CENTRAL BANK OF NIGERIA COMMUNIQUÉ NO. 146 OF THE MONETARY POLICY COMMITTEE MEETING HELD ON MONDAY 23rd AND TUESDAY 24th JANUARY 2023

The Monetary Policy Committee (MPC) held its first meeting for 2023 on the 23rd and 24th January, 2023, as optimism of a rebound in global output recovery waned considerably, giving room for increased concerns of a likely global recession in 2023. This is driven by several global shocks impacting negatively on growth and price development. Major headwinds to global growth include: ongoing geopolitical tensions in some regions; intensified disruptions to the energy market; persisting supply bottlenecks; resurgence of the COVID-19 pandemic in major industrial cities in China; and tightening external financial conditions. In addition to these, the slow growth in global trade, continued volatility in the oil market and growing private and public debt portfolios, are clear signals of increasing uncertainty, imposing a drag on growth.

In the domestic economy, output growth recovery was subdued in the third quarter of 2022, but expected to recover moderately in the fourth quarter on the back of continued support of both monetary and fiscal policy through various interventions in growth-enhancing sectors. At this meeting, the Committee reviewed these and other developments in the global and domestic economic and financial environments in 2022, as well as the outlook and risks for 2023.

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

Global Economic Developments

The Committee noted with concern, the growing evidence of increased militarization of the war in Ukraine and the consequence of a prolonged war on the recovery of the global economy. It also noted the renewed concern of the possibility of yet another Pandemic reverberating the global economy in 2023, as infection rates rise in China, following its lifting of COVID-19 restrictions. These two factors alongside the tightening of global financial conditions remain major headwinds to global economic growth. The combined impact of these shocks on the global economy could result in further disruptions to commodity and energy markets as well as the efficient functioning of global supply chains. In the Advanced Economies, fiscal policy retreated to give way to monetary adjustment, while in the Emerging Markets and Developing Economies, fiscal capacity is being greatly undermined by the array of shock spillovers from the global economy. The International Monetary Fund (IMF), in its October 2022 World Economic Outlook, retained its global output growth projection for 2022 at 3.2 per cent, but further downgraded in the 2023 forecast to 2.7 per cent compared with 2.9 per cent in its July 2022 forecast. The World Bank in its latest forecast, indicated a much lower global growth expectation of 1.7 per cent for 2023.

On price development, the MPC observed that inflation, in most Advanced Economies, although trending downwards, remained significantly above their long-run objectives and is expected to remain elevated throughout 2023. This is driven by the continued high price of food and energy, a fallout of the war in Ukraine, lagged impact of the massive liquidity support rolled out to douse the impact of the COVID-19 pandemic, and persisting disruptions to the global supply chain as China faces a renewed surge of the Pandemic. Fears that Russia may renege on its commitment to the Black Sea grains deal is also building expectations of possible rise in short-term price levels. In the Emerging Markets and Developing Economies, inflation is expected to moderate marginally in 2023, but remain broadly elevated due to a combination of factors such as the persisting high price of grains and other commodities; continued exchange rate pressures; and other legacy structural factors.

In the global financial markets, the continued normalisation of monetary policy has led to the tightening of external financial conditions and increased volatility in the equities market. With the increased fears of a likely global recession in 2023, investors have commenced a move towards safe-haven assets such as gold and silver to safeguard their investments.

In the Advanced Economies, corporate debt levels remain considerably high as pressure builds to avoid default scenarios with the continued hike of monetary policy rates. In the Emerging Market and Developing Economies, the persistence of rising public debt profiles and capital flow reversals are putting severe pressure on exchange rates, posing a challenge to external sustainability.

Domestic Economic Developments

Available data from the National Bureau of Statistics (NBS) revealed that Real Gross Domestic Product (GDP) grew by 2.25 per cent (year-on-year) in the third quarter of 2022, compared with 3.54 per cent in the second quarter of 2022 and 4.03 per cent in the corresponding period of 2021. The economy has continued on a path of positive growth for eight consecutive quarters. This is driven largely by support by the Bank and the fiscal authority to growth enhancing sectors.

Staff projections showed that output growth recovery is expected to continue reasonably in 2023, given the expected sustained positive performance during the fourth quarter of 2022 and steady rebound in economic activities.

The MPC welcomed the moderation in inflation following ten consecutive months of uptick, as headline inflation (year-on-year) declined marginally to 21.34 per cent in December 2022 from 21.47 per cent in November 2022. Month-on-month headline inflation however, increased to 1.71 per cent in December 2022 from 1.39 per cent in the preceding month, due to a rise in consumer spending during the festive period.

The Committee observed the continued growth in money supply with broad money (M3) growth exceeding the 2022 provisional benchmark of 15.21 per cent at 16.52 per cent (year-to-date) in December 2022, compared with 13.92 per cent in November 2022. This was largely driven by increased claims on other sectors (other financial corporations, state and local governments, public nonfinancial corporations, and the private sector).

Money market rates oscillated below and within the asymmetric corridor of the standing facilities window, reflecting changing liquidity conditions in the banking system. Accordingly, the monthly weighted average Open Buyback (OBB) rate decreased to 11.61 per cent in December 2022 from 12.56 per cent in November 2022, while the monthly average inter-bank rate, increased to 12.08 per cent in December 2022 from 11.89 per cent in November 2022.

The MPC noted the continued resilience of the banking system, evidenced by the progressive improvement in the Non-Performing Loans (NPLs) ratio from 4.9 per cent in November 2022 to 4.2 per cent in December 2022. The Committee also noted that the liquidity ratio was well above its prudential limit at 44.1 per cent, while the Capital Adequacy Ratio (CAR) remained at 13.8 per cent in December 2022 compared with the preceding month, staying within its prudential range of 10.0 -15.0 per cent.

The equities market was bullish in the review period, as the All-Share Index (ASI) and Market Capitalization (MC) increased to 51,251.06 and N27.92 trillion on December 30, 2022, from 43,839.08 and N23.88 trillion respectively, on October 31, 2022. This reflected better-than-expected corporate earnings and improved investor confidence in the country.

The Committee noted the marginal decline in the external reserves, as gross external reserves decreased by 0.95 per cent at end-December 2022 to US$36.55 billion, from US$36.9 billion at end-November 2022. This reflects the exchange rate pressure accentuated by a combination of heightened demand and slow accretion to reserves.

The Committee reviewed the performance of the Bank's various interventions aimed at stimulating production and productivity across the real sector. Between September and October 2022, under the Anchor Borrowers' Programme (ABP), the Bank disbursed ₦41.02 billion to several agricultural projects, bringing the cumulative disbursements under the Programme to ₦1,067.29 billion to over 4.6 million smallholder farmers cultivating or rearing 21 commodities across the country. The Bank also released ₦300 million to finance large-scale agricultural projects under the Commercial Agriculture Credit Scheme (CACS), bringing the total disbursements under the Scheme to ₦745.31 billion for 680 projects in agro-production and agro-processing.

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

In the MSME sector, the Bank supported entrepreneurship development with the disbursement of the sums of ₦1.33 billion and ₦10.00 million under the Agribusiness/Small and Medium Enterprise Investment Scheme (AgSMEIS) and Micro, Small, and Medium Enterprise Development Fund (MSMEDF), respectively, to support entrepreneurship development in the country, bringing the total disbursement under the interventions to ₦150.22 billion and ₦96.08 billion, respectively. Under the Export Facilitation Initiative (EFI), the Bank funded export-oriented projects with the sum of ₦5.34 billion, bringing the cumulative disbursement under the intervention to ₦44.58 billion.

Outlook

The broad outlook for the recovery of both the global and domestic economies remain uncertain with the path to full recovery clouded by significant downside risks. The key risks remain the lingering headwinds from the Russian-Ukraine war, heightened inflationary pressure across several economies and sharp slowdown of economic activities in China with the resurgence of COVID-19 pandemic across its major cities. Others include: the tightening of external financial conditions, as monetary policy normalization continues; increasing risk of a global debt crisis, as both corporate and public debt levels burgeon; and the increasing likelihood of a global recession in 2023.

Available data and forecasts for key macroeconomic indicators for Nigeria suggest that the economy will continue to grow through 2023, but at a subdued pace. The continued high level of insecurity; perennial scarcity of Premium Motor Spirit (PMS) and high cost of other energy sources; increased spending towards the 2023 general elections; rising cost of debt servicing; and deteriorating fiscal balances, remain the key sources of shocks to the Nigerian economy. Accordingly, the economy is forecast to grow in 2023 by 2.88 per cent by the CBN estimate.

The Committee's Considerations

At this meeting, although the MPC was delighted that inflation (year-on-year) had started to moderate, it was not convinced that a marginal 13 basis points dip in inflation was enough to begin to celebrate. The Committee was therefore not of the opinion that a hold or loosen option was desirable. This is because loosening under a double-digit inflationary condition will be tantamount to an immediate reversal of the expected further downward trend in inflation. Committee also felt that loosening will negate the objective of dampening the pent-up aggregate demand that fueled the rise in inflation post-COVID-19 pandemic.

As for hold, the Committee was reluctant in considering this option because a hold option would signal MPC's quick adjustment of its policy stance due to a one-time, marginal decline in inflation, suggesting a weak confidence in its previous policy stance at taming inflation.

The MPC was therefore unanimous in its position to continue to tighten. However, the dilemma at this meeting was whether to continue tightening aggressively or moderately. To the Committee, a moderate tightening may slow the rate of deceleration in inflation without necessarily hurting output. For those members who felt that an aggressive stance was needed, they were of the view that Nigeria's inflation at a rate above 20 per cent, was already a threat to growth and among the highest in the world. To this group of members, aggressively raising the policy rate was paramount to reining in inflation because an aggressive tightening stance would further narrow the negative real interest rate margin. MPC also feels that a tightening stance would signal confidence in the effectiveness of its Monetary Policy direction to rein in inflation, improve financial system stability, and moderate exchange rate.

The Committee's Decision

Members welcomed the recent deceleration in year-on-year headline inflation, noting that the persistence in policy rate hikes over the last few meetings of the Committee had started to yield the expected decline in inflation.

The Committee thus deliberated on either to hike rates further or hold for the impact of the last four rate hikes to continue to feed through. At this MPC, therefore, the options considered were primarily to hold the policy rate or tighten further to consolidate the gains of previous rate hikes. Loosening, in the view of members, would gravely undermine the gains of the last four rate hikes.

The MPC noted the continued upward risk to price development characterized by the forthcoming 2023 general elections; perennial scarcity of PMS; continued rise in other energy prices; exchange rate pressure; as well as rising insecurity. Members, however, noted that the current naira redesign and cash withdrawal limit policies are huge moderating factors to price development as CurrencyOutside-Banks is expected to continue to moderate beyond the implementation stage of these policies.

The MPC was of the view that although the inflation rate moderated marginally in December, the economy remained confronted with the risk of high inflation with adverse consequences on the general standard of living. The Committee, therefore, decided to sustain the current stance of policy at this point in time to further rein in inflation.

One (1) member voted to increase the MPR by 150 basis points, Four (4) members by 50 basis points, and Seven (7) members by 100 basis points, In summary, the MPC voted to:

I. Raise the MPR by 100 basis points to 17.5 per cent;

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

III. Retain the CRR at 32.5 per cent; and IV. Retain the Liquidity Ratio at 30 per cent.

Thank you.

Godwin I. Emefiele

Governor, Central Bank of Nigeria

24th January 2023

PERSONAL STATEMENTS BY THE MONETARY POLICY COMMITTEE MEMBERS

1. ADAMU, EDWARD LAMETEK

Year 2022 ended with less optimistic outlook for global growth in 2023 as prospects of recession loomed large across many economies owing to multiple vulnerabilities. These vulnerabilities included tighter financial conditions, supply issues especially around food and energy as well as slowing trade. The major sources of risk - Russia-Ukraine war, coronavirus pandemic and broad-based inflationary pressures – have continued to date. Weakening outlook for global activity is signposted by the slowdown in China, USA and Euro Area. These together account for a sizeable share of global output, trade, and commerce.

In emerging market and developing economies (EMDEs) there is an additional headwind coming from exchange rate pressures owing to capital flow instability, weak external demand, and debt burden. These undercurrents broadly point to the possibility of a global economic recession in 2023. On a bright note, however, inflation is starting to respond to the widespread rate hikes and rollback of monetary easing especially in the advanced economies. Despite this development, most central banks are likely to sustain monetary tightening over the medium term to firmly decelerate inflation pressures. EMDEs especially are likely to be more reluctant to end tightening early given the rather slow response of inflation to policy adjustments in those climes. Egypt increased its policy rate by a whooping 300 basis points in December 2022; Ghana by 250 basis points in November and Indonesia by 25 basis points in January 2023.

In December 2022, after a cumulative 500 basis points increase in the Central Bank of Nigeria’s policy rate, headline inflation moderated for the first time in several months. This turnaround was nonetheless accompanied by a softening of the outlook for domestic growth. Despite the moderation, my view continues to be that inflation remains the dominant threat to macroeconomic stability in the short-to medium-term. This is buttressed by the month-on-month (M-o-M) measure which rose sharply in the same month for headline and food. Against this background, I voted to raise the monetary policy rate (MPR) at the January 2023 meeting of the Monetary Policy Committee (MPC). Details of my consideration and decision are presented subsequently.

