CENTRAL BANK OF NIGERIA COMMUNIQUÉ NO. 149 OF THE MONETARY POLICY COMMITTEE MEETING

HELD ON MONDAY 24th AND TUESDAY 25th JULY 2023

The Monetary Policy Committee (MPC) met on the 24th and 25th of July 2023, against the backdrop of continued uncertainties in the global and domestic economies. This included geo-political tensions, threats to globalization and the multilateral economic system. On the domestic front, output growth continued at a moderate pace, while the general price level remained elevated as markets adjust to the new policies introduced by the Federal Government. Consequently, these developments at both the global and domestic levels continue to pose significant challenges to the policy environment.

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

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

Global Economic Developments

The Committee reviewed developments impeding the smooth recovery of the global economy. Notable amongst these, is the continued hostility between Russia and Ukraine, as Russia reneged from further renewal of the Black Sea Agreement. This development would likely push commodity prices much higher than current levels. In addition, China's slow recovery is dampening global trade, while the increasing polarization of the global economy with several economies seeking

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macroeconomic alliances with the group of BRICS countries, is increasing uncertainty in the direction of trade flows.

Inflation across several Advanced Economies has continued to moderate but remains considerably above their respective long-run objectives even as monetary policy tightening progresses. In the Emerging Markets and Developing Economies, inflationary pressure remains broadly elevated, though there are signs of moderation in some countries. Global Inflation is, thus, expected to remain elevated through 2023, despite broad measures by several central banks to ease the pressure.

In the global financial markets, financial conditions remain tight and may exacerbate further as monetary policy normalization progresses. Investors' preference is thus, shifting to advanced economy fixed-income securities with improved yields as well as safe haven assets.

The International Monetary Fund (IMF), in its July 2023 World Economic Outlook, revised the 2023 output growth forecast for the global economy upwards to 3.2 per cent, from 2.8 per cent in its April forecast. The improved outlook was due to the sustained resilience of the global economy to the prevailing headwinds in the first half of 2023. Global growth is however, projected to moderate downward to 3.0 per cent in 2024.

Domestic Economic Developments

Available output data from the National Bureau of Statistics (NBS) showed that, Real Gross Domestic Product (GDP) grew by 2.31 per cent (year-on-year) in the first quarter of 2023, compared with 3.52 per cent

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in the preceding quarter. While growth moderated, it has remained positive since Q4 2020. This steady and positive performance was driven largely by sustained growth in the services and industry sectors, supported by broad-based measures by both the monetary and fiscal authorities.

Staff projections showed that output growth recovery in 2023 would remain positive as economic agents adjust to the recent policies on zero subsidy on the price of Premium Motor Spirit (PMS) and convergence of exchange rates.

On price development, the Committee noted the continued uptick in inflationary pressure, as headline inflation (year-on-year) rose by 38 basis points to 22.79 per cent in June 2023 from 22.41 per cent in the previous month. This was driven by the moderate increases to both food and core components. Legacy headwinds, including security challenges in major food-producing areas; high cost of transportation driven by the rising cost of energy; and inadequacies in public infrastructure, continue to drive the rise in food and core inflation. Key developments that would likely sustain upward pressure on domestic prices, in the short to medium term, are the recent deregulation of petrol price and the transition to a unified and market-determined exchange rate. The unfolding dynamics in the policy environment and the resultant pass-through to domestic prices would thus require greater collaboration between the Bank and the fiscal authority.

Broad money supply (M3) in June 2023 grew by 24.35 per cent (year-to-date), compared with 6.70 per cent in May, driven largely by the

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increase in both Net Foreign Assets (NFA) and Net Domestic Assets (NDA). Money market rates reflected the level of liquidity in the banking system. Consequently, the monthly weighted average Open Buyback (OBB) and Interbank Call rates decreased to 9.12 and 11.61 per cent in June 2023, from 12.60 and 12.31 per cent in May, respectively.

In the Banking System, Financial Soundness Indicators (FSIs) remained stable and strong. The Capital Adequacy Ratio (CAR) stood at 11.2 per cent, Non-Performing Loans (NPLs) ratio of 4.1 per cent and Liquidity Ratio (LR) of 48.4 per cent, as at end June 2023.

In the financial market, equities remained bullish through the review period, with the All-Share Index (ASI) and Market Capitalization (MC) increased to 60,968.27 index points and N33.20 trillion, respectively, on June 30, 2023, compared with 51,251.06 index points and N27.92 trillion as at December 30, 2022. This indicates continued investor confidence in the Nigerian market as investors foresee a more stable macroeconomic environment once the current policies of the Bank and Federal Government fully permeate the economy.

Gross external reserves improved marginally to US$33.97 billion as at July 20, 2023, from US$33.75 billion in June 2023, as accretion to external reserves remains weak while foreign exchange demand pressures persist.

Outlook

The overall outlook for the recovery of both the global and domestic economies moderated, however uncertainties remain. At the global

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level, legacy headwinds such as the war in Ukraine and slow recovery of the Chinese economy as well as ongoing *bricsification* are key downside risks to output growth. In the domestic economy, factors precipitating the uncertainties remain the continued insecurity, particularly in farming communities; high prices of PMS and other energy products; as well as pressure in the foreign exchange market.

Forecasts for key macroeconomic indicators for the Nigerian economy indicate that the economy will continue to recover moderately through 2023 to grow by 2.66 per cent (CBN), 4.20 per cent (FGN) and 3.20 per cent (IMF).

The Committee's Considerations

The Committee's considerations focused on the persistent rise in inflation and its potential adverse effect on output growth and household income. The continued uptick in inflation (month on month), driven by increase in both the food and core components of the CPI, in the view of members, remained a key challenge. The members also expressed concerns that the recent policy decisions around subsidy removal, exchange rate liberalization and disbursement of palliatives, would have pass-through effects to inflation. Members therefore called for decisive measures, by the Bank, to address the likely liquidity surfeit from these developments, including using appropriate monetary policy instruments.

The Committee urged the monetary and fiscal authorities to sustain its collaboration towards addressing the inflationary pressure and incentivise domestic investment to reduce unemployment and boost

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output growth. It enjoined the Federal Government to continue to explore policies to improve investor confidence in the Nigerian economy and pave way for foreign and domestic investments. Members emphasized the need to attract investments, particularly, to auto manufacturing, aviation, and rail industries to boost non-oil revenues. The Committee, thus, expressed the view that, key policy mechanisms to shield the Nigerian economy from persisting global shocks and other emerging domestic shocks, are urgently required for the economy to continue to post positive growth.

The Committee also recognized the several measures put in place by the Bank to boost foreign exchange liquidity. Particularly, Members were of the view that the recent policy on foreign exchange market reform would increase market transparency and encourage more foreign capital inflows. It, therefore, urged the Bank to leverage on effective policies to attract remittances from diaspora to help moderate exchange rate pressures.

The Committee commended the Bank's role in the effective oversight of the banking system, evidenced by the relative stability in key financial soundness indicators and resilience of the sector, despite tight global and domestic financial conditions. Members, however, noted the potential impact of the recent policy reforms on financial system stability and called on the Management to act proactively to ringfence the banking system from any possible second-round effects. The MPC, thus, urged the Bank to sustain its macro-prudential surveillance over the banking system.

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The Committee's Decision

Following the outlook for the domestic economy, Members were of the view that the Committee was confronted with only two policy options, to hold or hike the policy rate to offset the moderate increase in headline inflation.

Considering the option to hold, the Committee reviewed the impact of the continued rise in inflation on various macroeconomic variables, noting the potential dampening effect on output growth. Members agreed unanimously that the previous series of rate hikes had indeed greatly moderated the pace of price increases.

The option to continue to hike the policy rate, albeit moderately, also presented a strong alternative. This is premised on the expected liquidity injections into the economy from the recent policy developments and the likely impact on inflation.

The Committee remained cautious in arriving at a policy decision as Members noted the need to continue to support investment which will ultimately lead to the recovery of output growth. The balance of these arguments thus, leaned in favour of a moderate rate hike, to sustain efforts at anchoring inflation expectation, narrow the negative real interest rate gap, and improve investor confidence.

The MPC, thus, resolved by a majority vote to raise the Monetary Policy Rate (MPR). Six (6) Members voted to raise the MPR: Four (4) Members by 25 basis points and two (2) Members by 50 basis points. Five (5) Members voted to hold the MPR constant. All Members voted to narrow

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the asymmetric corridor from +100/-700 to +100/-300 basis points around the MPR.

In summary, the MPC voted to:

I. Raise the MPR by 25 basis points, from 18.50 to 18.75 per cent;

II. Adjust the asymmetric corridor to +100/-300 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.

Folashodun A. Shonubi, OFR
Ag. Governor,
Central Bank of Nigeria
25th July 2023

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PERSONAL STATEMENTS BY THE MONETARY POLICY COMMITTEE MEMBERS

1. ADAMU, EDWARD L.

The Monetary Policy Committee (MPC) met in July 2023 against the backdrop of slowing global growth prospects owing to geo-political tensions, high energy prices, and continued anti-inflation policy stances. In April 2023, the International Monetary Fund (IMF) lowered its world output growth projection to 2.8 per cent for 2023 mainly on account of these headwinds. In June, the World Bank announced a much lower projection of 2.1 per cent premised on similar fears. In the domestic economy, the balance of risk remains titled against price stability given the short- to medium term economic outlook. Whereas the monetary policy rate (MPR) is at record high, effectively underpinning high lending rates and potentially constraining output, interbank rates as well open market operations (OMO) and Nigerian Treasury Bills (NTBs) rates continue to be low, suggesting a weakening of the interest rate transmission channel. Unless this situation is remedied, the economy could suffer output loses from policy tightening without commensurate disinflation gains. I saw the need, in this regard, to reinvigorate the monetary policy implementation framework starting with a firmer MPR corridor. I therefore voted at the July meeting to narrow the gap between the Bank's standing/lending facilities, and in furtherance of the tightening orientation of monetary policy commenced about a year ago. Details of my considerations are presented subsequently.

The period May-July 2023 witnessed two major policy shifts in the economy. First, the subsidy on petroleum motor spirit (PMS) was removed and this led to an immediate jump in the pump price of the fuel. Second, the Bank unified the various exchange rate windows which translated to a significant devaluation of the naira at the erstwhile investors and exporters (I&E) window. Both policies had immediate effect on prices, partly reflected in upticks in all the measures of inflation in June 2023. The outlook for inflation in the rest of the year reflects

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continued impact of these policies, justifying therefore a tight policy stance over the short- to medium term.

As it is expected, the effect of the recent policy shocks would transcend their impact on prices. We have seen, for example, a jump in government revenue arising from a higher FX conversion rate. Also noticeable is asset revaluation gains (and loses) for corporates including financial institutions majorly. Though persuaded by the need to keep monetary policy tight in view of the inclement outlook for inflation, the full ramification of the effect of these policies is yet to be seen. This, in part, underscored my cautious disposition at the July meeting of the Committee. Among others, we could see a major contraction in activity in the coming months which might change current trade-offs and other policy calculations.

Already, major indicators of activity are giving signs of weakness. The composite purchasing managers index (PMI) stood at 50.2 index points in June 2023 indicating a slower pace of expansion in economic activity compared with 54.4 index points in May 2023, just as Industry Composite Index (ICI) fell to 50.3 in June 2023 from 53.6 points in May 2023. Services Composite Index (SCI) recorded a contraction, falling below the 50.0 threshold for the first time since April 2022. It stood at 49.0 index points in June 2023, compared to 53.9 index points in May 2023. These trends deserve to be monitored carefully as they broadly suggest that the headroom for tightening might be narrowing faster than previously envisaged.

In terms of the choice of policy instrument, I had indicated in my May 2023 statement the possibility of looking at other instruments. The MPR was already at record high, notwithstanding which, nearly all the measures of liquidity showed unfavorable outturns in June 2023. Average open-buy-back (OBB) rate (month-on-month) declined to 9.12 per cent in June 2023 from 12.60 per cent in May 2023, due to increased liquidity in the banking system - net liquidity balance

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averaged N567.43 billion in June 2023, up from N328.36 billion in May 2023. Correspondingly, the standing deposit facility (SDF) surged while the standing lending facility (SLF) substantially declined. Apparently, actual stance of monetary policy has not fully reflected the intended, owing partly to transmission imperfection. Given this consideration, I opted to look at the corridor for further adjustment instead of the MPR at the July meeting.

Meanwhile, it is comforting that the banking system continues to be resilient. However, it may be too early to judge the impact of recent developments on the industry financial soundness indicators (FSIs). Amongst others, preserving the stability of the system continues to be a key priority on its own, and for effective transmission of monetary policy impulses. I see the recent wave of banking system troubles in the United States and Europe as an important learning point – that we could never take for granted the stability of the domestic banking system. Already there are warnings coming from some of the indicators like the capital adequacy ratio (CAR) which, though still within the regulatory threshold, has gravitated slowly to 11.23 per cent from 14.11 per cent a year ago. Much as the situation is not yet alarming, ignoring it could prove sub-optimal in the medium- to long-term. Slowing the pace of upward adjustment in interest rate could cushion any underlying vulnerability in the banking system.

