



CENTRAL BANK OF NIGERIA COMMUNIQUÉ NO. 147 OF THE MONETARY POLICY COMMITTEE MEETING HELD ON MONDAY 20th AND TUESDAY 21st MARCH, 2023

The Monetary Policy Committee (MPC) met on 20th and 21st March, 2023, faced with new and existing headwinds, undermining the full recovery of the global economy. These include the recent bank failures in the United States and Switzerland, amidst widespread monetary policy tightening, which introduced a new dimension to the risks confronting the global financial system, as well as, the persisting high but receding global inflation. The continued hostilities between Russia and Ukraine and its implications to the smooth functioning of the global supply chain also remain a critical strain to the recovery of global output growth.

In the domestic economy, output recovery progressed at a relatively moderate pace, while headline inflation trended upwards, albeit less aggressively, driven mainly by a marginal increase in food inflation.

The Committee assessed key risks to the global economy associated with these developments and their impact on the Nigerian economy, as well as, the outlook for the rest of the year.

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

Global Economic Developments

The Monetary Policy Committee noted the new and existing headwinds to the broad stability of the global economy. Primary amongst these is the risk of a global financial contagion from the recent bank failures in the United States and Switzerland. In Europe, the war between Russia and Ukraine has continued

unabated, causing critical strains to the commodities and energy markets as supply chain bottlenecks remain, while the lingering risk of the resurgence of several variants of the Corona virus persists after China set aside its Zero-COVID Policy. Furthermore, the deteriorating relations between the US, China, Russia and some major oil producers in the Middle East, continue to contribute to increased volatility in the oil market.

In the Emerging Markets and Developing Economies, the unfolding tight external financing conditions and shock spillovers from the Advanced Economies, could further dampen the recovery of output growth.

In light of these developments, the International Monetary Fund (IMF), in its January 2023 World Economic Outlook, forecast global output growth for 2023 at 2.9 per cent, compared with 3.4 per cent in 2022. Growth is, however, expected to improve to 3.1 per cent in 2024.

While global inflation shows sign of deceleration, monetary policy normalization is progressing unabated, especially amongst key Advanced Economy central banks, targeted at moderating global demand pressure. Price development across several economies is thus expected to remain high throughout 2023, but to decelerate gradually in 2024.

The key factors expected to keep inflation above the long-run target of several central banks include: the persisting disruption to energy markets associated with continued war between Russia and Ukraine; high commodity prices; and general disruptions to the global supply chain associated with uncertainties around the COVID-19 pandemic in China and the ongoing tensions between the US and China over Taiwan's sovereignty.

Across several Emerging Market and Developing Economies, inflationary pressures have remained high due largely to rising energy prices, high prices of

grains and exchange rate pressures associated with capital flows to high yield US dollar-denominated assets.

In the global financial markets, renewed fears of a global financial contagion are forcing investors to move away from the equities market to safer assets such as gold, while others seek higher returns in treasury securities with improved yields. With several Advanced Economy central banks progressing with monetary policy normalization, global financial conditions will likely remain tight, thus reinforcing the reassignment of financial portfolios to reflect the risk aversion of investors.

Domestic Economic Developments

Data from the National Bureau of Statistics (NBS) showed that Real Gross Domestic Product (GDP) grew by 3.10 per cent in 2022. In the fourth quarter of 2022, it grew by 3.52 per cent (year-on-year), compared with 3.98 per cent in the corresponding period of 2021 and 2.25 per cent in the preceding quarter. The economy maintained a positive growth trajectory for nine consecutive quarters, since exiting recession in 2020. The improved performance was driven largely by sustained growth in the services and agricultural sectors, a rebound in economic activities associated with economic recovery and continued intervention in growth enhancing sectors by the Bank. Staff projections showed that output growth recovery is expected to continue into 2023 and 2024.

The Committee, however, observed with concern, the marginal increase in headline inflation (year-on-year) in February 2023, to 21.91 per cent, from 21.82 per cent in January 2023, a 0.09 percentage point increase. This increase was attributed largely to a minimal rise in the food component to 24.35 per cent in February 2023, from 24.32 per cent in January 2023, while the core component moderated to 18.84 per cent in February 2023, from 19.16 per cent in January 2023. The shocks to the food component were driven by high cost of transportation of food items, lingering security challenges in major food-

producing areas and legacy infrastructural problems, which continue to hamper food supply logistics.

Broad money supply (M3) grew by 13.14 per cent (annualized) in February 2023 (year-to-date), below the 2023 provisional annual benchmark of 17.18 per cent. This was driven largely by the growth in Net Foreign Assets (NFA), which was attributed to the increase in foreign asset holdings of the Central bank and decrease in foreign claims on Other Depository Corporations (ODCs).

Money market rates reflected the tight liquidity conditions in the banking system. Consequently, the monthly weighted average Open Buyback (OBB) and Inter-bank Call rates increased to 12.74 and 12.54 per cents in February 2023, from 10.14 and 10.35 per cent in January 2023, respectively.

The Committee noted the continued stability in the banking system, reflected by the performance of the Financial Soundness Indicators (FSIs). The Capital Adequacy Ratio (CAR) stood at 13.7 per cent, Non-Performing Loans (NPLs) ratio of 4.2 per cent and Liquidity Ratio (LR) of 43.1 per cent, as of February 2023.

The MPC observed the sustained improvement in the equities market in the review period, as the All-Share Index (ASI) and Market Capitalization (MC) both increased to 54,915.39 and N29.92 trillion on March 17, 2023, from 51,251.06 and N27.92 trillion on December 30, 2022, respectively, indicating renewed investor confidence in the Nigerian financial market.

The Committee, however, noted the marginal decline in the level of gross external reserves to US\$36.13 billion in February 2023, from US\$36.4 billion in January 2023, a decrease of 0.7 per cent, reflecting the downtrend in crude oil prices, as global uncertainties persist.

The Committee reviewed the performance of the Bank's various interventions aimed at stimulating production and productivity across the real sector. Between January and February 2023, the Bank disbursed N12.65 billion to three

(3) agricultural projects under the Anchor Borrowers' Programme (ABP), bringing the cumulative disbursement under the Programme to ~~N~~1.09 trillion to over 4.6 million smallholder farmers cultivating or rearing 21 agricultural commodities on an approved 6.02 million hectares of farmland across the country.

The Bank also released the sum of ~~N~~23.70 billion under the ~~N~~1.0 trillion Real Sector Facility to eight (8) new real sector projects in agriculture, manufacturing, and services. Cumulative disbursements under the Real Sector Facility currently stands at ~~N~~2.43 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 also released ~~N~~3.01 billion under the Nigerian Electricity Market Stabilisation Facility (NEMSF-2) for capital and operational expenditure of distribution companies (Discos) aimed at improving their liquidity status and aid their recovery of legacy debt. This brings the cumulative disbursement under the facility to ~~N~~254.39 billion.

Outlook

The overall outlook for the full recovery of both the global and domestic economies, remained clouded by new and legacy downside risks.

Available data and forecasts for key macroeconomic variables for the Nigerian economy, suggest that the domestic economy will continue to recover for the rest of 2023 at a moderate pace, in light of evolving and persisting shocks to the economy. The continued upward pressure on inflation, rising cost of debt and debt servicing, as well as deteriorating fiscal balances remain headwinds, which may undermine the smooth path to a faster recovery. Accordingly, the Nigerian economy is forecast to grow in 2023 by 3.03 per cent (CBN), 3.37 per cent (FGN) and 3.20 per cent (IMF).

The Committee's Considerations

At this meeting, MPC focused its attention not only on the inflationary trends in most major economies, but also on the reported impact of policy rate hikes:

aimed at rein-in inflation on financial system stability in the global financial system.

The MPC hence took time out to discuss the recent bank failures in the US and Switzerland, an event that occurred following the persistent interest rate hikes in the US, and how this has adversely impacted the broad portfolio of banks in the US. It noted that whereas MPR was increased by 500 basis points in Nigeria, from 12.5 per cent in 2022 to 17.5 per cent in January 2023, the Financial Soundness Indicators (FSIs) in Nigeria shows that the Nigerian banking system remain resilient due largely the stringent prudential guidelines put in place by the CBN which has resulted in a strong build-up of not only the Cash Reserve Ratio (CRR) in Nigeria, but also the Liquidity Ratio and capital Adequacy Ratio.

In the light of these strong FSIs, MPC was comforted that its various decisions in increasing MPR have had moderate impact on inflation, given that the rate appears to have plateaued in Nigeria.

The Committee's major considerations at this meeting, therefore, focused on arriving at key policy mechanisms to shield the economy from emerging shocks from the global economy, as well as sustain its focus on domestic price stability.

Headline inflation, in the view of members, remained high with increased expectations of price development, due to the perennial scarcity of PMS and ongoing discourse around the removal of fuel subsidy. With the prices of other energy products also rising, members stressed the importance of addressing price development.

The Committee also considered the continued impact of exchange rate pressure on domestic price levels and called for policies to attract both portfolio and foreign direct investment to Nigeria. It maintained optimism that, the continued progress made with the RT200 FX programme, Naira-4-dollar and other policies targeted at attracting diaspora remittances, would continue to

help improve accretion to the external reserves and improve liquidity in the foreign exchange market.

While output growth remains on a positive trajectory, Members called for increased monetary and fiscal coordination to support the recovery in light of risks confronting the domestic economy. To this end, the Committee enjoined the fiscal authority to explore other avenues to improve non-oil revenue to reduce the fiscal deficit and public debt burden.

Following new risks of financial contagion emerging from the scenario of failed banks in some Advanced Economies, members examined the possibility of shocks to the Nigerian banking system from these banks and concluded that the Nigerian banking system remains reasonably insulated from such likely contagion. The CBN has been able to achieve this through stringent micro and macro-prudential guidelines that have ensured that individual banks and the banking industry in Nigeria have adequate buffers to ward-off global contagion. In addition to this, the MPC examined the possible impact of further policy rate hikes on the stability of the banking system and was convinced that further hikes would not adversely impact the stability of the banking system. The Committee, however, called on the Bank's Management to strengthen its regulatory oversight on the banking system to ensure that the banking industry remain stable and resilient.

The Committee's Decision

The MPC noted that while the continued rise in headline inflation remained a significant problem confronting the economy, other macroeconomic variables are moving in the right direction, despite observed headwinds.

The Committee's debate at this meeting, therefore, was whether to continue its rate hike to further dampen the rising inflation trajectory or hold to observe emerging development and allow for the impact of the last five rate hikes to

permeate the economy. Loosening, in the view of members, would gravely undermine the gains achieved so far.

The MPC observed the continued upward risk to price development around expectations on the removal of the PMS subsidy; rising prices of other energy sources; continuing exchange rate pressure; and uncertain climatic conditions. These in the view of members, provides a compelling argument for an upward adjustment of the policy rate, albeit, less aggressively. The Committee, however, noted that the naira redesign and cash withdrawal limit policies have resulted in a sizeable reduction in Currency-Outside-Banks, indicating an expected improvement in the potency of monetary policy tools.

Members, however, remained aware of the ongoing challenges associated with the limits imposed on cash withdrawals in the face of frequent downtime in bank electronic transaction channels. The Committee thus called on Other Depository Corporations, online payment platforms, and other stakeholders to ensure that the prevailing incidence of network failures is overcome in the immediate and short term. This would ensure that the Naira Redesign and Cash Withdrawal Limit Policies lead to an improved in-road of the CBN Cashless program and efficiency of the transmission mechanism of monetary policy.

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

The MPC, therefore, voted to:

- I. Raise the MPR by 50 basis points to 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, CON
Governor, Central Bank of Nigeria
21st March 2023

PERSONAL STATEMENTS BY THE MONETARY POLICY COMMITTEE MEMBERS

1. ADAMU, EDWARD L.

Outlook for the global economy continues to be unstable. There are renewed financial market strain following the collapse of Silicon Valley Bank (SVB) and the Credit Suisse crisis which could preempt a global financial market crisis. On the other hand, global inflation continues to ease even as the threat of recession still hangs over some economies. In addition to the effects of the protracted war in Ukraine, tight financial conditions and slack business confidence could continue to weigh down global economic activity beyond 2023. The International Monetary Fund (IMF) currently foresees global output growth declining to about 2.9 per cent in 2023 from 3.4 per cent in 2022. In emerging market and developing economies (EMDEs), capital flow instability, weak external demand, and high public debt continue to narrow the room for policy maneuver. This cluster features countries with the most severe inflation challenge. Although global inflation may have peaked in 2022 and currently trend downwards, some of these countries including Nigeria have yet to attain an inflection.

In the domestic economy, inflation remains the most important challenge for policy despite several upward policy rate adjustments. Headline inflation rose to 21.9 per cent in February 2023 from 21.8 per cent in January, driven essentially by food inflation which increased to 24.35% from 24.32% in January. Earlier, in December 2022, when headline inflation moderated, it was followed by an uptick in January 2023. Staff projections suggest that domestic inflation may not have peaked after all. Against this background I voted at the March 2023 MPC meeting for a further increase in the monetary policy rate (MPR). Details of my consideration are presented subsequently.