From 1.39 per cent in November, m-o-m inflation rose to 1.71 per cent in December 2022. This development may be partly attributed to the usual surge in demand owing to year-end festivities. Nevertheless, at over 20.0 per cent, inflation certainly remains a constraint on growth and savings and may be partly responsible for the weakening outlook for economic growth. This is an additional ground for prioritizing disinflation at this time.

The fundamental driving forces of inflation have remained active. The naira exchange rate has depreciated significantly in the last one year – from about N416/US$ in January 2022 to N461/US$ in January 2023 due to increased demand, and supply shortages in the foreign exchange market. Similarly, excess liquidity underpinned by increased private and public spending continues to be at the heart of the inflation challenge.

Up to November 2022, key monetary aggregates grew in excess of their programmed levels by significant margins. A key money market rate, the open buy back (OBB), trended downwards in December pointing also to a surfeit of liquidity in the banking system. Although today's inflation is not entirely driven by money, elevated liquidity levels could undoubtedly exacerbate it; hence the need to deploy measures to bring it under control. This is especially important in view of the uptick in political activities and campaign spending towards the general elections scheduled to take place in the first quarter of 2023.

The outlook for fiscal policy remains inclement. The envisaged deficit in 2023 is large and may be financed in part by the banking system. As at end November 2022, banking system net claim on Government had grown by about 63.58 per cent relative to end-2021. Fiscal 2023 could see a more rapid growth in the aggregate unless financing conditions in the domestic economy tighten. Ultimately, government revenue must improve to complement monetary policy towards reining-in inflation.

Additionally, staff forecasts up to March 2023 suggest a slow-paced moderation in inflation. Further tightening of the policy stance should improve the pace by dampening consumer demand and exchange rate depreciation pressures. This partly explains why most EMDEs central banks are not relenting in tightening monetary policy. Also, I view a tight monetary policy stance in the domestic economy as a reasonable response to rising yields in the advanced economies. Doing so should curtail the straining effect of tight financial conditions abroad on capital inflow.

Finally, the outlook for real GDP growth, though a bit softening, continues to provide some room for policy action on the inflation side. Of course, this entails a delicate balancing act in the monetary policy sphere. I urge the fiscal authorities to continue to complement the Bank's catalytic actions in the real sector to sustain economic growth.

I believe that the risks to financial stability of further tightening are generally muted. The banking system continues to be resilient with major financial soundness indicators (FSIs) comparing favourably with prudential thresholds. The industry is well capitalized (13.76 per cent in December 2022) and liquid (44.12 per cent in December 2022). Asset quality continues to improve with non-performing loans ratio at 4.2 per cent in December 2022, when viewed against the prudential benchmark of 5.0 per cent.

I, therefore, voted to:

1. Raise the MPR by 100 basis points to 17.5 per cent.

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

3. Retain the CRR at 32.5 per cent.

4. Retain the Liquidity Ratio at 30 per cent.

2. ADENIKINJU, ADEOLA FESTUS

International Economic Developments

The headwinds facing the global economy have not changed much since the last meeting of the MPC in November 2022. The Russian-Ukrainian war is ongoing, China is yet to fully resolve the latent crisis from Covid-19 pandemic, the economies of most Advanced Economies remain weak, inflation is still elevated in most countries and remain above the target rates in most countries. Global GDP growth is forecasted to decline from 2.9% in 2022 to 1.7% in 2023. The World Bank has projected that one-third of the global economy is at a risk of recession in 2023. National debts are at all-time high, accentuated by increase in the costs of debt service for EMDEs. Although, inflation is dissipating in the US, the US Fed has not paused its policy rates increase. The Fed increased its benchmark policy rate in 2022 by a cumulative amount of 425 basis points, U.K. by 325 basis points, Egypt by 425 basis points, Nigeria by 500 basis points, and Ghana by 1250 basis points.

Global Composite Output inched up a little from 48.0 index points in November 2022 to 48.2 index points in December 2022. However, the index was still below 50 index points. Global Manufacturing PMI declined to a 48.6 index points in December 2022, a 30-month low level. Global services sector PMI remained unchanged between December 2021 and previous month, at 48.1 index points. Global trade growth is expected to decelerate from 4.0% in 2022 to 1.6% in 2023.

Global Commodity prices remained soft as demand moderates. Global stocks rose in December 2022 boosted by the recent reopening in China. Most national currencies depreciated against the US dollars. Global financial conditions tightened in 2022, leading to capital outflow from EMDEs. This will continue to pose a major constraint to FDI flows to EMDEs in 2023.

Domestic Economic Developments

The Macroeconomic Developments and Outlook Report presented by CBN Staff shows mixed developments in the economy. Real GDP grew by 2.25% in 2022Q3, driven primarily by the non-oil sector - services and agriculture. At the same time, the Oil sector contracted by -22.67%., mainly due to decline in average oil production from 1.57mbd in 2022Q2 to 1.20mbd in 2022Q3. In addition, indicators of economic activity remained subdued in December 2022, month-on-month. Composite PMI at 49.4 index points was below 50.0 index points. This was largely due to relatively low activities in the industrial and services sectors. The World Bank forecast Nigeria's real GDP growth to decline to 2.9% in 2023. The slow growth is because of the effects of flooding, the tight fiscal space and rise in borrowing costs, security challenges and moderation in oil prices.

Inflation figures released by the NBS showed that headline inflation decelerated from 21.47% in November 2022 to 21.34% in December 2022 (y-o-y). Food inflation also declined year on year from 24.13% in November 2022 to 23.75% in December 2022. However, core inflation rose from 18.28% in November 2022 to 18.49% in December 2022.

The NSE All-Share Index recorded positive performance due to improved investor sentiments, bargaining hunting activities of investors and expectations of a market rebound in 2023.

On monetary sector and financial markets developments, broad money M3 growth, accelerated from 16.29% in November 2022 to 17.32% in December 2022. Monetary base rose from N15, 263.89 billion in November 2022 to N16,032.06 billion in December 2022, as against the 2022 benchmark of N15,094.69 billion. The growth in broad money was due to increase in Net Domestic Asset, while the increase in Monetary base was driven by increase in Cash Reserve Requirements. Interest rate spread month-on-month widened to 23.42% in December 2022, as maximum lending rate increased from 28.14% to 29.13% and average savings rate rose from 3.93% to 4.13% between November and December 2022, respectively.

In the external sector, the naira depreciated against the dollars by 1.15% from N445.58 to a dollar in November 2022, to N450.71 to a dollar in December 2022. Net foreign exchange flow through the economy in November 2022 stood at US$2.017 billion compared with US$1.743 billion in October 2022. Gross external reserves declined by 9.1% to US$36.5 billion in December 2022 from US$40.2 billion in December 2021.

The fiscal side remained problematic. The 2023 FGN budget projects a total expenditure of N21.83 trillion, and a total revenue of N10.49 trillion, giving a budget deficit of N11.34 trillion. While the Non-oil revenue is expected to contribute N2.43 trillion, the Oil sector is expected to contribute N2.23 trillion. The expected budget deficit will lead to an increase in the Public Debt, and debt servicing, that already took a significant share of government revenue.

The Banking System Stability Review Report was also presented at the meeting. The various Financial Soundness Indicators (FSI) showed that the banking systems remain safe, sound, and resilient. All the FSIs were within the prudential requirements and compared well with comparator countries. NPLs ratio fell from 4.9% in September 2022 to 4.2% in December 2022. Capital Adequacy Ratio remained unchanged at 13.8%. ROE rose to 202% in December 2022 from 18.4% in September 2022. Total operating cost to total operating income declined from 74.6% in September 2022 to 74.1% in December 2022.

All measures of industry aggregates: assets, deposits and credit rose year on year. Total assets of the banking industry grew by N14.36 trillion between end-December 2021 and 2022. Similarly, industry credit increased by N5.14 trillion over the same period. In addition, total industry deposits rose by N7.08 trillion between end-December 2021 and 2022. In December 2022, a total of 130,854 new credits valued at N947.46 billion were granted to various customers.

My Concern

The deceleration in the inflation rate in December 2022 is a welcome development and could be a reflection that the measures put in place by the

MPC and the CBN management to contain inflation is working. However, a single data point is not sufficient to make any firm conclusion. We must wait for January 2023 inflation figures and for subsequent months ahead to make a firm conclusion. It is therefore too early to remove the foot from the pedal at this meeting. This is particularly so, because month-on-month, headline inflation is still rising. Moreover, Nigeria's inflation figure, at 21.34% is still one of the highest in the world.

The fall in inflation expectation in December 2022 suggested that the Nigerian public have confidence by the actions of the monetary authority to rein in inflation.

We cannot attribute the current high inflation level solely to supply and structural factors. Data presented in the Macroeconomic Developments and Outlook Report showed that there was excess liquidity in the system in December 2023. Growth in broad money (M3) rose faster than the provisional benchmark. This was driven primarily by the growth in domestic claims. The growth in the domestic claims was driven by net FGN operations, FAAC, Net SLF and Net Development Finance Department disbursements. Open market operations conducted during the period also increased the liquidity in the system.

The 2023 budget is going to be financed largely by deficit, which is likely to further drive-up liquidity in the system. Although, it is safe to assume that the impacts of the 2023 elections on liquidity expansion may be muted because of the implementation of the CBN Naira redesign policy.

The inflation threshold analysis carried out by the CBN Research Department has shown that inflation rate in excess of 15% is deleterious to economic growth. Similarly, the study shows that raising MPR to 17.5% is likely to bring inflation rate down to 14.98% by 2023Q2, all things being equal.

I have firm belief that if we could subdue inflation, we are more likely to address part of the exchange rate challenges we have, and in the long run create the environment for investment and economic growth in the economy growth.

I hope the FGN will follow through with its plan to remove fuel subsidy towards the second half of the year. This will reduce the fiscal pressure on the government, and it will also stimulate massive investments in the petroleum downstream sector and help realise the PIA goals. The removal of fuel subsidy may trigger initial flurry of increases in prices of commodities. However, this short-term impact in price increases will fizzle out in time, because of demand adjustments and supply expansion in the fuel market in response to price signals. However, a successful policy on subsidy must come with other complementary policies like full liberalization of the sector, as well as compensatory mechanisms for the vulnerable people in the economy.

My Vote

The MPC needs to sustain the current tight monetary policy stance to dampen inflationary pressures. The decline in headline inflation rate for December 2022 does not yet guarantee that this is a permanent shift in the inflationary trend in Nigeria. Hence, I cast my vote to increase the MPR by 100 basis points, while maintaining all other monetary parameters at their extant values. Hence, I vote to:

1) Raise MPR by 100 basis points to 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.**

The headwinds that characterized the global economy following Russia's invasion of Ukraine and lingering effects of the COVID-19 pandemic are persisting into 2023 with rising uncertainty. Output in many countries declined sharply in 2022, with threats of a global recession, driven by several factors including increased volatility in commodity prices, tightened financial conditions as central banks raised rates to curb inflation, which has remained well above historic levels in many global economies, and some country specific challenges.

In addition, intensified disruptions to the energy market, resurgence of the COVID-19 pandemic in China, exchange rate pressures in most Emerging Market and Developing Economies (EMDEs) and concerns over debt sustainability, cast shadows on global economic prospects. Prompted by these developments, the International Monetary Fund (IMF), in its October 2022 World Economic Outlook, further downgraded output growth forecast for 2023 to 2.7 per cent compared with 2.9 per cent in its July 2022 forecast, while **the World Bank projected a much lower global growth rate of 1.7 per cent for 2023 – the third weakest pace in the last three decades.**

Although inflation is projected to gradually moderate over the course of the year, especially in the United States, which may prompt slower rate hikes by the Fed, underlying inflation drivers – pent up demand, supply chain disruptions and spillover effects from the Russia Ukraine war, are expected to persist in the near term. Central banks worldwide, must, therefore, sustain the resoluteness to bring inflation under control, in view of its adverse implications for global economic recovery. Ultimately, ending the Russia-Ukraine crisis is critical for broad-based and lasting global economic recovery.

In the domestic economy, high inflation continues to be a major challenge, despite a cumulative 500bps policy rate hike over 2022 by the monetary authority. In line with the tight monetary policy stance since May last year, market interest rates begun to rise while the pace of development finance interventions by the Bank has slowed to curb monetary induced inflation. Yet, headline inflation (year-on-year) remains sticky, falling marginally to 21.34 per cent in December 2022 from 21.47 per cent in November 2022. Month-on-month, headline inflation however, increased to 1.71 per cent in December 2022 from 1.39 per cent in the preceding month, due to a rise in consumer spending during the festive period.

The food component dropped marginally to 23.75 per cent in December 2022 from 24.13 per cent in the previous month, driven by suppressed demand and decline in prices especially in processed and imported food items. Core inflation (year-on-year) rose to 18.49 per cent from 18.24 per cent over the same period, due to increase in import costs from high global inflation, and increased production, transport, and logistics costs.