Overall, I see widespread vulnerabilities – from output to inflation to financial system stability. I see, also, prospects with the extant policy paths. The stock of credit remains sizeable, which is good for economic activity. Besides, the proposed targeted fiscal actions in the agricultural sector and transport palliatives could also go a long way in supporting economic activity. Notwithstanding the shocks from the removal of PMS subsidy and exchange rate harmonisation, effective liquidity management should have a significant dampening effect on consumer price pressures over time. On financial stability, macro-prudential levers remain very important. Conter-cyclical buffers are

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especially helpful in preserving stability in periods of macroeconomic uncertainty. I therefore support immediate activation of relevant prudential levers by the Bank towards ensuring continued resilience of the banking system.

Ultimately, there can be no better time for effective coordination of monetary and fiscal policies than now. This will minimize surprises and enable economic policy to properly anchor market expectation. As more data and analyses become available, it might then be auspicious to onboard other instruments to more rapidly rein-in excess liquidity and consumer price pressures.

In summary, I voted to:

1. Retain the MPR at 18.5 per cent.
2. Reduce asymmetric corridor to +100/-300 basis points around the MPR.
3. Retain the CRR at 32.5 per cent.
4. Retain the Liquidity Ratio at 30 per cent.

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2. ADENIKINJU, ADEOLA F.

International Economic Developments

The Uncertainty persists on global economic growth as most countries continue to battle inflationary pressures. The World Bank projected global growth to moderate to 2.1% in 2023 from 3.1% in 2022 but rise to 2.4% in 2024. The factors driving the trend include high but moderating inflationary pressures, tighter financial conditions, volatile and elevated commodity, and energy prices and worsening of geopolitical turmoil. Global PMI declined from 54.4 index points in May 2023 to 52.7 index points in June 2023. Both global manufacturing and global services indices also declined. Global inflation, though decelerating, is still above central banks' targets. Inflation in the Advanced Economies (AEs) is expected to decline to 4.7% in 2023 and further to 2.6% in 2024. Similarly in the Emerging Markets and Developing Economies (EMDEs), inflation is projected to decline to 8.6% in 2023 and further to 6.5% in 2024. However, the trajectory of food and energy prices would determine the extent of the decline. The crude oil market was soft on fears of a weakening U.S. economy and slowing Chinese demand. However, the announced production cut by members of the OPEC+ may alter the market balance and moderate fall in crude oil prices. Most Central Banks around the world continue the path of interest rates normalization, albeit at a moderate pace. Interest rates in most countries are at the highest historical levels. Portfolio capital flows to emerging markets surged to US$22.1billion in June 2023 from US$10.4 billion in May 2023 as investors' enthusiasm for Emerging Market securities soars. Finally, global debt is expected to remain elevated in 2023 and 2024, as both the AEs and the EMDEs have ramped up debts to historical levels driven by legacy debts and slow economic growth.

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Domestic Economic Developments

A Bank Staff presented the report on the Domestic Macroeconomic Developments and Outlook at the Meeting. Real GDP (y-o-y) growth slowed to 2.31% in Q1-2023 from 3.52% in Q4-2022. The non-oil GDP grew by 2.77%, while oil GDP contracted by -4.21% (y-o-y). Services output expanded by 4.35%, while Agriculture contracted for the first time to -0.9%. Real GDP (Q-o-Q) contracted by -15.65% in Q1-2023, driven by decline in Non-oil GDP (q-o-q) by 17.30% and increase in Oil GDP by 20.68%. The increase in Oil GDP is driven by improved oil production in Q1-2023. The contraction in Agricultural Sector output was the first in several decades. Information and Communications contributed 1.67% to the real GDP growth in Q1- 2023, followed by Finance and Insurance, 0.96%, Crop Production, 0.38%, Trade 0.21% and construction, 0.14%. The lowest contributing sectors were Other Services, -0.81%, Livestock, -0.56% and Mining and Quarrying -0.26%.

Monthly composite PMI declined to 50.2 index points in June 2023, from 54.4 index points in May 2023, indicating a moderation in output in the economy. Industry PMI declined to 50.3 points in June 2023 from 53.6 points in May 2023. Services PMI contracted to 49.0 points in June 2023 from 53.9 points in May. Agriculture PMI fell to 52.9 points in June 2023 from 56.3 points in May 2023. In addition, Industry Employment PMI and Business Expectations also fell between May and June 2023. Business expectation fell from 18.30 points in May 2023 to -1.80 points in June 2023. Industry employment declined from 50.8 points in May 2023 to 49.4 index points in June 2023.

With respect to price developments, Headline inflation increased for the sixth consecutive month. Headline inflation increased to 22.79% in June 2023 from 22.41% in May 2023 driven by food inflation. High costs of energy and logistics impact on the price of staples. Food inflation rose to 25.25% in June 2023 from 24.82% in May 2023. Core Inflation also increased to 20.27% in June 2023 from

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20.06% in May 2023. The increase in core inflation came from processed foods, transport, and education, in that order. Month-on-month, headline inflation and food inflation also rose between May 2023 and June 2023. However, core inflation slowed to 1.75 in June 2023 from 1.81% in May 2023, driven by reduced costs of processed foods, health, and restaurant. Inflation expectations have also been increasing since December 2022, suggesting de-anchoring of inflation expectations.

Apart from Monetary Base, all the domestic components of monetary aggregate rose between May 2023 and June 2023. Monetary Base reduced from N17.923 trillion to N17.719 trillion due to decrease in reserve requirements and other reserves of ODCs with the Central Bank. Broad Money (M3) rose by annualized 48.71% above the 2023 benchmark of 28.21%, between May 2023 and June 2023. Net Foreign Assets rose by 119.28% annualised as against the provisional 2023 benchmark of 95.57%. However, Net Domestic Assets rose by annualized 36.18%, below the 2023 benchmark of 49.16%. Claims on Central Government (net) rose by annualized value of 79.28% compared to the 2023 benchmark of 58.63%. Claims in the Private Sector rose at an annualized rate of 62.9%, compared to the benchmark of 44.09%. Major sources of net liquidity increase into the economy in June 2023 were Net CRR debit (N216.32 billion), FAAC N633.46 billion, and SWAP Transaction (N763.32 billion).

Interest rate spread month-on-month widened to 23.15% in June 2023. On average, maximum lending and average savings rose between May and June 2023. The average OBB rate month-on-month declined to 9.12% in June 2023 from 12.6% in May 2023. Other major developments in the financial markets include lower NTB rates at the primary auction, higher recourse to SDF than SLF and increased OBB transactions. The Nigerian Exchange Limited (NGX) was bullish between April 28, 2023, and July 21, 2023. All Share Index (ASI) increased by 24.04%. from 52,403.51 on April 28, 2023, to 65,003.39 on July 21, 2023.

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The external account recorded an overall balance of payments deficit position of US$1.62 billion (1.4% of GDP) in 2023.Q1. The goods account recorded a surplus of US$2.68 billion in 2023Q1. The services sector deficit narrowed by 3.9% to US$3.01 billion. Service payments for the transport, insurance & Pensions and Telecommunication sector fell in the review period. The primary income deficit narrowed by 18.7% to US$2.69 billion due to a rise in repatriation of dividends, by 12.1%.

As of July 20, 2023, the Gross External Reserves stood at US$33.97 billion. The gross external reserves position at end-June 2023 could provide 10.68 months of import cover.

Regarding the fiscal sector, both the government revenue and expenditure underperformed between January and May 2023. FG retained revenue stood at N1,673.15 billion, lower than the pro-rata target of N1,968.12 billion. This was due to the underperformance of FAAC receipts, Gross independent revenue. In the same vein, total FGN Expenditure as of May 2023, was N4,769.26 billion, 27.8% lower than the budget estimate of N6,606.02 billion. The shortfall came mainly from allocation for debt service, interest on Ways and Means, and capital expenditure. Overall budget deficit reduced by -18.15% in the first five months of 2023. The underperformance of the budget is especially felt in the capital expenditures, thus impacting negatively on economic development.

The report on the Banking System Stability Review was presented to members of the MPC. The financial soundness indicators remain positive and showed that the banking system remains strong, sound, and resilient. The capital adequacy ratio (CAR) declined to 11.2% in June 2023 from 13.0% in May 2023, though still within the prudential requirement of between 10% - 15%. Non-performing loans (NPL) ratio declined from 4.5% in May 2023 to 4.1% in April 2023. Liquidity ratio (LR) rose to 48.4% in June 2023, from 44.5% in May 2023. This is above the minimum 30% recommended by the prudential requirement. Both the Return on

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Equity and Returns on Asset increased between May 2023 and Junel 2023. ROE rose from 22.8% to 32.2%; while ROA increased from 1.7% in May 2023 to 2.3% by June 2023. Interest margins to total operating income declined from 59.8% in May 2023 to 48.2% in June 2023. Similarly, operating cost to total operating income declined from 70.7% to 62.1% between May and June 2023. As I reiterated in the last Personal Statement, the high operating cost environment of the banking sector should be concerning and needs to be addressed. In other climes, the ratio is 23.5% in Turkey, 50.6% in Brazil, 41.0% in Malaysia, 62.0% in South Africa, 43.2% in Angola, 35.2% in Egypt, Kenya is 45.2% and Ghana, 46.1%.

Finally, all the measures of banking size, assets, deposits, and credits also rose. Total Assets of the banking industry grew by N30.92 trillion or 47.21% between end-June 2022 and 2023. Industry credit increased by N10.75 trillion or 39.73% between end June 2022 and end-June 2023. Gross credit has been on an upward trajectory since 2019. Total industry deposits increased by N15.92 trillion or 37.86% between the end of June 2022 and 2023. The stress tests conducted on the industry show that despite the several headwinds in the economy, the banking system remains resilient.

My Consideration

The headwind in the international market persists, including the refusal of Russia to sign the grain deal with Ukraine. The softening of the Chinese economy and the ongoing efforts by the AEs to rein in inflation pose significant challenges to both the global and the Nigerian economy.

The domestic economy also witnessed significant changes brought by the policy reforms of the Tinubu government. The removal of petrol subsidy and the unification of the foreign exchange markets brought significant shocks on the economy. These policy changes have brought about economywide effects

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impacting on prices and real income. The June inflation figure partly captures some of the price effects, as well as the contraction noted with the PMIs. Hence, June figures reported rise in inflation, and depreciation of the naira. While the gap between the official market and parallel market exchange rates seems to have narrowed, there is still an appreciable difference between the rates in the two markets.

The monetary and financial market indicators also showed evidence of liquidity surfeit in the economy. Annualised growth rates of Net Foreign Assets and Net Domestic Assets components exceeded the provisional levels. The rise in FAAC in July because of the petrol subsidy removal and narrowing of the FX market rates must be managed so as not to increase the liquidity in the economy. The rise in FAAC overtime would help in managing the recourse of the FG and Subnational units on debts to finance government activities. This would also reduce Ways and Means finance and eventually reduce inflationary pressures from the monetary side.

The FG and some states have also announced different packages of interventions to boost household incomes, expand agriculture output in the medium to long term, shift demand from petrol to other substitutes like CNG and support transportation costs. The FG has also announced other tax incentives to reduce costs of production for firms, several agricultural support initiatives, as well as several subsidized credits to different categories of firms, especially the MSMEs in the economy.

The palliatives were suspended because of the public outcry on the amount that was planned to be spent as well as on the integrity of the social register that was to be used to disburse the money. However, I felt that the absence of effective communication on the part of the government and a robust defense of the essence of the palliative as a short-term compensatory measure to support the very poor members of society was a missed opportunity.

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The Bank Management should use the full range of the instruments available to it to address the liquidity surfeit including the Open Market Operations, and other indirect measures that offer appropriate returns to money market instruments and mop up excess liquidity, as well as attract foreign portfolio investment that would increase liquidity in the FX market. Private companies should also be incentivized to issue commercial papers to provide alternative investment instruments to investors.

The current economic reforms of the government are much welcomed to restore the economy to the path of long-term economic growth. However, the initial reforms must be complemented by other policies around security, increase in petroleum output, expand electricity supply, and support human development sectors. The government must also invest in timely communication to ensure that members of the public continue to support the reform.

The continuous closure of the borders should also be reviewed. This is to allow to expand food and non-food supply to the economy and forced down domestic prices, especially food.

My Vote

The MPC needs to sustain its current tight monetary policy stance to dampen inflationary pressures. However, I am also aware of the enormous pressures and headwinds that domestic economic agents are grappling with under the current economic reforms. The President has also announced policies to boost the supply side of the economy. Hence, I am really torn between raising the MPR on the one hand and allowing the Bank to use other measures to control liquidity, without further raising lending rates in the economy, on the other hand. I chose to pause the interest rate increase at this meeting. Hence, I vote to:

1. Maintain the MPR at 18.5 per cent.

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2. Reduce the asymmetric corridor around the MPR to +100/-300 basis points.
3. Retain the CRR at 32.5 per cent.
4. Retain the LR at 30.0 per cent.

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3. AHMAD, AISHAH N.

Domestic prices remain elevated as markets adjust to consequential fiscal and monetary policy reforms

The July 2023 monetary policy committee (MPC) meetings held within an environment of elevated risks to price stability, slowing output performance and exchange rate pressures, amidst continued uncertainty in the global economy.

