and the Government has a good handle on the cost-escalating poor infrastructure as well as insecurity in the food-producing areas of the country. The latter is particularly important as food inflation accounts for over 65.00 percent of headline inflation in the country: 66.2 percent in April, 2023.

I consider the prevailing situation as warranting the continuation of the tight monetary policy stance but with a moderate policy rate hike. I therefore vote to raise the Monetary Policy Rate by 50 basis points while all other parameters remain at their extant levels.

7. OBIORA, KINGSLEY I.

In light of inflationary pressures and the need to ensure monetary and price stability, I voted to raise the Monetary Policy Rate (MPR) to 18.5 per cent from 18.0 per cent, retain the Cash Reserve Ratio (CRR) at 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. I believe this action will further tame inflationary pressures, restore price stability, minimize its effect on growth, and safeguard financial system stability.

Although global economic activity is recovering from multiple shocks, inflation remains elevated, with increased financial stability risks. Recent developments show that the global economy is recovering from the shock of the pandemic and the ongoing Russia-Ukraine war. The Chinese economy is also rebounding after lifting the restriction on the zero-COVID-19 policy. As a result, supply chain pressures are easing, and commodity prices are moderating. Consequently, April's J.P. Morgan Global Composite Purchasing Managers Index (PMI) expanded to 54.2 index points from 53.4 index points in March 2023, driven by the expansion in consumer goods, consumer, business, and financial services as well as investment goods.

While the global growth recovery is on track, it is expected to remain weak in 2023. The International Monetary Fund (IMF WEO April 2023 Update) projected global growth to decelerate to 2.8 per cent in 2023, compared with 3.4 per cent in 2022. The slowdown is due to a tighter monetary policy stance to tame inflation by many central banks across the world, the ongoing Russia-Ukraine war, growing geoeconomic fragmentation, and rising financial stability risks. As a result, the growth rate in Advanced Economies (AEs) is expected to decline by 1.3 per cent in 2023 from 2.7 per cent in 2022. In Emerging Markets and Developing Economies (EMDEs), the growth rate will decline slightly to 3.9 in 2023 from 4.0 per cent, which is stronger than the growth in AEs. The expected decline in global growth will, therefore, be driven largely by Advanced Economies, especially the United Kingdom and the Euro Area, where growth is expected to decline to -0.3 and 0.8 per cent, respectively, in 2023. In the United States and Canada, growth rates are also expected to fall to 1.6

and 1.5 per cent in 2023 from 2.1 and 3.4 per cent, respectively, in 2022. However, in Emerging Market and Developing Economies , China will rebound and expand by 5.2 per cent in 2023, up from 3.0 per cent in 2022, due to a total reopening of the economy and improved supply restrictions. India is also projected to grow strong at 5.9 per cent but lower than 6.8 per cent in 2022.

Despite weak growth forecasts, many central banks in advanced and developing economies remain focused on taming inflation. Although global inflation is expected to moderate in 2023, it will remain high. It is projected to decelerate from 8.7 per cent in 2022 to 7.0 per cent in 2023 before dropping further to 4.9 per cent in 2024. The decline is driven by the fall in commodity prices, including oil and non-oil commodity prices and the impact of ongoing monetary policy tightening. Consequently, inflation in Advanced is expected to moderate to 4.7 per cent in 2023 from 7.3 per cent in 2022. Also, in Emerging Market and Developing Economies, inflation is forecast to drop to 8.6 per cent in 2023 from 9.8 per cent in 2022. Furthermore, inflation in sub-Saharan Africa is projected to slightly decline to 14.0 per cent in 2023 from 14.5 per cent in 2022—all driven by the decline in food and energy prices, the easing of disruptions to global supply chains, and monetary policy tightening.

Overall, inflation has turned a corner in some advanced economies but remains above many central banks' targets. In April 2023, inflation (year-on-year) in the United States and the United Kingdom decreased from 5.0 and 10.1 per cent to 4.9 and 8.7 per cent, respectively, in March 2023. In the Euro Area and Canada, it only inched-up to 4.4 and 7.0 per cent in April from 4.3 and 6.9 per cent, respectively. While headline inflation is moderating, core inflation remains sticky, driven by an increase in the prices of services and continuous labour market tightness. As a result of this development, the US Federal Reserve (Fed), the European Central Bank (ECB), and the Bank of England (BoE), among others, continue to hike interest rates, though at a modest pace, to contain inflation and bring it down to the target of 2 per cent. However, in sub-Saharan Africa (SSA), inflation is still in double-digit territory. For example, in April, inflation in Ghana, Ethiopia, Egypt, Rwanda, and Nigeria stood at 41.2, 33.5, 30.6, 28.4, and 22.2 per cent, compared to 45.0, 34.2, 32.7, 31.0, and 22.04 per cent, in March 2023, respectively. Overall, at least 20 out of 45 countries in

SSA are still facing double-digit inflation, and about 80.0 per cent are also confronting double-digit food inflation (IMF regional outlook, sub-Saharan Africa, April 2023). This is why the central banks of SSA countries are also hiking rates to tame inflation, which has become more persistent and continues to deteriorate the purchasing power of individual households.