First, the pattern of inflation smacks of persistence. Beyond the initial shocks, largely structural in nature, it seems a secondary, self-propelling process may be underway and possibly responsible for the seemingly muted effect of policy change. This underlying dynamic, appearing to be fueled by expectation and money, needs to be undercut. I see a further increase in the policy rate as necessary in this regard but perhaps not sufficient, especially because of rising inflation expectation. And so, in addition to increasing the policy rate, I welcome the Committee's decision to communicate the Banks's firm commitment to price stability. This will go a long way in calming inflation expectation.

The second complementary action I find fit for this purpose is in the arena of monetary operations. The data presented to the Committee indicate liquidity overhang in the system resonating in low treasury bills (NTB) rate, high patronage

of the standing deposit facility (SDF) window and relatively low open buy-back (OBB) rate. The growth rates of some of the monetary aggregates also lend credence to the liquidity situation. At end-February 2023, foreign asset (net) grew by about 29 per cent over end-December 2022. In January, the aggregate grew by 7.14 per cent after months of decline. Similarly, domestic credit (net) grew by 5.7 per cent in February 2023 over its level at end-December 2022, which annualizes to about 34 per cent, surpassing programme by about 18 percentage points. These statistics lead me to the conclusion that there continues to be room for further tightening of financing conditions in the economy. I see the need to increase the intensity of sterilization primarily to dampen the impact on money supply on the renewed growth in foreign asset, to restore system liquidity to its optimal level in consonance with the upward direction of the monetary policy rate (MPR).

Second, despite recent increases, the MPR continues to trail the inflation rate. Nearly all key interest rates in the economy apart from maximum lending rate are negative in real terms. This is generally unhelpful to savings. Besides, with yields rising globally, the domestic economy risks losing continuously on capital flows in an increasingly competitive world. I see pressure on the country's international reserves and the naira exchange rate aggravating unless the economy is able to attract foreign investment inflow or other supply cushion. This would require, in my view, upward movement in local yields.

On the side of output, the numbers up to Q4 2022 are largely encouraging. Relative to most economies in the EMDEs, the Nigerian economy has shown resilience, with overall growth of about 3.0 per cent in the year, thanks to the proactive deployment of development finance instruments and other measures in the real economy. It is expected that the economy will maintain a growth trajectory in the rest of the year, barring any major shock. In the same vein, risk to financial stability arising from further tightening of policy stance appear well-anchored. At end-February 2022, key financial Soundness Indicators (FSIs) showed resilience. Capital adequacy ratio stood at 13.7 per cent, non-performing loans ratio was 4.2 per cent and liquidity ratio stood at 43.1 per cent, all within prudential thresholds. Against the positive outlook for economic activity and financial system stability, I saw an opportunity to focus monetary policy essentially on restoring price stability over the short- to medium-term.

Lastly, although elections are mostly over, the outlook for fiscal policy remains inclement. Transition-related spending and the extension of year 2022 capital spending could result in expansive fiscal actions in the rest of the year. In addition, the second half of the year could see a jump in PMS price in view of the

envisaged removal of subsidy. In effect, pressure on consumer prices could intensify unless the stance of monetary policy remains sufficiently tight.

In conclusion, it is clear to me that the risks to price stability significantly outweigh those to output recovery. Therefore, disinflation remain the most important policy priority for the Bank at this point. At its current pace, inflation could become a major downside risk to economic growth and prosperity and must be halted by every means possible. I believe that the fiscal authorities can complement the Bank's policy actions in this direction through consolidation and well-targeted fiscal policy.

Based upon my conviction about the effectiveness of the extant path of policy, I voted to:

1. Raise the MPR by 100 basis points to 18.5 per cent.
2. Retain the asymmetric corridor at +100/-700 basis points.
3. Retain the CRR at 32.5 per cent.
4. Retain the Liquidity Ratio at 30.0 per cent.

2. ADENIKINJU, ADEOLA F.

International Economic Developments

The economic data for March 2023 showed that there are improved prospects for global economic recovery, despite continuous geopolitical tensions around the globe. These improved prospects are driven by several factors, including China's continued efforts to open its economy, a more positive response to the Russian gas crisis in European countries, and the rebound of the global Purchasing Manager's index. Global output is projected to expand by 2.9% in 2023 and 3.1% in 2024. Inflation in Advanced Economies (AEs) is expected to decline to 4.6% by 2023 and 2.6% by 2024. Inflation in Emerging Markets and Developing Economies (EMDEs) is also projected to decline to 8.1% in 2023 and 5.52% in 2024 due to a decline in food and energy prices, easing disruptions to global supply chains, and ongoing monetary policy tightening in both AEs and EMDEs. While the FAO Food Price Index has continued to decline, global commodity prices, especially crude oil prices, remain volatile.

Global market sentiment was jolted by the unexpected but rapid collapse of the Silicon Valley Bank and the threat to Credit Suisse. The memory of the 2008 global financial crisis pushed nearly all global financial markets into bear territories. However, a careful and coordinated response to the potential crisis by the monetary authorities in the US, the UK, Canada, and other countries quickly doused the contagion risk from the collapse. The US dollar outperformed other currencies as investors perceived the dollar as a haven and as the US maintained its tight monetary stance. This also negatively impacts the flow of portfolio capital into Emerging Markets. Global trade growth is also expected to decelerate to 2.4% in 2023 from 5.4% in 2022 but would rebound to 3.4% in 2024. Overall, the outlook for the global economy in March was better than that at the January MPC meeting.

Domestic Economic Developments

Real GDP grew by 3.52% in 2022Q4 from 2.25% in 2022Q3. The annual GDP growth was 3.10% in 2022 and 3.43% in 2021. Real GDP Q-o-Q grew by 10.99% in Q4 2022. The key features of recent growth are that it is driven by the non-oil sector, especially the services sector, contraction of the oil sector, and the mining and quarrying sectors. A piece of good news was that oil production increased to 1.31mbd in February 2023 from 1.26 mbd in January 2023. The NURPC projected that production would improve in the short term through the reopening of short-in wells and increased security for petroleum assets in the Niger Delta. Data presented by the Bank Staff showed that all major PMI indices

contracted in February 2023 (month-on-month). The composite PMI remained below its benchmark value, indicating a contraction in economic activities.

Headline inflation y-o-y accelerated in February 2023 to 21.9 from 21.82% in January 2023. However, it decelerated to 1.71%, in February 2023, (m-o-m) from 1.87% in the previous month. Food inflation, often the most volatile component of average inflation, rose marginally to 24.35% in February 2023 and from 24.32% in January 2023. However, monthly, it has declined from 2.08% in January 2023 to 1.90% in January 2023. Core inflation decelerated from 19.18% in January 2023 to 18.84% (y-o-y). Month-on-month, core inflation fell from 1.82% in January 2023 to 1.08% in February 2023.

The monetary base declined in February 2023 relative to January 2023 and remained below the 2023 provisional benchmarks. Broad Money (M3) grew by 2.19% in February 2023 compared to 1.84% in January 2023. However, its annualized growth of 13.14% is below the 2023 benchmark of 17.18%. The growth in Broad Money was driven by an increase in Net Foreign Assets, an increase in claims on federal government and other sectors, claims of the Central Bank, commercial and merchant banks, and non-interest banks, an increase in claims on other financial corporations, state and local government, and a decrease in credit to the core private sector. However, the decline in the Monetary Base was due to a decrease in Currency in Circulation. Available data on net liquidity in February 2023 show that a net liquidity withdrawal occurred in the economy. The major sources of liquidity are Net OMO maturity, swap transactions, FAAC and Net FGN operations.

The Financial Market indicators improved in February and March. The All-Share Index (ASI) increased by 6.37% to 54,915.39 on March 17, 2023, from 51,251.06 on December 30, 2022. Similarly, market capitalization increased by 7.16% from N7.92 trillion on December 30, 2022, to N29.92 trillion on March 17, 2023.

Current and capital accounts were higher in 2022Q3 than in 2022Q2. Gross external reserves fell by 0.7% to US\$36.13 billion at end-February 2022 from US\$36.4 billion at end-January 2022. This was driven by the rise in debt service payments and foreign exchange (FX) swap transactions. The FGN's net fiscal operations resulted in an expansionary fiscal deficit in February 2023 (m-o-m). The overall deficit rose by -N539.01 billion in February 2023 compared to -N417.75 in January 2023. Both government expenditure and revenue declined. FGN Debt increased owing to new borrowings to finance the deficit in the 2022 budget and new loans by subnational governments.

The Banking System Stability Review Report showed that the various Financial Soundness Indicators (FSI) of banking systems are safe, sound, and resilient, and that the banking system is immune to any contagion effects that may arise from external sources. All the FSIs were within prudential requirements and compared well with the comparator countries. The CAR declined slightly from 13.8% in December 2022 to 13.7% in January 2023. The NPL ratio remained unchanged at 4.2% in February 2023. The liquidity Ratio declined slightly, from 44.1% in December 2022 to 43.1% in February 2023. ROE rose to 21.3% in February 2023 from 20.2% in December 2022. The total operating cost to total operating income ratio rose from 74.1% in December 2022 to 75.9% in February 2023.

All measures of industry aggregates—assets, deposits, and credit—rose year-on-year. Total assets of the banking industry grew by N15.58 trillion between end-February 2022 and 2023, driven largely by balances with CBN/banks, FGN bonds, Treasury Bills and Credit. Industry credit increased by N4.98 trillion over the same period. In addition, total industry deposits rose by N9.97 trillion between end-February 2022 and 2023, driven primarily by increase in deposits arising from the naira redesign policy.

My Concern

The global economic environment in March 2023 and the medium-to long-term outlook were generally more benign than those in January 2023. This accounted for the upward revision in output growth in 2023 and 2024. Nigeria's output growth, although positive, remained weak. Negative output growth in the oil sector is unacceptable and should be reversed. Nigerian economy needs both the oil and non-oil sectors to contribute positively to overall economic growth.

The indicators of economic activity for February 2022 give cause for concern, as all major PMI indices were contracted in February 2023 (M-o-M). Composite PMI declined by 9.0%, Industry PMI fell by 10.8%, Agriculture PMI fell by 9.2%, and Services PMI decreased by 8.6%. In addition, industry employment PMI fell by 13%, and overall business expectations sank by huge -40.7% from -5.0% in January 2023. All these are leading indicators of a possible decline in GDP and employment growth in 2023Q1. In my view, the currency redesign crisis along with fuel queues in many parts of the country are likely to drag down output and employment in the economy.

Headline inflation and its components continued their upward trajectory in February 2023, although at a slower pace. The fall in inflation in February, month on month, shows that the monetary tightening measures of the Bank are

probably working. However, inflation expectations are worsening, and the net satisfaction index at the -30.7 index points shows that the public does not have too much confidence in the way the CBN has tried to manage domestic inflation.

The fall in the Monetary Base in February also reduced the expected increase in monetary expansion associated with election spending in Nigeria.

I fear that the staff output growth forecast of 2.64% in 2023Q1 may not be realized because of the problems associated with the implementation of the currency redesign policy and the fuel queues in parts of the country for January and February 2023. The currency redesign policy imposed significant negative shocks on the economy as both aggregate demand and aggregate supply were constrained. The informal sector and SMEs were heavily impacted by the huge net withdrawal of cash from the economy and widespread failures of online banking transactions. The effects of cash withdrawals constitute a huge shock, in my view that the MPC should wait to assess their net effects on the economy and prices before considering additional rate hikes.

My Vote

The MPC needs to sustain its current tight monetary policy stance to dampen inflationary pressures. However, the current currency redesign policy has had significant dampening effects on both aggregate demand and aggregate supply, which I believe we should wait until the next meeting to observe the net effects on output and prices before another round of increase in the MPR. However, the Bank can continue using other administrative measures to control liquidity in the system. The significant decrease in economic sentiment and PMI indices further reinforces my reluctance to support the rate increase at this meeting. Hence, I cast my vote to retain the current MPR and other monetary parameters at their current values. Hence, I vote to:

- 1) retain MPR at 17.5%
- 2) Retain CRR at 32.5%
- 3) Retain LR at 30%
- 4) Maintain asymmetry corridor around the MPR at +100/-700 basis points.

3. AHMAD, AISHAH N.

Global economic prospects remain challenged as fresh risks emerge.

The monetary policy committee (MPC) held its March 2023 meeting amidst persistent global headwinds with heightened risks, following recent bank failures in the United States and Switzerland. Indeed, the global economy remains confronted with significant shocks dampening prospects of sustained recovery post the COVID -19 induced economic downturn.

Fears of a global contagion from the banking crisis in the US, the lingering war between Russia and Ukraine, persistent inflation, tightened global financial conditions, sovereign debt sustainability challenges, and other country specific issues have worsened the outlook for global economic prospects with increased risks to financial stability. These developments highlight the delicate balance of curbing inflation (a key global challenge) for central banks and avoiding an economic recession.

Earlier forecasts of expected improvement in global output growth from 2.9 per cent in 2022 to 3.1 per cent in 2024 by the International Monetary Fund, remain challenged. The dampened outlook is exacerbated by challenges in emerging market and developing economies (EMDEs) which face significant spillover effects of financial market and exchange rate volatility from rising US long-term rates, despite bold measures at promoting economic stability. Overall, 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.