The much-anticipated deregulation of premium motor spirit price and transition to a more market-determined exchange rate regime have expectedly exerted further pressure on domestic prices. Headline inflation year-on-year rose for the sixth consecutive month to 22.79 per cent in June 2023 from 22.41 per cent in the previous month, according to the National Bureau of Statistics (NBS), driven by the food and core components which rose to 25.25 per cent and 20.27 per cent in June 2023 from 24.82 per cent and 20.06 per cent in May 2023, respectively.

Although the pace of acceleration in headline inflation slowed in recent months, the trajectory appears to reverse as headline inflation month-on-month, rose to 2.13 per cent from 1.94 per cent in May 2023, an indication that the path of price movements remains unclear in the near term. Beyond the legacy structural factors driving inflation (inadequate infrastructure, supply bottlenecks, etc) the surge in liquidity levels pose further threats to price stability as presented in staff reports and cannot be ignored.

Broad money supply (M3) in June 2023 grew by 24.35 per cent (year-to-date), compared with 6.70 per cent in May 2023, driven largely by the increase in both Net Foreign Assets (NFA) and Net Domestic Assets (NDA). Money market rates also reflected this surge in banking system liquidity as the monthly weighted average Open Buyback (OBB) and Interbank Call rates decreased to 9.12 and 11.61 per cent in June 2023, from 12.60 and 12.31 per cent in the previous month, respectively. This trend may persist in the near term in view of expected

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liquidity injections from possible review of the minimum wage, implementation of the proposed palliatives by the federal government and other sources.

Overall, the short-term outlook for inflation and its major drivers remains uncertain. Indeed, the exacerbated price developments are harmful for inflation management and must be addressed decisively. To ensure that the desired decline in absolute inflation numbers is quickly achieved, the stance of monetary policy needs to be firmer to improve inflation expectations; and all actions of the Bank must be geared towards moderating domestic prices, especially monetary induced inflation. The CBN, must, therefore remain resolute in the use of traditional liquidity management tools such as the Open Market Operations and issuance of CBN special bills to strategically mop up excess liquidity in the banking system.

Developments in the foreign exchange market are also important considerations for policy. The recent foreign exchange market reforms which have resulted in exchange rate convergence, would increase market transparency, and attract more foreign capital inflows.

Although the exchange rate has shown some volatility (depreciated from N435/1USD in May 2023 to N763/1USD as of July 11, 2023 and N780/1USD as of July 20, 2023), stability is expected over the medium term as efforts to ramp up export proceeds intensify, alongside anticipated decline in demand of imported refined petroleum products. Stability of the exchange rate is particularly important due to its strategic role in anchoring investor confidence and pass-through to domestic prices. Ongoing efforts to boost foreign exchange supply should therefore be strengthened as a more sustainable approach to stabilizing the foreign exchange market.

Although output growth prospects remain positive, its resilience is threatened. Data from the National Bureau of Statistics (NBS) showed that, Real Gross Domestic Product (GDP) grew by 2.31 per cent (year-on-year) in the first quarter

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of 2023 driven largely by sustained growth in the services and industry sectors and supported by broad-based monetary and fiscal measures. While Q12023 GDP declined compared to the preceding quarter (3.52 per cent), the resilience of the services and industry sectors is a positive development for the domestic economy, given the capacity of these sectors to create jobs, boost aggregate demand and improve economic inclusion.

The moderation in output performance is also expressed in the purchasing managers Index which declined to 50.2 index points in June 2023 from 54.4 index points in the previous month on account of decline in production levels and new orders. This development points to the need for continued fiscal stimulus to critical sectors, especially agriculture, manufacturing, and MSMEs to boost aggregate supply and moderate inflation over time.

Thankfully, ongoing broad-based economic reforms, sustained credit growth to the real economy and the robust financial system should impact positively on growth performance with a positive medium-term outlook. Therefore, considerations about actively driving economic growth at this meeting, must understandably take a back seat. The Monetary authority must focus on tackling inflation while efforts to mitigate the structural challenges affecting productivity are being pursued.

The Banking system retains its resilience and capacity to support the economy through the headwinds, however, emerging vulnerabilities must be managed. Credit to the economy continued to grow while non-performing loans and other prudential ratios are within regulatory bands, nonetheless, the Bank must watch for vulnerabilities due to removal of subsidies and other macroeconomic shocks.

At end-June 2023 industry credit increased by N10.75 trillion year-on-year and has been in an upward trajectory since 2019. Month-on-month, industry credit also increased significantly by N7.27 trillion between May and June 2023, an indication that the tight stance of policy is not adversely impacting the credit

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environment as earlier anticipated. Notably, the sectors driving output growth in the economy (manufacturing, agriculture, construction, general commerce and information & communication) also attracted increased lending from the banking sector during the period - which should further strengthen output performance.

Prudential ratios also remain strong as of end-June 2023, with capital adequacy at 11.2 per cent, non-performing loans at 4.1per cent (from 5.0 per cent in June 2022) and liquidity ratio at 48.4 per cent (above the 30.0 per cent minimum) even as credit to the real sector continued to grow. Furthermore, total assets of the banking industry grew by N30.92 trillion, while total industry deposits increased by N15.92 trillion over the same period.

Risks to the financial system remain domestic vulnerabilities and persisting global headwinds. Notwithstanding the risks, stress test results showed that industry solvency and liquidity positions could withstand mild to moderate shocks in the short to medium term. Nonetheless, the CBN shall continue its rigorous regulatory oversight on the industry credit portfolio while the sector must also continue to build adequate capital buffers as prescribed in the Basel III capital standards.

Overall, to bolster domestic investment, household demand, and aggregate productivity, it is important to sustain innovative de-risking of critical sectors to facilitate credit expansion. This will fast-track economic diversification and ensure strong inclusive growth.

On the global front, the priority remains achieving sustained disinflation while ensuring financial stability as central banks raise rates to curb inflation which continues to weigh on output recovery. As a result, global growth is projected by the International Monetary Fund in its July 2023 World Economic Outlook (WEO) to fall from an estimated 3.5 per cent in 2022 to 3.0 per cent in both 2023 and 2024. While the forecast for 2023 is modestly higher than predicted in the April 2023 WEO, it remains weak by historical trends.

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In addition, China's slow recovery and persistent war between Russia and Ukraine pose further threats to global economic prospects with likely spillover to the rest of world. Building individual country resilience, thus, becomes imperative for policy makers to minimize adverse pass-through effects and preserve the fragile recovery.

For Nigeria, inflation, driven by global and domestic shocks, is at a level deemed inimical to growth and forecasts suggest continued ascent, requiring decisive actions to assertively stabilise price at levels that are conducive to growth and productivity. Building buffers, ensuring targeted support for the most vulnerable and improvements to the supply side of the economy would facilitate a smoother decline of inflation toward target levels.

In the meantime, the MPC must show commitment to fighting inflation – its primary remit - in view of the detrimental effects of inflation on economic activities (eroding real incomes, entrenching poverty, threat to output growth, etc). Therefore, at this meeting, I consider it important to re-anchor the expectation of economic agents following several months of double-digit inflation, and recent multiple shocks which makes it logical for expectation of further price increases to build.

Thus, I, vote to raise the MPR by 50 basis points, from 18.50 to 19.00 per cent; Adjust the asymmetric corridor to +100/-300 basis points around the MPR; Retain the CRR at 32.5 per cent; and Retain the Liquidity Ratio at 30 per cent.

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4. ALIYU, AHMED

Global economic recovery continues to be hindered by tighter financial conditions occasioned by the increase in policy rates by many central banks to control inflation, and worsening geopolitical tensions particularly the Russia-Ukraine war, which has had destabilising effects on the global supply chain. The IMF in the July 2023 World Economic Outlook, projects global growth to fall from a projected 3.5 percent in 2022 to 3.0 percent in 2023 and 2024, apiece. Out of this, growth in the Advanced Economies is projected to moderate to 1.5 and 1.4 percent in 2023 and 2024, respectively, from 2.7 percent in 2022. Conversely, Emerging Markets and Developing Economies (EMDEs) is expected to retain its 2022 growth rate of 4.0 percent in 2023, and inch up to 4.1 percent in 2024.

Global headline inflation remains high, even though decelerating, and projected to decline from an annual average of 8.7 percent in 2022 to 6.8 and 5.2 percent in 2023 and 2024, respectively, driven by high input costs. The deceleration in global inflation is linked to monetary policy tightening across the world. In the Advanced Economies, inflation is expected to decline to 4.7 percent in 2023 from 7.3 percent in 2022, and further to 2.8 percent in 2024. In the EMDEs, inflation is expected to moderate to 8.3 percent in 2023, from 9.8 percent in 2022, and further to 6.8 percent in 2024 (IMF July 2023 WEO). Differences in country circumstances such as exposure to commodity price fluctuations and exchange rate volatilities, partly account for the observed variations in the pace of disinflation in EMDEs. Generally, while central banks signal a slow pace in interest rate normalization, further monetary policy tightening may be required, should conditions that cause inflationary pressure reappear.

Development in crude oil prices remain moderated amidst fears of a weakening US economy and slowing Chinese demand. In addition, the large build-up of US crude oil stocks, continue to pose serious consequences for oil exporters like

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Nigeria. The Food and Agricultural Organization (FAO) has raised its projection of world wheat production to 768 million tonnes for 2023. Expectations of price moderation in 2023, is jeopardised by Russia's reneging on the Black Sea wheat passage deal, which allows Ukraine to export wheat to the international market.

Global trade outlook for the second half of 2023 is dampened by subdued global demand, tighter global financial conditions and weak global industrial production, as well as geopolitical tensions. Consequently, the World Bank forecasts global trade growth to slow to 1.7 percent in 2023 from 6.0 percent recorded in 2022, before rising to 2.8 percent in 2024.

THE DOMESTIC ECONOMY

Real Gross Domestic Product (real GDP) grew by 2.31 percent (year-on-year) in the first quarter of 2023, from 3.11 percent and 3.52 percent, recorded in the first and fourth quarters of 2022, respectively. The National Bureau of Statistics (NBS) attributes the reduction in growth to the adverse effects of the cash crunch experienced during the quarter. GDP performance in the first quarter was driven mainly by the services sector, which recorded a growth of 4.35 percent and contributed 57.29 percent to the aggregate GDP. The agriculture sector grew by -0.90 percent, lower than the growth of 3.16 percent recorded in the first quarter of 2022. Although, the growth of the industry sector improved to 0.31 percent relative to - 6.81 percent recorded in the first quarter of 2022, agriculture and the industry sectors contributed less to the aggregate GDP in the first quarter of 2023 compared to the first quarter of 2022 (NBS 2023).

It is noteworthy that Non-oil GDP (year-on-year) grew by 2.77 percent, the slowest growth since Q4 2020. This is followed by Oil GDP which grew by -4.21 percent, even though, it was its best performance since Q1 2021, driven by improved crude oil performance in Q1 2023.

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The first quarter 2023 real GDP outcome, is mirrored in the widening of the output gap, due to underutilization in the industry, agriculture and services sectors. Consequently, the negative output gap widened by 1.19 percentage points, to -7.54 percent in Q12023, from -6.26 percent in Q42022. Similarly, the monthly composite PMI, declined to 50.2 index points in June 2023 from 54.4 index points in May 2023, indicative of a moderation in output in the economy.

Headline inflation remains elevated, increasing by 0.38 percentage points to 22.79 percent in June 2023. Increase in Headline inflation was driven by food inflation, which rose year-on-year by 0.43 percentage points to 25.25 percent in June 2023, on account of the increase in the cost of farm produce.

Core inflation, year-on-year, increased by 0.21 percentage points to 20.27 percent in June 2023, due to the increase in transport cost. In the same vein, core inflation (excluding energy goods) year-on-year, rose by 0.23 percentage points to 20.06 percent in June 2023, attributed to increased growth in money supply. Month-on-month, inflation rose to 2.13 percent in June 2023. Notwithstanding, inflation expectation at a high of 20.58 percent was below actual inflation in June 2023.

Broad Money Supply (M3) increased by 24.35 percent (year-to-date) to N64.91 trillion in June 2023, driven by increase in both Net Foreign Assets (NFA) and Net Domestic Assets (NDA). Open Buy Back (OBB) rates at 9.12 percent in June 2023, was below the lower band of the Monetary Policy Rate, signalling liquidity surfeit.

The current account posted a surplus position of US$2.49 billion, following sustained trade surplus and lower payment for services and improved surplus in the secondary income account. Average crude oil price increased to US$81.87 per barrel on July 21, 2023, from US$77.64 per barrel at end June 2023. As at July 20, 2023, the gross external reserves stood at US$33.97 billion. Reserves position at end-June 2023 could provide 10.68 months of import cover.

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Staff report indicated that the naira/US$ exchange rate depreciated by 66.43 percent from N462.88/US$ on June 9, 2023 to N770.39/US$ on July 21, 2023 after the convergence of all foreign exchange windows.

Financial soundness indicators, sustained their resilience as the industry Capital Adequacy Ratio (CAR) at 11.2 percent at end-June 2023 was above the 10 percent regulatory requirement. Industry Non-Performing Loans (NPLs) improved from 4.4 percent in April 2023 to 4.1 percent in June 2023, and was below the 5 percent supervisory requirement. Return on Equities (ROE) and Return on Assets (ROA) improved from 17.3 percent and 1.4 percent in June 2022, respectively, to 32.2 percent and 2.3 percent in June 2023, respectively. At 48.4 percent, Liquidity Ratio remained in excess of the regulatory requirement of 30.0 percent. Industry Total Credit increased by N10.75 trillion or 39.73 percent between end-June 2022 and end-June 2023, respectively. It is noteworthy that total credit increased significantly month-on-month by N7.27 trillion or 23.82 trillion between May and June 2023.