Following these weak global developments, the non-oil sector continues to push the Nigerian economy towards sustainable long-term growth. Recent data from the National Bureau of Statistics (NBS) revealed that Nigeria's real GDP (year-on-year) grew by 2.31 per cent in Q1 2023, compared with a growth rate of 3.11 per cent and 3.52 per cent in Q1 2022 and Q4 2022, respectively. The growth rate was mainly driven by the service sector, which grew by 4.35 per cent with a relative contribution of 57.29 per cent to the overall GDP in Q12023. While the industry sector grew by 0.31 per cent, the agriculture sector contracted by 0.9 per cent. The two sectors contributed 21.05 and 21.66 per cent, respectively, to the aggregate GDP in Q1 2023. The sub-sectors that recorded significant growth included Agriculture (Crop Production), Trade, Information and Communication (Telecommunication), Crude Petroleum and Natural Gas, and Real Estate, with growth of 19.48, 15.97, 14.13, 6.21, and 5.38 per cent, respectively. In real terms, the non-oil real GDP grew by 2.77 per cent in Q1 2023, compared with 4.44 per cent in Q4 2022, representing a 1.67 percentage points decline. In relative terms, the non-oil sector contributed 93.79 per cent in Q1 2023, compared with 95.66 per cent recorded in Q4 2022. Although the oil sector further contracted in Q1 2023, it was an improvement over Q4 2022. It contracted by 4.21 per cent, compared with a contraction of 13.38 per cent in Q4 2022, reflecting an increase of 21.38 percentage points. Overall, the oil sector's contribution to aggregate GDP increased from 4.34 per cent in Q4 2022 to 6.21 per cent in Q1 2023. The increased performance was attributed to the improved security surveillance of the oil pipelines, leading to increased oil production, though it is still below the OPEC production quota.

This modest growth, however, faces significant macroeconomic imbalances that can be addressed by strengthening public finance and promoting private investment and innovation. The economy is confronted with both domestic and global headwinds. On the global front, global inflation, although moderating, remains high and continues to pass through to domestic prices. Also, rising interest rates in the advanced central bank economies have resulted in capital reversals, high borrowing costs, and depreciating currencies in the EMDEs, including Nigeria. This continues to squeeze public funding, widening fiscal deficits and severely impacting domestic investment, social inclusion, and economic growth for Nigeria and other developing economies. Domestic headwinds include domestic consumer price inflation, which remains elevated. Headline inflation (year-on-year) increased to 22.22 per cent in April from 22.04 per cent in March 2023, driven largely by food inflation, which increased slightly to 24.61 per cent in April from 24.45 per cent in March 2023. Core inflation increased from 19.86 per cent in March to 20.14 per cent in April 2023 due to an increase in processed foods, education, clothing and footwear, and transport. Although inflation continues to increase, the tight monetary policy stance of the Bank is moderating the pace. Furthermore, the overall Balance of Payments (BOP) position recorded a deficit of 0.85 per cent of the GDP in Q4 2022, reflecting increased external vulnerabilities of the economy occasioned by over-reliance on volatile oil export earnings. Other key challenges include lingering infrastructural deficits, rising unemployment, power supply shortages, rising insecurity, inequality, and poverty.

Amid these headwinds, the Nigerian economic outlook remains positive. The IMF (WEO April 2023 Update) projected the economy to grow at 3.2 per cent in 2023 from 3.3 per cent in 2022, driven by the non-oil sector and expected improved oil production. Also, the monthly composite PMI has started to improve. It significantly increased to 51.1 index points in April 2023 from 42.6 points in March 2023, above the 50.0 benchmark, indicating an expansion in economic activity. Overall, the economy sustain and even surpass this domestic projection through increased domestic revenue mobilization, efficient debt management, promotion of competition, increased private sector investment and innovation in various sectors of the economy.

The banking system maintained its resilience amid rising global financial stability risks. The capital adequacy ratio (CAR), although decreased by 1.85 percentage points, remained above the 10.0 per cent prudential requirement. It decreased from 14.6 per cent in April 2022 to 12.8 per cent in April 2022, due to an increase in total risk-weighted assets. The liquidity ratio (LR) is also above the 30.0 per cent regulatory minimum ratio, as it slightly decreased from 43.5 per cent in February 2022 to 43.1 per cent in February 2023. Non-performing Loans (NPLs) ratio declined to 4.4 per cent in April 2023 from 5.3 per cent in March 2022, further below the maximum prudential requirement of 5.0 per cent. The continuous decline in NPL was attributable to write-offs, restructuring of facilities, Global Standing Instruction (GSI) and sound credit risk management. Consequently, total gross credit increased by N4.54 trillion, representing an increase of 19.71 per cent between the end of April 2022 and the end of April 2023, from N26.10 trillion to N30.64 trillion, due to the increase in the industry funding base, the CBN's directive on Loan-to-Deposit Ratio (LDR), and business strategy and competition. The credit growth was largely recorded in key sectors of the economy, including oil and gas, manufacturing, general commerce, and government.