On the domestic front, significant policy challenges remain with rising prices despite sustained rate hikes by the MPC amidst limited fiscal space. According to the National Bureau of Statistics, headline inflation accelerated year-on-year to 21.91 per cent in February 2023 from 21.82 per cent in the previous month. The increase was attributed largely to a rise in the food component to 24.35 per cent, from 24.32 per cent over the same period. Shocks to the food component were driven by the high cost of transportation of food items, and legacy infrastructure problems, which continue to adversely impact food supply logistics.

Inflation expectations also rose from 19.18 per cent in January 2023 to 19.31 per cent in February 2023, albeit lower than actual inflation of 21.91 per cent an indication that economic agents anticipate sticky price movements to persist. Based on staff forecasts, inflation is expected to rise to 22.03 per cent in March

2023 due to supply constraints of premium motor spirit and automotive gas oil, exchange rate passthrough, alongside longstanding structural factors. Clearly, successfully curbing inflation will require concerted fiscal and monetary coordination beyond monetary policy rate hikes to mitigate persistent supply side shocks to domestic inflation.

The reported impact of exchange rate pressure on domestic price levels reinforces the relevance of foreign exchange (FX) policies of the Bank such as the non-oil FX Rebate Scheme, Race to US\$200 billion in FX repatriation, Naira-4-dollar and other policies targeted at attracting diaspora remittances, improving liquidity in the FX market, and strengthening accretion to the external reserves. As of March 16, 2023, the external reserves position stood at US\$35.35 billion which can finance 6.02 months of import of goods and services or 8.54 months of import of goods only. With persisting global headwinds, lingering macroeconomic uncertainties, and FX demand pressures, ensuring exchange rate stability remains a key challenge for monetary policy.

Thankfully, Real Gross Domestic Product growth remains in a positive trajectory. Recent data from the NBS showed that real GDP grew by 3.10 per cent in 2022. In the fourth quarter of 2022, it grew by 3.52 per cent (year-on-year), compared with 3.98 per cent in the corresponding period of 2021 and 2.25 per cent in the preceding quarter. The economy maintained a positive growth trajectory for nine consecutive quarters, since exiting recession in 2020. The improved performance was driven largely by sustained growth in the services and agricultural sectors, a rebound in economic activities associated with economic recovery, continued intervention in growth enhancing sectors by the Bank and complimentary fiscal initiatives. Staff projections show that the positive output growth trajectory is expected to continue into 2023 and 2024.

The optimism of continued positive output growth was further buttressed by sustained stability of the financial system, despite heightening global headwinds and domestic vulnerabilities. A comprehensive review and stress testing of the Nigerian banking system by Bank's staff, to assess the impact of continued rate hikes by the MPC, recent bank failures in the US and Switzerland, and other idiosyncratic risks, shows robustness of the financial system. This resilience validates post global financial crisis regulatory reforms and the CBN's global prudential standards such as Basel 3 framework and was reflected in the healthy prudential ratios and capital buffers of the industry.

Capital adequacy and liquidity ratios were strong at 13.70 and 43.10 per cent in February 2023, respectively, with non-performing loans (NPLs) ratio at 4.2 per

cent over the same period, compared with the prudential benchmark of 5.0 per cent.

Key industry aggregates also continued year-on-year upward trajectory with total assets rising by 25.12 per cent to N77.59trillion in February 2023 from N62.01 trillion in February 2022, while total deposits rose to N49.36 trillion from N39.38 trillion over the same period. Industry credit also increased by N4.98 trillion between end-February 2022 and end-February 2023, with significant growth in credit to manufacturing, general commerce, and the oil & gas sub-sectors. Notably, this impressive increase was achieved with continued decline in NPLs ratio.

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

Policy Decision

In summary, **the global economy remains confronted with significant headwinds despite projections of a gradual rebound in global economic output.** Spillover effects from the continued war in Ukraine; growing geo-political tensions between the US and China; and rising policy rates in the US and other advanced economies to tame inflation, remain major global risks as fresh shocks from the recent bank failures emerge.

Fortunately, inflationary pressures, especially in advanced economies, are expected to moderate in 2023, but would remain above the long-term targets as some key drivers of price hikes persist. The tight monetary policy environment may, therefore, linger, albeit at a slower pace and size; a development that continues to constrain external financing conditions with adverse effects on output performance in EMDEs.

For Nigeria, proactive and coordinated efforts of the monetary and fiscal authorities have helped stimulate economic activities with real GDP projected to remain in positive trajectory. However, with all major components of the Purchasing Managers' Index (PMI) contracting in February 2023 month-on-month (composite PMI declined by 9.0 index points to 41.0 index points in February 2023 from 50.0 index points in January 2023), policy decisions targeted at price stability must be properly nuanced to forestall derailing output recovery.

The recent deceleration in the rate of increase in domestic prices is an indication that price developments are slowly responding to **previous policy rate hikes and other complementary policies to keep inflation in check**. Market lending rates have also risen considerably with average maximum lending rate currently at 29.38 per cent, in response to the tight monetary policy stance. Yet, given that current drivers of inflation in Nigeria are more structural than monetary, sustained aggressive policy rate hikes could dampen output and investment via high borrowing costs. Nonetheless, inflation remains unacceptably high with adverse implications for real incomes, output growth, and overall economic resilience, requiring sustained actions by the MPC to keep inflation in check.

While a further policy rate hike at this meeting is reasonable, in my view, **a modest hike would help achieve a delicate balance between maintaining price stability and preserving broad-based economic resilience**. As such, I vote to increase the Monetary Policy Rate (MPR) by 25 basis points to 17.75 per cent from 17.5 per cent; retain the Cash Reserve Ratio (CRR) at 32.5 per cent; retain the Liquidity Ratio (LR) at 30.0 per cent; and retain the Asymmetric Corridor at +100/-700 basis points around the MPR.

4. ALIYU, AHMED

Global growth outlook is weak, though with prospects of a rebound as the Chinese economy reopens and the EU energy crisis abate. Major headwinds remain the Russia – Ukraine war and the growing geopolitical tensions, particularly between the US and China. Also, recent financial crisis in the US following the failure of Silicon Valley Bank and UBS's ongoing purchase of Credit Suisse pose significant downside risks to growth. The IMF in January 2023, had forecast global growth to decline from an estimated 3.4 percent in 2022 to 2.9 percent in 2023 and thereafter, rise to 3.1 percent in 2024.

Global inflation remains elevated and is envisaged to stay above pre-Pandemic levels and central bank targets in 2023. The IMF projects global inflation to decrease from 8.8 percent in 2022 to 6.6 percent in 2023 and 4.3 percent in 2024. Most central banks are near the end of their interest rate hikes, and may slow down the pace in 2023. They have signalled intentions to maintain a tight monetary policy stance, in the resolve to bring down inflation to their long run targets.

Tight global financial conditions in 2023, portend significant contraction of capital flows to Emerging Markets and Developing Economies (EMDEs). In addition, high lending rates and strong US dollar could increase the cost of debt service for EMDEs. For instance, portfolio capital flows to emerging market securities has declined markedly as the US monetary policy tightening continued. Net portfolio inflow to emerging markets stood at US\$22.9 billion in February 2023 compared with US\$65.7 billion in January 2023, a 65.14 percent decrease. Staff Report, showed that emerging markets debt has remained high, despite the drop in the stock of global debt, raising fears about looming debt defaults in 2023 and 2024.

Growth in global trade is expected to decelerate to 2.4 percent in 2023 from 5.4 percent in 2022, but projected to rebound to 3.4 percent in 2024. Contributing factors to the tepid projection for 2023, have been identified to include the continued sanctions on Russia, tightening of external financial conditions due to interest rate hikes, high inflation and geopolitical tensions, amongst others.

THE DOMESTIC ECONOMY

Real Gross Domestic Product (GDP) year-on-year grew by 3.52 percent in Q4 2022 from 2.25 percent in Q3 2022. On quarter-on-quarter basis, real GDP grew

by 10.99 percent in Q4 2022. Growth was driven by the non-oil sector which grew by 4.44 percent. Conversely, the oil sector contracted by -13.38 percent.

Sectoral analysis in the last few quarters, revealed a shift from manufacturing to services-led growth, which continued to provide more employment in the wholesale/retail sector, as well as the Information and Communication sector. Consequently, the services sector expanded by 5.69 percent in Q4 2022. This was followed by the agricultural sector by 2.05 percent, whereas the Industrial sector contracted by -0.94 percent. The output gap narrowed marginally by 1.11 percentage points to -6.58 percent in Q4 2022 from -7.69 percent in Q3 2022, on account of the expansion in economic activities in the fourth quarter. Based on sustained improvement in crude oil production and the positive impact of the Bank's interventions on growth enhancing sectors, GDP is projected to remain positive in Q1 2023.

Headline inflation year-on-year increased by 0.09 percentage points to 21.91 percent in February 2023. It however, decelerated month-on-month to 1.71 percent from 1.87 percent in the preceding month. Food inflation year-on-year inched up by 0.03 percentage points to 24.35 percent in February 2023, while core inflation year-on-year decelerated by 0.32 percentage points to 18.84 percent in February 2023. Price developments were motivated by the increase in prices of energy products and other inputs, as well as the lag effects of adverse weather conditions on agriculture, which impacted negatively on production and distribution.

Broad Money Supply grew by 2.19 percent (14.99 percentage points lower than the 2023 Benchmark of 17.18 percent) in February 2023 due to the increase in Net Foreign Assets. In contrast, Base Money declined by 1.56 percent month-on-month and was 18.13 percentage points below the provisional benchmark for 2023. The decline in Monetary Base was due to the decrease in currency-in-circulation by 29.16 percent month-on-month, as a result of the Naira Redesign Policy of the Bank. The indicator is projected to increase in March, following the extension of the Policy.

External reserves as of March 16, 2023, stood at US\$35.35 billion. Gross External Reserves at end-February 2023 could finance 6.02 months of imports of goods and services and 8.54 months of import of goods, only.

Financial Soundness Indicators revealed salutary performance in the review period. Industry Capital Adequacy Ratio (CAR) at 13.7 percent at end-February 2023, was above the 10 percent prudential prescription. Liquidity ratio at 43.1 percent at end-February 2023, remained above the 30 percent regulatory

requirement, while Non-Performing Loans (NPLs) was sustained at 4.2 percent at end-February 2023, below the supervisory minimum of 5.0 percent over a 12-month period.

Return on Equity (ROE) and Return on Assets (ROA) rose by 21.3 and 1.6 percent, respectively, at end February 2023, from 17.1 and 1.5 percent at end-February 2022. Gross Credit increased by N4.98 trillion or 19.71 percent in the same period.

CONSIDERATION FOR VOTING

In deciding on the optimal policy option, I considered the various contending objectives of monetary policy, which includes: price stability, output growth and exchange rate stability. In view of the persisting rise in headline inflation, I believe that sustaining the current stance of monetary policy remains appropriate at this time.

Though, monetary policy tightening, could at some point begin to negatively impact on investment and economic growth, through the credit channel, but on a balance of probabilities, low and stable inflation contributes positively to overall economic welfare, stability and growth. It is noteworthy that in the past nine quarters, real GDP has remained at comfortable territory, and forecasts point to its further improvement in 2023 and 2024.

Conversely, headline inflation has trended upwards for several months. At 21.91 percent in February 2023, headline inflation year-on-year is 6.21 percentage points above its level a year ago. Persisting inflationary expectations, structural shocks to food and energy supplies, foreign inflation pass-through to domestic prices and planned removal of petroleum subsidies, are among the near-term upside risks to inflation.

A tightened policy stance could adjust sentiments and expectations, narrow the negative real interest rates and enhance the country's attractiveness to foreign capital inflows. This is in addition to supporting the recent stability in the foreign exchange market. I believe that the Bank's tight stance of policy since mid-2022 has had some positive impact, albeit, minimal on inflation, in view of the month-on-month deceleration in inflation and the marginal uptick in headline inflation year-on-year.

In my view, current inflationary pressure is propelled by both monetary and structural factors. Under these circumstances therefore, development interventions should be aligned with tight monetary conditions to ensure that the target of low and stable prices is balanced with output growth. This would

require channelling resources to critical sectors such as agriculture and manufacturing, to reduce food and core inflation.

To sustain the stability in the foreign exchange market, the Bank should fine-tune and strengthen demand control measures, and supply management policies. To complement this, economic diversification, through further incentives to non-oil activities with strong comparative advantage for export, as well as improving diaspora remittances through additional motivations, should remain the focus of policy.

In light of a couple of distress situations in the US banking system, partly attributed to monetary policy normalization by the US Federal Reserve Bank, it may seem that further tightening of the monetary policy rate could amount to a policy dilemma. However, the Financial Stability Report presented by Bank staff shows no conceivable threat of tightening to our financial system.

Considering the lag effects on prices of the recent aggressive policy rate hikes by the Bank and bearing in mind that inflationary pressures remain persistent and skewed to the upside, I vote at this meeting, for a moderate increase in the Monetary Policy Rate (MPR). I, therefore, vote to increase the MPR by 50 basis points to 18.0 percent, whilst leaving other policy parameters unchanged.