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

CONSIDERATION FOR VOTING

At the July 2023 MPC meeting, I noted from the economic report a triad of lukewarm economic growth, high inflation rate, and exchange rate volatility and depreciation. I was in no doubt that observed inflationary pressure was propelled by a mix of monetary and structural factors. There was evidence of liquidity surfeit as indicated by the significant growth in Broad Money Supply (M3).

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The recent decision by Russia to end the crucial Black Sea grain deal, the negative impact on cost of production and transportation of the increase in the prices of Premium Motor spirit (following the removal of subsidy on PMS), the fears about an impending domestic food crisis - heightened by the contraction in the agriculture sector in the first quarter, exchange rate pressures, high inflation expectations and other seasonality factors, pose significant upside risk to inflation.

Money market rates seem not to reflect the hikes in the Monetary Policy Rate (MPR) to be able to address the demand side inflation, as well as deal with the supply side dynamics. It is worrisome indeed, that the expected multiplier effect of the increase in total credit on output has not crystallised, suggesting that credit may have ended up in the foreign exchange market, which may erode asset quality, in the medium to long term.

On economic growth, it is notable that the output gap widened in the review period, due to slower economic activities. This is corroborated by the decline in the Composite Performance Managers Index, indicative of a moderation in output and economic activities.

The decline in growth in the agriculture sector is particularly worrisome, given its role in food production and employment generation. Targeted intervention by the fiscal and monetary authorities in the agriculture sector is crucial to ensuring medium to long term food security and price moderation. Recent initiative by the CBN to offload grains from the national strategic grain reserves to lower food prices could not have come at a more auspicious time. There is also need to leverage on the African Development Bank (AfDB) Agro Pocket Wallet to support farmers in the production of grains and fertilizers.

Expectations of the monetary authority should also reflect fiscal developments. In line with the norm, I continue to advocate for a stronger collaboration between the monetary and fiscal authorities. The decision by the Federation

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Accounts Allocation Committee (FAAC) to save about 50 percent of funds allotted for distribution to State Governments in July, brought some calm on price developments, and reflect some of those collaborations that I am looking to see.

In view of the persisting increase in headline inflation, and having raised monetary policy rate by 700 basis points since May 2022, I am keen to see that inflation is aggressively tackled from the supply side also, by addressing structural deficiencies that cause food and core inflation to rise. Policy should be focused at achieving sustained disinflation, while ensuring financial stability and economic growth. I align with the opinion that other liquidity mopping tools like adjustment in the standing facilities should be explored. Whilst not being insensitive to the role a tightening policy stance could play in anchoring inflationary expectations and improving the real interest rate, I vote at this meeting to hold the Monetary Policy Rate at its extant level, whilst adjusting the asymmetric corridor to +100/-300 basis points around the MPR..

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5. ASOGWA, ROBERT C.

Background:

Since the previous MPC meeting in May 2023, both the domestic and external economic environments have been characterized by key policy issues which have direct implications for price stability. At the domestic level, the removal of fuel subsidy and foreign exchange unification in June 2023, are largely perceived as drawbacks to curbing the accelerating consumer price levels. At the external level, recent production cuts by OPEC+ and the increase in the global price for cereals after Russia's withdrawal from the Black Sea Grain Initiative are also new threats to the decelerating global inflation rates. Remarkably, many advanced and emerging market economies are already celebrating downward inflation surprises, but a persistent upward price level trajectory still exist in several developing economies. In some of these countries, the prolonged inflation fight is already causing a loss of momentum on the economic recovery drive. As such, recent interest rate decisions are now being anchored on a duality purpose. The considerations in this meeting will require an assessment of the outlook of inflation and growth based on the evidence of latest economic developments at the domestic and external levels.

External Economic Developments:

The pace of global economic activity appears to be moderating lately. Official GDP figures for the second quarter of 2023 have not been released for many countries but preliminary flash estimates seem to suggest that the global economy weakened in the second quarter of 2023 with indicators of consumption and manufacturing all subdued. Growth however improved somewhat in a few countries in the second quarter compared with the first quarter. In the United States for instance, economic growth was stronger than expected in the second quarter with rising consumer spending and strong

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business investment. In the UK, GDP growth for the second quarter of 2023 is also expected to be marginally stronger than the quarter one levels. In the Euro Area however, growth probably stayed at low levels in the second quarter of 2023 following a contraction in the earlier quarters especially for manufacturing, while the service sector continues to grow. According to CBN Staff report, growth in China slowed to 0.8 per cent for 2023 second quarter compared with 2.2 per cent in the first quarter of 2023 amidst declining exports and weakness in the property sector, despite the end of its zero-Covid policy in December 2022. There are still considerable amounts of uncertainties about the future outlook for global economic growth as higher core inflation and interest rates persist with the worsening geopolitical turmoil. For now, global growth is projected to slow in 2023, but pick up modestly in the second half of 2024 before strengthening fully in 2025. CBN staff report shows that growth in advanced economies for 2023 is projected to decline to 0.7 per cent compared with 2.6 per cent in 2022, but will rise moderately to 1.2 per cent in 2024.

Global disinflation has continued up to June 2023 as energy and commodity prices are falling together with further easing of global supply chain constraints. Core inflation however remains elevated in a number of countries. CBN staff report shows that the US year-on-year inflation rate slowed to 2.97 per cent in June 2023 compared with 4.05 per cent in May, while in the Euro Area, the year-on-year measure fell to 5.5 per cent compared with 6.1 per cent in May 2023. However, for both the USA and Euro Area, month-on-month inflation rose in June 2023. In the UK, while year-on-year inflation measure remained unchanged in June 2023, the month-on-month rates moderated. In Canada, Chile, Indonesia and Malaysia, both headline and core inflation have fallen faster than expected in June 2023 amid lower cost factors. Overall, the inflationary behaviour and outlook in many countries remains complex and uncertain for several reasons. First, future global supply disruption is still an upside risk to prices especially for food. Second, the persistence of core inflation which is more

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affected by the economy's aggregate demand and interest rate policy may continue for a very long period as it responds to output gap and future inflation expectations.

Global financial conditions appear to be less tight in June and July 2023 compared to the position at the last MPC meeting in May 2023 but yields on government bonds across several advanced economies have also risen modestly while equity markets improved further but not as much as at the start of 2023. In terms of currency issues, CBN staff report shows that the dollar has recovered against a broader basket of currencies between April and June 2023. The Euro however weakened against the dollar on average in June 2023, but the pounds sterling appreciated on average during the same period.

For most Central Banks in the advanced economies, the moderated tightening regime may be extended to the future as the disinflation process may take longer than expected. There are however some countries especially in the emerging markets that will likely focus on smoothing domestic economic growth fluctuations, but without compromising the central bank's fundamental objective of ensuring price stability. The US Fed raised interest rates in July 2023, which is the 11th increase in its last 12 meetings but by only 25 basis points while the European Central Bank raised policy rates for a ninth consecutive time recently by 25 basis points. At its end June 2023 meeting, the Bank of England increased rates by 50 basis points. The scenario is somewhat different in several emerging markets. The Central Bank of Chile lowered policy rates by 100 basis points in July 2023 while the Central Banks of Malaysia, Brazil and South Africa at their respective July MPC meetings kept policy rates unchanged as considerations for economic growth deepen.

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Domestic Economic Developments:

Regarding the domestic scenario, recent economic indicators suggest some mixed performance which have evolved in line with expectations. In 2023 first quarter, real GDP (year-on-year) slowed to 2.31 per cent compared with 3.52 per cent in the fourth quarter of 2022. Surprisingly, agricultural sector contracted in the first quarter, which is the first time since 1987, while services and industry sector expanded. The poor performance of the agricultural sector has been attributed to persistent insecurity, weather conditions and other supply related disruptions. The return of the industry sector to positive GDP territory is on the back of the improving investment and consumer confidence despite recent interest rate hikes. GDP growth results for 2023 second quarter are not yet out, but timely indicators point out that it may be slightly above the levels in the first quarter of 2023. The composite PMI moved from 42.6 index points in March 2023 to 51.1 index points in April 2023 and further up to 54.4 index points in May, before declining to 50.2 index points in June 2023. Consumer and business expectations for the months ahead remain pessimistic but GDP projections by key institutions for the third and fourth quarters of 2023 are positive.

The domestic headline inflation rates have continued an upwards trend, unlike in the advanced and emerging economies. The year-on year headline inflation rates in Nigeria rose further to 22.79 per cent in June 2023 from 22.41 per cent in May, which is the sixth consecutive month of increase. Both food inflation and core inflation increased on a year-on-year basis in June 2023. Also on a month-on-month basis, while headline inflation and the food component increased in June 2023, core inflation which is more sensitive to monetary policy changes decelerated by a marginal 0.07 per cent point at the same time. For now, inflation expectations for the remaining months in 2023 show slight upwards adjustments with increases in all components especially in the next few months. This reflects the effects of recent policy changes in petrol subsidy and exchange

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rate unification as well as global financial market developments. There are however expectations of some relative stability before the end of 2023.

Liquidity in the domestic economy remains ample as reflected in broad money (M3) growth, similar to the position at the last MPC meeting in May 2023. Broad money (M3) grew by 24.3 per cent, (year-to –date) in June 2023, and was below the 2023 benchmark of 28.21 per cent. The recent normalization of CRR and the increase in FAAC allocations may have contributed to the surge in overall liquidity in the banking system, but the effect on interest rate conditions remain minimal. Both the maximum lending rate and the average savings rate rose only marginally in June from the May 2023 levels.

Financial system resilience in Nigeria remains solid and robust. The banking system's position looks stronger than during the last MPC meeting in May 2023 with significant improvements in the intermediation functions. Net loans accelerated from 25.65 trillion Naira in May to 31.97 trillion Naira in June 2023, which may have been propped up with the exchange rate unification. Bank aggregate deposits rose by 15.85 per cent between May and June 2023 with domiciliary account deposits also reflecting the effects of exchange rate unification. The capital adequacy ratio (CAR) of the banking industry declined to 11.2 per cent in June 2023 mainly because of the foreign exchange unification but remains above the prudential requirement. The non-performing loans (NPLs) ratio declined further from 4.5 per cent in May 2023 to 4.1 per cent in June 2023. Industry profitability also increased recently, partly because of the foreign exchange rate unification. The return on equity moved from 22.8 per cent in May 2023 to 32.2 per cent in June 2023, while the return on assets also increased from 1.7 per cent to 2.3 per cent during the same periods. The domestic stock market has also remained strong and bullish, similar to the position at the last MPC meeting in May 2023. Both the All-Share Index and the

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Market Capitalization have increased significantly between end-May to end-July 2023.

On the external sector, the available 2023 first quarter data shows some mixed performance. There was an overall balance of payments deficit, equivalent to 1.4 per cent of GDP in 2023 first quarter, but the economy recorded a current account surplus of about 2.2 per cent of GDP supported by a positive trade balance during the same period. For the second and third quarters of 2023, the current account balance will probably sustain its momentum, while the capital and financial accounts are expected to be more favourable than earlier projected especially as foreign capital inflows improve on the back of economic reforms by the new government. At the end of June 2023, the position of external reserves remained high at equivalent of 6.7 months of imports of goods and services and 9.1 months of import of goods only which is above the international adequacy standard of around 3 months of imports. The Naira exchange rate suffered a sharp depreciation in recent times as a result of recent domestic reforms and global financial market uncertainty, but there are positive prospects at controlling volatility with recent stabilization and strengthening measures by the Central Bank of Nigeria.

The fiscal deficit is expected to decline in the third and fourth quarters of 2023 on the back of recent efforts by the new government to manage expenditures better and also improve oil and non-oil revenues. With expenditure re-prioritization and fiscal wisdom at both the federal and State levels, there is an expectation that the government debt ratio may fall at least marginally by the end of 2023.

Policy Decision:

With inflation rates still rising up to June 2023 but now at a moderated pace, a partial shift of focus on boosting domestic economic activity which has been

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impaired by rising costs becomes necessary. As such, future monetary policy decisions must seek to be conducive to both economic growth and price stability. Rather than increasing policy rates at this MPC meeting which will only add to the cost burden of key sectors, adjustments to either the asymmetric corridor or the cash reserve ratio may be required so as to contain the high system liquidity. There is however a real possibility of having to raise MPR in future decisions as the MPC monitors incoming data.

I will therefore vote to:

1. Retain the MPR at 18.50 per cent.
2. Retain the CRR at 32.5 per cent.
3. Adjust the Asymmetric Corridor to +100/-300 basis points.
4. Retain the Liquidity Ratio at 30.0 per cent.

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6. OBADAN, MIKE I.

INTRODUCTION

The global economy has remained vulnerable considering the following features:

High but moderating inflationary pressures;
Tighter global financial conditions in the face of persistent central bank interest rate hikes, which caused poor liquidity and decline in asset prices;
Volatile and elevated commodity and energy prices; and
Worsening geopolitical tensions, especially the Russian war in Ukraine.