Overall, inflation is proving persistent, and the MPC must continue to act to bring it down and ensure inflation expectations stay well anchored. Inflation is fast eroding the real income of the most vulnerable households and is detrimental to stable and inclusive growth. Therefore, based on the need to restore price stability, sustain the growth recovery, anchor inflation expectations, minimize the effect of exchange rate pass-through to domestic prices, and be credible and consistent, I voted to raise the MPR by 50 basis points.

- Increase the Monetary Policy Rate (MPR) from 18.0 percent to 18.5 percent.
- Retain the Cash Reserve Ratio (CRR) at 32.5 percent.
- Retain the Liquidity Ratio (LR) at 30.0 percent; and
  Retain the Asymmetric Corridor to +100/–700 basis points around the MPR.

8. OMAMEGBE, MO'

Global Economic Developments

The past few months were characterized by significant concerns regarding the adverse effects of the recent bank failures in the United States and Switzerland, as well as, the widespread tightening of monetary policy on the economies of those regions and potential impact on the global economy. Inflation levels remain elevated and to mitigate the effect, Central Banks intervention through interest rates adjustments have been persistent. As a result, the interplay between interest rates and market sentiment continues to exert pressure on growth forecasts, leading to a mixed economic outlook.[1]

We have seen some degree of reduction in the price levels in some developed countries owing to the easing of supply chains and falling commodity prices. There is also the growing risk of high inflation and financial stability concerns in others.

The World Economic Situation and Prospects report for May 2023 emphasized the uncertain trajectory of the global economic recovery. Persistent inflation, rising interest rates, and increased uncertainties were identified as substantial challenges to global growth. Instead of a robust rebound, there is a growing risk of prolonged low growth. Factors contributing to this include the enduring effects of the COVID-19 pandemic, and unresolved macroeconomic structural issues. According to the report, the projected growth rate for the world economy in 2023 is 2.3%, with a slightly improved forecast of 2.5% for 2024. These projections reflect the prevailing economic conditions and highlight the cautious outlook for global growth in the coming years[2].

Inflation has been sticky and remains higher than central bank's target. Growth continues to slow and financial stress remain in the face of rapid tightening by central banks. The inflation outlook downside and upside risks remain very uncertain. The longer inflation remains sticky and stays high, the more difficult it would be to tame it. For Emerging Markets (EMs), this challenge is even more critical as inflation expectations are less well anchored. Also, the EMs are more vulnerable to upside inflation risks, exchange rate pass-through and energy shocks and their impact on core inflation. Global integration of financial and

[1] https://www.mckinsey.com/capabilities/strategy-and-corporate-finance/our-insights/global-economics-intelligence-executive-summary-april-2023

[2] https://www.un.org/development/desa/dpad/publication/world-economic-situation-and-prospects-as-of-mid-2023/

economic activities has made international factors a key driver of domestic prices and weakened transmission of monetary policy at the national level.

The World Bank reports that emerging economies like China and India are experiencing stronger growth compared with developed economies. Sub-Saharan Africa on the other hand, is equally encountering sluggish economic growth, primarily attributed to high inflation rates, global economic uncertainties, underperforming major economies on the continent, and a significant deceleration in investment growth.[3]

Domestic Economy

Nigeria experienced a notable rise in inflation in April, reaching a seventeen-year high of 22.22%, compared with 22.04% in March[4]. This reflects a 0.18% rise in the inflation rate from March 2023. This increase was accompanied by a surge in food inflation to 24.61% and core inflation to 20.14% during the same period. Furthermore, on a year-on-year basis, the April 2023 headline inflation rate was 5.40% points higher than the rate recorded in April 2022, which was 16.82%[5]. Although core inflation showed a monthly decrease from 1.84% to 1.46%, the overall inflationary pressures continue to be a cause for concern.

In April 2022, the Purchasing Managers' Index (PMI) experienced a significant increase to 53.8 index points, bouncing back from a low of 42.3 index points in the previous month[6]. This rise indicates a revival of growth in the country's private sector after two consecutive months of contraction. The expansion was driven by a notable surge in new business and output, as the cash crisis that had severely impacted the economy started to ease. All sectors, including agriculture, manufacturing, services, and wholesale & retail, witnessed a rebound in activity.

The highly anticipated world's largest single-train refinery, the Dangote Refinery, commenced its operations 22nd May 2023, marking a significant milestone in Nigeria's oil industry[7]. With a capacity to process 650,000 barrels of crude oil per day, the refinery is designed to handle oil grades from Africa, Asia, and America.

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[3] https://www.worldbank.org/en/news/press-release/2023/04/05/africas-growth-remains-low-region-looks-to-tap-resource-wealth-for-sustainable-development-and-transition-to-low-carbon

[4] https://nigerianstat.gov.ng/elibrary/read/1241321

[5] https://nigerianstat.gov.ng/elibrary/read/1241321

[6] https://tradingeconomics.com/nigeria/composite-pmi

[7] https://punchng.com/buhari-arrives-commissioning-of-dangote-refinery/

One of its key advantages is the ability to supply Nigeria with an excess of 38 million litres of petrol, diesel, kerosene, and aviation fuel daily, meeting the country's entire fuel demand[8]. The successful launch of the Dangote Refinery reflects a significant step towards enhancing Nigeria's energy independence with the attendant positive consequence in driving economic growth, and creating employment opportunities. This initiative aligns with the government's aim of achieving self-sufficiency in local oil refining and reducing foreign exchange expenditure on petroleum product imports. As the Dangote Refinery begins operations, The Nigerian National Petroleum Company Limited will commence the supply of 300,000 barrels of crude oil per day to the facility[9].