Clearly, **the trajectory of inflation is still uncertain,** while underlying drivers of surge in domestic prices – supply side disruptions, high energy costs and rise in liquidity levels - remain elevated. Broad money (M_3) exceeded the 2022 provisional benchmark of 15.21 per cent at 17.32 per cent in December 2022, compared with 16.29 per cent in the previous month. This highlights the importance of policy rate hikes by the MPC to curb domestic inflation trends, while efforts to ramp up food production are being sustained.

The economy has continued on a path of positive growth for eight consecutive quarters, driven largely by support from the Bank and the fiscal authority to output enhancing sectors. Based on data from the National Bureau of Statistics, Real Gross Domestic Product (GDP) grew by 2.25 per cent (year-on-year) in the third quarter of 2022, compared with 3.54 per cent in the second quarter of 2022 and 4.03 per cent in the corresponding period of 2021.

Staff projections indicate that output growth recovery is expected to continue reasonably into 2023, given the expected sustained positive performance during the fourth quarter of 2022 and steady rebound in economic activities.

The optimism is further supported by the marginal improvement in the composite Purchasing Manager's Index (PMI) from 49.0 index points in November 2022 to 49.4 index points in December 2022, although it remained below the 50.0 index points threshold. Continued policy support is therefore crucial to strengthen output performance and preserve this positive output growth trajectory.

External reserves position remained relatively stable at US$36.50 billion at end-December 2022 providing support for the balance of payments position which recorded a surplus position in the first and second quarters of 2022 with a marginal deficit of US$1.44 billion in the third quarter of last year, despite challenges with foreign exchange supply.

The inherent risk of capital flow reversals and exchange rate pressures, on the back of monetary policy normalisation in many advanced economies is a key consideration for policy makers in EMDEs. However, the effect on external reserves should be moderate in view of the tepid foreign portfolio inflows recorded in recent years, notwithstanding the relatively high domestic yields. Initiatives aimed at boosting domestic exports and opening sustainable channels of foreign exchange supply remain imperative and must continue to be pursued to ensure effective exchange rate management and stability in the long term.

The financial system has provided significant support for needed domestic economic resilience amidst global shocks and remained strong into 2023. Data provided by Bank staff indicated stability in broad soundness indicators and an unprecedented improvement in asset quality, even as credit to the private sector continued to grow. Capital adequacy as of December 2022 was robust at 13.83 per cent, 383 basis points above the regulatory minimum of 10 per cent. Industry liquidity was also strong at 44.10 per cent over the same period and supported by significant cash reserve requirement buffers available to provide liquidity backstops, should banks require it.

Key industry aggregates also continued their year-on-year upward trajectory with total assets rising to N73.59trillion in December 2022 from N59.24 trillion in December 2021, while total deposits rose to N45.50trillion from N38.42trillion over the same period. Total credit also increased by N5.14 trillion between end-December 2021 and end-December 2022 with significant growth in credit to manufacturing, General commerce and Oil & Gas sectors. This impressive increase was achieved amidst continued decline in non-performing loans ratio from 4.90 per cent in December 2021 to 4.20 per cent in December 2022.

The sector also benefitted from ingenious Initiatives such as the naira redesign and revised cash withdrawal limit policies, all expected to strengthen the banking channel of monetary policy transmission.

Furthermore, results of stress tests showed resilience of banks' solvency and liquidity ratios in response to potential severe macroeconomic shocks. **However, the Bank must remain vigilant to proactively manage probable macro risks to the financial system** arising from spillover effects of global headwinds and domestic vulnerabilities, in view of the financial system's strategic role in driving sustainable economic recovery.

Policy Decision

Prospects for the global economy remain hazy and continue to be overshadowed by the war in Ukraine and its fallouts, alongside lingering effects of the pandemic and intense inflationary pressures. Globally, incomes are being plundered as cost of living continues to rise, with nearly all the gains of post-COVID-19 recovery eroded.

For Nigeria, despite sustained rate hikes by the monetary authority since May 2022, liquidity levels in the economy have not altered sufficiently. Annualized growth rates of key monetary aggregates exceeded annual targets in 2022, while real interest rates remain negative in view of the persistently high inflation. Although headline inflation declined marginally year-on-year in December 2022, it remains significantly high at 21.34 per cent, with an uncertain outlook especially with the core component of inflation.

The rather slow transition in these indicators is worrisome even though monetary policy instruments impact the economy with a lag, which in the case of Nigeria could stretch up to eight (8) quarters. Nonetheless, sustaining the tightening stance, in my view, is important to over time reverse the trend of domestic prices – the key remit of the monetary authority - given its adverse implications for real incomes, threat to output growth, and overall economic activities.

Thus, I vote to increase the Monetary Policy Rate by 100bps to 17.5 per cent from 16.5 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

The year 2022 was very challenging for the world economy as it struggled with headwinds occasioned by unabating COVID-19 pandemic in China – an influential global economy, as well as the fallouts of geopolitical tensions between Russia and Ukraine. These factors combined to impair the global supply chain and trigger an unprecedented surge in inflation. Expectedly, the risks to the global economy were on the downside for the greater part of the year.

Although, the harsh economic environment appears to be abating following the easing of supply chain disruptions as China reopens its economy, this coupled with the moderation in inflation; growth is expected to remain subdued in 2023. This is because the continued tightening of monetary policy by many Advanced Economies and Emerging Market and Developing Economies (EMDEs) central banks to fight inflation, coupled with the health challenges in China, and the ongoing Russia-Ukraine war, are potentially capable of restraining global economic recovery, as output gap widens, and debt distress worsens.

In consideration of these macroeconomic fragilities and uncertainties, the IMF in its January 2023 World Economic Outlook (WEO) update, forecasts 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. Specifically, growth in the Advanced Economies is forecast to decline from 2.7 percent in 2022 to 1.2 percent in 2023 and further to 1.4 percent in 2024; while in the EMDEs, growth is projected to rise slightly from 3.9 percent in 2022 to 4.0 percent in 2023 and further to 4.2 percent in 2024, supported by the relaxation of lockdown restrictions in China, boost from pent-up demand and likely upward movement in commodity prices.

On price developments, inflation has begun to decline globally, albeit, at a marginal rate. The moderation in prices is supported by the modest deceleration in energy and commodity prices; and weaker demand, amidst slight easing of the impediments to supply chain. Amongst the Advanced Economies, the US inflation rate declined to 6.50 percent in December 2022 from 7.10 percent in November 2022. Similarly, the Euro Zone inflation rate declined to 9.20 percent from 10.10 percent and the UK to 10.50 percent from 10.70 percent, in the same period. The current development suggests that monetary policy tightening has started to have downward impact on demand and inflation. In Advanced Economies, the IMF projects annual average inflation rate to decline from 7.3 percent in 2022 to 4.6 percent in 2023 and further to 2.6 percent in 2024, above their medium to long term targets.

In the case of EMDEs, annual inflation is projected to decline from 9.9 percent in 2022 to 8.1 percent in 2023 and 5.5 percent in 2024. The index is expected to remain above central banks targets, on the back of high prices of food and energy, and other inputs especially in local currency terms. The depreciation of their currencies against the US dollar, could further exacerbate inflationary pressure and weaken economic activities. Consequently, global inflation is expected to decrease from 8.8 percent in 2022 to 6.6 percent in 2023 and 4.3 percent in 2024, even though, above the pre-pandemic levels of 3.5 percent (IMF WEO, January 2023).

Whilst most central banks are near the end of their rate hike cycles and may slow down the pace of policy rate increases in 2023, they have signalled intentions to maintain a tight monetary policy stance, in the resolve to bringing inflation rate down to their medium to long term targets. Tight global financial conditions in 2023, portend significant contraction of capital flows to EMDEs. In addition, high lending rates and strong US dollar will increase the cost of debt service for EMDEs, thus, heightening the risk of default.

The lacklustre economic conditions and uncertainties have continued to put downward pressure on global trade. The World Bank January 2023 Report, indicated that global trade may decelerate further to 1.6 percent in 2023, largely reflecting weakening global demand. Trade is envisaged to be particularly subdued in EMDEs with strong trade linkages to major economies where demand is expected to slow rapidly.

THE DOMESTIC ECONOMY

On the domestic side, the positive growth recovery which commenced since the 2020 recession, was sustained, through Q3 2022. Real Gross Domestic Product (GDP) year-on-year grew by 2.25 percent in Q3 2022 from 3.54 percent in Q2 2022. The slower growth in Q3 2022 compared with the preceding quarter, was due to base effects of the past recession. On quarter-on-quarter, real GDP grew by 9.68 percent in Q3 2022. Other indicators of economic activity remained subdued in December 2022. For instance, aside from marginal improvements in the Purchasing Manager's Index (PMI) of the Services and Industrial subsectors, Agricultural sector PMI declined. On a general scale, Composite PMI increased marginally from 49.0 index points in November 2022 to 49.4 index points in December 2022, which is below the 50-index points benchmark. The output gap was negative, although, projected to narrow by 0.48 percentage points from -7.73 percent in Q3 2022 to -7.25 percent in Q4 2022, respectively.

Inflation rate, remained elevated, despite the moderate deceleration in December 2022, driven by demand pressures and supply shocks. Headline inflation (year-on-year) decreased to 21.34 percent in December 2022 from 21.47 percent in November 2022. This, no doubt, is a welcome development, considering that the index has been rising since January 2022. The marginal decline is attributable to the tight monetary policy stance of the recent past, which has begun to anchor inflation expectations and suppress demand. It is noteworthy, that month-on-month, the index rose to 1.71 percent from 1.39 percent in November 2022, due to seasonal demand for goods and services. Similarly, the core component of inflation, which is all Items less farm produce and energy CPI, rose to 18.49 percent year-on-year, from 18.24 percent in November 2022, due to rising cost of production, associated with high energy prices. However, food inflation declined to 23.75 percent in the same period, from 24.13 percent in November 2022, due to reduced demand for processed food items.

Monetary aggregates indicate high level of liquidity in the system, as broad money supply (M3) grew by 17.32 percent year-to-date (2.11 basis points, above the 2022 provisional benchmark of 15.21 percent). The development is attributed to the increase in Net Domestic Assets (NDA), which was spurred by the increase in Net Claims on Government and Net Claims on Other Sectors. On interest rate movements, Open Buy Back (OBB) transactions and rates at the interbank market moderated, reflecting liquidity conditions in the banking sector, on account of increased cash deposit in line with the currency redesign programme of the CBN and Matured CBN Bills.

On the external sector front, gross external reserves stood at US$36.5 billion as at December 2022 compared with US$40.2 billion in December 2021. The Reserves could cover 6.21 months of import of goods and services or 8.79 months of imports of goods only.

Financial Soundness Indicators revealed salutary outcomes in the review period. Industry Capital Adequacy Ratio (CAR) at 13.8 percent at end-December 2022, was above the 10 percent prudential requirement. Liquidity ratio at 44.1 percent was above the 30 percent regulatory requirement. Also, Non-Performing Loans (NPLs) improved to 4.2 percent in the review period, compared with the regulatory minimum of 5 percent. Return on Equity (ROE) and Return on Assets (ROA) both rose by 20.2 percent and 1.6 percent in December 2022, from 18.4 and 1.5 percent in September 2022, respectively. Gross Credit rose by N5.14 trillion or 20.93 percent between end-December 2021 and 2022, due to increased industry funding base, CBN’s directive on LDR, and business strategy and competition.

CONSIDERATION FOR VOTING

The current tight stance of monetary policy may have started to have impact on domestic prices. Though marginal, headline inflation has begun to decrease and is likely to decline rapidly over the medium term, given the lags in monetary policy transmission. Nevertheless, inflationary pressures remain persistent, from the pass-through effects of elevated inflation in Advanced Economies, rising energy prices, global supply chain disruptions, local currency depreciation against the U.S. dollar, and heightened inflation expectations.

Whilst it is a delight to see inflation slowing, a month's tepid decline, does not provide sufficient assurance to conclude at this January 2023 meeting that monetary policy tightening has reached a saturation point to justify a sudden halt or less aggressive action.

Although, the National Bureau of Statistics (NBS) inflation outlook for January 2023, suggests a continued moderation in domestic price development, given the relative stability in the exchange rate and the reviewed cashless policy; there are considerable uncertainties around this forecast, considering that ongoing scarcity and unofficial increases in the price of PMS across the country, coupled with the likelihood of huge pre-election spending, could constitute upside risks to inflation.

Whilst the slower growth in real GDP (year-on-year), has been attributed to the base effects of the past recession, one may be inclined to argue that further policy tightening could roll back the growth recovery, as credit and investment are hindered. Important as economic growth may be, the primacy of price stability as a core objective of the central bank remains sacrosanct. At this period of persisting global economic and policy uncertainties, and in which domestic demand pressures and supply shocks remain immediate concern, priority for the central bank, is achieving sustained decline in inflation, with tighter monetary conditions. Whereas the economy has been subject to a legacy of crisis caused by the COVID-19 pandemic and the Russia - Ukraine war, monetary policy should remain steadfast in adjusting to these shocks to ensure that inflation is sustained within its long run target of 6 – 9 percent, and that inflation expectations are firmly anchored, over the medium term.