These features have continued to elicit concerns as uncertainty and risks persist in global growth as the outlook remains closely linked to inflationary trends and central banks' monetary policy response. Various headwinds are expected to continue to impede the speed of recovery of global output growth.

GLOBAL ECONOMIC TRENDS

Despite ongoing efforts to reconcile both Russia and Ukraine, the war between both countries has continued to rage. This has invariably increased global polarization and deepened the East-West geo-political divide as more countries seek to form an economic alliance with the China-Russia group. The tightening of global financial conditions to contain global inflation and Russia's war in Ukraine continue to slow down global economic activity with heightened risk for long-term growth. Prospects for a robust global economic recovery remain dim, due to stubborn inflation, rising interest rates and heightened uncertainties. In the developing countries, monetary tightening has exacerbated fiscal and debt vulnerabilities, as rising borrowing costs and a strong dollar have increased debt-servicing burdens and debt default risks.

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In light of the elevated inflationary trends and tighter monetary policy stance of several countries, global growth forecasts had maintained a downward trend such that the global growth forecast as at June, 2023 was 2.1 per cent compared with an earlier forecast of 2.5 per cent. However, the July growth forecast by the International Monetary Fund reflects optimism, standing at 3.0 per cent compared to 2.8 per cent in its April World Economic Outlook. Nevertheless, global growth remains weak due to higher interest rates and volatile energy prices.

Global inflation rate and the inflation rates in the Advanced Economies (AEs) portray good news of deceleration. In the same way, inflation in the Emerging Markets and Developing Economies (EMDEs) is projected to decline from 9.8 per cent in 2022 to 8.6 per cent in 2023 and 6.5 per cent in 2024. However, the rates achieved are still far above the long run targets of most central banks. Consequently, the priority of most economies remains to achieve a sustained reduction in inflation toward target levels by raising real policy rates until underlying inflation clearly declines. However, policy rate hike is being done at less aggressive pace than previously.

There has been a general decline in commodity prices in recent months on fears of a weakening U.S economy, concern over future interest rate hikes by the US Federal Reserve Bank alongside a large build up of US crude oil stocks, and slowing Chinese demand despite OPEC+ decision to extend production cuts through 2024. Indeed, OPEC+ announced a production cut which took effect at the beginning of April, 2023. However, the data as of July 21st, indicate upward price movement. In this direction, Brent crude price rose to US$ 81.07 per barrel on 21st July 2023, from US$ 75.41 per barrel at end-June and $72.60 per barrel at end-May 2023. The extension of OPEC+'s 1.16 million barrels a day production cuts to the end of 2024 may raise oil prices in the second half of 2023 and early-2024. In Nigeria, according to Nigerian Upstream Petroleum

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Regulatory Commission, oil production for June 2023 rose to 1.249 mbpd. However, the menace of oil theft remains a continued threat to the country's capacity to meet its OPEC quota and earn more revenue.

Global trade in goods slowed further during the first half of 2023 mirroring the weakening global industrial production, while trade in services continued to trend upwards as the last few COVID-19 related restrictions diminished. The outlook for global trade in the second half of 2023 is dampened by subdued demand, reflecting weak global industrial production. Several downside risks continue to shape global trade outlook: worsening trade tensions between major economies, weaker than expected global demand, tighter global financial conditions, mounting geopolitical uncertainty, and further rise in protectionist measures.

Against the backdrop of tighter financial conditions and high interest rates, global public debt is expected to rise in 2023 and 2024 with the driver being the rising debt levels in some Advanced and Emerging Market Economies. Most EMDEs are witnessing rising debt levels while high interest rates (highest since the first quarter of 2022) have pushed up debt service costs. Stakeholders in some EMDEs are already calling for debt forgiveness.

NIGERIA'S KEY ECONOMIC FEATURES

As at the last Monetary Policy Committee Meeting held in May, 2023, I wrote in my Personal Statement as follows: "The Nigerian economy has remained in a vulnerable state with many worrisome economic issues that would confront the new Federal Government expected to be inaugurated on the 29th of May, 2023. The economy remains vulnerable to both internal and external shocks without meaningful fiscal buffers to withstand the shocks. Against the backdrop of weak fiscal management, monetary policy has been seriously stressed from attempts

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to accommodate fiscal inadequacies and keep the economy afloat". Upon inauguration on May 29, 2023, the new Government appreciated the enormity of the economic challenges and swiftly went into action, leveraging on the opportunity of change of government, to introduce strong fiscal and monetary reforms, key among which are the stoppage of petrol subsidies payments, and unification of foreign exchange markets and exchange rates. Upward adjustment of electricity tariffs is also in the offing. These reform measures, though highly desired, have serious implications for growth which has shown weakness recently, inflation which has remained stubborn, and exchange rates which have witnessed very sharp depreciation following the floating of the national currency, the naira. The reforms appeared to have addressed some problems, but others have also been thrown up, including growth concerns.

The latest economic growth indicators do not portray cheering news amid escalating inflation rates, suggesting that the economy may be gravitating towards a new era of stagflation. The impact of the various shocks since the last quarter of 2022 has been very heavy on growth and inflation control. An erratic year-on-year growth pattern has been displayed since the first quarter of 2022: Q1 2022, 3.11%; Q2 2022, 3.54%; Q3 2022, 2.25%; Q4 2022, 3.52%; and Q1 2023, 2.31%. In Q1 2023, the quarter-on-quarter real GDP growth contracted by -15.65%; non-oil GDP by -17.30%; agricultural output declined by -30.95%; continued reduction in the growth of services; continued low share of industrial output in GDP (21.05% in Q1) which is unhealthy for the economy. In the same way, the Composite Purchasing Managers' Index (PMI), the Sectoral PMIs, the Industrial Employment PMI, and Business Expectations PMI all declined in Q1, suggesting moderation in output in the economy The impact of the various policy shocks on output indicators must thus be of policy concern.

Price inflation in the country has stubbornly maintained an upward trend. All the three measures of inflation – headline, food, and core inflation – have

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maintained their upward trend. Headline inflation (year-on-year) increased for the sixth consecutive month to 22.79 per cent in June 2023 from 22.41 per cent in May 2023, driven by food inflation. Food inflation (year-on-year) increased to 25.25 per cent in June 2023 from 24.82 per cent in May 2023. Core inflation similarly increased to 20.27 per cent in June 2023 from 20.06 per cent in May 2023. Although there are monetary elements in the inflation which should respond to the various tight monetary measures, the persistence of structural factors, legacy infrastructure bottlenecks, and the recent policy shocks – sharp increases in petrol prices, significant depreciation of the exchange rate following the liberalisation of the foreign exchange market – have continued to blunt the effectiveness of monetary policy actions. The recent suspension of the Black Sea Cereals Agreement by Russia may block Ukrainian export of cereals/agricultural products and energy products and create scarcity resulting in escalation of global inflation and of import-dependent countries like Nigeria.

The foreign exchange market situation remains very worrisome. Following the unification of all the foreign exchange windows, arbitrage has apparently minimised. But the naira has depreciated sharply to about N800 : US$ 1.0 as the demand for foreign exchange continues to outstrip supply. No doubt, the depreciation benefits fiscal policy through monetisation of foreign exchange receipts from the oil sector at very high exchange rates. However, the resulting liquidity injections is a source of worry for inflation control. The external reserves stock has depleted to US$ 33.97 billion as of 20th July, 2023. Amidst unabating demand, the fundamental problem of the foreign exchange market remains inadequate foreign exchange supply reflecting low productivity of the economy, inadequate export earnings, limited foreign capital inflows. Therefore, the Bank must continue to manage available supply of foreign exchange in the context of a managed float exchange rate regime. It must also evolve ways to manage demand. Also, the fiscal authority needs to maximise the revenue benefits of the exchange rate depreciation by dealing decisively with oil theft in

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the oil producing areas. A good handle on oil theft will improve the government's fiscal space and foreign exchange earnings through increased oil production and export.

The fiscal deficit of the country is a structural factor that has continued to drive inflation upwards. In the first five months of 2023, the Federal Government recorded a fiscal deficit of -N3,677.28 billion and this has implications for inflation considering the monetary methods of financing it. The President Bola Ahmed Tinubu government is carrying out tax reforms aimed at boosting revenue generation. The Government has set up a Presidential Committee on Fiscal Policy and Tax Reforms which aims to address the issue of multiple taxes, improved ease of doing business and business growth. The legacy petrol subsidy that has burdened government finances for years has finally been removed from the budget. However, deeper and broader reform of public expenditure is imperative. The new government needs to beam its searchlight on the structure of public expenditure with a view to eliminating unproductive and wasteful expenditures. This means that the government should carry out meaningful fiscal consolidation to complement the Central Bank's tight monetary policy stance aimed at reining in the apparently stubborn inflation.

Developments in the Monetary Sector indicate rising liquidity in the economy which could undermine the efforts to tame inflation. Growth in liquidity has arisen from several sources: cash reserve requirement (CRR) normalisation, repayment of matured CBN bills, maturing Federal Government Bonds, Nigerian Treasury Bills (NTBs), and fiscal disbursements to the three tiers of Government. During the period, May to June 2023, the Monetary Base decreased while the Broad Money Supply (M3) increased. Although both were below their provisional benchmarks, growth in liquidity is of concern in a period of tight monetary policy aimed at taming inflation.

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OPINION

In arriving at my opinion, cognisance was taken of the current state of the global economy, characterised by continued monetary policy normalisation aimed at taming inflation, tight financial market conditions and growing public debt, unabating geopolitical tensions coupled with uncertainties and vulnerabilities, and weakening growth. On the domestic front, the key considerations are the weakening growth performance, escalating inflation rate amidst recent domestic policy shocks, serious foreign exchange market challenges, depreciating naira, and uncomfortable external reserves position. On the fiscal front, although the new government is making serious efforts to boost revenue generation, fiscal deficits and associated public debt accumulation will continue to elicit deep concerns. Not least of the concerns is the build-up of liquidity in the economy arising from various sources.

Inflation has moderated notably for some time now in the Advanced Economies, especially the United States and Euro Area, as energy and food prices have fallen significantly. Yet, the priority of most economies remained the achievement of a sustained reduction in inflation toward target levels by raising real policy rates. Accordingly, in June, the Federal Reserve Bank, European Central Bank, and the Bank of England raised their policy rates. In Canada, the Central Bank raised its policy rate and gave an indication to sustain the policy rate hike cycle as the need arises.

In Nigeria, growth concerns have emerged, and the inflation outlook is not favourable. In view of the surging energy and food prices and the effects of petrol subsidy removal, and the exchange rate depreciation occasioned by the foreign exchange market liberalisation, the inflation rate will further increase in the short term. If Russia's suspension of the Black Sea Cereals Agreement is not rescinded, global prices of food and energy might further escalate and worsen inflation in Nigeria as an import-dependent country. Thus, it is important to

sustain a tight monetary policy stance that reflects a reduced pace of policy rate hike.

The concern for growth, and desire for a low interest rate regime by some stakeholders is legitimate. However, it is important to have a good handle on the inflation rate which has far exceeded the Bank's 12-13 per cent target, beyond which inflation becomes detrimental to growth. When inflation peaks and begins to decelerate, there will be an acceptable basis to begin to loosen the tight monetary policy stance. Meanwhile, the Fiscal Authority should endeavour to implement programmes and measures that aid growth, for example, boosting security in the food producing areas, and in the oil producing areas to check oil theft and enhance both naira revenue to the Government and external reserves accretion to stabilise the naira at an acceptable level. On the side of the Monetary Authority, it is desirable for it to continue to complement the Fiscal Authority's efforts by assisting with targeted interventions in the growth and employment enhancing sectors of the real economy.

Going forward, there is need to minimise policy shocks that tend to undermine monetary and financial stability, ensure appropriate coordination of monetary and fiscal policies to achieve optimal economic outcomes.

Considering the forgoing, I vote to maintain the tight monetary policy stance but with a gradual reduction in the pace and magnitude of tightening. Specifically, I vote to increase the Monetary Policy Rate (MPR) by 25 basis points, maintain the CRR and Liquidity Ratios at their extant levels, and adjust the Asymmetric Corridor to -300/ +100 basis points.

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7. OBIORA, KINGSLEY I.

In the face of high inflation, negative real interest rates, and the need to re-anchor inflation expectations, I voted for another raise of the Monetary Policy Rate (MPR) from 18.5 percent to 18.75 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. This stance in my view will contain inflationary pressures in the short- to medium-term while sustaining growth recovery and safeguarding financial system stability.

The global economy continues to recover with slowing economic activity, moderating but high inflation. The global economy is grappling with slowing growth, moderating but high inflation despite improved recovery from the shock of the pandemic and the Russia-Ukraine war. The supply-chain disruptions have eased to the pre-pandemic levels. Oil and non-oil commodity prices continue to decline, leading to moderating headline inflation. Financial stability risks have subsided after the March 2023 banking turmoil due to the swift response by the Fed Reserve and Swiss National Bank. External financial conditions are gradually easing, thereby reducing exchange rate pressures on emerging markets and developing economies. However, amid these improved developments, the Global Manufacturing Purchasing Manager's Index (PMI) continues to contract. It further contracted to 48.8 index points in June 2023 from 49.6 index points in May 2023, making it the fourth consecutive month of contraction due to operating challenges and declining global demand. Also, the pace of China's economic activity is moderating after an improved performance in the first quarter of 2023. Recent data showed China's Purchasing Managers Index contracted for the third consecutive month. It Increased only slightly to 49.0 points in June from 48.8 points in May 2023, which is below the benchmarks of 50

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points, reflecting weak post-covid recovery. All these continue to weigh on global economic activity.