Overall, the macroeconomic environment has weakened due primarily to high and rising inflation and fiscal challenges. We have seen revenues decline and expenditure increases which has contributed to growing fiscal deficit. The financing of this deficit by the Bank has increased interest cost, further exacerbating inflation. The oil sector continues to underperform and combined with growing and unsustainable cost of fuel subsidies further deteriorates the fiscal position. The growing inflation especially food inflation disproportionately impacts the poor and low income demographic.

Growth is expected to decline and oil production will continue to fall if security challenges and inefficiencies are not addressed. Growing debt accumulation and very weak accretion to reserves have driven debt service to revenue ratio to unsustainable levels. According to recent data from the Central Bank of Nigeria (CBN), the Federal government's debt service to revenue ratio reached a new high of 111.8% in 2022. The data reveals that while the government earned N5 trillion, it spent N5.65 trillion on debt servicing, surpassing the previous ratio of 96% in 2021. This marks a significant increase in Nigeria's debt service ratio. The country's total public debt, excluding Ways and Means, has also risen from N12 trillion in May 2015 to N49 trillion as of December 2022. Declining revenues and significant challenges to debt sustainability poses significant downside risks to the economy.

[8] https://www.reuters.com/world/africa/nigeria-commission-dangote-refinery-crude-supply-concern-2023-05-22/

[9] https://punchng.com/nnpcl-begins-oil-supply-to-dangote-refinery-next-week/

Overall consideration

The current macroeconomic environment in the country presents significant challenges. The task of achieving stable price levels is daunting primarily due to the presence of external shocks, fiscal imbalances, and structural challenges.

There has been significant and rapid monetary policy tightening to combat rising prices. We have seen a gradual impact of these tools on the inflation trajectory. In spite of some encouraging signs, inflation seem entrenched and upside risks remain considerable. The imperative to curb inflationary pressures arises from the inherent risks it poses to the fundamental pillars of economic stability. As prices continue their ascent, they steadily erode purchasing power, disrupt business operations, and impede the inflow of investments, thereby inflicting economic hardships on individuals and robbing them of their real incomes.

We have argued that recent inflation drivers are mostly supply side in origin and monetary policy would not fully address the rise in price level as interest rate policy is primarily targeted at controlling aggregate demand. This argument also poses a dilemma since reducing aggregate demand by interest rate adjustments will negatively impact growth. However not addressing the inflation caused by supply shocks by taking adequate steps to reduce demand will de-anchor inflation expectations and make it extremely difficult to achieve price stability in the short to medium term. Focused and frequent policy responses to supply and other shocks are needed as monetary policy can be distorted by fiscal policy. In addition, the explosion of ways and means and growing level of deficit financing has worsened the fiscal outlook. This is further compounded by consistent revenue shortfall and lack of fiscal discipline. With a high debt, high inflation environment, there is the need for a joint requirement on monetary and fiscal policy to coordinate effectively to address price, financial and macroeconomic stability. Fiscal consolidation will help curtail aggregate demand and therefore consistent with the Bank's inflation objectives.

In all, the focus for the Bank must be to pursue price stability in the short to medium term while Fiscal authorities should ensure debt sustainability, fiscal prudence and align their policies to be consistent with the price stability objectives of monetary policy. It is critical to not only strengthen monetary, fiscal and financial policy frameworks but better coordinate and align these frameworks and resultant policy for optimal results.

By combining monetary policy actions with fiscal policy adjustments, implementing structural reforms to enhance efficiency and productivity, and implementing targeted interventions to address supply-side constraints, the country can work towards restoring macroeconomic stability. There are important synergies to be derived from effective coordination of monetary policy and fiscal policy that ultimately reduces supply shocks impact and government expenditure while keeping a lid on the price level.

Monetary policy should therefore aim to anchor inflation expectations as a key priority and the Bank should stay focused on its policy tightening stance as a premature easing of policy tightening will require more painful and difficult choices later.

Furthermore, meticulous management of the money supply is of paramount importance to forestall the recent increase in currency in circulation from fuelling inflationary pressures. In essence, by remaining steadfast in its pursuit of inflation control, factoring in the lags in policy transmission, and implementing astute currency management strategies, the Bank can contribute significantly to the attainment of price stability, the stimulation of sustainable economic growth, and the preservation of the nation's economic prosperity.

My Policy Decisions

I therefore vote to:

- Raise MPR by 50 basis points to 18.50 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.