5. ASOGWA, ROBERT C.

Policy Decision:

Given that domestic inflation is still high and may rise further in the next few months before it begins to decelerate, additional policy rate increases will still be valuable in at least anchoring inflation expectations. However, with concerns on the trade-off with growth and the possible impact on financial system stability, a less aggressive policy interest rate hike of not more than 50 basis points for the intermeeting period will be appropriate. I will therefore vote to:

- Raise the MPR from 17.5 percent to 18.0 percent,
- Retain the CRR at 32.5 percent,
- Retain the Asymmetric Corridor at +100/-700 basis points,
- Retain the Liquidity Ratio at 30.0 percent.

This policy decision is informed by considerations of the available data related to recent economic and financial developments at the global and domestic levels which are discussed below.

Global Economic Developments:

Available information suggests that the global economy has been stronger than expected in 2023 and earlier concerns about possible economic recession in a number of countries is now diminishing. The first quarter 2023 economic activity levels are not as bad as the situation in the fourth quarter of 2022. In the Euro area for instance, the economy grew by 0.1 percent in the fourth quarter of 2022 compared with 0.3 percent in the third quarter, but emerging high frequency indicators such as private consumption and private investment suggests a stronger positive recovery for the first quarter of 2023. The Euro area projection for growth in the first quarter of 2023 is now at 1.0 percent as a result of decline in energy prices and resilience to the international environment. In the UK, output growth slowed to 0.0 percent in the fourth quarter of 2022, following a contraction of -0.2 percent in the third quarter of 2022, and early forecasts suggest a possible positive upturn in the first quarter of 2023. In Canada, economic growth came flat in the fourth quarter of 2022, but with consumption, inventory investment and net exports all increasing recently, a stronger than expected GDP growth is now likely for the first quarter of 2023. In China, growth in the fourth quarter of 2022 also came out flat at 0.00 percent compared with 3.9 percent in the third quarter but early output estimates for the first quarter of 2023 indicate modest recovery especially after the easing of

COVID-19 restrictions. Despite this slight upturn in growth outlook for the early months of 2023, the global economy is still subject to significant risks especially with uncertainties around the strength of China's recovery and Russia's unending war in Ukraine. Current data shows that global manufacturing PMI rose to 50.0 index points in February 2023, from 49.1 index points in January 2023 and 48.6 index points in December 2022. Similarly, the global Services PMI also expanded to 52.6 index points in February 2023 from 50.0 index points in January 2023 and 49.6 index points in December 2022. Recently the IMF revised the global growth forecast for 2023 which is now 0.2 percentage points higher than the earlier projections made in October 2022 largely due to the reopening of the Chinese economy in 2023 and some positive surprises in a number of countries.

Global inflation (year-on-year) has been moderating since the last MPC meeting in January 2023, but remains high. Core inflation has ticked down, but food indicators are still increasing in several countries. The Euro Area inflation rate was 10.6 percent in October 2022 but has fallen to 8.6 and 8.5 percent in January and February 2023, respectively, and primarily driven by decreasing energy prices. In Canada, inflation also eased further to 5.2 percent in February 2023 from 5.9 percent in January 2023, which is the biggest single month decline in three years, also reflecting lower price increases for energy and some services. In Korea, inflation rates decelerated to 4.8 percent in February 2023 from 5.2 percent in January 2023, which is the slowest pace in about ten months. In the UK, year-on-year inflation rate surprisingly edged higher to 10.4 percent in February 2023 from 10.1 percent in January 2023 and 10.5 percent in December 2022 with the biggest upward pressure coming from cost of food and non-alcoholic beverages. The year-on-year inflation rate for South Africa also edged higher to 7 percent in February 2023 from 6.9 percent in January 2023 and 7.2 percent in December 2022, which is the first rise since October 2022 and this upward pressure also emanated from prices of food and non-alcoholic beverages.

Volatilities in the global financial and foreign exchange markets reduced since 2023, but recent turbulence related to problems at some banks in the United States and Switzerland may pose some threats. In January and February 2023, global equity indexes gained impressive ground following growth prospects in a number of countries, but some of the gains appear to be diminishing with the recent banking sector turmoil. Lately, currencies of several countries have weakened against the dollar partly due to the possibility of further tightening of the US Federal Reserve rate stance. CBN staff report shows that the US dollar recovered in February 2023 at a near seven weeks high against a basket of

other major currencies. Surprisingly, many of these currencies which earlier gained against the dollar in January 2023 are now depreciating rapidly. For instance, in January, the British Pound, the Euro, the Japanese Yen, the Chinese Yuan and the Indian Rupee all appreciated against the US dollar, but by end February 2023, almost all these currencies have depreciated against the dollar.

In terms of official monetary policy responses, available data portray mixed reactions across countries. While many Central Banks have continued with policy rate hikes albeit at less aggressive manner to tame inflationary pressures, others have left rates unchanged and have sustained quantitative tightening measures including the tapering of asset purchase programmes introduced in 2020 as part of the COVID recovery support. There are also a few Central Banks that have decreased policy rates in this first quarter of 2023 so as to stimulate domestic economic activities. CBN staff report shows that the European Central Bank raised its policy rate by 50 basis points in February 2023 and an additional 50 basis points in March 2023 as they seek to pursue the return of inflation to the 2 percent medium term target. The US Fed has also increased its benchmark rates by a quarter of a percentage point, to a range of 4.50-4.75 percent, while the Bank of England in March 2023 raised interest rates for the 10th time in a row to 4.0 percent, which is now their highest since 2008. The Central Banks' of Canada and Korea left rates unchanged in early March 2023 while continuing some form of quantitative tightening, but in Japan, China and Russia, policy rates were lowered in March 2023 as these countries target economic activity recovery and stability in financial markets.

Domestic Economic Developments:

The Nigerian economy started exhibiting signs of sluggishness early in the first quarter of 2023, despite the somewhat strong finishing in the fourth quarter of 2022. Real GDP growth in the fourth quarter of 2022 increased to 3.52 percent (year-on-year) from 2.25 percent in the third quarter of 2022 and was driven by expansions in the non-oil sector, especially the services sub-sector which grew by 5.69 percent and contributed 56.27 percent of the aggregate GDP. The agricultural sector also performed well, growing by 2.05 percent in the fourth quarter of 2022 even when hampered by flood incidences across several States in Nigeria. At the moment, the earlier positive outlook at the beginning of 2023 is now threatened by both internal and external risks. The Composite Purchasing Manager's Index (PMI) which was 49.0 index points in November 2022, 49.4 index points in December 2022 and 50.0 index points in January 2023 has declined dramatically to 41.0 index points in February 2023. Also, household consumption growth has slowed in the last two months even as many businesses

appear to be operating at low levels of capacity utilisation. The domestic economy is however expected to improve gradually from the second half of this year as risks stemming from external factors subside. However, uncertainties around the naira redesign policy and expected changes by the new government in June 2023 as well as fresh concerns of floods for the agricultural sector may yet pose threats to output growth in the second and third quarters of 2023. Overall, domestic output growth projections by the IMF, World Bank and the CBN for 2023 remain positive.

The domestic inflation rates increased slightly (year-on-year) to 21.91 percent in February 2023 after declining in January to 21.82 percent from a high of 23.75 percent in December 2022. While core inflation in February 2023 came out better than expected, at least moderating to 18.84 percent from 19.16 percent in January 2023, increases in food inflation, especially for farm produce elevated the headline inflation rate (year-on-year). On a month-on-month basis, headline inflation declined to 1.71 percent in February 2023 from 1.87 percent in January, with both food and core components declining. Of significance is the rapid decline in the prices of processed food, which to some extent may reflect the impact of tight monetary policy and a moderation in inflation expectations. Looking ahead, domestic inflation rates may increase further in the months to come especially due to the likely effects of fuel subsidy removal and anticipated floods, but will gradually decrease over the longer term due to the weakening demand side pressures.

The domestic financial system continues to show strength similar to the position at the last MPC meeting. The Banks Capital Adequacy Ratio (CAR) of 13.7 percent at end February 2023 is well above the statutory minimum requirement of 10 percent. The quality of loan portfolio remains stable with a ratio of non-performing loans (NPLs) at 4.2 percent for the last four months and a satisfactory liquidity coverage ratio. Overall, the risks to financial stability especially with recent banking problems in USA and Switzerland remain contained, given that Nigerian banks are broadly well capitalized and have so far demonstrated unprecedented resilience while the Central Bank has taken proactive steps to shield domestic banks from any global banking downturn. The domestic equity market has also witnessed significant recovery in recent times. Between end-October 2022 and end-December 2022, the All-Share Index increased by 19.98 percent while market capitalization also increased by 16.91 percent. This bounce back continued in 2023 eventhough at a slower pace with the All-Share Index increasing 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. CBN staff report attributes this improved performance

to investors optimistic sentiments which may have somewhat been buoyed by expectations of positive full year results for 2022.

Broad money grew at a rate of 2.19 percent in February 2023 from 1.84 percent in January 2023 which is a significant deceleration relative to the growth of 16.29 percent in November 2022 and 17.35 percent in December 2022. This contraction in broad money for 2023 reflects largely the impact of the monetary tightening regime as claims on Central Government reduced significantly since 2023 while credit to core private sector dropped to negative territory.

On the external front, despite the deficit position of the Balance of Payments (BOP) in the fourth quarter of 2022, vulnerabilities appear to be reducing given the remarkable surplus recorded in the current account balance for the fourth quarter of 2022 at 1.81 percent of GDP compared with a deficit of about -1.65 percent of GDP in the third quarter of 2022. This improvement in the current account balance is reflected primarily in the merchandise trade as export performance increased with merchandise imports reducing, while the existing deficit in the services balance reduced significantly in the fourth quarter of 2022. Overall, the risks to projections on the external sector are still skewed to the upside especially as the decline in foreign financial flows continues to exert further pressure on foreign reserves. As at end- February 2023, CBN staff report shows that the external reserves stood at US\$36.13 billion, compared with US\$36.40 billion at end-January 2023. The naira exchange rate continues the marginal depreciation trend as demand pressures persist. At the I&E window, the Naira in December 2022 depreciated by 1.15 percent (month-on-month) and by 3.04 percent (year to date). At end-February 2023, it depreciated by 0.11 percent (month-on-month) and 0.33 percent on a year to date basis.

With respect to the fiscal sector, the situation as at January 2023 remains alarming as contained in the CBN staff fiscal sector analysis as revenue continues to significantly underperform expenditure, similar to the position in the previous MPC meetings. It is expected that for the first quarter of 2023, the already huge debt burden may even increase more than anticipated. In containing the persistent widening fiscal deficits, some innovative fiscal measures have to be implemented by the new government as from June 2023. As highlighted in my earlier personnel statements, a fiscal consolidation strategy is critical for Nigeria's future economic stability. Besides broadening revenue collection and reduction in subsidies, expenditure restructuring and some modest austerity drives for the short and medium term will be worthwhile.

6. OBADAN, MIKE I.

As at the last Monetary Policy Committee (MPC) meeting held in January 2023, there were indications that the weak economic momentum which prevailed in 2022 would continue in 2023. Indeed, there were strong fears of global recession in 2023 as about one-third of the global economy faced recession. But as at the time of the March 2023 meeting, global economic growth showed some prospects of improved recovery as China began to reopen, following the easing of restrictions associated with its Zero-COVID Policy, the EU moved on the path of avoiding the gas crisis and growth in consumer spending improved in the US. Nevertheless, the global environment remains cloudy.

MAJOR GLOBAL ECONOMIC DEVELOPMENTS

Yes, there had been signs of improved global growth prospects but there are still major headwinds to growth recovery: the continued war in Ukraine, several and growing geopolitical tensions such as the tension between the US and China over the sovereignty of Taiwan. The impact of the war continues to be felt globally, putting upward pressure on food and energy prices. Perhaps, in view of the various headwinds, the IMF, in its World Economic Outlook, January 2023, downgraded the global growth projection for 2023 to 2.9 percent from 3.4 percent in 2022. However, it is expected to improve moderately to 3.1 percent in 2024. Subdued global growth prospect is a threat to the Nigerian economy.

There is evidence that monetary tightening is working in most Advanced Economies (AEs) and Emerging Market and Developing Economies (EMDEs). Inflation has been moderating in these economies. In the AEs, inflation is expected to moderate from 7.3 percent in 2022 to 4.6 percent in 2023, while in the EMDEs, it is projected to decline from 9.9 percent in 2022 to 8.1 percent in 2023. The drivers of the declines include decline in energy and food/commodity prices, ongoing monetary policy tightening by several central banks, and easing of disruptions to global supply chains. Nevertheless, global inflation is expected to remain above pre-pandemic levels throughout 2023.

Uncertainties surrounding global economic growth coupled with slowdown in global demand remain; therefore, global, AEs and EMDEs' trade growths are expected to weaken in 2023: global trade growth from 5.4% in 2022 to 2.4 per cent in 2023; AEs' trade growth from 6.6 per cent in 2022 to 2.3 percent in 2023 and EMDEs' trade growth from 3.4 percent in 2022 to 2.6 percent in 2023. Global trade outlook in 2023 may be affected by factors such as high inflation and interest rates, debt distress, and geopolitical frictions including the unabating

Russia-Ukraine war. High EMDEs' debt is triggering concerns about likely sovereign debt default in 2023 and 2024.