Central Banks in the Advanced Economies, despite the abatement of headline CPI, are not abandoning tightening and interest rate normalization as yet. Even, more EMDEs are maintaining policy tightening till such a time when inflation becomes subdued. It is noteworthy, that real interest rate is still negative, in relation to comparator countries, which has consequences for foreign capital inflows and foreign exchange management.

I would like to mention that to complement the efforts of the monetary authority to tame inflation, the fiscal authority is making several efforts at boosting revenue generation through various tax reforms, public debt recovery and expenditure management measures, among others.

In the light of the foregoing, I am of the opinion that we maintain our aggressive approach to rein-in inflation. I, therefore, vote for a 100 basis points increase in the MPR from 16.5 to 17.5 percent, while leaving other policy parameters at their extant levels.

5. ASOGWA, ROBERT CHIKWENDU

Background:

Prior to the January MPC meeting, two key issues dominated policy discussions. First, there are growing concerns about the impact of cumulative interest rate hikes across the globe since 2022 which may lead to global economic recession in 2023. Second, is the weak pace of moderation for inflation rates which is slower than expected with many countries still battling elevated cost pressures, despite the strong monetary tightening regime in place. Needless to say, both of these concerns present policy makers with a dilemma especially on future interest rate paths. The alternatives are either to continue raising interest rates at the same pace or at a slower pace or even to pause the rate hikes so as to assess the impact of earlier cumulative rate hikes. Recent monetary policy announcements especially at end 2022 and early 2023 suggest a mixture of policy choices amongst leading central banks in advanced and emerging market economies. Our decision at this MPC meeting should therefore take these concerns into account while reflecting on recent economic and financial developments at both global and domestic levels.

Global Economic Developments:

Globally, economic growth slowed in the last quarter of 2022, probably weighed down by elevated cost pressures and the resultant policy rate hikes in many countries. Besides, COVID-19 related disruptions in China and the ongoing Russia-Ukraine war have also contributed to the weakening of growth. Preliminary fourth quarter 2022 output estimates suggest subdued global economic activity when compared with the output figures for the third quarter of 2022. In the Euro area for instance, GDP grew by 0.1 percent in the last quarter of 2022 compared with 0.3 percent growth in quarter three, while in China, GDP grew by 2.9 percent in the fourth quarter of 2022 which is lower than the 3.9 percent growth rate recorded in the third quarter of 2022. In South Korea, GDP contracted by 0.4 percent in the fourth quarter of 2022 following a

0.3 percent growth in quarter three of 2022, which is the first contraction since the second quarter of 2021. In the USA, GDP grew by 2.8 percent in the fourth quarter of 2022, lower than the 3.2 percent growth recorded in the third quarter. The current projection is for a further slowdown in 2023 especially as the downside risks including ongoing geopolitical tensions and the tight financial market conditions persist. High frequency indicators including the purchasing manager' index (PMI) and household consumption have also moderated in recent times. The global manufacturing PMI declined to a 30-month low of 48.6 index points in December 2022 from 48.8 index point in November 2022. These have probably lead to recent downgrades in growth forecasts. The World Bank has slashed its 2023 global growth forecast to 1.7 percent for 2023 from its earlier projection of 3 percent, which is the slowest growth rate outside of the 2009 and 2020 recessions. Similarly, recent estimates by the IMF suggest that global growth will slow from 3.4 percent in 2022 to 2.9 percent in 2023.

Global Inflation remains broad-based and at multi year highs in many countries despite recent moderations in key advanced and emerging market economies. CBN staff report shows that in the United States, month-on-month inflation decelerated by -0.1 percent in December 2022 compared with 0.1 percent in November while the year-on-year measure also fell to 6.5 percent in December 2022 compared with 7.1 percent in November. In the UK, month-on-month inflation declined to 0.4 percent in November 2022 compared with 2.0 percent in the previous month, while on a year-on-year basis, inflation decelerated to 10.7 percent in November compared with 11.1 percent in the previous period. In the Euro Area, month-on-month inflation contracted to -0.3 percent in December 2022 compared with -0.1 percent in November, while on a year-on-year basis, it reduced to 9.2 percent in December 2022 compared with 10.1 percent in November. There were also inflation decelerations in Japan, China, South Africa and Brazil in December 2022 while it accelerated in Ghana and Egypt during the same period. Going forward, global inflation is projected to decline further in the first quarter of 2023 as supply side pressures continue to dissipate along with declines in energy prices.

Volatility in the global financial markets appears to have reduced in 2023 when compared with the condition at the last MPC meeting in November 2022, reflecting largely higher market optimism. The US dollar has consistently weakened against many currencies, while capital flows to emerging economies have increased with stock market indices also rising in a number of countries. CBN staff report shows that recently, the British Pound and the Euro appreciated against the US dollar, while in Asia, the Japanese Yen, Chinese Yuan and Indian rupee all appreciated against the US dollar. In Africa however, while the Nigerian naira, the Egyptian pound and the Kenya shilling all depreciated against the US dollar, the South Africa rand appreciated against the US dollar. Stability is also gradually returning to global equity markets with many recording positive daily market improvements since December 2022.

There have been a mix in terms of policy response by global central banks with several countries continuing the process of monetary tightening but in a less aggressive path. At the last policy rate meeting, the US Fed dialled back the tempo of rate hikes to 50 basis points after four consecutive 75 basis point hikes. In the Euro Area, the rate hike tempo has also dropped from 75 basis points to 50 basis points in December 2022, while Indonesia also decelerated from 100 basis points hike in October to 75 basis points hike in December 2022. South Africa moved from a 75 basis points hike in November 2022 to a 25 basis points hike in January 2023. While the Central Banks of Korea, Peru and Thailand all raised policy rates in January 2023 by 25 basis points, the Central Banks of Chile, Malaysia, Norway and Sri Lanka left policy rates unchanged in January 2023. Overall, a less hawkish policy stance is expected amongst global central banks in 2023 but the scale would likely be informed by the prevailing conditions and their implications for each country's domestic inflation and growth outlook.

Domestic Economic Developments:

The Nigerian economy is projected to make a gradual recovery in 2023 given the expected improvements in domestic supply conditions and in the external sector. Latest high frequency data on the economy indicate relative expansion in the fourth quarter of 2022 with GDP growth rate expected to exceed the third quarter levels. The third quarter of 2022 output figures show a moderation to 2.25 percent from the 3.54 percent in the second quarter of 2022. At the time of this MPC meeting, the figures for 2022 fourth quarter GDP growth are yet to be released, but improvements in the composite purchasing managers index (PMI) and the manufacturers CEO confidence index point towards a stronger last quarter performance in 2022. The composite purchasing manager's index (PMI) stood at 49.4 index points in December 2022, up from 49.0 index points in November 2022 which was due to marginal improvements in the industry and service sectors. However, despite the optimism on Nigeria's growth prospects for 2023, there are still significant downside risks stemming from external factors, especially the global supply chain which directly affects commodity prices.

Nigeria's headline inflation rates (year-on-year) declined marginally for the first time in close to twelve months with food inflation decelerating from 24.13 percent in November to 23.75 percent in December 2022, while core inflation increased from 18.24 percent in November to 18.49 percent in December 2022. The month-on-month rates are however different as both headline and food inflation increased in December 2022, while core inflation decreased in the same period. This marginal downward adjustment in headline and food inflation (year-on-year) are expected to continue through the first quarter of 2023 with expected improvements in domestic supply conditions and the existing tight monetary conditions despite threats of election related spending. There is however the risk of core inflation remaining sluggish at high levels for longer periods owing to potential increases in pass through amid lingering global cost pressures.

The domestic financial sector remains resilient similar to the position at the last MPC meeting. Deposit money banks maintain high capital adequacy ratio at 13.8 percent in December 2022, same as in September 2022, with non-performing loans declining further from 4.9 percent in September 2022 to 4.2 percent in December 2022. The total banking industry deposits and credit increased between September and December 2022. The equities market bounced back strongly with the All-Share Index increasing by 19.98 percent between end-October 2022 and end-December 2022 while market capitalization also increased by 16.91 percent during the same period. CBN staff report attributes this improved performance to the 'release of better-than expected corporate earnings results and bargain hunting activities of investors'.

The external sector position may have deteriorated recently in comparison with the situation at the last MPC meeting. In the third quarter of 2022, the balance of payments recorded a deficit representing -1.15 percent of GDP, but in the second quarter of 2022, it had a surplus equivalent to about 0.08 percent of GDP. This negative outturn emanated from the current account balance which recorded a deficit of about -4.60 percent of GDP in the third quarter of 2022 after five consecutive quarters of positive surplus. The deficit is attributed to export earnings decline in the third quarter of 2022 even with the substantial compression of merchandise imports. As a result, the domestic foreign exchange market performance is at variance with global trend of other currencies which has lately appreciated against the dollar. At the I&E window, the naira has consistently depreciated against the dollar since the third quarter of 2022. In December 2022, the naira depreciated by 1.15 percent (month-on-month) and by 3.04 percent (year to date). The foreign exchange market turnover however increased during this period as net foreign exchange flow rose despite the tight supply conditions with declining external reserves position. The external sector outlook for 2023 is however positive despite these current challenges given the resurgence of oil prices and domestic oil and gas output which will definitely enhance export earnings.

The fiscal sector challenges persist and may even worsen in 2023 with rising debt levels and expected deficit position. In 2022, the huge government expenditures in a regime of low revenues kept the overall debt stock at very high levels. With the possible addition of existing ways and mean advances to the total debt stock, the overall burden of debt repayment and servicing looks alarming. At a projected fiscal deficit of 11.34 trillion naira in the 2023 budget, which is more than the projected overall revenue of 10.49 trillion naira, the expectations of any fiscal ease in 2023 may be unlikely.

Policy Decision:

Given that the domestic inflation outlook is still assessed on the upside despite the moderate easing of headline rates in December 2022, a continuation of the tightening regime remains appropriate. However, I will prefer a less aggressive policy rate hike of not more than 50 basis points for now as we balance the risks of under-and over-monetary tightening. I will therefore vote to:

- Raise the MPR from 16.5 percent to 17.0 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.

6. OBADAN, MIKE IDIAHI

INTRODUCTION

Economic uncertainty arising from various kinds of shocks has continued to weigh on global growth and economic activities in individual economies. In recent years, the key drivers of global economic uncertainty have evolved from the US trade tensions with China, to the emergence of covid-19 pandemic in 2020. Although most parts of the world appear to have put the covid-19 pandemic behind them, it is lingering in some areas, in particular, China which had experienced lockdowns and attendant protests in recent months. Not very long after the global economy began to show strong signs of recovery from this pandemic, Russia invaded Ukraine in February, 2022 with so much disruption of the global supply chains, especially food and energies, with attendant escalation of global inflation and the associated cost of living crisis. Of course, there is the phenomenon of renewed trade uncertainty which a recent IMF Blog ("Global Economic Uncertainty, remains elevated, Weighing on Growth, January 30, 2023) considered as associated with the risk of geo-economic fragmentation. Consequently, the global economic uncertainty index remains at elevated levels and spillovers from major economies are rife. In light of the subsisting shocks and uncertainties, global economic indicators are likely to be uninspiring in 2023. As the Russia-Ukraine war shows no signs of abating, the 2022 challenging environment of weakening growth, elevated inflation rates, weak trade growth, tightening financial conditions, may persist in 2023.

GLOBAL ECONOMIC FEATURES/OUTLOOK

The significance of this derives from the fact that Nigeria's macroeconomic performance/outlook is largely dependent on global economic performance and outlook as the country is highly globalised with its economy depending heavily on global trade, finance/investment and capital flows.

Global growth. The global economy experienced weak economic momentum in 2022 and this is expected to continue in 2023 as the global uncertainties and macroeconomic fragilities of 2022 may persist during the year. In light of this, global growth is expected to decline from the strong recovery rate of 5.9 per cent in 2021 to 2.9 per cent in 2022 and to 1.7 per cent in 2023 – the weakest in many years after the 2009 financial crisis and covid-19 lockdowns in many countries. Global output is expected to moderate in 2023 across both the Advanced Economies (AEs) and Emerging Market and Developing Economies (EMDEs). The AEs as a group is expected to grow by 0.5 per cent in 2023 compared to 2.5 per cent in 2022 while the EMDEs' growth may remain stagnant at 3.4 per cent.

Indeed, there are strong fears of global recession in 2023 as about one-third of the global economy faces recession. A coalition of factors threaten growth prospects in 2023: widespread geopolitical tensions (Russia – Ukraine war, China tension on Taiwan, Iran – Western countries tension) and continued supply chain disruptions; lingering covid-19 pandemic, especially in China which slows its growth and disrupts supply chains; continued monetary policy tightening amid elevated inflation and uncertainty regarding the pace of interest rate hikes; tightening financial conditions as monetary policy normalisation by central banks continue which will pose significant contraction of capital flows to EMDEs. All these have spillovers on the EMDEs, Nigeria included.