9. SANUSI, ALIYU R.

1.0 Decision

As inflation continues an upward trend, and the forecast inflation threatens to continue rising at a slower pace, I voted to raise the MPR to rein in inflation. Data showed that in April 2023 the core and food components increased year-on-year (y-o-y), but core inflation declined month-on-month. Survey data also shows that expected inflation remains elevated and is rising. In addition, data showed that the expansion of the broad money supply, mainly as a result of net claims on the Federal government, has increased beyond the provisional benchmark. Data and staff forecasts also show that output growth will continue to be positive. I believe further tightening of the monetary policy stance is needed to re-anchor inflation expectations and rein in inflation.

2.0 Background and Justification

2.1 Global Economic Development

As widespread uncertainties persist, the global recovery remains weak, albeit with a positive outlook. Global inflation remains high but continues to moderate due to monetary policy tightening across the globe and a decline in energy and food prices. As global inflation remains above central banks' long-run target, further rate hikes are expected, albeit at a moderate pace.

The elevated geopolitical tensions, chiefly arising from the Ukraine-Russian war and the rising tension between the US and China over Taiwan's sovereignty, have continued to increase global supply chain bottlenecks raising pressure on food and energy prices. Consequently, central banks across the globe have continued to tighten monetary policy, which has increased vulnerabilities in the global financial system and dampened the global aggregate demand. Consequently, IMF's World Economic Outlook (WEO) has reviewed its forecast for global output growth downward to 2.8% in 2023 from the 3.4% achieved in 2022 but is expected to improve to 3.0% in 2024. In the Advanced Economies (AEs), output growth is forecasted to moderate to 1.3% in 2023 from 2.7% achieved in 2022, but improve to 1.4% in 2024 due mainly to the high inflation, monetary tightening, and slow growth in the Euro area and the UK. Output in the US expanded by 3.2% in Q3 2022, 2.6% in Q4 2023 and is expected to rise by 1.6% in 2023. Output in the UK economy inched up to 0.1% in Q4 2022, up from the contraction of -0.1% recorded in Q3 2022. Furthermore, it is expected to expand by 1.6% in 2023. In the Euro area, output growth declined to 0% in Q4 2022 from 0.4% in Q3 2022 as the high cost of borrowing and inflation continue to dampen output growth, eventhough forecast shows it would expand by 0.8%

in 2023. Japan's output also remained flat at 0% in Q4 2022, from the negative growth of -0.3% in Q3 2022 but is forecasted to rise to 1.3% in 2023. The composite Global PMI of JP Morgan has expanded to 54.2 index points in April 2023, indicating an increase in global economic activity.

In the Emerging Market and Developing Economies (EMDEs), output growth in China declined to 0% in Q4 2022 from 3.9% in Q3 20122. It is forecasted to grow by 5.2% in 2023 from 4.0% in 2022, and to 5.2% in 2024. In Russia, quarter-on-quarter (q-o-q) output is forecasted to expand by 1.1% in Q4 2022 compared with the contraction of -0.8% in Q3 2022. It is expected to expand by 0.7% in 2023 due to a decline in retail and wholesale trade as well as the ongoing conflict with Ukraine. In South Africa, output contracted q-o-q by -1.3% in Q4 2022, compared with an expansion of 1.8% in Q3 2022 due to the escalating energy crises. In 2023, output is expected to grow by 0.1%. In Nigeria, q-on-q output expanded by 10.99% in Q4 2022 compared with 9.68% in Q3 2022, driven largely by the Finance and Insurance, ICT, Services and Agriculture sub-sectors. Output is expected to grow by 3.2% in 2023.

Global inflation has continued to decline but remains elevated above the long-term targets across most Advanced Economies (AEs) and EMDEs. In the AEs, IMF forecasted inflation to decline to 4.7% in 2023 from 7.3% in 2022 due to a decline in non-fuel commodity prices and the effects of the ongoing monetary tightening. In the US, inflation has continued to decline since July 2022 and dropped to 4.9% in April 2023, while it stood at 7.0% in the Euro area and 10.1% in the UK (in March 2023). In the EMDEs, inflation is forecasted to decline to 8.8% in 2023 and further to 6.5% in 2024 due to the expected decline in food and energy prices, continued monetary tightening and easing of disruptions to the global supply chains. As of April 2023, year-on-year inflation declined in China to 0.1%, in India by 4.6%, and Russia, 2.3% but increased in South Africa to 7.1% and Nigeria, 22.22% in December 2022.

2.2 Domestic Economic Developments and Their Implications

In Q4 2022, the domestic output grew by 3.52% (y-o-y) compared with the 2.25% achieved in Q3 2022. This was driven by the growth of the non-oil sector by 4.27%, particularly Services, (5.69%); and Agriculture, (2.05%). However, the oil output contracted by -13.38% due to persisting oil production problems. On a q-on-q basis, output grew by 10.99% in Q4 2022 compared with 9.68% in Q3 2022. Output is forecasted to grow by 2.64% in Q1 2023.