Following the slowdown in price development and output growth recovery, central banks may generally consider lowering the pace of policy rate hikes, going forward, more so as they are generally assessing the lagged impact of the rapid policy rate tightening on inflation, unemployment, and economic growth. In the EMDEs, the tightening of monetary policy has led to tight financing conditions with a dampening impact on output growth and increased debt burden. Net portfolio capital flows to these economies has also declined as the US monetary policy tightening remains aggressive: net inflows dropped from US\$65.7 billion in January 2023 to US\$22.9 billion in February. In the AEs, the impact of continued monetary policy tightening is being viewed against the backdrop of the recent financial sector woes in the US and Europe, for example, of Credit Suisse bank in Europe and Silicon Valley Bank and Signature Bank collapse in the United States.

Crude oil prices have been volatile since the beginning of January 2023 with prices declining to a three-month low in March 2023 largely due to negative sentiment about future oil demand, and heightened threat of a global financial crisis following the collapse of two banks in the United States.

The dampened prospect in the oil market is of serious concern to Nigeria as the country has not been able to step up oil production to the OPEC quota level of between 1.7 and 1.8 million barrels per day (mbpd). Low oil production coupled with weak oil prices will continue to impact negatively on the country's naira revenue, foreign exchange reserves position, and exchange rate stability.

KEY DOMESTIC ECONOMIC DEVELOPMENTS

Major developments in the Nigerian economy have continued to inform monetary policy direction, among which are the economic growth rate, inflationary pressures, oil production and oil market, foreign exchange market situation and the Naira Redesign policy.

The year-on-year quarterly real economic growth rate pattern reflected significant fluctuation in 2022: Q1, 3.11%; Q2, 3.54%; Q3, 2.25% and Q4, 3.52%. The 2022 annual growth rate was 3.10% compared to 3.43% in 2021 suggesting a weakening growth momentum. However, the observed improvement from Q3 to Q4, in 2022 is not likely to be sustained in Q1 2023 due to the sustained rise in inflation strong monetary tightening, high energy prices, subsisting insecurity and foreign exchange market pressures, challenges of the Naira Redesign

policy and the unintended consequences which have adversely affected domestic consumption, trade, investment and output. In light of these, the growth rate may fall below 3.0% in Q1 2023. Importantly, is the uncomfortable shift in the sectoral composition of national output in Q4 2022. While industry's share of output further declined from 17.27% of real GDP in Q4, agriculture's share also declined from 29.67% in Q3 to 26.46% in Q4. The beneficiary of these declines in sectoral shares is the services sector which increased from a share of 51.96% in Q3 to 56.27% in Q4 2022. This shift elicits concerns because it further consolidates the trend of de-industrialisation in the economy – a growth pattern which has tended to by-pass industrial development.

Headline inflation has maintained a worrisome upward trend after the brief drop in inflation uptick in December 2022. Year-on-year headline inflation rate rose to 21.91% in February 2023, a 0.09 percentage point increase from the 21.82% recorded in January, 2023. Increase in food inflation has remained a key driver of headline inflation. However, the month-on-month headline inflation declined by 0.16% to 1.71% in February, 2023 from 1.87% in January, 2023, after having increased consistently from 1.2% in October, 2022 to 1.9% in January, 2023. Perhaps, because of the persisting headwinds, inflation expectations rose from 19.18% in January, 2023 to 19.31% in February, 2023. The inflation outlook is not that encouraging due to pressures arising from persistent fuel shortages and the attendant high prices, particularly of premium motor spirit and automotive gas oil, potential flood in some parts of the country, sustained exchange rate adjustments, expected removal of petroleum price subsidy, supply chain disruptions, and unintended consequences of the naira redesign policy. Thus, the headline inflation rate may continue its upward trend in the foreseeable future until the rate of deceleration berths at 0.0% and inflation peaks and begins to show declines.

Oil market and oil production. The prices of crude oil have been volatile since the beginning of January 2023. Oil prices declined to a three-month low in March 2023, due to two developments: fears of a global financial crisis as a result of the collapse of Silicon Valley Bank, and negative sentiment about future demand for oil. OPEC basket price declined from US\$ 81.95 per barrel (pb) on January 31, 2023 to US\$ 73.75 pb on March 17, 2023. Similarly, during the same period, the price of Bonny Light oil pb declined from US\$ 86.30 to US\$ 73.32 pb and UK Brent from US\$ 83.35 to US\$ 72.97 pb. However, on the production side in Nigeria, there is some good news; in light of the security and oil pipeline protection measures put in place by the Federal Government, there has been sustained improvement in oil production and export since October 2022. Oil production rose consistently from 1.12 million barrels per day (mbpd) in October

to 1.31 mbpd in February 2023. Similarly, the quantity exported increased each month from 0.67 mbpd in October 2022 to 0.86 mbpd in February 2023. However, against the backdrop of weak/declining oil prices, these increases are inadequate to make meaningful impact on the nation's government revenue and foreign reserves.

Foreign exchange market pressures. These continue to pose challenges as supply-demand imbalances remain unrelenting. The external reserves position has remained weak against the backdrop of the limited capacity of the country to earn foreign exchange from both non-oil and oil exports. Consequently, the official exchange rate has continued to depreciate. At the Investors and Exporters (I&E) window of the foreign exchange market, the naira exchange rate depreciated marginally from N461.00 : US\$1.00 at the end of January, 2023 to N461.50 : US\$1.00 as of February 28, 2023. Thus, some relative stability of the naira exchange rate has been achieved largely as a result of the CBN's sustained measures to minimise foreign exchange demand pressure. A good handle on the oil theft and other challenges along with commencement of local refining of oil by the Dangote Refinery and Petrochemicals Company coupled with elimination of the notorious petrol subsidy regime should help to achieve stability in the foreign exchange market and exchange rate.

Naira Redesign policy. This is a very well-intended policy aimed essentially at achieving economic objectives, in particular, ensuring the integrity of the national legal tender, ensuring effectiveness of monetary policy, promoting the cashless policy and financial inclusion, and checking currency hoarding and counterfeiting. Unfortunately, various vested interests have worked assiduously to undermine the implementation for their private gains. Their activities compounded the unintended consequences of the implementation of the policy – hoarding of the new naira notes, shortages of the new naira notes and the attendant suffering of Nigerians at all levels, breakdown of online payments infrastructure, etc. Going forward, policies like the naira redesign policy require a political economy analysis to identify its benefits, costs and social consequences with a view to also identifying various mitigation measures for the consequences – intended and unintended.

OPINION

This is predicated on the implications of the global and domestic developments and the following.

The primary mandate of monetary and price stability of the CBN is under threat but the current monetary policy stance is sufficiently tight. Yet, inflation has

continued to trend upwards, although the rate of increase has shown a decline. The observed decline on month-on-month inflation rate happened just once in February 2023. The sustained upward trend of the inflation rate in spite of the aggressive monetary tightening actions since May 2022, suggests the strong influence of other factors outside the direct control of the Bank and the need to tackle them through fiscal actions. Therefore, efforts aimed at taming the current inflation need to go beyond focussing solely on monetary aggregates to other key non-monetary factors: low productivity, fiscal deficit and the structure of government expenditure, infrastructure deficit, insecurity in farming areas, undiversified foreign exchange base, foreign exchange bottleneck, uncondusive investment and business environment, etc.

Need to be conscious of the danger of aggressive monetary tightening. The negative impact of this on the macro-economy happens in the spheres of financial sector instability, weakened economic growth, and, public and private sector debt servicing challenges. Therefore, the macroeconomic consequences of monetary tightening for key variables need to be taken cognisance of: investment, output and consumption, banking sector performance, etc. It is not helpful to argue that monetary policy should operate in a cocoon, that is, that it should be insensitive to the negative impact of its stance on the rest of the economy. A macroeconomic perspective is required for monetary policy making.

Yes, and very importantly, price stability is the primary mandate of the CBN. But the achievement of this objective assumes good fiscal behaviour in the management of the economy. Therefore, 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 raging inflation in the country. A conscious combined effort by both the government and the Central Bank is indispensable.

In light of the foregoing and the lack of certainty that further aggressive monetary tightening alone will deliver the desired inflation control objective, I believe that monetary policy stance should remain tight but the pace of policy rate hike should maintain a downward trend.

Therefore, I vote to increase the MPR by 50 basis points compared with the adopted 100 basis points at the January 2023 meeting, while the other policy parameters are held constant.

7. OBIORA, KINGSLEY I.

In the face of persistently high inflation, I voted to raise the Monetary Policy Rate (MPR) to 18.0 per cent from 17.5 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, respectively. This in my view will further dampen domestic price pressures, sustain a modest recovery, and ensure banking system stability.

The global economy is confronting multiple headwinds with deleterious effects on sustainable growth and living standards. Some of the headwinds include decelerating but high inflation, the ongoing Russia-Ukraine war, rising central bank policy rates, tight labour markets, geopolitical tension and fragmentation, and the growing concerns over the health of the global financial system. These headwinds have constituted a drag on global economic activity particularly as more regional banks in the United States continue to fail. However, evidence from February's J.P. Morgan Global Composite Purchasing Managers Index (PMI) shows a sign of improvement as the index rose above the 50-point benchmark after six months of consecutive contraction. The economic activity increased from 49.7 points in January to 52.1 points in February 2023, driven by the expansion in consumer goods, consumer services, business services, financial services, and investment goods. Therefore, with the reopening of China and an improved supply chain, we expect a boost in global aggregate demand and economic growth in the immediate future.

Despite these signs of improvement, global growth is forecast to remain weak in 2023. The International Monetary Fund (IMF January Update WEO 2023) downgraded the 2023 global growth forecast to 2.9 per cent in 2023 from 3.4 per cent in 2022, reflecting the tight monetary policy stance of many advanced economies and the severe spillovers of the ongoing Russia-Ukraine war. The expected decrease in global growth will be driven largely by advanced economies, which as a group will decline from 2.7 per cent in 2022 to 1.2 per cent in 2023. In the United States, the Euro Area, and Canada, growth is projected to decline to 1.4, 0.7, and 1.5 in 2023 from 2.0, 3.5, and 3.5 in 2022, respectively. In the United Kingdom, however, growth is expected to contract by -0.6 per cent. In Emerging Market and Developing Economies (EMDEs), however, growth is projected to slightly increase to 4.0 per cent in 2023 from 3.9

per cent in 2022. Economic activity in China will also 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 strongly at 6.1 per cent but slightly slower than 6.8 per cent in 2022.

Even with increasing concerns over a weak growth forecast, reining in inflation remains the top priority of many central banks across the world. Global inflation is projected to decelerate in 2023, but it will remain high in many advanced and developing economies. Global inflation is projected to decelerate from 8.8 per cent in 2022 to 6.6 per cent in 2023, fostered by the decline in oil prices and other non-oil commodities and the impact of ongoing monetary policy tightening. Consequently, inflation in Advanced Economies (AEs) is expected to moderate to 4.6 per cent in 2023 from 7.3 per cent in 2022. Also, in Emerging Market and Developing Economies (EMDEs), inflation is forecast to drop to 8.1 per cent in 2023 from 9.9 per cent in 2022. The low-income developing countries are projected to record inflation of 8.6 per cent in 2023, down from 14.2 per cent in 2022—all driven by a decline in energy prices, the easing of disruptions to global supply chains, and monetary policy tightening. (IMF January 2023 Update, World Economic Outlook).

Although headline inflation continues to decelerate in advanced economies, it remains above the target objective of 2 per cent. In the United States, inflation has dipped to 6.2 per cent in February 2023 from 6.5 per cent in January 2023. In the Euro Area, inflation also decreased to 8.5 per cent in February from 8.6 per cent in January 2023. In Canada, it decreased to 5.3 per cent in February from 5.9 per cent in January 2023. While headline inflation decelerates, core inflation remains high and continues to be driven by an increase in the prices of services and the tightness of the labour markets. As a result, the Federal Reserve, the Bank of England, the Reserves Bank of Australia, the European Central Bank, the Bank of Canada, and the Bank of Norway, among others, all continue to increase the policy rates to tame inflation, although at a slower pace compared to the aggressive hikes in 2022. The central banks of many emerging markets and developing economies are also hiking rates to curb inflation, which has become more persistent and continues to hurt the most vulnerable households in these economies. Overall, inflation is declining amid sluggish global growth, and this will require a delicate balance between taming inflation and fragile recovery, especially in low-income countries.