As a result of these mixed developments, global growth is projected to slowdown in 2023. The recent baseline forecast from the International Monetary Fund (IMF WEO July 2023 Update) suggests that global growth will slow to 3.0 per cent in 2023 from 3.5 per cent in 2022, driven by a tighter monetary policy stance, the Russia-Ukraine war, a slowdown in China's economic activity and geopolitical fragmentation. The bulk of the expected slowdown will be driven by Advanced Economies (AEs), where growth will decline to 1.5 per cent in 2023 from 2.7 per cent in 2022. As a result, growth in the United Kingdom and the Euro Area is expected to decline significantly to 0.4 and 0.9 per cent in 2023 from 4.1 per cent and 3.5 per cent in 2022, respectively. In the United States and Canada, growth rates are also expected to fall to 2.1 and 1.7 per cent in 2023 from 2.1 and 3.4 per cent, respectively, in 2022. In contrast, growth in Emerging Markets and Developing Economies (EMDEs) will remain unchanged at 4.0 per cent in 2023, driven by China and India, which are expected to expand by 5.2 per cent and 6.1 per cent in 2023, respectively. In Sub-Saharan Africa, growth will slightly decline to 3.5 per cent from 3.9, with Nigeria and South Africa expected to grow by 3.2 per cent and 0.3 per cent, respectively.

Many central banks remain committed to fighting inflation despite its potentially cooling effect on economic activity. Global headline inflation is moderating but remains high. It is projected to decelerate to 6.8 per cent in 2023 from 8.7 per cent in 2022, before dropping further to 5.2 per cent in 2024 (IMF WEO July 2023 Update). In Advanced Economies and Emerging Market and Developing Economies, headline inflation is projected to moderate from 7.3 and 9.8 per cent to 4.7 and 8.3 per cent, respectively —all driven by the decline in food and energy prices, the easing of disruptions to global supply chains, and monetary policy tightening. However, in Sub-Sahara Africa (SSA), inflation, particularly food

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inflation remains persistently elevated, as about 80.0 per cent of SSA are facing double-digit food inflation (IMF regional outlook, sub-Saharan Africa, April 2023).

While global headline inflation is moderating, core inflation remains sticky and well above many central banks' target. Core inflation is projected to decline only gradually from an average of 6.5 per cent in 2022 to 6.0 per cent in 2023, driven by an increase in the prices of services and continuous labour market tightness. In the United States, for example, core inflation marginally decreased to 4.8 per cent in June from 5.3 per cent in May 2023. In the United Kingdom, core inflation also marginally decreased from 7.10 per cent in May to 6.90 per cent in June 2023. In France, it slightly declined from 6.30 per cent in May to 6.20 per cent in June 2023. In the Euro Area, however, core inflation rose to 5.5 per cent in June from 5.3 per cent in May 2023. Overall, it is forecast that 96 per cent of countries with inflation targeting framework will remain above target in 2023, before declining to 89 per cent in 2024 (IMF WEO July 2023 Update). As a result of this persistence and stickiness of core inflation, many central banks in advanced economies, including the US Federal Reserve (Fed), the European Central Bank (ECB), and the Bank of England (BoE), among others, continue to hike interest rates to firmly contain inflation and bring it down to the central banks' target.

Following these global developments, Nigerian economic activity has predictably abated but remains resilient. Official data from the National Bureau of Statistics (NBS) revealed that Nigeria's real GDP (year-on-year) grew by 2.31 per cent in Q1 2023, downed from 3.52 per cent in Q4 2022, representing a decline of 1.21 percentage points. This is the tenth (10) consecutive quarter of GDP growth since the country exited recession in the fourth quarter of 2020.The moderate growth rate was driven by the non-oil sector, especially the services and industries sectors, which grew by 4.35 and 0.31 per cent, respectively. The agriculture sector, however, contracted by 0.90 per cent in Q1 2023, compared

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with a positive growth of 1.88 per cent in Q4 2022. The sub-sectors that recorded significant growth included Agriculture (Crop Production), Trade, Information and Communication (Telecommunication), Crude Petroleum and Natural Gas, and Real Estate, with growth of 19.48, 15.97, 14.13, 6.21, and 5.38 per cent, respectively. In terms of relative contribution to GDP, the services, agriculture, and industries sectors contributed 57.29, 21.66 and 21.05 per cent, respectively. The oil sector continued to contract although at a slower pace, as it contracted by 4.21 per cent, compared with a contraction of 13.38 per cent in Q4 2022, reflecting an increase of 21.38 percentage points. Overall, the oil sector's contribution to aggregate GDP increased from 4.34 per cent in Q4 2022 to 6.21 per cent in Q1 2023. The increased performance was attributed to the improved security in the oil-producing areas. Also, the monthly composite PMI has remained above the 50.0 benchmark for the third consecutive month. Although it slowed down to 50.2 index points in June from 54.4 index points in May 2023, it was above the benchmarks, indicating the resilience of Nigerian economy. As a result, the IMF (WEO July 2023 Update) projected the Nigerian economy to grow by 3.2 per cent in 2023 from 3.3 per cent in 2022, driven by the non-oil sector and expected improved oil production.

The financial soundness indicators showed that the banking system remained stable and resilient. The capital adequacy ratio (CAR) and Liquidity Ratio (LR) have remained above the minimum thresholds. Although CAR decreased to 11.2 per cent in 2023 from 14.1 per cent, it remained above the 10.0 per cent prudential requirement. The liquidity (LR) was also above the 30.0 per cent regulatory minimum ratio. It increased significantly from 42.6 per cent in June 2022 to 48.4 per cent in June 2023. The Non-performing Loans (NPLs) ratio remained below the maximum prudential requirement of 5.0 per cent. It declined from 5.0 per cent in June 2022 to 4.1 per cent in 2023. The continuous decline in NPL was attributable to write-offs, restructuring of facilities, Global Standing Instruction (GSI) and sound credit risk management. Total assets of the

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banking industry grew by N30.92 trillion or 47.21 per cent between June 2022 and June 2023, largely driven by the effects of new FX policy. As a result, total gross credit increased by N10.75 trillion or 39.73 per cent between the end of June 2022 and the end of June 2023 due to the increase in the industry funding base, the CBN's directive on Loan-to-Deposit Ratio (LDR), business strategy and competition, and changes in valuation of FX denominated loans due to operational changes in the FX market. The credit growth was largely recorded in oil and gas, manufacturing, general commerce, and government.

Grappling with these conditions are tricky because the outlook is fraught with domestic and external downside risks. Global headline inflation is moderating but remains high and continues to add to the cost-of-living crisis. The Russia-Ukraine war could escalate, especially given the suspension of the Black Sea Grain Initiative. This could not only disrupt trade and investment flows but also add to the double-digit food inflation in many sub-Saharan African countries. External financial conditions remain elevated and could increase capital outflows and exert exchange rate pressures in EMDEs, leading to high-cost borrowing, increasing debt distress, and severely impacting the domestic investment and economic growth of EMDES, including Nigeria. Domestic headwinds include inflationary pressures, which remain elevated. Headline inflation (year-on-year) increased to 22.79 per cent in June 2023 from 22.41 per cent in May 2023, driven largely by food inflation, which rose to 25.25 per cent in June 2023 compared with 24.82 per cent in May 2023. Core inflation also increased to 20.27 per cent in June from 20.06 per cent in May 2023, driven by processed foods, education, clothing and footwear, and transport. The economy continues to face external vulnerabilities, particularly oil price volatility and low oil production, leading to more pressure on exchange rates. As a result, the Balance of Payments (BOP) position recorded a deficit of 0.85 per cent of the GDP in Q4 2022. Other structural challenges include lingering infrastructural

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deficits, rising unemployment, power supply shortages, rising insecurity, inequality, and poverty.

Amid these headwinds lie opportunities to put the economy on a sustainable path of economic growth. The Bank and the Federal Government have recently already taken some bold measures that would lay the foundation for sustainable macroeconomic stability. The recent adoption of a single, market-determined exchange rate will engender investors' confidence, attract more capital inflows, stabilize exchange rates, and decline inflationary pressures in the short to medium term. Also, the elimination of the petrol subsidy by the Federal Government has removed the unsustainable fiscal burden, thereby creating more fiscal space for investment in public goods and services. However, more action is required to return the economy to a sustained recovery. This would include the need to further promote inclusive growth through increased competitiveness, private sector investment, and innovation in various sectors of the economy. This would help create quality jobs and accelerate poverty reduction in the country. Also, developing a sustainable fiscal path through increased revenue mobilization and efficient tax administration will attenuate the impact of oil price volatility; thereby making resources available for investment in human capital and infrastructure.

Overall, these pieces of evidence overwhelmingly suggests the need for the MPC to remain committed to containing inflation immediately. The rising costs of food and other necessities are eroding the purchasing power of ordinary Nigerians. The Bank must, therefore, continue to act to bring inflation under control by raising the monetary policy stance. This will not only help to tame inflationary pressures in the short to medium term but also sustain growth recovery, anchor inflation expectations, attract capital inflows and minimize the effect of exchange rate pass-through to domestic prices.

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Based on persisting negative real interest rate and the need to be consistent and credible, I vote to raise MPR by 25 basis points.

- Increase the Monetary Policy Rate (MPR) from 18.5 percent to 18.75 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.

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8. OMAMEGBE, MO'

Global Economic Developments

The global economic outlook has become somewhat optimistic following upturns in global economic developments. Global growth improved albeit with mixed outcomes across countries, against analysts' expectations of a possible recession at the beginning of the year. The improvement in Global growth was driven by rising business and consumer sentiment, the opening up of the Chinese economy as well as lower energy prices. Together, these have brought about a deceleration in global headline inflation although core inflation has remained sticky downwards. The global economy in 2023, despite facing significant challenges, mainly stemming from the repercussions of the war in Ukraine and elevated global inflation, has demonstrated remarkable resilience. However, downside risks to global growth namely, persistent high core inflation, rising debt levels and servicing costs still persist that put a damper on the overall economic outlook.

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

The World Bank reports that emerging economies like China and India are experiencing stronger growth compared to developed economies. Sub-

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Saharan Africa on the other hand, is equally encountering sluggish economic growth, primarily attributed to high inflation rates, global economic uncertainties, underperforming major economies on the continent, and a significant deceleration in investment growth.

Domestic Economy

Nigeria's economic growth weakened in the first half of 2023, primarily due to high and rising inflation, fiscal challenges, and global economic conditions. The combination of declining revenues and increasing expenditures has led to a growing fiscal deficit, necessitating borrowing and potentially fuelling inflationary pressures. The underperformance of the oil sector, coupled with unsustainable fuel subsidies, further exacerbates the fiscal issues.

In June 2023, the Purchasing Managers' Index (PMI) decreased to 53.2, falling from a five-month high of 54.0 in the previous month. This indicates an expansion in the private sector for the third consecutive month, albeit at a slower rate than the previous month. The expansion in new business and output lessened, as inflationary pressures impacted demand. Input and output costs soared partly as a result of the removal of fuel subsidy. There was an overall drop in business confidence bringing it to a near record low.

Headline inflation rates in June 2023 rose to 22.79%, a 0.38% increase compared to the previous month. This marked the 6th consecutive monthly increase and the highest inflation rate since 2005. Food inflation increased to 25.25%, and core inflation reached 20.27% during the same period. The year-on-year headline inflation rate was 4.19% higher than in June 2022. Although core inflation showed a slight decrease year-on-year, overall persistent inflationary pressures remain a cause for concern.

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Export earnings continue to decline despite higher oil prices recorded in the first half of the year. Revenues from oil exports will further depress in the future if the perennial structural challenges plaguing the petroleum sector are not addressed.

The recent PMS and foreign exchange reforms have significant implications for the economy. These reforms if well implemented present a tremendous opportunity to address the growing fiscal challenges in the medium to long term and creates a foundation to build long term fiscal sustainability and economic growth. In the near term, the reforms will lead to sharp price increases which will directly and significantly impact the poor and most vulnerable households. The need for government targeted assistance to this demographic to cushion the effects of the price increases cannot be over emphasized. Further, these reforms provide an added opportunity to grow the fiscal space if spending is controlled and targeted while utilization of additional revenues mobilized should be prudently and optimally deployed.

Overall consideration

Despite consistent and synchronous monetary tightening, high inflation persists globally. The effect of tightening has started to yield some fruit in certain parts of the world with reduction in headline inflation and resilience displayed by western economies despite bleak growth forecasts. On the domestic front, a combination of factors keep prices elevated. The surge in consumer price inflation is attributable to factors such as increased money supply, fiscal imbalance, monetization of the fiscal deficit, exchange rate depreciation and the impact of recent policy reforms. Global food and energy price spikes have further exacerbated the situation. A recent World Bank report notes that the

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inflationary pressure escalated in 2022, resulting in the fastest consumer price increases in 17 years.