National Bureau of Statistics (NBS) data shows that year-on-year headline inflation increased by 19 basis points, from 22.04% in March 2023 to 22.22% in April 2023, due to high transportation costs on production and logistics. This is the highest level since 2009, when the current CPI basket was introduced. In April 2023, both food and core inflation increased year-on-year. Food inflation increased to 24.62% in April 2023 from 24.45% in March 2023, driven by 0.53 percentage point increase in prices of processed foods. Core inflation also increased in April 2023 by 0.28 percentage point to 20.14% from 19.86% in March 2023, due mainly to increased prices of processed foods, education, clothing and footwear, and transport. Survey data shows that expected inflation continued to rise in April 2023 eventhough it had remained below actual inflation since September 2022. Monetary sector developments showed that broad money (M3) growth increased by 7.37% in April 2023 year-to-date (annualised at 22.11%, above the benchmark of 17.18% for 2023). This increase was driven by the rise in the Net Domestic Asset (NDA), which grew 16.76% (year-to-date) in April 2023 (annualised at 50.28%, above the benchmark of 15.78%). The key driver of the growth in NDA was net claims on government which grew by an annualised rate of 112.05% (y-t-d) in April 2023, above the 2023 benchmark of 19.64%. Staff forecasts showed that headline inflation would marginally increase from 22.22% in April 2023 to 22.41% in May 2023 due to the expected rise in the cost of energy, particularly Premium Motor Spirit (PMS) and Automotive Gas Oil (AGO), anticipated increase in consumer demand as *eid-el-fitr* approaches and exchange rate pass-through.

The banking system stability review report showed that the Capital Adequacy Ratio (CAR), standing at 12.8% in April 2023, was above the regulatory minimum of 10%. The Non-Performing Loans (NPLs) ratio was 4.3%, and was below the regulatory maximum of 5%. Furthermore, Liquidity Ratio stood at 45.3%, above the regulatory minimum of 30%. These suggest that the banking system continues to remain safe, sound and resilient. The industry's Total Assets and Gross Credit to the economy have sustained an upward trend, the former grew year-on-year by N16.65 trillion or 25.88% to N80.97 trillion in April 2023. The upward trend in total credit to the economy had continued since 2019 following the Bank's Loan-to-Deposit Ratio (LDR) policy, standing at N30.64 trillion as of April 2023. It has increased by N4.54 trillion or 17.4% between end-April 2022 and end-April 2023.

3.0 The Basis for My Policy Choice

Given the high level of inflation, adjudged to be well above the growth-retarding threshold and forecasted to further rise, I believe monetary policy must continue to prioritise taming inflation. Evidence, including counterfactual analysis, showed that ongoing monetary tightening has significantly dampened the pace of the increase in inflation. In deciding between loosening, holding or raising the MPR, I choose to raise the policy rate because loosening would compound the inflationary pressure, negate the present efforts at taming inflation and accelerate capital outflows. Holding, at the moment, could erode the gains made from the previous policy rate hikes. I, therefore, voted for a further tightening, albeit by a lower rate, to rein in inflation and mitigate the rising foreign exchange pressure. Consequently, I voted to:

Raise the MPR by 50 basis points to 18.5% 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.

10. SHONUBI, FOLASHODUN A.

Global growth for the rest of 2023 has been buoyed by the promising outlook of Asian economies, especially with the reopening in China. This rebound is now challenged by the unintended consequences of general tight policy environment that has characterized most economies. As such, while sustaining the actions to deal with high inflation, policy makers around the world are now facing the herculean task of dealing with both the immediate drag effect of a higher interest rate environment on output and the need to strengthen the resilience of the financial system against contagion risks. As we move into the second half of 2023, prospect for domestic economic growth remains cautiously positive owing to rising inflation, narrow fiscal space and pressured external sector. Like the rest of the world, Nigeria is thus confronted with the dilemma of ensuring that the momentum of slow but steady growth is maintained, even as current actions to curb inflation are sustained to avoid premature reversal of recent gains.

Global and Domestic Economic Developments

Global growth recovery remains weakened by elevated inflation and disruptions to the global supply chain caused by the protracted Russian-Ukraine war. Global output growth is thus projected downward to 2.8 per cent in 2023 by the International Monetary Fund (IMF), on account of minimal growth numbers in the Advanced Economies and slower growth projections in the Emerging Market and Developing Economies (EMDEs). A situation further compounded by the high levels of debt stock majority of these countries now carry.

Persistent uptick in domestic prices, on account of rise in both food and core inflation remains the major concern for monetary policy. Headline inflation, on year-on-year basis, inched up further to 22.22 per cent in April 2023, from 22.04 per cent in March 2023, reflecting increase in the food and core components. On month-on-month basis, whereas core inflation fell, headline and food inflation rose further, highlighting the effects of higher logistic cost on food prices, insecurity induced food supply shortages and high imported inflation from imported food items.

Reduced growth in Q1:2023 reflected the effect of the underperformance of the oil sector. Growth in the Real Gross Domestic Product (GDP) was lower at 2.31 per cent Q1:2023, on account of mainly the 2.77 per cent growth in non-oil sector, which compensated for the continued dismal performance of the oil sector. Services sector grew by 4.35 per cent and contributed over 57.30 per cent to growth. Also, Industry sector expanded marginally by 0.31 per cent, against a 0.91 per cent contraction recorded in the Agriculture sector. For the first time since June 2022, the Composite Purchasing Managers' Index (PMI) and all its sectorial indices for manufacturing, agriculture, and services sectors were above the 50.0 index points.