On the domestic front, the Nigerian economy continues to show resilience through improved economic activity in Q4 2022. Official data from the National Bureau of Statistics (NBS) showed that Nigeria's real GDP (year-on-year) grew

by 3.52 per cent in Q4 2023, up from 2.25 per cent in Q3 2022, but declined when compared with 3.98 per cent in Q4 2021. As a result, the overall annual growth for the year slowed down to 3.1 per cent from the 3.4 per cent recorded in 2021. Growth in Q4 2022 was primarily driven by the non-oil sector, especially the services and agriculture sectors, which contributed 5.69 per cent and 2.05 per cent respectively. The overall non-oil GDP growth in real terms stood at 4.44 per cent in Q4 2022, compared with 4.73 per cent in the corresponding period of 2021. The sub-sectors that recorded significant growth included Information and Communication (Telecommunication), Trade, and Agriculture (Crop Production). Others are Financial and Insurance (Financial Institutions) and Manufacturing, which grew by 11.24, 4.54, 2.41, 11.61, and 2.83 per cent, respectively. In relative terms, the non-oil sector contributed 95.66 per cent in Q4 2022, higher than the 94.34 per cent recorded in Q3 2022. The total annual contribution of the non-oil sector in 2022 stood at 94.33 per cent, compared with 92.76 per cent in 2021. The oil sector, however, contracted by 13.38 per cent (year-on-year) in Q4 2022, compared with a contraction of 22.7 per cent in Q3 2022. The continuous contraction in the oil sector was attributed to operational issues, increasing oil theft, pipeline vandalism, and divestments by international oil companies. Amid the contracting growth of the oil sector, the resilience of the non-oil sector is pushing the economy towards sustainable long-term growth.

This modest growth faces significant headwinds that can be addressed by creating more fiscal space and stable macroeconomic conditions. The IMF (WEO January Update 2023) projected the Nigerian economy to increase modestly from 3.0 per cent in 2022 to 3.2 per cent in 2023. This is a weak projection due to some headwinds. For example, domestic consumer price inflation continues to surge, although at a moderate pace. In February 2023, the headline inflation (year-on-year) increased to 21.91 per cent from 21.82 per cent in January 2023, driven largely by food inflation, which increased slightly to 24.35 per cent in February from 24.32 per cent in January 2023. Core inflation, however, declined from 19.16 in January to 18.84 in February 2023 due to low demand, especially in the aftermath of the festive season. Although inflation continues to increase, the pace is decreasing, reflecting the tight monetary policy stance of the Bank. The monthly Composite Purchasing Manager Index (PMI) also declined significantly to 41.0 index points in February from 50.0 points in January 2023, signifying a contraction in overall economic activity. Furthermore, the overall Balance of Payments (BOP) position recorded a deficit of 0.85 per cent of the GDP in Q4 2022, compared with a deficit of 1.15 per cent of the GDP in Q3 2022, reflecting external vulnerabilities of the economy

occasioned by over-reliance on volatile oil-export earnings. Other key challenges include lingering infrastructural deficits, power, insecurity, inequality, and rising poverty. On the external environment, the rising interest rates by the advanced central bank economies and subsequent capital reversals have resulted in high borrowing costs and depreciating currencies in the EMDEs, including Nigeria. This is exacerbating fiscal pressures and severely impacting domestic investment and economic growth.

Overall, this modest recovery can morph into sustainable long-term growth through policies that will promote private investment and innovation in key sectors of the economy, ensure efficient debt management and increase domestic revenue mobilization, thereby creating fiscal space for rapid growth and social inclusion.

Despite the concerns with banks in some advanced economies, the Nigerian banking system remains liquid, sound, and resilient at the moment. Although the capital adequacy ratio (CAR) decreased by 0.75 percentage points from 13.67 per cent in February 2023 to 14.42 per cent in February 2022, it remained above the 10 per cent prudential requirement. 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) declined to 4.21 per cent in February 2023 from 4.84 per cent in February 2022, which is further below the maximum prudential requirement of 5.0 per cent. The continuous decline in NPL was attributable to write-offs, restructuring of facilities, GSI and sound credit risk management. Consequently, total gross credit increased by N4.98 trillion, or 19.71 per cent between the end of February 2022 and the end of February 2023, from N25.25 trillion to N30.23 trillion, due to the increase in the industry funding base, and the CBN's directive on LDR, and business strategy and competition. The credit growth was largely recorded in oil and gas, manufacturing, general commerce, Government and General Commerce. The increase in credit will boost productivity, job creation, and poverty alleviation.

Overall, as inflation has begun a decisive decline, the Bank must continue to prioritize containing price pressures in order to preserve the value of money and protect the most vulnerable in our society. Inflation remains high and far above the Bank's implicit target and is weighing heavily on individual households across the country. We must, therefore, remain focused, consistent, and credible in ensuring that inflation is on a downward path.

On this basis, I voted to:

- Increase the Monetary Policy Rate (MPR) from 17.5 percent to 18.0 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

In response to soaring inflation in 2022, most Central Banks embarked on their most aggressive monetary tightening cycle in decades. This attempt by Central Banks to reduce inflation with interest rate hikes has raised recession and financial risks in 2023¹ with important implications for GDP growth, bond yields, exchange rates and economic risks in the global economy.

Inflation is currently slowly easing but still high enough to push consumption levels lower and keep interest rates elevated.² In emerging economies, disinflation is proceeding more rapidly, especially for producer prices.³ Central banks, meanwhile, keep raising policy interest rates: At the March 2023 meetings, the US Federal Reserve raised interest rates by 25 basis points and The European Central Bank raised rates by 50 basis points.

According to the latest United Nations World Economic Situation and Prospects Economic analysis⁴, the near-term economic outlook remains highly uncertain as a myriad of economic, financial, geopolitical, and environmental risks persist.

Recession risks are subsiding as Central Banks are making progress in controlling inflation. The International Monetary Fund (IMF) made a slight increase to its global growth outlook for 2023. The Fund is estimating a slowdown in the medium growth forecast and sees the pace of global growth falling this year compared with 2022, but by a smaller margin than it predicted in October.⁵ The IMF believes global growth would still fall to 2.9% in 2023 from 3.4% in 2022, but its latest World Economic Outlook forecasts mark an improvement over an October

¹ <https://www.eiu.com/n/campaigns/global-monetary-policy-outlook-2023/>

² <https://www.mckinsey.com/capabilities/strategy-and-corporate-finance/our-insights/global-economicsintelligence-executive-summary-february-2023?cid=other-eml-dre-mip-mck&hlkid=6e22386aa63241e3a27fd967ada3cda7&hctky=11152792&hdpid=25505828-08fc-4a77-a53789a7642403b2>

³ <https://www.mckinsey.com/capabilities/strategy-and-corporate-finance/our-insights/global-economicsintelligence-executive-summary-february-2023?cid=other-eml-dre-mip-mck&hlkid=6e22386aa63241e3a27fd967ada3cda7&hctky=11152792&hdpid=25505828-08fc-4a77-a53789a7642403b2>

⁴ <https://www.un.org/development/desa/dpad/wp-content/uploads/sites/45/publication/MB169.pdf>

⁵ <https://www.weforum.org/agenda/2023/02/imf-raises-growth-forecasts-for-2023-and-other-economystories-3-february/>

2022 prediction of 2.7% growth this year with warnings that the world economy could easily tip into recession.⁶

The global banking system has been hit by a series of shocks following the collapse of two US banks, the Silicon Valley Bank Financial Group and Signature Bank New York. These events sparked fears of another banking crisis, raising significant questions for Central Banks as they strive to balance the fight against inflation with the imperative to ensure financial stability.

There are vulnerabilities and spillover effects of growing sovereign debt in emerging and developing economies. This is due primarily to strengthening of the United States dollar and increase in spreads. There has been no fiscal space for these economies to effectively manoeuvre and neither has there been traction under the IMF Common Framework.

China's re-opening after implementing a strict lockdown as the Covid 19 waves eased in January 2023 will trigger growth in the Chinese economy with potential positive spillover effects. Sub-Saharan Africa has seen rising tensions in the energy markets with corresponding slowdown in growth for the region in 2022 and further slowdown expected in 2023. The region continues to witness double digit inflation and elevated food prices.

Overall, the risks associated with Covid-19 pandemic and continued Russian/Ukraine conflict persists as well as growing East-West tensions. Global inflation remains sticky and will decrease more slowly than initially anticipated. Growth slowdown will be adverse in the developed economies especially the European Union and the UK compared to the emerging markets and developing economies. These factors combined with the recent financial stability concerns increases downside risks and uncertainty for the global economy.

Domestic Economy

The country has continued to witness growing fiscal pressures, rising inflation and a challenging macro-economic environment. The National Bureau of Statistics (NBS) reported a year-on-year increase in real Gross Domestic Product (GDP) of 3.52% in the fourth quarter of 2022. This reflects a slightly lower result compared with the 3.98% growth rate recorded in the same period in 2021. The services sector maintained its position as the primary driver of the economy, growing by

⁶ <https://www.reuters.com/markets/imf-lifts-2023-growth-forecast-china-reopening-strength-useurope-2023-01-31/>

5.69% in the fourth quarter of 2022 and accounting for approximately 56.27% of the overall GDP. The agriculture sector followed behind, contributing around 26.46% to GDP.⁷

There has been a consistent reduction in the contribution of the Petroleum subsector to both the GDP and accretion of foreign exchange reserves. The oil sector which has been the main contributor to revenues in the past decades and constitutes a significant portion of the Nation's exports continues to underperform. Production shortfalls persist driven by security challenges; technical and infrastructural issues; and the high cost of petrol subsidies which depresses Federal revenues and further exacerbates foreign exchange pressures with significant downside risks for the economy.

The NBS also revealed that headline inflation rose to 21.91% in February 2023. In January 2023, inflation rose to 21.82% from the 21.34% that was recorded in December 2022. Nigeria's 21.91% inflation for February 2023 is the highest in 18 years⁸.

The NBS further reported an overall increase in the prices of major petroleum products such as kerosene, diesel, and Premium Motor Spirit (PMS). On an annual basis, the price of PMS surged by 54.52%, skyrocketing from N166.40 per litre in January 2022. Similarly, the cost of diesel rose by 1.34% on a monthly basis, from 817.86 per litre in December 2022 to 828.82 per litre in January 2023. Kerosene's price also hiked from N1,104.61 per litre in December 2022 to N1,153.40 per litre in January 2023, indicating a year-on-year increase of 163.87% from N437.11 in January 2022.

This consistent surge in the prices of petroleum products is expected to worsen household living conditions by raising the cost of food and further complicates the Bank's efforts at tackling inflation.

The Nigeria Inter-Bank Settlement Systems (NIBSS) reported an increase in the number of failed transactions in February 2023 compared with January 2023. NIBSS also reported a significant increase in the volume of mobile transactions for the same period. These increases were directly related to the Naira Redesign Policy that though had implementation challenges promises to further grow

⁷ <https://nigerianstat.gov.ng/elibrary?queries=GDP>

⁸ <https://nigerianstat.gov.ng/elibrary?queries=cpi>

financial inclusion, help control currency-in-circulation with potential positive long-run effect on monetary policy effectiveness.

Overall consideration

The world economy battles what some have referred to as a trilemma – an attempt to simultaneously reduce persistent inflation, and contain downside growth risks while maintaining financial stability.

High inflation is eroding real incomes, triggering a cost-of-living crisis that has pushed Nigerians into poverty and economic hardship. At the same time, the diminishing purchasing power has weakened consumer confidence and investor sentiment.

Inflation is still very high at 21.91%. The trend remains upwards though at a decelerating rate. The Bank has been resolute in deploying monetary policy tools to tackle rising prices. However, some of the primary inflation drivers have been supply side factors namely, rising energy costs, growing fiscal deficits, petrol subsidy payments, tax leakages, supply shocks among others. We have also witnessed a slow pace of structural fiscal reforms. The rising price levels puts additional pressure on the Bank's efforts to effectively manage our exchange rate stability.

Further, with Covid-19, trade and the supply shocks emanating from the Russian/Ukraine war, it is clear that fiscal policy can be a significant driver of inflation. Essentially monetary policy does not always control inflation on its own – fiscal policy plays a role. While monetary policy shouldn't be primarily guided by supply side considerations, it shouldn't ignore them either as monetary policy cannot be divorced from fiscal policy. There is the need to further coordinate our efforts with the fiscal authorities in this regard to effectively stem rising prices.

We have seen synchronous rates increases by Central Banks globally to address rising inflation and the resultant maturities and liquidity mismatches by Banks. The persistent interest rate hikes have thus threatened to destabilize financial markets and creates a trade-off between inflation management that attempts to reduce aggregate demand by raising rates on one hand and the critical need of ensuring financial stability on the other.

In other words, reducing sticky inflation, growing GDP and maintaining financial stability poses critical challenges for policy. However, despite the recent turmoil in the banking sector, the financial system seems relatively stable and in the near term, price stability should take precedence.

The need to act consistently in line with the Bank's mandate remains paramount and monetary policy should stay focused on price stability objectives. This can involve difficult trade-offs such as raising rates to dampen price pressures even when faced with a weak economy and rising unemployment. However, once inflation expectations are securely and properly anchored, the Bank can be less aggressive and still secure price stability. Consequently, we need to hold the line in the face of persistent rising prices and not prematurely stop tightening to bring inflation to target levels.

My Policy Decisions

I, therefore, vote to:

- Raise MPR by 50 basis points to 18 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. SALISU, MOHAMMED A.