The pace of consumer price increases defied market expectations in June 2023 as the anticipated price increase due to the newly introduced policy reforms was somewhat muted. However, Headline inflation still increased to a new 18-year high. The fuel subsidy removal and the impact of managed float of the currency may not have been fully reflected in the CPI numbers for June 2023. The expectation is that July 2023 numbers will further bake in the impact of these policy changes and the rates will likely trend higher.

Foreign exchange inflows remain limited and The Nigerian Upstream Petroleum Regulatory Commission reported that total crude oil production, both blended and unblended including condensates recorded a moderate increase of 1.47 mbpd in June 2023. This bodes well for our foreign exchange reserves but production increase should be consistent and sustained. Increasing crude oil production and consequently revenues is critical to improving our foreign exchange liquidity position in the short to medium term. This will no doubt positively impact our foreign exchange reserves with important exchange rate implications.

Overall inflation remains sticky, and the trilemma – an attempt to simultaneously reduce persistent inflation, contain downside growth risks while maintaining financial stability – remains a major challenge. The significant and rapid monetary policy tightening undertaken to combat rising prices reflects the central bank's commitment to its price stability mandate. Some have called for caution as the effects of continuous rate increases could pose systemic risk to the financial system and negatively impact growth. This is a legitimate concern. However, the evidence suggests a less than moderate stress in the financial system due to tightening and does not reflect a high risk of stress that will lead to a systemic crisis at this time.

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We continue to see the impact of fiscal factors as the significant drivers of rising prices. This calls for the need for fiscal policy tightening to complement the monetary policy efforts. Supply side reforms especially a reduction in government spending, growing non-oil tax revenues, increasing crude production and fiscal policy coordination remain areas that need urgent Government attention.

The growth of money supply continues on the uptrend and the consequent challenge of taming rising prices remains daunting. Though the fight to reduce inflation presents downside risks to growth, the focus should remain steadfast on the primacy of price stability to keep inflation within target levels. This is more so given that we cannot sustain growth without keeping inflation under control.

The calls for a handshake between monetary and fiscal policy to control rising prices are credible and will be positively impactful, however, the role of tackling the menace of inflation remains primarily that of the Bank. Consequently, all the monetary tools should be deployed to stem rising price levels.

With the recent policy pronouncements and the potential upside inflation risk in the near term, it will be harmful to prematurely stop tightening as this will likely dislodge inflation expectations. We should remain resolute and forceful in addressing persistent price pressures and resist a premature policy reversal at this time.

My Policy Decisions

I therefore vote to:

1. Raise MPR by 25 basis points to 18.75 per cent;
2. Adjust the Asymmetric Corridor to +100/-300 basis points around the MPR;
3. Retain the CRR at 32.50 per cent;

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9. SALISU, MOHAMMED A.

Global Developments and Outlook

Global recovery of global supply chains from the COVID-19 pandemic has largely contributed to the expansion of global output. However, some of the forces that hindered growth in the past year or so have continued to slow the pace of global economic recovery. For example, the repercussions of the ongoing war in Ukraine as well as high food and energy costs have continued to constrain economic activity. Despite these challenges, global economic activity was resilient in the first quarter of 2023, driven largely by the services sector. The International Monetary Fund (IMF) projected global growth to decelerate from an estimated 3.5 per cent in 2022 to 3.0 per cent in 2023 and 2024 (IMF, World Economic Outlook – WEO – July 2023), with the balance of risks to global growth tilted to the downside, including slow recovery of the Chinese economy and the ongoing efforts at the enlargement of the BRICS (Brazil, Russia, India, China and South Africa) economy.

Global inflation has continued to decline on account of moderation in prices across several Advanced Economies (AEs). As a result, the IMF has projected global headline inflation to fall from 8.7 per cent in 2022 to 6.8 per cent in 2023 and 5.2 per cent in 2024 (WEO July 2023), while core inflation is projected to decline more gradually. In the Emerging Markets and Developing Economies (EMDEs), however, inflation remains high and will remain elevated in the foreseeable future despite broad measures by several central banks to ease the inflationary pressure. Thus, inflation across EMDEs could remain high and may even rise if unexpected global shocks occur, including those from an intensification of the war in Ukraine and extreme climate change related events.

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Domestic Economic Developments

Despite rising inflation and high unemployment, the Nigerian economy has continued to sustain positive output growth since it exited from recession in 2020. The National Bureau of Statistics (NBS) reported that Real Gross Domestic Product (GDP) grew by 2.31 per cent (year-on-year) in the first quarter of 2023, compared with 3.52 per cent in the fourth quarter of 2022. While growth decelerated, the sustained positive performance of the economy was driven largely by rapid growth in the services and industry sectors, supported by broad-based measures by both the monetary and fiscal authorities. The positive economic growth is projected to continue following the removal of subsidy on the price of Premium Motor Spirit (PMS) and convergence of multiple exchange rates in the medium- to long-terms. These factors could, however, exacerbate uncertainties due to high prices of PMS and other energy products and pressure in the foreign exchange market. The general level of insecurity in the country, particularly in the farming communities, could also precipitate uncertainties. Despite the perceived uncertainties, the economic outlook for Nigeria for 2023 remains solid based on the forecasts by the CBN (2.66 per cent), Fiscal Authorities (4.20 per cent) and the IMF (3.20 per cent).

On inflation, the headline inflation (year-on-year) continued its upward pressures, rising to 22.79 per cent in June 2023, from 22.41 per cent in the previous month, driven largely by the food prices. For instance, food inflation rose to 25.25 per cent in June 2023, from 24.82 per cent in the preceding month. Some of the key drivers of food inflation include the continued security challenges in major food-producing areas; rising cost of energy, high cost of transportation; poor rural road infrastructure; and post-harvest losses. Uptick in core inflation also contributed to inflation pressures. For instance, according to National Bureau of Statistics (NBS) data, year-on-year core inflation excluding energy items rose from 19.83 per cent in May to 20.06 per cent in June 2023, As

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the MPC's Communique rightly states, "The unfolding dynamics in the policy environment and the resultant pass-through to domestic prices would thus require greater collaboration between the Bank and the fiscal authority."

In terms of monetary aggregates, CBN Staff report shows that broad money supply (M3) grew by 24.35 per cent (year-to-date) in June 2023, compared with 6.70 per cent in May, driven largely by the increase in both Net Foreign Assets (NFA) and Net Domestic Assets (NDA). The monthly weighted average Open Buyback (OBB) and Interbank Call rates decreased to 9.12 and 11.61 per cent in June 2023, from 12.60 and 12.31 per cent in May, respectively.

In the Banking System, Financial Soundness Indicators (FSIs) remained stable and strong, as the Capital Adequacy Ratio (CAR), Non-Performing Loans (NPLs) ratio, and Liquidity Ratio (LR) stood at 11.2 per cent, 4.1 per cent, and 48.4 per cent, respectively, at the end June 2023.

Furthermore, the recently introduced government policies have spurred a surge in investor confidence in the Nigerian financial market as investors foresee a more stable macroeconomic environment. Consequently, equities remained bullish with the All-Share Index (ASI) and Market Capitalization (MC) increasing to 60,968.27 index points and N33.20 trillion, respectively, on June 30, 2023, compared with 51,251.06 index points and N27.92 trillion as at December 30, 2022.

In the foreign exchange market, the policy on convergence of the multiple exchange rates led to market-determined rate for the naira, effectively abolishing the Investors and Exporters (I&E) Window. Gross external reserves remained relatively flat at US$33.75 billion and US$33.97 billion in June and July

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2023, respectively, due primarily to weak accretion to external reserves and demand pressures on the foreign exchange.

Policy Decision

Based on the foregoing analysis on the international and domestic developments, it is apparent that inflation pressure poses a serious threat to output growth in Nigeria as the recent policy decisions around subsidy removal, exchange rate liberalization and disbursement of palliatives, would have pass-through effects to inflation. This calls for decisive measures, including use of a mix of monetary policy instruments by the CBN to address the potential adverse liquidity challenges.

It is noteworthy, that despite hiking the policy rate in the past eight meetings of the MPC, inflation has continued to rise, albeit at a slower pace. This shows that either the monetary policy rate (MPR) has not been effective enough or that other monetary and fiscal factors are driving inflation in Nigeria. In this case, tightening the policy rate may not help matters. Similarly, loosening the MPR now may not be a good option as it will boost spending. This leaves us with a "hold" option, that is holding the MPR constant in combination with other monetary and fiscal policy instruments, including sustained collaboration between monetary and fiscal authorities on joint policies that would attract domestic and foreign investments to shore up the economy, create jobs, boost output and reduce prices.

Accordingly, I voted to:

1. Hold the MPR constant at 18.5%.
2. Retain the CRR at 32.5%.
3. Retain the Asymmetric Corridor at +100/-700 basis points around the MPR.
4. Retain the Liquidity Ratio at 30.0%.

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10. SANUSI, ALIYU R.

Decision

My decision to vote for a raise on the MPR is predicated on the need to continue to tighten the monetary policy stance as inflationary pressure continues unabated. Indeed, as economic agents adjust to the two major policy reforms of the new government, inflationary pressure is expected to rise in the short to medium term. On the one hand, for example, I expect the resultant exchange rate depreciation to elevate the inflationary pressure directly, given the substantial exchange rate pass-through and its second-round effects, and indirectly through the consequential liquidity injections as the exchange rate for oil revenue monetisation adjusts upward. On the other hand, the substantial upward adjustment of the pump price of PMS due to the subsidy-removal would raise costs and exert additional inflationary pressures. In my opinion, these new policies would exacerbate the existing inflationary pressures arising from food and energy occasioned by the external and domestic legacy headwinds. Data and staff forecasts show that output growth will remain moderately positive but inflation will rise. With inflation sticking above the growth-retarding level and threatening to continue rising, I believe the optimal monetary policy response to rein in inflation is further tightening.

Background and Justification

Global Economic Development

The global economic and political environment has continued to remain uncertain as Russian-Ukraine hostilities continue to exert pressure on global food and energy prices amidst rising threats to multilateralism, while the slow recovery in China and continued cycles of rate hikes weigh on global trade and exacerbate debt vulnerabilities.

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The policy environment has continued to be challenged by the continued uncertainties in global economic and geopolitical developments. These developments include the rising geo-political tensions arising from the continued hostilities between Russia and Ukraine, especially the failure by Russia to renew the black sea grains agreements that allowed safe passage of food exports from Ukraine; the increasing global polarisation that is deepening the East-West geopolitical divide as more countries show interest in joining the new BRICS currency challenging the dominance of the dollar in global trade and reserve currency. This *bricsification,* if successful, is expected to have a substantial effect on global trade volumes and directions as about 41 countries have already indicated an interest in joining the new BRICKS reserve currency as of the end of June 2023. The World Bank has forecasted global output growth to moderate to 2.1% in 2023 but rise to 2.4% in 2024 due to the high, but moderating global inflationary pressures, volatile but elevated energy prices, tighter financial conditions and worsening geopolitical tensions. In the Advanced Economies (AEs), output growth is forecasted to moderate to 0.7% in 2023 from 2.6% achieved in 2022, but rise to 1.2% in 2024 due mainly to the monetary tightening, and slow growth in the Euro area and the UK. Output in the US expanded by 2.0% in Q1 2023 compared with 2.6% in Q4 2022 and is expected to rise by 1.6% in 2023. Output in the UK economy remained flat at 0.1% in Q1 2023 but is expected to contract by -0.3% in 2023. In the Euro area, output growth declined by -0.1% in Q1 2023, the same as in Q4 2022 due to decreased household and public spending. Japan's output expanded by 0.7% in Q1 2023, from 0.1% in Q4 2022 but is forecasted to rise to 1.3% in 2023. The composite Global Composite PMI of JP Morgan has moderated to 52.7 index points in June 2023 from 54.4 index points in May 2023, indicating moderation in global economic activity (both manufacturing and services).

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Output in the Emerging Market and Developing Economies (EMDEs) is forecasted to grow by 4.0% in 2023, from 3.7% in 2022, but is expected to moderate to 3.9% in 2024. Output growth in China declined to 0.8% in Q2 2023 from 2.2% in Q1 20123. It is forecasted to grow by 5.2% in 2023. In Russia, output is forecasted to expand by 0.7% in 2023 and is expected to expand by 1.2 in 2024. In South Africa, output contracted q-o-q by -0.4% in Q1 2023, compared with an expansion of 1.1% in Q4 2022. In 2023, output is expected to grow by 0.1%. In Nigeria, q-o-q output declined by 15.65% in Q1 2023 compared with 10.99% in Q4 2022, driven largely decline in the oil sector. Output is expected to grow by 3.2% in 2023.

Global inflation has continued to decline but is expected to remain elevated above pre-pandemic levels throughout 2023. IMF forecasts global inflation to be 7% in 2023 from 8.7% in 2022, but decline to 4.9 in 2024. In the AEs, IMF forecasted inflation to decline to 4.7% in 2023 from 7.3% in 2022 due to a decline in non-fuel commodity prices and the effects of the ongoing monetary tightening. It is expected to decline further to 2.6% in 2024. In the US, inflation has continued to decline since July 2022 and dropped to 3.0 % in June 2023, while it stood at 5.5% in the Euro area and 7.9% in the UK. In the EMDEs, inflation is forecasted to decline to 8.8% in 2023 and further to 6.5% in 2024 due to the expected decline in food and energy prices, continued monetary tightening, and easing of disruptions to the global supply chains. As of June 2023, year-on-year inflation declined in China to 0.0%, in Saudi Arabia to 2.7%, in South Africa to 5.40% but increased in India to 4.8%, in Russia to 3.2%, and in Nigeria to 22.72%.