Growth in monetary aggregates showed the presence of monetary factor as a contributor to inflation. Annualised growth in broad money supply (M_3), at 22.11 per cent at end-April 2023, was above the benchmark (17.18 per cent) for fiscal 2023. The expansion of the monetary base, as a result of significant rises in domestic claims, accounted for the high growth in major monetary aggregates. Notwithstanding this, major money market and lending interest rates moved higher than their levels in the previous period. This highlights the need for the Bank to intensify its liquidity management measures.

Despite the reduction in the capital adequacy ratio of the banking industry, the state of other soundness indicators showed that the industry remained resilient. Industry liquidity and non-performing loan ratios improved in April 2023, from 43.8 and 4.5 per cent, to 45.3 and 4.4 per cent, respectively. Average capital adequacy ratio however declined to 12.8 per cent from 14.2 per cent in the preceding month, due to higher rise in risk weighted assets vis-à-vis the qualifying capital. Industry credit and deposit maintained upward trend, just as improvements were recorded in the measures of industry profitability.

The fiscal and external sectors were characterised by reinforcing shocks. Low accretion to the external reserves from crude oil exports, high import bill and limited supply to the foreign exchange market from other sources have compounded the liquidity condition in the foreign exchange market, resulting in increased pressure on prices in the foreign exchange market. The fiscal sector is characterised by low revenue, high deficit, and huge debt, thus limiting the capacity of the government to respond to, and fully support monetary policy.

Outlook, Overall Considerations and Decision

The rebound in China and most of the rest of Asia provides major positive impetus for the global economy. While this is encouraging for growth, the overall outlook remains clouded by the heightened uncertainties around the impact of worsening geopolitical tensions and unintended costs of generally elevated policy rates to tame inflation. Every economy must therefore contend with the delicate task of balancing actions to turnaround the trajectory of inflation, with the imperative of ensuring the wheel of growth is kept running, while also tracking financial system stability implications of the tight policy environment.

Despite the resolute actions we have taken in the last one-year, the major challenge for domestic monetary policy remains high inflation, which is still at a level that is considered detrimental to investment and the overall fortune of the economy.

The imperative for the government to actively implement initiatives that will address impediments to real sector activities and aid growth cannot be over emphasized. Hence, recent decision to securitize outstanding “Ways and Means” is expected to provide some immediate funding respite. In the same vein, state governments need to do more to attract and encourage investment that will improve the fortunes of states, especially as easy-to-get resources continue to dwindle.

Clearly, the fiscal authority has a major role to play to promote growth and curb inflation. For instance, despite the optimism that followed the new security arrangement in oil producing areas, dismal performance of the oil sector has been a major drag on growth. The incoming administration must act to eliminate the encumbrances in the oil sector, while addressing the general insecurity and low revenue challenges. Again, as stated in previous statements, government should revisit the adoption of Public Private Partnership (PPP) to eradicate leakages and wastages in various aspects of our social and economic affairs.

For monetary policy, the immediate and short-term realities require that we must maintain a tight policy stance to sustain and consolidate recent gains, while ensuring that we do not stifle real sector activities. The outlook showed uptick in food inflation due to insecurity induced supply shortage and imported inflation. Indication by the incoming administration to discontinue fuel subsidy will be a major source of pressure on prices from the resultant high energy and logistics costs. It is therefore imperative that the Bank continues to focus on actions to moderate the monetary undercurrent, while fiscal actions are targeted at addressing the more fundamental structural and supply side challenges.

Despite having shown evidence that convinces us that our actions are working, and that things would have been worse, we have the opportunity to do more. This especially is by ensuring that we manage the liquidity level more better through more efficient conduct of our interventions in the financial market, and fiscal related monetary activities. it is pertinent that, to properly anchor inflation expectation, we must act to entrench the perception that monetary policy is focused on ensuring turnaround of at least the monetary undercurrent of inflationary pressure.

I therefore vote to:

- Raise the MPR to 18.50 per cent;
- Retain the asymmetric corridor of +100/-700 basis points around the MPR
- Retain Cash Reserve Ratio (CRR) at 32.5 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 fragile growth and inflation persistence, global condition is still teetering notwithstanding the receding fears of widespread recession. Major constraints to economic activities persist, but at lesser intensities amidst sizeable uncertainties. The strong global economic rebound that was expected, following the reopening of the Chinese economy and the gradual correction of global supply-chain disruptions, is now deferred. As growth in the Advanced Economies (AEs) stall around the zero-line, short-term global growth prospects remain vulnerable, and largely propped by the performance of Emerging Market and Developing Economies (EMDEs). Accordingly, the IMF's global growth projection for 2023 was downgraded by 0.1 percentage point to 2.8 percent, reflecting the 1.3 percent growth in the Advanced Economies and 3.9 percent in EMDEs. Following ubiquitous monetary tightening, global inflation has begun to slow, although it stayed significantly above historical averages and national targets. Along with monetary policy effect, the reducing volatility in energy and food prices contributed to expected global disinflation. However, tighter monetary conditions has amplified financial sector vulnerability, especially in the Advanced Economies, and elevated capital flow reversals in EMDEs.