Global trade. Growth of global trade declined from 10.6 per cent in 2021 to 4.0 per cent in 2022 due to high inflation, higher interest rates and weaker demand in the US and Europe. The trade decline trend is expected to continue in 2023 to about 1.6 per cent. The continuation of the downward trend of global trade may be due to multiple shocks alongside deteriorating economic conditions and rising uncertainties. In the context of climate change, dwindling demand for crude oil and global reduction in the use of fossil fuel may affect global trade.

Inflation. Although there were indications of moderating inflation in 2022, inflation remains high worldwide and it is expected to remain elevated in 2023 across AEs and EMDEs, staying above the long-run inflation objectives of central banks in most economies due mainly to the sustained high prices of commodities, food and energy. Gradual declines may be experienced in 2023 due to moderate declines in energy and commodity prices and slight easing of supply bottlenecks. Nevertheless, central banks' monetary policy normalisation may continue but with reduced rate of interest rate hikes.

Commodity market. Global prices of agricultural produce have continued to decline due to easing of supply chain bottlenecks largely through the Black Sea agreement with Russia and the easing of covid-19 restrictions in China while gold price consistently increased, for example, from US$ 1,664.0 per ounce in October 2022 to US$ 1,925.66 per ounce on January 20, 2023 as investors seek higher yielding assets following expectations of a US Fed slowdown in frequency and magnitude of interest rate hikes. In contrast, crude oil prices continued to moderate as global economic recovery remained cloudy and fragile. **As of January 20, 2023, oil prices were as follows:**

OPEC basket: US$ 82.60 pb (US$ 81.29 pb on Dec 30 2022)

Bonny Light: US$ 87.40 pb (US$ 82.58 pb on December 30, 2022 and the peak of US$127.98 on March 08, 2022)

UK Brent: US$ 87.63 pb (US$ 83.33 pb on December 30 2022).

Oil prices continued to fall due primarily to fears of an impending global recession just as Russia maintained supply despite efforts by the US and its allies to place a cap on the price and supply of Russian crude. Oil price futures for December 2023 deliveries indicate a continued downward trend, around mid-US$70/barrel, reflecting expectations for a slowdown in global economic activities.

Other developments. Indications are that monetary policy tightening will continue in 2023 amidst high and widespread inflation but the pace is expected to drop due to increased likelihood of a broad-based global recession. The policy tightening stance may increase uncertainties and pose high risk to output growth; increase difficulty of countries to service external loans; constrain access to capital for investment to finance economic development; and generally, increase the cost of borrowing. Global debt accumulation slowed in the third quarter of 2022 while high lending rates and strong US dollar are reducing the rate of new borrowing. And there is an increase in the cost of debt service for EMDEs, heightening the risk of default. The high risk of debt crisis in EMDEs is aggravated by the following: possibility of global recession; soaring inflation; uncertainties surrounding an end to the Russia-Ukraine war; high interest rates; and strong US dollar compounding debt-service burdens.

From the global developments, there is a reasonable expectation that some central banks may slow the pace of interest rate hikes in 2023. However, as both the US and EU are caught in the policy dilemma of choice between a restrictive monetary policy stance to curb inflation and the need to bolster output growth recovery, the prevailing weak economic momentum may continue in 2023.

NIGERIA'S ECONOMIC PERFORMANCE AND PROSPECTS

The Nigerian economy was highly challenged in 2022 as reflected by weakening growth performance, high and escalating inflation, foreign exchange market pressure and depreciating exchange rate, ballooning fiscal deficits and public debt, expanding money supply, etc. Macroeconomic performance in the country has continued to be impacted by spillovers from the major economies: geopolitical tensions, supply chain disruptions, high inflation, high energy and food prices, tightening financial conditions, among others.

Growth. Compared to some other countries, Nigeria's real GDP growth rate showed resilience in 2022 although it recorded a reduced rate of 2.25 per cent (year-on-year) in Q3 2022 from 3.54 per cent in the preceding quarter, indicating eight (8) consecutive quarters of expansion in output. The yearly average forecast for 2022 is 2.88 per cent. Nevertheless, the growth remains fragile, and it could be between 2 and 3 per cent in 2023 depending on the outlook of the global oil market and production of crude oil in the country. Indeed, the growth prospects could be brighter if: the present recovery of oil production is sustained and production meets the OPEC quota; global oil prices do not fall below the current levels; and burdensome petroleum product subsidy is removed; local refining of petroleum products by private refineries commences, etc.

Inflation. In Nigeria, headline inflation remains very high although it moderated to 21.34 per cent (y-o-y) in December 2022 from 21.47 per cent in November 2022 – the first month of decline since January, 2022. Although it shows that the tight monetary policy stance of the CBN is having an impact, headline inflation is still high and very much above the Bank’s implicit target of 6.00 – 9.00 per cent. However, the inflation rate is expected to decline in 2023 due to the sustained tight monetary policy stance of the CBN, gradual deceleration of inflation in the trading partner countries, likely reduction in fuel shortages: PMS and Automotive Gas Oil.

Monetary growth. Two issues about monetary development are the money supply growth which exceeded the provisional benchmark, and growth in liquidity. The Broad Money (M3) grew by 16.52 per cent in November 2022, (year-to-date) compared with 13.92 per cent in October 2022 and was above the provisional benchmark of 15.21 per cent for 2022. The major source of liquidity growth is the fiscal operations of the government.

External sector developments. These relate mainly to high exchange rates, foreign exchange market pressures and dwindling external reserves. These appeared to have worsened in 2022 because of both external and domestic shocks. Although the gross external reserves position as of December 2022 could cover 6.21 months of imports of goods and services or 8.79 months of imports of goods, suggesting that the external reserves position may not be precarious, it is of concern as it is inadequate to maintain exchange rate stability.

Fiscal Operations of the Government. These have continued to elicit serious concerns considering the growing yearly fiscal deficits and their implications for public debt accumulation (N44.06 trillion as at September 2022 and excluding nearly N23.0 trillion Ways and Means Advances) and inflation in view of the Ways and Means Advances financing. From January to November 2022, the Federal Government had incurred a fiscal deficit of N7.338 trillion. The projected Federal Government fiscal deficit for 2023 is N11.34 trillion and it is to be partially financed through deficit financing. This is where the challenge lies for inflation control.

OPINION

This predicated on the following premises:

The country's growth rate has shown resilience, but it is inadequate, fragile and could be threatened by several headwinds including spillovers from the likely recession in the country's trading partners in 2023. Even the significant monetary policy tightening stance is a headwind to growth.

Headline inflation showed a decline last December. But if the inflation headwinds persist, this trend may not be sustained. Therefore, there is need for caution in changing the current tight monetary policy stance in terms of easing. But because of the negative impact on growth of aggressive monetary policy tightening (could slide the economy into recession), it is important to moderate the rate of hiking the Monetary Policy Rate. And considering that the role of non-monetary factors in the current inflation cannot be ruled out, it is necessary to avoid a policy stance of continued aggressive tightening in the belief that it will address all the triggers of inflation. In other words, the burden of adjustment to resolve the inflation challenge cannot be on monetary policy alone. Even the Advanced Economies have recognised the important role of non-monetary factors in their inflation; hence they keep working to address issues relating to supply-side shocks: energy and food prices, for example, and brokering the Black Sea Agreement and US increasing export of oil to Europe.

Foreign exchange market pressure could be eased by monetary tightening, but this hurts the real sectors of the economy. So, supply-side strategies to boost foreign exchange supply and external reserves, for example, frontally addressing the oil production challenge, would be a much better policy option at this time. The foreign exchange market and exchange rate outlook could improve significantly if the petroleum subsidy regime is abandoned, oil production and exports are stepped up significantly, and domestic oil refining resumes in the country.

Ballooning fiscal deficits of government are of concern because of their implications for price and monetary stability. Government strategies can also address this to remove the burden of financing it from the Monetary Authority. Besides implementing bold measures to improve revenue mobilisation, there is the need for urgent stoppage of the petroleum products subsidy regime.

For over a decade, I had written a lot of articles on petroleum subsidy in Nigeria. I have argued that subsidy on petroleum products had become one of the effortless avenues for privileged people and companies to corruptly appropriate the nation's resources while the consumers are worse off. The gross inefficiency and corruption in subsidy administration in the past coupled with the current difficult economic situation of the country makes it imperative for a re-consideration of the continued retention of subsidy on petrol but under appropriate framework/basis. In my last article on the subject, published in Daily Independent of December 24, 2021, I had observed "that there is a strong case for the eventual deregulation of petrol price and hence eliminating the subsidy in it. But the government needed to work towards it. To avoid unpleasant macroeconomic and social consequences, i**t should deregulate on the basis of domestic refining of petroleum products and not importation of such products**. Imported refined products are expensive not only because of high crude oil price and international transportation costs but also because of exchange rate changes. Naira depreciation makes importation costly and retail prices higher. Exiting fuel subsidy under a regime of importation of petrol will highly endanger the current fragile macroeconomic stability, especially under the regime of very high oil prices prevailing in the global market".

But since three months now, I have changed my position to the effect that deregulation of petroleum product prices, whether based on local refining or imported petroleum products, should no longer be delayed. The reason is that the socio-economic and macroeconomic implications of deregulation of imported petroleum product prices are already playing out in the economy. There has been inexplicable scarcity of petroleum products and marketers, excepting the NNPC mega petrol stations, have been selling petrol at deregulated prices –N400 – N600 per litre in the part of the country where I live. And motorists seem to be unperturbed. All that they seem to desire is that petrol should be available; they seem to be eager to buy irrespective of the impact on production costs, inflation and the standard of living. If the government officially deregulates petrol prices and abandons subsidy, Nigerians will not be worse off. They are already used to the prices of the already deregulated products – diesel AGO and kerosene used by ordinary people. So, let's free the country from the fraud inherent in petrol subsidy. The over N6.0 trillion that could leave the government's coffers in 2023 as subsidy could go to development projects and/or reduce the nation's public debt. For obvious reasons, government should consider removing the subsidy immediately after the elections.

In light of the above, I vote to cautiously increase the MPR by 50 basis points and for all the other parameters to remain constant, that is, have:

MPR - 17.0%

CRR - 32.5%

Liquidity ratio - 30%

Asymmetric corridor - +100/-700 basis points.

7. OBIORA, KINGSLEY ISITUA

> *In light of high levels of inflation, negative real interest rates, and the need to re-anchor inflation expectations and protect the most vulnerable households, I voted to raise the Monetary Policy Rate (MPR) to 17.5 per cent from 16.5 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 stance reflects my hope that we can continue to dampen inflation, minimize its effect on growth and safeguard financial system stability.*

The global economy continues to face high levels of inflation and flagging growth. Some factors responsible for these headwinds include spillover from the Russian invasion of Ukraine, the prolonged COVID-19 pandemic and property sector crisis in China, high food and energy prices, tight labour market, contractionary monetary policy stance, and volatile financial markets. All these economic and geopolitical headwinds continue to weigh on global economic activity. As a result of these developments, global growth is expected to decelerate in 2023. Although the J.P. Morgan Global Composite Purchasing Managers Index (PMI) inched up to 48.2 points in December from 48.0 points in November 2022, it is still below the 50-point benchmark, making it the fifth successive month of contraction and one of the lowest in the last fifteen years. The contraction was driven by a decline in new order inflows, and downturns in economic activity, especially in manufacturing and services, thus, confirming a weak global economic activity.

These have led to downgrade of global growth forecast by several reputable institutions. For example, the International Monetary Fund (IMF, October WEO, 2022) downgraded the 2023 global growth forecast from 3.2 per cent in 2022 to 2.7 per cent in 2023. Also, the World Bank Global Economic Prospects (GEP, January 2023) projected global growth to decline from 2.9 per cent in 2022 to 1.7 per cent in 2023. Similarly, in Advanced Economies, growth is expected to decline significantly from 2.5 per cent in 2022 to 0.5 per cent in 2023 due to high inflation and rapid monetary policy tightening, which continue to weigh on aggregate demand. Emerging Market and Developing Economies (EMDEs) is projected to remain unchanged at 3.4 per cent in 2022 and 2023 due to tightening global financial conditions and supply chain disruptions, currency depreciation, high inflation, and weak external demands.

Although global inflation is expected to decelerate in 2023, it remains broadly elevated. Global inflation is projected to decelerate to 6.5 per cent in 2023 from an estimated 8.8 per cent in 2022. In Advanced Economies (AEs), inflation is also expected to moderate to 4.4 per cent in 2023 from an estimated 7.2 per cent in 2022, owing to moderate declines in energy and commodity prices, and a slight easing of supply bottlenecks. In Emerging Markets and Developing Europe, it is expected to drop to 19.4 per cent in 2023 from 27.8 per cent in 2022. In Sub-Saharan Africa, inflation is projected to decline to 11.9 per cent in 2023 from an estimated 14.4 per cent in 2022 (IMF, October 2022, World Economic Outlook).