Global Developments

Global output, reflected by recent improvements in Purchasing Managers Index numbers, is expected to rise in 2023. Earlier fears of a recession across several economies in both the Advanced Economies (AEs) and Emerging Market & Developing Economies (EMDEs) may have somewhat dissipated, even as China eased off restrictions under its zero-COVID Policy. Consequently, global output gap is expected to remain negative across both the AEs and EMDEs. Thus, at the beginning of 2023, prospects of improvement in global economic performance were boosted by the reopening of China's economy as well as the avoidance of gas crisis in the European Union. However, the continued war in Ukraine and growing tensions between the US and China over the sovereignty of Taiwan are major headwinds to the recovery of global economic growth. According to the IMF (World Economic Outlook, January 2023), global growth for 2023 is projected at 2.9 per cent, down from 3.4 per cent in 2022, but is expected to improve moderately to 3.1 per cent in 2024. Growth in the AEs is projected to moderate to 1.2 per cent in 2023, from 2.7 per cent in 2022, before slightly improving to 1.4 per cent in 2024. As was always the case in the past, growth in the EMDEs is projected at 5.3 per cent and 5.2 per cent in 2023 and 2024, respectively.

Barring unanticipated exogenous shocks, global inflation is likely to moderate in 2023 and 2024. This moderation may be caused by the slide in international commodity prices owing to a weakened global demand. However, the coordinated tight monetary policy stance of several central banks is also expected to contribute to the lowering of inflation in 2023. In the EMDEs, the tightening of monetary policy has already led to tight financing conditions with a dampening impact on output growth and increased debt burden. Nonetheless, the continued war in Ukraine will continue to put an upward pressure on food and energy prices, with attended consequences for global inflation.

Global trade is expected to weaken in 2023 due to the slowdown in global demand. It is, however, expected to rebound in 2024. Trade growth in goods and services from the Advanced Economies is also expected to slow to 2.3 per cent in 2023 compared with 6.6 per cent in 2022, before recovering to 2.7 per cent in 2024 (IMF, WEO, January 2023). In the EMDEs, trade growth is expected

to decline to 2.6 per cent in 2023 from 3.4 per cent in 2022 and rise to 4.6 per cent in 2024.

Domestic Developments

Despite rising inflation and high unemployment, the Nigerian economy has sustained positive output growth for nine consecutive quarters since it exited from recession in 2020. The National Bureau of Statistics (NBS) stated that real GDP increased by 3.52 per cent (year-on-year) in Q4 2022, which was 1.27 percentage points above the 2.25 per cent in Q3 2022. The improved performance in output was driven largely by the growth in the services and agricultural sub-sectors.

Output growth is likely to be impacted by the challenges faced in the implementation of the Naira Redesign and Cashless Policy. The Policy itself is excellent, but challenges arising from its implementation led to output losses, especially in agriculture where perishable commodities rot due to paucity of the newly redesigned notes and lack of adequate internet banking infrastructure. Trade and business activities were also slowed down due to the scarcity of the new naira notes as small-scale informal business activities tend to depend heavily on cash transactions. Despite these challenges, output is projected to remain positive over the short to medium term. Accordingly, the CBN, Federal Ministry of Finance, IMF, and World Bank have projected that the Nigerian economy to grow by 3.29, 3.75, 3.20 and 2.90 per cent respectively in 2023.

In terms general level of prices, headline inflation rose to 21.82 per cent in January 2023, from 21.34 per cent in December 2022. The increase was due to the rise in food inflation to 24.32 per cent in January 2023, from 23.75 per cent in December 2022 and the increase in core inflation to 19.16 per cent in January 2023 from 18.49 per cent in December 2022. Inflation is expected to rise marginally due to the current impact of fuel shortages, particularly premium motor spirit (PMS) and automotive gas oil (AGO), other domestic constraints and exchange rate passthrough.

Policy Decision

Despite hiking the policy rate in the past six meetings of the MPC, inflation has continued to rise, albeit at a slower pace. Given the huge gap between the inflation rate and the policy rate, there is still a room for further monetary policy tightening. It is noteworthy that even in countries that have started to see a significant decline in inflation, they have continued to sustain an increase in

policy rate. Loosening the Monetary Policy Rate now is not a good option. Furthermore, since factors outside the monetary policy environment have also been playing a key role in influencing the performance of the economy, there is a need to address these non-monetary factors to complement the efforts of the monetary authorities to curb inflation in the country. However, given the current challenges facing the fiscal authorities, the CBN will continue to do whatever it takes to curb inflation in Nigeria, but the pace of the policy rate tightening should be such that it strikes a balance between reducing inflation and promoting economic growth.

Accordingly, I voted to:

- Raise the MPR by 50 basis points to 18.0%
- Retain the CRR at 32.5%
- Retain the Asymmetric Corridor at +100/-700 basis points around the MPR
- Retain the Liquidity Ratio at 30.0%

10. SANUSI, ALIYU R.

1.0 Decision

I voted to raise the MPR to sustain the tightening of the monetary policy stance as forecast inflation threatens to continue rising, albeit at a significantly slower pace. A careful analysis of the price data released by NBS suggests that domestic inflation dynamics are responding to the sustained current episodes of tightening monetary policy stance. Although the year-on-year headline inflation rose in February, the month-on-month headline inflation, as well as the year-on-year core and month-on-month measures of core and food inflation, have all declined in February. In my opinion, therefore, sustained tightening is required to continue to anchor inflation expectations and mitigate the second-round effects of the prolonged rise in relative prices of food, energy and core components of the CPI. Concerns over the potential contagion of the collapse of Silicon Valley Bank and Signature Bank in the US are allayed by the non-exposure of Nigerian banks and the prompt, coordinated regulatory responses in the UK, Canada and Europe, where the risk was highest. Data and staff forecasts also show that output growth will continue to be positive. In my opinion, therefore, monetary policy priority should continue to be stemming the sticky inflation, which has reached growth-retarding level. In addition, raising the MPR would help to narrow the negative real interest rates further, given the rising asset yields in Advanced Economies and moderate the foreign exchange market pressure.

2.0 Background and Justification

2.1 Global Economic Development

Global inflation remains high but moderating due to a decline in energy and food prices and the impact of the on-going monetary policy tightening across the globe. The prospects for improvements of output growth are strengthened by the re-opening of major Chinese cities, and the easing of the European gas crisis.

Despite the stifling effects of the synchronised monetary policy tightening by major central banks in response to the rising global inflation and the continued effects of the Russian-Ukrainian global output growth, the re-opening of China and the easing of the European gas crisis have increased the prospects for improvements. Consequently, the IMF has reviewed its forecast for global output growth upward from the 1.7% earlier forecast for 2023 to 2.9%. The 2022 growth is estimated at 3.4% and is forecasted to grow at 3.1% in 2024. Output

growth in the Advanced Economies (AEs) is forecasted to decline from the 2.7% achieved in 2022 to 1.2% in 2023 and then improve to 1.4% in 2024 due mainly to the high inflation and the on-going monetary tightening. Improvements are, however, expected in Q1 2023. Quarter-on-Quarter (Q-o-Q) output in the US has expanded by 3.2% in Q3 2022 and is expected to expand by 2.7% in Q4 2023. Output in the UK economy has inched up to 0% in Q4 2022, up from the -0.3% achieved in 2022Q3. In the Euro area, output growth has declined from 0.3% in Q3 2022 to 0.1% in Q4 2022 as high inflation continues to dampen output growth. Japan's output has also inched up to 0% in Q4 2022 from the negative growth of -0.3% in Q3 2022 but is forecasted to rise to 1.8% in 2023.

Output growth in the EMDEs is projected to rise progressively from the estimated 3.9% in 2022 to 4.0% in 2023 and then to 4.2% in 2024. In China, the Q-o-Q output growth decelerated to 0% in Q4 2022 compared with 3.9% in Q3 2022 but is forecasted to expand by 5.2% in 2023. In Russia, Q-o-Q output is forecasted to expand by 1.1% in Q4 2022 compared with the contraction of -0.8% in Q3 2022 and is expected to expand by 0.3% in 2023 due to a decline in retail and wholesale trade as well as the on-going conflict with Ukraine. In South Africa, output has contracted Q-o-Q by -1.3% in Q4 2022 compared with the 1.8% expansion in Q3 2022 due to the escalating energy crises. Q-on-Q output in Nigeria has expanded by 10.99% in Q4 2022 compared with 9.68% in Q3 2022, driven largely by Finance and Insurance, ICT, Services and Agriculture. The composite Global PMI of JP Morgan has expanded to 52.1 index points in February 2023, crossing the 50-point benchmark for the first time in 7 months, indicating an increase in global economic activity. Both the manufacturing and services components of the Global PMI have also risen above the 50-point mark due to improvements in employment, new orders, increase in output, new businesses and optimism, as well as sustained growth in China, Japan, the US and India.

Although global inflation is expected to moderate in 2023 but remains elevated above the long-term targets across most AEs and EMDEs, in the AEs, IMF forecasted inflation to decline to 3.1% in 2023 from 7.5% in 2022 due to a moderate decline in energy and commodity prices and a slight easing of the supply chain bottlenecks. In the US, inflation has continued to decline since July 2022 and has dropped to 6.5% in December 2022, while it stood at 10.5% in the UK and 9.2% in the Euro area. In the EMDEs, inflation is forecasted to rise to 10.9% in 2022 from 6.2% in 2021. In 2023, it is expected to decline to 6.1%. As of December 2022, year-on-year inflation has increased in China (1.8%), Egypt (21.3%), and Ghana (54.1%) but decreased in India (5.72%), South Africa (7.2%) and Nigeria (21.34%) in December 2022.

Global inflation has been declining as Major Central Banks continued to tighten their monetary policy stance. In the AEs, inflation is expected to decline to 4.6% in 2023 and further to 2.6% in 2024 compared with the estimated 7.3% in 2022 as energy and commodity prices continue to decline and the impact of the on-going tightening continues to permeate. In the US, inflation declined to 6% in February 2023, while that of the UK and Euro Zone declined to 8.5% each. In the EMDEs, inflation is also expected to decline to 8.1% in 2023 and further to 5.5% in 2024 due to a decline in food and energy prices, easing of global supply chain disruptions and the on-going monetary policy tightening. In February, inflation is expected to decline (y-o-y) in Saudi Arabia, India and Russia but will rise in China, South Africa and Nigeria.

The collapse of the Silicon Valley Bank (svb) in the US on March 10th 2023, has sparked fears of contagion and, potentially, global financial crises. However, the assurances to customers by the US president, quick regulatory responses in the Euro area, the acquisition of svb by HSBC in the UK, and the temporary seizure of the assets of the Toronto branch of svb in Canada have helped mitigate the risk of global contagion and financial crisis. In Nigeria, banks are not exposed to svb, and the macroprudential guidelines on CRR, LR, and statutory reserves remain strong. Hence the risk of contagion is very low.

2.2 Domestic Economic Developments and Their Implications

Data from the NBS shows that, in Q4 2022, the domestic output grew by 3.55% (Y-o-Y) compared with 2.25% achieved in Q3 2022. The growth was driven by the growth of the non-oil sector (4.27%), particularly Services (5.69%) and Agriculture (2.05%). However, the oil output contracted by -13.38% due to persisting oil production problems. Output grew by 3.10% in 2022, better than earlier expected but down from the 3.43% achieved in 2021. Output is forecasted to grow by 2.64% in Q1 2023.

Data on domestic price developments show that inflation has marginally increased (year-on-year) by 0.09 basis points, from 21.82% in January 2023 to 21.91% in February 2023, due to the 0.03-basis point increase in the food inflation component, despite the 0.32-basis point decline in the core inflation. In February 2023, food inflation increased to 24.35% from 24.32% in January 2023 due to an increase in the prices of farm produce and the ripple effects of higher energy prices and scarcity of PMS. The core inflation, however, decreased to 18.84% in February from 19.16% in January 2023 due to lower demand and lower prices of imported items. Survey estimates of inflation expectations show that expected inflation has increased in February 2023 compared to January 2023

but has continued to be lower than actual inflation since September 2022. Monetary developments show that broad money (M3) growth has increased to 2.19% in February 2023 compared to 1.84% in January 2023, below the benchmark of 17.18% for the year 2023. This increase was driven by an increase in the Net Foreign Asset (NFA), which grew 29.5% (year-to-date) in January 2023. The NDA grew by 5.7% in February 2023, below the benchmark of 15.78% for the year. The key drivers of the NDA were net claims on government which grew by 91.86% (y-t-d) in February 2022, above the 2023 benchmark of 19.64%. Monetary Base, however, has declined by 1.56% due to the naira re-design policy that caused a sharp decline in currency in circulation. Staff forecasts show that headline inflation would marginally increase from 21.91% in February 2023 to 22.03% in March 2023 due to fuel shortages and exchange rate pass-through.

A review of the banking system stability report shows that the banking system continues to remain safe, sound and resilient, with the Capital Adequacy Ratio (CAR) standing at 13.7% in February 2023, above the regulatory minimum of 10%. The Non-Performing Loan (NPL) ratio was 4.2%, below the regulatory maximum of 5%. The Liquidity Ratio also stood at 43.1%, above the 30% regulatory minimum. The industry's total Assets and gross credit to the economy have continued to increase. Total assets of the banking system grew year on year by N15.58 trillion or 25.12% in February 2023. The upward trend in total credit to the economy has continued since 2019 following the Bank's LDR policy, standing at N29.49 trillion as of February 2023. It has increased by N4.98 trillion or 19.71% between February 2022 and February 2023. Despite the exposure of subsidiaries of some Nigerian banks to the Ghanaian government debt, stress test results show that the banks are resilient, even at the most severe default scenario of 100% default by the Ghanaian government. Similarly, in addition to the zero-exposure of Nigerian banks to the sub and Signature bank in the US, the regulatory safeguards, including the implementation of sound corporate governance and risk management frameworks; prudential limits on investments and obligor and sectoral concentration; other micro-prudential requirements such as on CAR, LR, NPL, CRR; and supervisory intervention frameworks ensure that Nigerian banking system remains resilient.