Domestic Economic Developments and Their Implications

In addition to the legacy headwinds that confront the domestic economy, including the security challenges in the major food-producing areas and, the high cost of transportation caused by rising energy costs, the recent

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government policies are expected to increase inflationary pressure as well as dampen the slow output recovery in the short to medium term. The two major reforms of the new administration, which aim to improve the government's fiscal space and long-term growth prospects of the economy, are expected to have a substantial influence on the evolution of the domestic economy over the short-to-medium term. Output, Money and Prices are expected to adjust to both the zero-subsidy policy on the pump price of PMS and the substantial depreciation of the naira as the bank attempts to unify the various exchange rate windows. On the one hand, the zero-subsidy policy will have a direct effect on prices and output through higher costs of production and transport and dampened demand. The resultant depreciation of the naira following the exchange rates unification will directly, via the pass-through effect, raise prices. On the other hand, the monetization of the resultant higher revenue (owing to subsidy savings) from oil with a more depreciated exchange rate will be a significant source of liquidity injections. This impending liquidity, if not sterilized, will be an additional source of inflationary pressure. These policies and their potential impact on output and inflation have underscored the greater need for coordination of fiscal and monetary policies going forward. As the positive effects of policies crystalise and expand the fiscal space, a new framework for effective macroeconomic policy coordination will be required to achieve output growth with low inflation. This would allow the central bank to return to the traditional use of its market-based tools for liquidity management.

Available data shows that output recovery has remained positive, for ten consecutive quarters, but weak. In Q1 2023, the domestic output slowed to 2.31% (y-o-y) from the 3.52% achieved in Q4 2022. This was driven by the non-oil sector, which grew by 2.77%, particularly Services, (4.35%). Agriculture declined by -0.9%. However, the oil output contracted by a much smaller rate of -4.21% due to improved oil production in Q1 2023. On a q-on-q basis, output contracted by -15.65% in Q1 2023, driven by the decline in the Non-oil GDP.

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Agricultural output contracted by -30.95% while services output contracted by-14.12%. These contractions reflect the effects of the cash crunch as a result of the cashless policy during the quarter. Oil GDP, however, expanded by 20.68% reflecting improved production.

In June 2023, inflation continued to increase for six consecutive months. Year-on-year, the headline inflation increased by 38 basis points, from 22.41% in May 2023 to 22.79% in June 2023, driven by both the food and core components. Food inflation rose to 25.25% in June 2023 from 24.82% in May 2023, driven by a 38-basis point increase in prices of farm produce. Core inflation also increased in June 2023 by 0.21 percentage point to 20.27% from 20.06% in May 2023, due mainly to increased prices of processed foods, education, and transport. Survey data shows that expected inflation continued to rise in June 2023 but has remained below actual inflation since September 2022.

Monetary sector developments showed that broad money (M3) growth increased by 24.35% in June 2023 year-to-date (annualized at 48.71%, above the benchmark of 17.18% for 2023). This increase was driven by the rise in the Net Domestic Asset (NDA), which grew 18.09% (year-to-date) in June 2023 (annualized at 36.18%, above the benchmark of 15.78%). The key driver of the growth in NDA was net claims on government which grew by an annualized rate of 79.28% (y-t-d) in June 2023, above the 2023 benchmark of 19.64%. Net Foreign Assets (NFA) also increased by 59.64% in June 2023 (annualised at 119.28%, above the benchmark of 38.82% for the year).

Staff forecasts showed that headline inflation would increase from 22.79% in June 2023 to 23.22% in July 2023 due to the high cost of Premium Motor Spirit (PMS) and Automotive Gas Oil (AGO) leading to high costs of transport and logistics, high electricity tariff, exchange rate pass-through, and seasonality in food production.

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A review of the banking system stability report shows that the banking system continues to remain safe, sound, and resilient. Capital Adequacy Ratio (CAR) stood at 11.2% as of end-June 2023, which was above the regulatory minimum of 10%. The Non-Performing Loans (NPLs) ratio was 4.1%, which was below the regulatory maximum of 5%. Furthermore, Liquidity Ratio stood at 48.4%, above the regulatory minimum of 30%. Data also shows that the banking industry's Total Assets and Gross Credit to the economy have maintained their upward trends in June 2023. Total industry assets grew year-on-year by N30.92 trillion or 47.21% to N96.4 trillion between end-June 2022 and end-June 2023. The upward trend in total credit to the economy stands at N37.81 trillion as of June 2023 and has increased by N10.75 trillion or 39.73% between the end of June 2022 and the end of June 2023. The credit growth has continued since 2019 following the Bank's Loan-to-Deposit Ratio (LDR) policy.

The Basis for My Policy Choice

I am concerned that new and legacy forces would substantially influence the evolution of prices in the medium term and, given the already high level of inflation, hurt output growth. The new exchange rate policy that led to the depreciation of the naira, for instance, would directly feed into prices in the short-to-medium term. Along with the expected subsidy savings, the monetization of oil proceeds under the current exchange rate regime would mean a substantial increase in government revenues. While this brings the much-needed improvement in the fiscal space, it also could mean increased liquidity injections, especially in the context of a weak legal framework for saving windfalls. This expected liquidity, unless fully sterilised, could raise the existing inflationary pressures and eventually depress output. In my opinion, therefore, there is a need for effective coordination between monetary and fiscal policy to sustainably achieve low inflation and high output growth. In deciding

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between loosening, holding, or raising the MPR, I choose to raise the policy rate because loosening would compound the inflationary pressure, negate the present efforts at taming inflation and accelerate capital outflows. Holding, at the moment, could erode the gains made from the previous policy rate hikes. I, therefore, voted for a further tightening, albeit by a lower rate in consideration of the potential impact of the new policy reforms on the financial system stability. Consequently, I voted to:

1. Raise the MPR by 25 basis points to 18.75% per cent;
2. Retain the CRR at 32.5 per cent;
3. Adjust the asymmetric corridor to +100/–300 basis points around the MPR; and
4. Retain the liquidity ratio at 30.0 per cent.

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11. SHONUBI, FOLASHODUN A.

Faced with a high chance of prolonged Russia-Ukraine crisis, as well as the dampening effect of high global inflation and tight financial conditions, the prospect for global economic growth remains weak. Many economies are thus struggling with how to sustain the fight against inflation, without hurting financial system stability, while also working to preserve the fragile growth. Domestically, we are determined to sustain efforts in achieving an enduring policy regime that will not only protect the domestic economy from global shocks and assure near-term stability, but also put the economy on the path of sustainable long-term growth and development.

Global and Domestic Economic Developments

Disruptions recovery of the global economy continued during the review period, with slowing momentum, growing uncertainties, and fragile outlook. Widespread tight monetary policy to curb inflation constrained aggregate demand and dampened growth prospects, while also constituting threat to financial system stability. Although global inflation has started declining in some key economies, elevated cost pressures in labour markets and lingering supply-disruptions have kept inflation above long run targets. Consequently, IMF expects global growth to weaken from 3.5 per cent in 2022 to 3.0 per cent in 2023 and 2024.

Domestic Conditions Review

Upwardly trending inflation in a period of weak and fragile output growth indicate a delicately stable short-term prospect for the Nigerian economy. Unintended and transitory effects of recent supply-correcting reforms (stoppage of petroleum subsidy and foreign exchange market liberalisation) in the domestic economy are combining with global headwinds to aggravate inflation, weaken household demand and dampen economic activities.

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Hence, developments in the domestic macro-economic environment in the review period reflected the sentiments and dynamics in the various sectors of the economy, as triggered by the policy induced shocks.

Domestic GDP growth, at 2.31 per cent in 2023Q1, was below the 3.52 per cent in the preceding quarter, indicating largely robust performance of the non-oil sector. The services and industry sub-sectors were the major drivers of non-oil sector growth. The fragile outcome in 2023Q1 reflected mainly the effects of temporary unintended policy induced weakening of effective demand and disruptions to economic activities in the review period.

At 22.79 per cent in June 2023, from 22.41 per cent in May, domestic headline inflation rate remained broadly elevated on account of increase in both core and food inflation. On a month-on-month basis, inflation rose by 2.13 per cent, compared with 1.94 per cent in May. Rising inflation showed the impact of both supply-side (infrastructure, insecurity, energy prices, transportation, exchange rate) and demand-side (mainly liquidity overhang) factors driving inflation.

Significant growth of key monetary aggregates in the review period highlighted the challenge of excess liquidity in the economy. Annualised growth in broad money supply, at 48.71 per cent vis-à-vis the programmed target of 28.21 per cent, was driven by expansion in both net domestic and net foreign assets. Overall, increased systemic liquidity in June 2023, on account of higher FAAC allocation, temporary effect of CRR normalisation and sustained increase in banking system credit, were major contributors to liquidity surfeit and expansion of monetary aggregates. Accordingly, money market interest rates eased as the weighted average OBB and the interbank call rates, fell to 9.12 and 11.61 per cent, respectively, in June 2023, from 12.60 and 12.31 per cent in May 2023.

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The banking sector continued to be in safe, sound, and healthy state as financial soundness indicators remained largely within the prudential limits. Similarly, developments in the capital market were positive as market capitalisation and all-share index both improved on the back of improved investor confidence and trust in the new macroeconomic and policy environment.

Exchange rate convergence due to the recent liberalisation was accompanied by marginal accretion to external reserves. As the market was liberalised, rates converged, thereby narrowing arbitrage premium. Though demand pressures slackened slightly, residual rigidities and imperfections, as well as short-term stickiness remained major challenges.

My Considerations and Decision

Apparent uncertainty in global macroeconomic conditions, on account of the widespread tightness due to restrictive monetary policy actions to curb high inflation and persisting disruptions to global supply chain portends downside risk to global growth. I note that weak global demand, elevated global inflation, and rising interest rate could potentially impact the domestic economy; a threat which we must adequately mitigate with effective countervailing measures.

Domestic output is projected to remain subdued as the economy adjusts gradually to the recent reforms, just as the current elevated inflation constitutes a significant threat to macroeconomic stability. In-house estimates forecast a moderate growth of 2.66 per cent in 2023, while the IMF projects domestic growth at 3.2 per cent in 2023 on account of potential consolidation of economic activities. However, I am positive about moderate improvement in the short to medium term, as expected improvement in operations of the oil sector begin to contribute rather than being a drag on the economy.

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At 22.79 per cent, inflation has not only remained high but maintained an upward trend, thereby impairing household wealth and domestic consumption. The recent subsidy removal and exchange rate liberalisation are forecast to keep inflation sticky downward in the near-term, although an adequately tight monetary policy can engender inflation deceleration. Today, in my view, rising inflation is a far greater concern to us than growth deceleration. Various in-house analyses of the outlook highlight the need to resolutely curb inflation in the short-term, to ensure long-run macroeconomic stability.

I emphasise that current inflation trend, fuelled by expected impacts of petrol subsidy removal and exchange rate pass-through, is inimical to growth and needs to be tackled. Aside the structural drivers of inflation, month-on-month surge in banking system liquidity, as highlighted by the expansion in monetary aggregates, contributed significantly to inflation dynamics. To complement the policy rate, it is imperative that we unreservedly adopt an array of other instruments at the Bank's disposal to tighten systemic liquidity. Nonetheless, I note that the series of policy rate hikes have been effective enough, in moderating the pace of inflation uptick in the face of global shocks and domestic rigidities.

I note further that the recent liberalisation of the exchange rate, which was accompanied by significant depreciation of the naira, is expected to have some effect on inflation. But I envisage a low inflation pass-through, as much of the price adjustment was already priced in. Eventual stability of the foreign exchange market, over the medium-term, will further help to achieve price stability. Besides, the recent removal of subsidy could have a favourable effect on price stability as increased crude oil receipts by the government will bolster reserves, engender exchange rate stability, and help to moderate inflation.

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Overall, the transmission of monetary policy must be strengthened to ensure that market indices respond optimally to the Bank's rate adjustments and in line with liquidity profile of the economy. I reiterate that excess liquidity doesn't just affect inflation but also the exchange rate and as such the Bank must deploy all tools in its kit to constrain excessive liquidity expansion.

Overall Considerations and Decision

Today, I support further tightening to tackle inflation and ensure price stability. While this could constrain growth, inordinate inflation, with implications for future expectations, constitutes greater danger to overall domestic stability. Inflation needs to be combated resolutely as we creatively establish measures to cushion its impact on output. I believe that an adequately tight liquidity condition and measured rate hikes will deliver the goal of price stability that will support long-run growth.

Therefore, I vote to:

1. Raise the MPR by 50 basis points to 19.00 per cent;
2. Adjust the asymmetric corridor to +100/-300 basis points from +100/–700 basis points around the MPR;
3. Retain the CRR at 32.50 per cent; and
4. Retain liquidity ratio at 30.00 per cent.

FOLASHODUN A. SHONUBI, OFR

Ag. Governor

July 2023

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