Whilst inflation is decelerating in Advanced Economies, it is still far above the target of 2.0 per cent set by the central banks of these economies. For example, in the United States, inflation declined from 7.1 per cent in November 2022 to 6.5 per cent in December 2022. In the Euro Area, inflation decreased to 9.2 per cent in December from 10.1 per cent in November 2022. Also, in the United Kingdom, inflation moderated slightly from 9.3 per cent in November to 9.2 per cent in December 2022. In Canada, it declined to 6.3 per cent in December 2022 from 6.8 per cent in November 2022. Inflation, therefore, may have peaked in some of these advanced economies, it is, however, believed that with the labour-market tightness and high core inflation, the underlying inflationary pressures still exist and may become persistent. As a result, many central banks in advanced and developing economies remain focused on taming inflation through continuous interest rate hikes.

Reflecting on these headwinds, Nigeria's economic growth may moderate in 2023. Official data from the National Bureau of Statistics (NBS) revealed that Nigeria's real GDP (year-on-year) grew by 2.25 per cent in Q3 2022, compared with 4.03 and 3.54 per cent in Q2 2021 and Q2 2023, respectively. This represents a decline of 1.78 and 1.29 percentage points relative to the corresponding and preceding quarters, respectively. The decline in growth was due to a continued contraction in the oil sector and the slowing performance of the non-oil sector. The moderate growth, however, was mainly driven by the services and agricultural sub-sectors of the non-oil sector. They include Road Transport, Financial Institutions, Telecommunications, Manufacturing (Chemical and pharmaceutical products), Trade, and Agriculture (Crop Production), which grew by 49.68, 12.03, 10.06, 11.09, 5.08, and 1.33 per cent, respectively. Overall, the non-oil sector moderated by 4.27 per cent in Q3 2022, compared with 4.77 per cent in Q2 2022, reflecting a decline of 0.5 percentage points. In relative terms, the non-oil sector contributed 94.34 per cent, higher than the 93.67 per cent recorded in Q2 2022. The oil sector further contracted by 22.7 per cent (year-on-year) in Q3 2022, compared with a contraction of 11.77 per cent (year-on-year) in Q2 2022, indicating a further contraction of 10.9 percentage points. This was attributed to operational issues, increasing oil theft, pipeline vandalism, and divestments by international oil companies.

However, bold macroeconomic policies can reverse this projection. The foregoing as well as the continuation of PMS subsidies imply low oil revenues for the Federal Government, weak accretion to external reserves, and further pressure on the local currency. As a result, the Balance of Payments (BOP) position recorded an overall deficit of 1.15 per cent of the GDP in Q3 2022, compared with a surplus of 0.08 per cent of the GDP in Q2 2022. The BOP deficits were due to a decline in export earnings and remittances, as well as a rise in the net acquisition of foreign currency and deposits held in foreign banks by the private sector. Consequently, the IMF (WEO, October 2022) projected the

Nigerian economy to moderate to 3.2 and 3.0 per cent in 2022 and 2023 from 3.6 per cent in 2021. The World Bank (GEP, January 2023) also expected the economy to slow down from 3.6 per cent in 2021 to 3.1 and 2.9 per cent in 2022 and 2023, respectively. Notwithstanding these circumstances, bold policies targeted at raising significantly more revenue, managing debt accumulation, moving to a market-based PMS pricing, and tackling long- standing structural impediments to growth can reverse this outcome.

Thankfully, the banking system remains sound, safe, and resilient. Industry Non-performing Loans (NLs) decreased from 4.9 per cent in December 2021 to 4.2 per cent in December 2022, which was below the maximum prudential requirement of 5.0 per cent. The decline in NPLs was attributable to write-offs, restructuring of facilities, Global Standing Instruction (GSI) and sound credit risk management by banks. Total assets of the banking industry grew by ₦14.36 trillion or 24.24 per cent from ₦59.24 trillion in December 2021 to ₦73.59 trillion in December 2022, driven by balances with CBN/banks, investments, and credit expansion to the real sector. As a result, total gross credit increased by N5.14 trillion or 20.93 per cent between the end of December 2021 and December 2022, from N24.57 trillion to N29.72 trillion, due to the increase in the industry funding base as well as the CBN's directive on LDR, which has encouraged banks to increase lending to the real sector of the economy, and business strategy and competition. The increase in credit to the key sectors of the economy is expected to bolster aggregate demand and promote economic growth, job creation, and poverty alleviation.

Overall, policymakers need to keep an eye on pre-existing macroeconomic imbalances and headwinds. The global economic slowdown (especially in the United States, the Euro Area and China), the Russian-Ukraine war, geopolitical fragmentation, weaker currencies in many EMDEs, and rising external debt are all weighing on domestic investment and further exacerbating the existing domestic headwinds. With China re-opening after three years of zero Covid policy, these headwinds are, however, expected to moderate and improve global growth, but could also be a risk to global inflation. Domestically, although oil production has improved, it is still below the OPEC allocation quota of about 1.8 mbpd due to high production costs, oil theft and pipeline vandalism. Low oil production in the face of high oil prices continues to reduce fiscal space, with consequences for external debt and foreign reserves accretion.

Given all the above, tackling runaway inflation and engendering growth continue to be top priorities. Although inflation has started to decelerate, it is still far above the implicit target set by the Bank. Also, monetary aggregates are above their provisional benchmarks and real interest rates are still in negative territory. The Bank must, therefore, not lose focus on containing inflation because it continues to disproportionately affect low-income households and the most vulnerable in the society by reducing their real income and exacerbating inequality and poverty.

On account of high-level inflation, growth in the money supply, negative real interest rates, general election spending, and the need to be consistent and credible, I voted to raise the MPR by 100 basis points.

- Increase the Monetary Policy Rate (MPR) from 16.5 percent to 17.5 percent.
- Retain the Cash Reserve Ratio (CRR) at 32.5 percent.
- Retain the Liquidity Ratio (LR) at 30.0 percent; and
- Retain the asymmetric corridor to +100/–700 basis points around the MPR.

8. OMAMEGBE, MO'

Global Economic Developments

The year 2022 was a challenging year for the global economy. The many challenges of 2022 included the Russian Federation's invasion of Ukraine, the supply bottlenecks associated with the disruptions from the war, high energy-prices, persistent inflationary surge accompanied by an aggressive monetary tightening cycle. This is in addition to extraordinary financial market volatility, tightened global financial conditions as well as China's sustained zero Covid-19 policy. These series of events set back the global economy in 2022 and the general prognosis for 2023 remains gloomy and uncertain.

The International Monetary Fund (IMF) has warned that a third of the global economy would be affected by recession this year.[1] The Fund also observed that it would feel like a recession for hundreds of millions of people, even for countries not in recession. The latest World Bank Global Economic Prospects Report[2], forecast that global growth will decline to 1.7 percent in 2023 from 3.0 percent expected six months ago. The worsening outlook is broad-based in almost all regions of the world and the World Bank has lowered its growth forecasts for 95 percent of advanced economies and over 70 percent of emerging market and developing economies.

Domestic food price inflation continues to remain high in almost all countries and substantially above central bank targets in almost all inflation targeting economies. CPI inflation is expected to remain high at 5.2% in 2023 before falling to 3.2 % in 2024. Also 94.1% of low-income countries, 92.9% of lower-middle-income countries, and 89% of upper-middle-income countries have

[1] https://edition.cnn.com/2023/01/02/business/imf-china-global-economy-recession-intl-hnk/index.html

[2] https://openknowledge.worldbank.org/bitstream/handle/10986/38030/GEP-January-2023.pdf

experienced inflation levels above 5%, with many such as Nigeria experiencing double-digit inflation. [3]

In the United States, Consumer price inflation for December shows that the Index for All Urban Consumers decreased 0.1 percent, down from a 7.1% gain in November[4], Year-over-year CPI inflation reached a 40-year high of 9.1% in June, 2022.[5] In the UK[6], the Consumer Prices Index (CPI) rose by 10.5% in the 12 months to December 2022, down from 10.7% in November 2022 and 11.1% in October 2022. Inflation trended up throughout 2022, reaching a 41-year high of 11.1 per cent. The pace of upward price movements in Germany slowed in December 2022, moving back into single digits, owing to lower energy prices and a government relief package in December 2022.[7] Germany ended 2022 with an overall inflation rate of 8.7 percent, the highest annual rate since the country's reunification after the end of the Cold War in 1990 and up from just 3.2 percent in 2021. In China, the average CPI for all of 2022 was 2.0% higher than in 2021, compared with the government target of an increase of around 3%.

According to the World Economic Forum[8] Global Risks Report 2023, the world is at a critical inflection point, Policy makers globally are grappling with two conflicting risks namely, failing to raise rates high enough will allow high inflation to persist, while raising rates too high will lead the economies into recession.

Global stock markets posted their biggest annual drop since the 2008 financial crisis. The MSCI All-Country World Index of stocks lost about a fifth of its value during 2022, the worst performance in 14 years. Oil however recorded its second

[3] World Bank, https://thedocs.worldbank.org/en/doc/40ebbf38f5a6b68bfc11e5273e1405d4-0090012022/related/Food-Security-Update-LXXVI-January-12-2023.pdf

[4] https://www.forbes.com/advisor/investing/current-inflation-rate/
[5] https://www.bls.gov/cpi/
[6] https://www.ons.gov.uk/economy/inflationandpriceindices/bulletins/consumerpriceinflation/december2022
[7] https://www.nytimes.com/2023/01/03/world/europe/germany-inflation.html
[8] The Global Risks Report 2023 18th Edition
https://www3.weforum.org/docs/WEF_Global_Risks_Report_2023.pdf

annual gain, after a turbulent year. In March 2022, Brent crude reached its highest point since 2008, reaching $139 a barrel, when traders anticipated disruption to Russian supplies. However, crude prices then fell back from that March 2022 peak, ending the year about $83 a barrel, owing to concerns that the global economy was weakening. The darkening global economic outlook and COVID-19 flare-ups in China will likely impact demand as well as compensate the impact of supply shortfalls from Russia.[9] OPEC forecast that global oil demand will reach 101.8mn b/d in 2023, up from 99.55mn b/d in 2022.

Domestic Economy

The Word Bank[10] Growth forecast for Nigeria was revised to 3.1 percent in 2022, a 0.3 percentage point reduction from the June 2022 projection. AfDB[11] estimates Nigeria's growth will average 3.2 per cent in 2023 while inflation rate, which closed at 21.24 percent the previous year, is expected to slow down to 14.6 per cent.

The inflation report from the National Bureau of Statistics (NBS) shows that In December 2022, the headline inflation eased to 21.34% compared with November 2022 headline inflation of 21.47%. This is a decline of 0.13% when compared with November 2022 inflation rate. However, on a year-on-year basis, the headline inflation was 5.72% points higher compared to the level recorded in December 2021 at 15.63%. The inflation numbers reflect that Food and Core inflation averaged 20.6 and 15.8 percent, respectively, in 2022. Since the country relied heavily on imports for manufactured and industrial intermediate goods, global inflationary pressure permeated all productive activities in Nigeria. On the domestic front, a combination of cost-push and

[9] https://www.reuters.com/business/energy/economic-weakness-set-weigh-oil-price-2023-2022-12-30/#:~:text=A%20survey%20of%2030%20economists,%2499%20per%20barrel%20in%202022.

[10] https://openknowledge.worldbank.org/bitstream/handle/10986/38030/GEP-January-2023.pdf

[11] https://www.afdb.org/en/documents/africas-macroeconomic-performance-and-outlook-january-2023

demand-pull factors were significant drivers of the surge in the general price level.

The country's recovery in 2022 was driven by the service and agriculture sectors with the non-oil sector posting an average growth of 5.1 percent in the first three quarters of the year, while the oil sector contracted by 20.7 percent in the same period due primarily to the decline in domestic crude oil production, massive crude oil theft and governance challenges.
The Nigerian Upstream Petroleum Regulatory Commission, revealed that crude oil production in Nigeria rose to 1.235 million barrels per day in December 2022, representing the highest output since March 2022. Crude oil production in Nigeria had crashed to as low as 0.937mbpd in September 2022, which was the lowest output recorded in Nigeria in several years. The Nigerian National Petroleum Company (NNPC) Limited has disclosed that the country will export Premium Motor Spirit by mid-2023 as local refining capacity is set to jump to 1.1 million barrels per day.

Nigerian Capital Market

Despite the rising inflation and interest rate hikes, the equities market ended the year 2022 on a positive note. Data from the Nigeria Exchange Limited, shows The NGX All Share Index (ASI) closed at 51,251.06 points as of December 31, 2022. This represents a 19.98% increase when compared to the close of 42,4716.44 as of December 31, 2021. The index was the best performing in Africa and crossed the 50,000 mark for the first time since post market crash 2007-2008. Also, market capitalization increased from ₦22.30 trillion to ₦27.92 trillion for the same period representing a 25% increase. The volume of securities traded increased by 95% from 460 million shares to 890 million shares, while the value of securities traded decreased by 25.06% from ₦9.88 billion to ₦7.36 billion.

The current principal statute governing operations in the capital market is the Investments and Securities Act (ISA) 2007. The Securities and Exchange Commission (SEC) has observed areas requiring review in order to strengthen the existing provisions, remove ambiguities, introduce new provisions that would enhance the international competitiveness of the Nigerian capital market and reposition the market to catalyze National economic transformation.