Domestic macroeconomic recovery continued with positive short-term outlook, despite global uncertainties and domestic imbalances. Output growth, though fragile, has sustained a rebound and is projected to strengthen further following steady diversification and continued improvements in the oil sector. Thus, domestic growth is estimated to remain positive in 2023 reflecting broad-based consolidation of economic activities. Output grew by 2.31 percent in 2023q1, albeit with 1.21 and 0.8 percentage points drop from 2022q4 and 2022q1, respectively. The current performance reflected the continued resilience of the non-oil sector, which grew by 2.77 percent, and the marked improvement in oil GDP from a deeper contraction of -13.38 percent in 2022q4 to -4.21 in 2023q1. Non-oil growth was essentially driven by the services (4.35 percent) and industries (0.31 percent) sub-sectors, as agriculture GDP slowed during the quarter. The overall performance of the economy followed the quantitative intervention of the Bank in high-impact sectors.

Impulses from soaring global prices are impacting domestic outcomes, as imported inflation reinforced legacy structural constraints to elevate domestic inflation. With another year-on-year uptick to 22.22 percent in April 2023, headline inflation remained sticky, although at a slowing momentum. With April inflation at 0.18 percentage point above the March 2023 level, the pace inflation appears to be steadily losing steam since the 1.04 percentage points surge in July 2022. Current trend tracked the modest 0.16 and 0.28 percentage points rises in food and core inflation, respectively, to 24.61 and 20.14 percent. These developments reflected coexisting cost-push and demand-pull drivers of inflation, especially as energy prices challenges aggravate existing infrastructure and security inadequacies. At its current level, inflation remains growth-inhibiting and must be decisively subdued in order to effectively anchor expectations. The slowing impetus is a welcome indicator that the inflation trend is flattening and would soon begin to drop following our tight policy stance.

Monetary and financial developments reflected the tight policy stance with lower build-up of systemic liquidity. Broad monetary expansion rose, month-on-month to 2.56 percent in April 2023 from 2.42 percent in March due, largely, to the 4.60 percent increase in net domestic assets during the month. This reflected the 2.56 percent rise in banking system claims on other sector, including CBN's support for high-impact sectors. Amidst prevailing global banking crisis, Nigeria's banking system is resiliently stable as industry Non-Performing Loans (NPLs) ratio (4.41 percent), Liquidity Ratio (45.29 percent) and Cash Adequacy Ratio (CAR) (12.79 percent), were tolerably within their benchmarks.

In my consideration, I note the lingering uncertainty in global conditions. Output growth remains weakly positive while inflation stayed sizeably above historical trend, especially among advanced economies. Widespread monetary tightening is unsettling the banking system (especially in the US and Europe) and is inducing investors' flight to safety from EMDEs, with severe ramifications for financial markets stability. These global conditions and fragile outlook potentially expose the domestic economic to exogenous shocks. Yet, I note that domestic growth prospect remains positive, even with inflation at undesired levels. Nigeria's FX market is projected to remain stable, particularly due to various policies to strengthen economic fundamentals, resolve macro-imbalances and diversify our productive base. The onset of the Dangote refinery is gratifying, as it could fortify FX reserves, enhance continued exchange rate stability, improve fiscal space, and promote economic advancement.

While medium-term outlook is bright, current outcome indicates the need to tackle near-term challenges to the domestic economy. Output growth, though positive, is weak and needs to be propped to avert long-run dent to potential GDP. However, I am more concerned that inflation, at 22.22 percent is at a detrimentally unacceptable level that continues to rise. Despite the various policy rate hikes over the last one-year, inflation remained sticky. This does not, however, imply impotency of monetary policy as inflation would have galloped faster to inordinate heights without those hikes. In-house counterfactual analyses indicate that the various policy hikes cumulatively lowered possible inflation outcome by over 8 percentage point. Indeed, the hikes have been effective in moderating the pace of inflation as its momentum declined from 1.04 percentage points in July 2022 to 0.18 percentage point in April 2023.

Accordingly, I note the need to intensify effort to combat domestic inflation in order to reduce it to growth-supporting levels and anchor expectation. I favour further tightening of policy stance to rein in inflation. Though I remain mindful of the dampening effect of tightening on growth, we can't afford inflation at its current level, because it is already growth-inhibiting. We will continue to carefully analyse, review, and recalibrate our policy actions to ensure optimal effects on the macroeconomy. Today, on the balance of evidence and judgement, I am strongly convinced that rising inflation is a bigger threat to macroeconomic stability than weak output. While the cyclical recovery of Nigerian economy continued, it is important that inflation expectations are adequately anchored. Overall, I am convinced that a further hike of the policy rate is needed to effectively fast-track price stability and bolster long-run output growth. Therefore, I vote to:

i. Raise the MPR by 50 basis points to 18.50 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

May 2023