3.0 The Basis for My Policy Choice

In the wake of the heightened uncertainty surrounding the international financial system occasioned by the bank failure in the US, and the unacceptably high and sticky domestic inflation, which marginally rose to 21.91% in February 2023 and is expected to rise further in March, monetary policy stance must balance the need for price and financial system stability.

The extensive review and analysis of the global and domestic economic developments, however, suggest that monetary policy must continue to focus on reining in inflation, which has reached a growth-retarding level. Evidence also suggests that the on-going monetary tightening has been effective in moderating the rise in inflation since August 2023, as the rate of increase has substantially reduced. In considering the options to tighten, hold or loosen the policy stance, therefore, I voted for a further tightening, albeit at 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% 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.

11. SHONUBI, FOLASHODUN A.

Contrary to a gloomy outlook for the global economy at the beginning of 2023, downward trajectory in global prices, lifting of restriction and opening-up of Chinese economy, better than expected developments in Europe as well as resilient US job market in the first quarter has improved the overall prospects of global growth. However, protracting Russian-Ukrainian crisis, elevated inflation and high deficit/debt levels in emerging economies remain major downside risks to the prosperity of the global economy in 2023. Sustained domestic growth in the fourth quarter of 2022 was a mild relief from the apprehensions about the impact of rising domestic inflation, amidst other reinforcing shocks from both fiscal and external sectors. The precarious situation has further underscored the need to keep focusing on innate opportunities in the domestic economy and leveraging insight/trend from data, while exploring innovative ways of dealing with the peculiar and spillover challenges.

Global and Domestic Economic Developments

Disruptions to global supply chain and high inflation, on account of the Russian-Ukraine crisis as well as lingering effects of the pandemic were the initial shocks to the global economy at the start of 2023. Notwithstanding the easing downside risks, highlighted by slow downward trajectory of inflation, rebound in Global Purchasing Manger's index, and reopening of Chinese economy, high debt level in emerging economies, elevated inflation and tight financial conditions have held back the speed of recovery. Consequently, with output in advanced economies is expected to decline to 1.2 per cent and growth in emerging economies estimated at 4.0 per cent, global growth was projected at 2.9 per cent in 2023.

Domestic inflation at double digit, remains at a level that is discomforting for the economy. Whereas the core component eased to a lower level, headline inflation inched up for the second consecutive month in 2023, reaching 21.91 per cent in February 2023, from 21.82 per cent in the previous month. This reflected, mainly the marginal increase in food inflation, though on month-on-month basis, headline inflation, along with food and core components, fell to lower levels.

Following the ninth consecutive growth of 3.52 per cent in Q4:2022, the annual growth of the economy was 3.10 per cent (year-to-year) in 2022, compared with 3.40 per cent in 2021. The decline in the annual growth, though moderated by bigger expansion of the services sector, reflected the deceleration in the

growth of the agriculture sector and further contraction of the industrial sector. Overall, the non-oil sector, driven by ICT, agriculture, and financial subsectors, continued to be the main source of growth since the exit from the recession in 2020, effectively making up for the dismal performance of the oil sector over the last 2 years.

Against the trend of stress in the global financial industry, the Nigerian banking system remained resilient so far in 2023. With non-performing loans at 4.2 per cent, below the regulatory maximum, liquidity ratio remaining robust at 43.1 per cent and industry capital adequacy at 13.7 per cent, stability of the banking sector has so far been preserved. Similarly, renewed investor confidence in the capital market was reflected in the sustained improvement of the All-Share index and market capitalization. Annualised growth in broad money supply, estimated at 13.14 per cent, though marginally below the benchmark for fiscal 2023, underscored the presence of monetary phenomenon in inflationary pressure.

Impact of the slowdown in the global crude oil market on the dwindling fortunes of the domestic oil sector has been further compounded by inherent inefficiencies in the structure of the sector in Nigeria. This has been a major challenge to both the fiscal and external sectors, as government revenue remain at dismally low levels and accretion to reserves is reduced to a near standstill. The situation has precipitated twin issues of increasing deficit and rising debt, that is occasioned by significant shortfall in revenue, as well as low foreign exchange supply, resulting in persisting pressure on the exchange rate.

Overall Considerations and Decision

Whereas global growth is not only crawling at this time, but is also bedeviled by the effects of protracting crisis, brewing geopolitical tension and tighter financial conditions, emerging trend points to prospect for positive development through the rest of 2023. Moderating inflation, especially in advanced economies, albeit expected to remain higher than pre-pandemic levels, rebound in global PMI and steadily improving situation in China, are tailwind factors projected to drive slow recovery in global growth. Overall, recent signs of improved resilience of the global economy provides opportunity that can be leveraged by innovative domestic monetary policy makers.

Although the recent banking crisis has generated concerns about possible contagion, the Nigerian banking sector, by its nature, structure and regulatory handhold appears to be in a very good place. I recognise that the net effect

of rate increase has implications for the health of banks' asset portfolio, however, the shock absorbers implicit in the current prudential regime ensures that banks continuously review exposures and adjust automatic buffers for safety assurance. Notwithstanding the stability of financial soundness indicators and robustness of contingency frameworks, we must however, continue to strengthen the prudential regime to preserve banking system's resilience.

Of course, growth remains very important as the sure antidote to unemployment and poverty. However, weak business sentiments, as well as decline in the composite Purchasing Manager's Index and its components have implications for aggregate supply. As such, though the Bank has slowed down greatly on the scale and scope of interventions, measured and targeted support for the very critical aspects of the real sector will help to sustain the slow growth achieved over the last 2 years, especially as it has been driven by the non-oil sector.

Against the backdrop of the marginal ease in December 2022, consecutive increase in headline inflation over the first two months of 2023 further worsened the apprehension over elevated inflation as well as its impact on household's purchasing power and living cost. At this point, the pressure on prices is from both internal and external factors. Without doubt, high domestic inflation, as with many other countries today, remain our most critical challenge, well deserving of every effort to not only ameliorate its damaging impact but also curb further deterioration.

Clearly, we are doing a lot. Our rate changes, complemented by other measures have resulted in a monetary policy stance that appears sufficiently tight. This has obviously moderated the pressure, though degree of impact has been blunted by factors outside the Bank's control. However, with the state of things, we need to keep acting to further anchor inflation expectations and preserve the positive perception that we are determined to do everything possible to curb inflation, of course while being mindful of the macroeconomic implications.

It is therefore imperative that while allowing the cumulative effect of the multiple rate hikes, impacts of naira redesign policy and other measures designed to moderate excess liquidity to permeate through the transmission mechanism for manifestation of the full effects of the measures on general prices, we must not give indication of relenting on our decisiveness.

I therefore vote to:

- Raise MPR by 50 basis points to 18.0 per cent.
- Retain asymmetric corridor of +100/-700 basis points around the MPR.
- Retain CRR at 32.5 per cent; and
- Retain Liquidity Ratio at 30 per cent.

12. EMEFIELE, GODWIN I.

Whilst the initial fears of a widespread global recession seem to be fast abating, concerns of possible financial distress are gradually emerging, as negative sentiments trailed recent bank failures in the US and Europe. Global output growth in the closing quarters of 2022 defied protracted energy price hurdles, with positive outcomes in major economies uplifting the fragile outlook. Thus, from 3.4 percent in 2022, global growth is variously projected at 2.6–2.9 percent in 2023 and 2.9–3.1 percent in 2024, reflecting the continued expansion in both the advanced and emerging economies. Global inflation stayed elevated, with rates above targets in many economies and decelerations expected by 2024. To curb the current inflation trend, monetary policy stance could remain tight ubiquitously. However, cross-continental bank failures, which unearthed some unintended policy consequences, could modulate decisions as central banks become mindful of financial stability. The unfolding probability of contagion has elevated global unease, impaired confidence, and amplified vulnerabilities in many countries, possibly for banks in EMDEs with international exposures.

Short-term prospects of the domestic economy remain stable and positive amidst growing vulnerabilities in the international financial markets and domestic headwinds from structural shocks. Output growth rose from 2.25 percent in 2022q3 to 3.52 percent in 2022q4 bringing overall 2022 rate to 3.10 percent. These followed the 4.44 percent growth of non-oil GDP from 4.27 percent as oil GDP contraction persisted from -22.67 percent to -13.38 percent. Non-oil GDP growth reflected the acceleration of agriculture GDP to 2.05 percent and the 5.69 percent expansion of the services sector.

The performance of the non-oil sector generally showed the sustained rebound of business activities, increased labour mobilisation, and expanding productive capacity due to continued CBN's interventions to support critical economic activities, resolve the long-standing structural constraints, and bolster domestic productivity with favourable effects on market prices. In-house analysis suggests continued expansion in 2023 and 2024. The buoyancy of the services and agriculture sectors is expected to keep recovery on course, quickening growth to 3.29 percent in 2023 from 3.10 percent recorded in 2022.

Inflation trend remained upward in February 2022 with a 0.09 percentage point rise in year-on-year headline rate from 21.91 percent. This reflected the marginal 0.03 percentage point increase in food inflation to 24.35 percent as

against the 0.32 percentage point fall in core inflation to 18.84 percent. On a month-on-month basis, headline inflation dropped 0.16 percentage point to 1.71 percent relative to the rate recorded in January 2023. Following our tight stance, the upward inflation trend is now flattening, although at over 21.0 percent, it remained growth-detering and manifold of our target. I, thus, reiterate the need to decisively reverse the trajectory, as global forces, persistent structural factors, and demand determinants continue to spur inflation. Some of these factors are being resolved via our supply-correcting development finance. However, short-term outlook suggests that inflation dynamics could become complicated if firm policy measures are delayed.

Liquidity conditions reflected the tight stance of monetary policy as the weighted-average OBB and interbank rates, respectively, rose by 2.60 and 2.19 percentage points (month-on-month) to 12.74 and 12.54 percent in February 2023. Also, the annualised growth of M3, at 13.14 percent, lagged the 17.18 percent provisional benchmark. The slower-than-targeted monetary growth reflected the dynamics of CBN's holdings of foreign asset and the drop in foreign claims on "Other Depository Corporations". Credit to core private sector by DMBs and NIBs, respectively, grew by 5.76 and 66.29 percent (annualised), due largely to CBN's credit supporting policies and the LDR directive.

Regardless of the substantial credit to the private sector and ongoing financial system upheavals abroad, the Nigerian banking sector remains satisfactorily healthy and safe. Key performance indicators indicate systemic stability with the Non-Performing Loans (NPLs) ratio (4.21 percent), Liquidity ratio (43.06 percent), and Capital Adequacy ratio (CAR) (13.67 percent), all outdoing their prudential limits.

In my consideration, I note that the global economic condition which deteriorated following the Russia-Ukraine war has evidently improved, generally brightening short-term prospects. However, the emerging banking system turmoil in the US and Europe brings new threats, not only to the financial system, but the entire global economy. These highlight the potential risks associated with rate hikes and their unintended effect on financial system stability. Nonetheless, global inflation is expected to remain higher-than-target until 2024, requiring a continued tight monetary stance, while being cognisant of strains on households and businesses. On a balance of judgement, the benefits of taming global inflation surpass the risks to financial instability, at the moment.

On the domestic scene, I note that economic outlook remained positive and largely resilient to global fragilities. The Nigerian banking system is sufficiently insulated from the spill-over of the ongoing turmoil. I note the need to remain mindful of potential threats to the domestic economy and recommend apt structural policies to strengthen our fundamentals and mitigate risks. I note that the various development finance initiatives of the CBN have so far helped to correct some structural imbalances. Growth trajectory have remained positive, while inflation and inflation expectations are elevated at unacceptable levels. I reiterate the need to promptly lower inflation to levels that are beneficial to the economy. I believe that the recent plateauing of inflation indicates the potency of recent tightening, but it needs to turn-the-corner downward. We must not rest on our oars at this time, even as we keep sight of the possible ramifications for financial stability. We must sustain our tight stance, to effectively anchor inflation expectation, ensure that our modest feat in curtailing inflation is not reversed, and boost long-run output growth.

Today, our negative real interest rate are complicating business decisions. It is imperative that we correct this anomaly quickly to foster optimality of economic decisions. In this regard, I advocate continued tightening to overturn inflationary trend, anchor expectations, and correct distortive real interest rate. Mindful of the need to minimise output loss, I prefer slower pace of tightening. Overall, I note that earlier decisions are yielding desired results, as inflation impetus is waning, and opine that the tightening stance should be maintained. This is not expected to impair the stability of domestic banks which are sufficiently robust today. Thus, I proffer a slower rate hike to minimise output loss and vote to:

- i. Raise the MPR by 50 basis points to 18.00 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

March 2023