Given the highly technical and dynamic nature of the capital market as well as the market's evolution since the passage of the ISA 2007, it was the consensus by major stakeholders in the capital market community that rather than wholesale amendments, a complete overhaul of the ISA through a new Bill would be more expedient towards the objective of consolidating the efficiency, transparency and viability of the market.

The House of Representatives passed the Investments and Securities Bill in December 2022, after which the document was sent to the Senate for Concurrence. The passage of the Bill will lead to a holistic strengthening of the Legal and Regulatory Framework underpinning capital market operations in the Country.

Overall consideration

In 2022, we saw Central Banks aggressive policy tightening in the United States, the EU and other parts of the world to address persistent inflation. In Nigeria, the Monetary Policy Committee hiked the Policy rate four times in 2022 by 500 basis points from 11.5 up to 16.5% to tame rising prices. We have seen inflation remain stubbornly high though increasing at a decelerating rate.

Statistics from NBS shows that Consumer-price inflation in Nigeria averaged 14.15% over the period January 2009 to December 2022. It peaked at 20.94% in December 2022, with a low of 9.4% in April and May of 2014. Since 2020, consumer price inflation has averaged 17.85% with a low of 13.8%.

Increasing price pressures remain an important threat to current and future prosperity as it puts pressure on real incomes. Permanently high inflation also undermines our economic foundation as well as our macro-economic stability.

The effect of consistent monetary policy tightening has driven up debt service costs for households and borrowing costs for businesses with negative implications for production and growth. The fiscal challenges of poor revenue performance and growing deficit financing on the one hand, and rising energy and food prices on the other, combine to exacerbate the rising price levels while increasing downward pressure on growth.

There is an urgent need for monetary and fiscal policy alignment to address the persistent inflationary pressures. Monetary policy should be complemented by bold fiscal measures to address rising sovereign debt, revenue challenges, restore crude oil production to pre-pandemic levels and phase out fuel subsidy that does not seem to trickle proportionately to the poor and most vulnerable segment of our population.

The medium to long term solution remains the implementation of policy initiatives to fully unlock the productive capacity of our country. A relentless focus on production and policy measures to enable the key components of the production value chain drive the Nation to self-sufficiency and economic independence.

There was a slight dip in headline Inflation and food Inflation in December 2022 (YoY). However, the insignificant reductions in one-month numbers do not justify a policy reversal at this time. We are certainly not out of the woods and the need to curb inflation and tackle the current cost-of-living crisis should remain a top policy agenda.

My Policy Decisions

I therefore vote to:

- Raise MPR by 50 basis points to 17 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 ADAYA

Global Developments and Economic Outlook

Many of the factors that adversely affected the global economy are still around us, suggesting that the global economic growth would decelerate in 2023. The continued war in Ukraine, the lingering effects of the Covid-19 pandemic in China, and the hike in central bank rates to fight inflation around the world have all continued to weigh on global output. It is for these reasons that the International Monetary Fund (IMF) estimated that growth in global output will slow down from 3.4 percent in 2022 to 2.9 percent in 2023, before rising to 3.1 percent in 2024 (World Economic Outlook, January 2023).

However, the performance of the global economy exhibited considerable regional variation, with the Advanced Economies (AEs) estimated to have grown by 2.7 percent in 2022 and projected to grow by 1.2 percent in 2023. In contrast, the Emerging Market and Developing Economies (EMDEs) were estimated to have grown by 3.9 percent in 2022 and projected to grow by 4.0 percent in 2023. Within the AEs, the United States of America (USA) economy, which after two consecutive quarters of negative growth, grew at an annual rate of 3.2 and 2.9 percent in the third and fourth quarters of 2022, respectively, primarily reflecting increases in inventory investment and consumer spending. For the whole 2022, the US economy was estimated to have grown by 2 percent and projected to grow by 1.4 percent in 2023. In the Euro Area, quarterly economic growth stood at 0.3 and 0.1 percent in the Q3 and Q4, 2022, respectively. On a yearly basis, however, economic growth slowed to 1.9 percent during the fourth quarter in the Eurozone, which was badly affected by the war in Ukraine.

In the case of the EMDEs, the zero Covid policy in China dampened growth to 2.9 percent (year-on-year) in Q4, 2022, down from 3.9 percent in Q3. It is expected that the recent lifting of zero Covid policy in China will pave the way for a faster than expected recovery. For the full year of 2022, the economy grew by 3.0 percent, missing the official target of around 5.5 percent and marking the second slowest pace since 1976 (World Economic Output, January 2023). In contrast, Saudi Arabia and India outperformed the rest of the EMDEs by recording GDP growth rate of 8.7 and 6.8 percent, respectively, in 2022. However, growth in both countries was projected to decelerate to 2.6 and 6.1 percent in 2023, respectively.

Global inflation remained elevated across AEs and EMDEs although inflation pressure in the former started to dissipate. Thus, global inflation is predicted to decelerate in 2023 as the monetary policy tightening by central banks across the world begins to rein inflation. It is noteworthy, however, that high energy and food prices still pose significant upside risks to global inflation. Thus, inflation in EMDES in particular is likely to remain elevated due to additional reasons such as declining capital inflows, exchange rate volatility and structural issues.

Domestic Developments

Although the Nigerian economy had sustained positive output growth for eight consecutive quarters since it exited from recession in 2020, growth has started to slow down, for several reasons, including the continued hikes in interest rates over the second half of 2022, and revenue challenges. According to the IMF, the Nigerian economy was expected to grow by 3.0 percent in 2022 and projected to improve to 3.2 percent in 2023. It is expected that the observed efforts by the security agents to curb oil theft in the Niger Delta would help to boost oil production and revenue, thereby promoting economic stability.

In terms of the general level of prices, headline inflation dipped slightly in December 2022, but it is still high by the data released by the National Bureau of Statistics (NBS), headline inflation declined from 21.47 percent in November 2022 to 21.34 percent in December 2022. However, average annual headline inflation rose to 18.77 percent in 2022 (the highest level since 2001), up from 16.98 percent in 2021. Some of the factors that contributed to the persistent rise in inflation include the continuous rise in energy and food prices, insecurity, incessant flooding, rural road infrastructure deficits, supply chain disruptions, post-harvest losses and imported inflation pass-through. Although food inflation also reversed an upward trend from 24.13 percent in November 2022 to 23.75 percent in December 2022, such a level is quite unacceptable.

Policy Decision

Although it is not a good practice to make inferences or generalisations based on a single episode, the dip in the headline inflation in December 2022 may suggest that the recent monetary policy tightening has started to yield positive results. However, it is too early to start loosening the monetary policy stance. Moreover, given the huge gap between inflation rate and the policy rate, there is still room for further monetary policy tightening. Furthermore, factors outside the monetary policy environment have also played a key role in influencing the performance of the economy. Thus, there is need to address these non-monetary factors to complement the efforts of the monetary authorities to curb inflation in the country. Given the current challenges facing the fiscal authorities, the CBN will have to continue to do whatever it takes within its powers to curb inflation in Nigeria. Nonetheless, the pace of monetary policy rate tightening should be slowed to provide a boost to economic growth.

Accordingly, I voted to:

- Raise the MPR by 100 basis points to 17.5%
- Retain the CRR at 32.5%
- Retain the Asymmetric Corridor at +100/-700 basis points around the MPR
- Retain the Liquidity Ratio at 30.0%

10. SANUSI, ALIYU RAFINDADI

1.0 Decision

My vote for a raise was informed by the need to sustain the tightening of the monetary policy stance to rein in inflation. Although the year-on-year headline inflation declined in December 2022, the underlying dynamics of the core and food sub-components as well as their month-on-month measures, are complex, suggesting that the one-month decline may be a blip. Sustaining the tightening would, therefore, narrow the negative domestic real interest rates margin further amidst the rising yields in the Advanced Economies and moderate the rising domestic foreign exchange market pressure. In addition, tightening is also needed to moderate the effects of election-related spending and the liquidity associated with the proposed Government borrowing in 2023. I, therefore, voted to raise the MPR.

2.0 Background and Justification

2.1 Global Economic Development

The global output growth is expected to slow amidst declining but elevated inflation due to the heightened uncertainties due to the Russia -Ukraine war and unabating COVID-19 pandemic in major Chinese industrial cities as well as the synchronised policy responses of the major central banks.

The consequences of the Russia-Ukraine war, the COVID-19 resurgence in China, rising global debt levels and synchronised monetary policy tightening by major central banks continue to shape the global economic environment. Accordingly, the global output is expected to slow down, with a third of the global economy facing the risk of recession in 2023. The World Bank's forecasts for global output show a decline from 2.9% in 2022 to 1.7% in 2023. In the Advanced Economies (AEs), output growth is also forecasted to decline progressively from the 5.2% achieved in 2021 to 2.5% in 2022 and 0.5% in 2023 due, mainly to the deteriorated economic conditions occasioned by the high inflation and rapid monetary tightening. Quarter-on-Quarter (Q-o-Q) output in the US expanded by 3.2% in Q3 2022, following the second quarterly contraction of -0.6% in 2022Q2. Output in the UK economy contracted by -0.3% in 2022Q3 compared to 0.2% in 2022Q1 due to a decline in business investment, household expenditure, financial tightening and a rise in energy prices. Output growth in the Euro area declined from 0.7% in Q2 2022 to 0.3% in Q3 2022 as energy prices continue to weigh down output growth. Japan's output contracted in Q3 2022 to -0.2% from 0.9% in Q2 2022 due to weak Government spending and private investment.

In the EMDEs, output growth is projected to slow down from the 6.7% achieved in 2021 to 3.4% apiece in 2022 and 2023 due to the tightened global financial conditions, supply chain shocks, currency depreciation, high inflation and significantly weak external demand. Q-o-Q output increased in China to 3.9% in Q3 2022, from a negative growth of -2.7% in Q2 2022, due to stimulus packages and relaxation of the zero COVID policy and easing of the lockdown measures. Russia's output is forecasted to expand by 1.1% in Q4 2022, from the contraction to -0.8% in Q3 2022. In Nigeria, Q-on-Q output expanded by 9.68% in Q3 2022 from -0.37% in Q2 2022. The composite Global PMI of JP Morgan also indicated an increase in economic activity in December 2022 to 48.2 index points from 48.0 index points in September 2022. The Global Manufacturing component, however, declined by -0.2 index points, while the Global Services component remained flat between November and December 2022.

Although global inflation is expected to moderate in 2023, it 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.

Major central banks have continued to raise their rates in order to rein in inflation. The US Fed increased its rate in 2022 by a cumulative 450 basis points, the Bank of England increased its repo rate by cumulative 325 basis points, and the ECB raised its rate by cumulative 250 basis points in 2022, and is expected to continue to hike rates in 2023. In the EMDEs, Ghana, Egypt, South Africa, and Indonesia have similarly raised their rates. The EMDEs have maintained policy tightening in response to the rising inflation due to rising energy and food prices and anticipated capital outflows reversals associated with rising yields in the major Advanced Economies. In 2022, net capital flows to EMDEs declined by 90% compared to 2021 due to the rising interest rate in the AEs and the strong US dollar. Capital flows to EMDEs are expected to continue to contract in 2023.

Some key implications of these global developments on the domestic economy include rising imported inflation, tighter external financing conditions, higher debt service payments, and increased pressure on foreign exchange reserves and the foreign exchange market.

2.2 Domestic Economic Developments and their Implications

Available data shows that, in Q3 2022, the domestic output grew by 2.25% (Y-o-Y) compared with 3.54% achieved in Q2 2022. The growth was driven by the growth of the non-oil sector (4.27%), particularly Services (7.01%) and Agriculture (1.34%). However, the non-oil output contracted by -22.67% due to oil production challenges. Output growth for 2022 is forecasted at 2.88% down from 3.43% in 2021.

Domestic inflation declined (year-on-year) from 21.47% in November 2022 to 21.34% in December 2022, representing a 13-basis point decrease driven by the decline in food inflation. Food inflation declined to 23.75% in December from 24.13% in November 2022, representing a 38-basis point decrease. The core inflation, however, increased by 25 basis points from 18.24% in November to 18.49% in December 2022. On a month-on-month basis, however, the headline inflation increased, during the same period, by 32 basis points, while the core inflation decreased by 34 basis points. Comparing these changes suggest that the observed decline in the headline measure in December may not indicate a sustained decline in inflation. Survey estimates of inflation expectations showed that expected inflation declined in December 2022 compared to November 2022 and was lower than actual inflation since September 2022. Developments in the monetary sector show that broad money (M3) growth increased to 17.72% in December 2022 compared to 16.29 in November 2022 and has continued to be above the benchmark of 15.21% for the year 2022. This increase was driven by Net Domestic Asset (NDA), which grew by 36.46% (year-to-date) in December 2022. The key drivers of the NDA was net claims on Government which grew by 78.15% (y-t-d) in December 2022, which in turn was driven by FGN's borrowing from the central bank (93.21%), commercial banks (44.26%) and non-interest banks (79.13%). This suggests that monetary and fiscal factors have continued to play an important role in the current inflationary processes. Staff forecasts showed that headline inflation would increase from 21.09% in October 2022 to 21.29% in November 2022.

A review of the banking system stability report showed that the Capital Adequacy Ratio stood at 13.8% in December 2022, above the regulatory minimum of 10%. The Non-Performing Loans (NPLs) ratio was 4.2%, below the regulatory maximum of 5%. The industry's total credit to the economy continued to trend upward since 2019 following the Bank's LDR policy, standing at N29.49 trillion as of December 2022. It has increased by N5.14 trillion between December 2021 and December 2022.

3.0 The Basis for My Policy Choice

At 21.34%, the level of inflation is well above that, which is damaging to growth. Although the data from NBS showed a decline in inflation in December 2022, the underlying dynamics suggest that the decline may not indicate a turning point of the upward trend in inflation. Although staff forecasts suggest a further decline in inflation in January, the persistent shortages of PMS and AGO are a significant risk. In addition, election-related spending is expected to add significant inflationary pressure to the economy. In considering the options to tighten, hold or loosen the policy stance, monetary policy should continue to be tightened to rein in inflation and mitigate the rising foreign exchange pressure. Consequently, I voted to:

Raise the MPR by 100 basis points to 17.5% per cent;

Retain the CRR at 32.5 per cent;

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

Retain the liquidity ratio at 30.0 per cent.

11. SHONUBI, FOLASHODUN A.

Hopes of the global economy returning to full normalcy after the gradual re-opening from the COVID-19 pandemic lockdowns was dashed by a combination of events which disrupted the slow recovery that heralded year 2022. The dragging effect of zero-COVID policy on the Chinese economy and elevated global inflation, driven by increase in food and energy prices on account of Russian-Ukraine crisis, combined to precipitate a gloomy global economy throughout 2022. Hence, year 2023 is starting on a shaky note, amidst lingering disruptions to global supply chain and a tighter policy environment, heightening the fear of severe slowdown and possible recession.

While contending with spillovers from developments in the global economic environment, Nigeria is also grappling with peculiar happenings in the domestic economic and socio-political environment. The country struggled with high inflation, supply chain difficulties and disruptions to domestic production from insecurity. Targeted interventions though helped to keep output at positive level. Notwithstanding that aggressive monetary policy recalibration may have accounted for a marginal moderation in inflation, ensuring synchronized actions by fiscal and monetary authorities to address the challenges will help to preserve the fragile progress so far made and aid the steady return to normalcy, especially as the usual complications of an election period stares us in the face.

Global Economic Developments

The global economic landscape was bedeviled by severe price pressure and disruptive effects of the ongoing Russian-Ukraine crisis in 2022. The impact on global economy was aggravated by the slowdown in China and tightening financial condition due to widespread recalibration of monetary policy to tame inflation. Elevated prices adversely impacted the purchasing power and living cost in the Advanced Economies causing slowdown in economic activities, just as growth prospect in Emerging and Developing Economies was subdued by the effect of high inflation, commodity market uncertainties and record level sovereign debt.

Domestic Economic Developments

Headline inflation (year-on-year) declined marginally to 21.34 per cent in December 2022, from 21.47 per cent in November 2022. On month-on-month basis, headline inflation, however, inched up to 1.71 per cent, compared with 1.39 per cent in the preceding month. General price increase continued to be driven by rise in food inflation due to production and distribution challenges, as well as upward trend in core inflation, on account of supply shortage and exchange rate pass through to production cost and prices.

The non-oil sector has been the major driver of growth over the last eight (8) quarters with contribution to overall GDP at 94.34 per cent in Q3:2022. This reflected strong performance of the service sector, especially information & telecommunications subsector, trade, and muted expansion in the agriculture subsector. The trend has more than made up for the dismal performance of the oil sector, which is plagued by theft, low investment, and production, denying the economy benefits of the current high price regime in the global oil industry.

The Nigerian banking system weathered the storm of a challenging 2022, ending the year on a generally positive note thereby re-emphasizing its resilience. Aside from the industry capital adequacy ratio which closed the year at 13.80 per cent, lower than 14.50 per cent at the beginning year, but within the prudential range of 10.00 per cent – 15.00 per cent, all other major financial soundness indicators were in a state better than the levels at the beginning of 2022. In addition, industry asset and deposit grew throughout the year, highlighting the positive impact of CBN's financial system stability enhancing measures on the sector.

Trends in monetary aggregates were elevated, while developments in the financial markets generally reflected cautious sentiments due to fallouts from uncertainties in the global environment. Growth in major monetary aggregates surpassed the benchmark, driven by expansion in claims on both private and public sectors. Money market rates reflected the impact of aggressive monetary policy tightening stance, while the capital market ended the year on a positive note, reflective of the better-than-expected fortunes of major companies on the Exchange.

In 2022, dwindling foreign inflow, amidst rising demand and marginal accretion to reserves exerted persistent exchange rate pressure in the external sector. Trade and current account balances continued to be pressured by high import, even as the authority do all it can to promote export. The fiscal space was constantly under pressure in 2022, as the authority contended with the challenges of low revenue and resources to fund huge expenditure requirement for promoting expansion of economic activities, resulting in increased debt burden.

Overall Considerations and Decision

As we begin 2023, global growth prospect has been significantly dampened by constrained aggregate demand in the Advanced Economies, due to widespread purchasing power and cost of living crisis. Burden of huge debt in Emerging and Developing Economies has locked-up scarce resources required to stimulate economic activities. The situation is compounded by projected impact of general monetary policy tightening to tame inflation. consequently, strong probability of inflation remaining above pandemic levels, imminent financial stress and heightened prospects of extended slowdown are feared might trigger a recession.

As we continue with targeted intervention in selected sectors, domestic output is expected to remain positive in 2023, though at a slightly moderated rate. CBN has no doubt done its best to promote growth through preservation of the banking system's resilience and sustained flow of credit to specific areas of the real sector. Marginal rebound in service and industrial Purchasing Manager's Index, though below 50.0 point, are reflective of some recovery and optimistic sentiment in productive activities, on account of improvement in the state of security. At this juncture, while I continue to support the preservation of ongoing collaboration between the Federal Government and the CBN, I must reiterate again the need for state governments to rise to the occasion and play their part as critical facilitators of business and productive activities. As I have mentioned in my previous statements, synchronized implementation of reforms by states will go a long way to propel productivity, close the output gap and create employment.

Importantly, despite our many efforts to facilitate and promote improvement in the economy and social-political life of Nigerians, elevated inflation is a major obstacle to progress across various sectors. We cannot celebrate the negligible slowdown in December 2022, because the present double-digit inflation has grave implications for citizen's purchasing power and cost of living, as well as cost of production and fortunes of businesses. It is indeed a severe drain on citizen's income and disincentive to investment.

I admit that we have done much over the last meetings, adjusting the policy rate to curb excessive demand. However, from the data we reviewed at this meeting, liquidity in the system remain high and an important driver of inflationary pressure. Without doubt currency redesign will go a long way to address the cash aspect of excess liquidity. Also, either on account of the financial operations and financing/spending dynamics of the fiscal authority or due to unintended consequences of financial market operations, huge non-cash liquidity in the system exerts severe inflationary pressure. Cyclical spending in an election year is another channel with major impact on liquidity. Clearly, it is not yet time for us to relent. We must continue to take stringent actions and tighten further to address the challenges of excess liquidity in the system.

I therefore vote to:

- Raise MPR by 150 basis points to 18.0 per cent;
- Retain asymmetric corridor of +100/-700 basis points around the MPR;
- Retain CRR at 27.5 per cent; and
- Retain Liquidity Ratio at 30 per cent.

12. EMEFIELE, GODWIN I.

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

Global conditions remained severely distressed as the year-long war in Ukraine persists with no end in sight. Prevailing risks to short-term prospects are escalating, reflecting the adverse effects of the conflict on output and inflation. Global outlook is rapidly diminishing and broadening across countries and regions. Recovery has stalled and growth momentum fallen. Although inflation is beginning to moderate in some key economies, profound energy supply bottlenecks is steepening prices to levels that drastically debilitate business confidence and erode households' purchasing power. Yet, widespread monetary tightening to curb inflation is worsening global fragility. Massive layoffs in the US, protracted war in Europe that exacerbated commodity and energy supply shortages, and chronic slowdown in China, jointly portend global recession. Accordingly, IMF projections cap global growth at 3.2 percent for 2022 and 2.7 percent for 2023, reflecting lower estimates for both advanced economies and EMDEs.

Amidst the dampening effect of global conditions, short-term outlook of the Nigerian economy remained stable and tilts to the upside. The steady pick-up of economic activities observed throughout 2022 is expected to continue in 2023, keeping recovery on-track. This follows programmed measures to mitigate external shocks, curtail domestic constraints, strengthen economic fundamentals, elicit structural rebalancing, and boost long-run prosperity. Regardless of existing fragilities and relentless exogenous threats, the Nigerian economy has so far largely withstood powerful global pressures.

With a 2.25 percent year-on-year growth in 2022q3 vis-à-vis 3.54 percent in 2022q2, GDP remained on track and could consolidate in 2023. This followed the sustained rebound of business activities, increased labour mobilisation, and expanding productive capacity especially in the non-oil sector. At 4.27

percent, growth in the non-oil sector remained robust in 2022q3 reflecting the faster 7.01 percent expansion in services and 1.34 percent in agriculture. However, contraction of oil GDP worsened to -22.67 percent due to acute impairments in the sector. In-house analysis projects 2023 growth at 3.01 percent vis-à-vis 2.88 percent estimated for 2022 and 3.40 percent recorded in 2021. This performance was buoyed by 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.

Though year-on-year inflation rate, at 21.34 percent in December 2022, remained above medium-term average and the Bank's tolerant band, it eased 0.13 percentage points from November. This marginal reduction reflected the 0.38 percentage points drop in food inflation to 23.75 percent as against the 0.25 percentage points rise in core inflation to 18.49 percent. This year-on-year disinflation is feeble, especially as seasonality factors elevated month-on-month inflation by 0.32 percentage points to 1.71 percent in December. I noted that headline inflation, at over 21 percent unacceptably remained at growth-inhibiting level and must be resolutely tackled. Generally, global forces, infrastructure and energy drawbacks, security challenges, electioneering cycle, plus logistic and distribution inadequacies are propping domestic inflation. Some of these factors are being tackled through our developmental initiatives. Near-term outlook suggests noticeable disinflation in 2023 if adequate policy measures are timeously undertaken.

Observed inflation levels also reflected liquidity conditions in December 2022. At 11.61 percent, the 0.85 percentage points (month-on-month) fall in weighted average OBB rate implied surfeit of financial market liquidity. Correspondingly, money stock (M_3) quickened by 16.52 percent beyond the 15.21 percent programmed target and 13.92 percent in November 2022. This was attributable to 36.46 percent growth of net domestic assets following the 20.17 percent rise in banking system credits to the private sector. With a N5.14

trillion year-on-year rise in December 2022 to N29.72 trillion, gross credit by the banking industry maintained its upward trajectory since 2019 due largely to CBN's LDR directive, increased industry funding base, and business competition. Satisfyingly, key performance indicators showed wide-ranging stability of the banking system with the NPL ratio (4.21 percent), liquidity ratio (44.12 percent) and CAR (13.76 percent), all outdoing their prudential limits.

In my consideration, I note that the global economy continues to face arduous challenges, which has broadly weakened short-term prospects. The risk of global downturn is heightened as the Russia-Ukraine war dislocates global supply of energy and commodities. Growth momentum is waning even as the energy crisis keeps inflation at records heights. Widespread monetary tightening to curb inflation is further constricting global demand and elevating financial vulnerabilities. The conflict could protract longer-than-envisaged, thus, elongating global economic distress, escalating the stress on households and businesses, permanently denting potential output, and further undermining vulnerable economies.

I note that the Nigerian economy has so far weathered global despondence and adverse spillovers. But the threat is unrelenting and needs to be adequately mitigated with timely macroeconomic measures to strengthen our fundamentals, spur structural rebalancing, ensure self-sufficiency, reduce dependence on external sector, and diversify our productive base. I note that the various development finance initiatives of the CBN are helpful so far, with a tangential benefit of lowering structural inflation. I also note that, although, the recent drop in inflation may signal the start of the disinflation cycle, current inflation has unsatisfactorily remained at growth-inhibiting levels. Failure to effectively tackle inflation will not only entrench it at high levels and detrimentally normalise expectations, but it will also harm long-run growth.

It is also imperative to ensure that inflation is at levels that will reverse negative real interest rate and support business decisions productively. I emphasise the need to decisively curb inflation mindful of the attendant output loss from tighter policy. To modulate the sacrifice-ratio, and based on available projections, I am inclined for a reduced pace of tightening at this meeting. Overall, I note that global downturn continued to threaten domestic outturns, as energy constraints push inflation to harmful heights. Further monetary tightening to reverse high inflation expectation is paramount at this moment, although such hike could be at lesser pace to balance output concerns. I note that earlier tightening measures are yielding desired results as inflation impetus is waning. I advocate a cautious action that returns inflation within tolerable levels and minimises output loss. Thus, I vote to:

i. Raise the MPR by 50 basis points to 17.00 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

January 2023