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Attention: News Editors/Gentlemen of the Press

MONETARY POLICY RATE RAISED BY 50 BASIS POINTS TO 27.25 PER CENT TO 26.75 PER CENT

The Monetary Policy Committee (MPC) of the Central Bank of Nigeria (CBN) held its 297th meeting on the 23rd and 24th of September 2024 to review recent economic and financial developments as well as assess risks to the outlook. Eleven of the twelve members of the Committee were in attendance.

Decisions of the MPC

The Committee was unanimous in its decision to further tighten policy and thus decided as follows:

1. Raise the MPR by 50 basis points to 27.25 per cent from 26.75 per cent.
2. Retain the asymmetric corridor around the MPR at +500/-100 basis points.
3. Raise the Cash Reserve Ratio of Deposit Money Banks by 500 basis points to 50.00 per cent from 45.00 per cent and Merchant Banks by 200 basis points to 16 per cent from 14 per cent.
4. Retain the Liquidity Ratio at 30.00 per cent.

Considerations

The Committee noted the moderation in headline inflation year-on-year in July and August 2024. In addition, the MPC noted the relative stability and convergence in the exchange rate across the various market segments, resulting from the Bank's tight monetary policy stance. This is expected to improve confidence which will enable economic agents to plan in the medium to long term.

The Committee was, however, unanimous in recognising that a lot more is required to actualize the Bank's price stability mandate. The MPC noted that even though headline inflation trended downwards due to a moderation in food inflation, core inflation has remained elevated, driven primarily by rising energy prices. The uptrend poses severe concerns to Members, as it clearly indicates the persistence of inflationary pressures. Members thus, reiterated the need to work in close collaboration with the fiscal authority to address the current upward pressure on energy prices. The MPC noted the continued growth in money supply, recognising the need to curtail excess liquidity in the system as well as address foreign exchange demand pressures. Members were also concerned about the growing level of fiscal deficit but acknowledged the commitment of the fiscal authority not to resort to monetary financing through Ways & Means. Furthermore, members observed a strong correlation between FAAC releases and liquidity levels in the banking system as well as its impact on the exchange rate. The Committee, therefore, agreed to increase monitoring of future releases with a view to addressing its effects on price developments.

On food inflation, the upside risks remained flooding, hike in energy prices, scarcity of PMS and most importantly, insecurity in farming communities. Considering the weight of food in the CPI basket, Members recognized the efforts of the Federal Government in addressing insecurity in farming communities and stressed the need to remain steadfast. In addition, the MPC applauded the ongoing effort of the Federal Government to bridge the food supply deficit through the duty-free import window for food commodities. The Committee also expressed optimism that the lifting of refined petroleum products from Dangote refinery will moderate transportation costs and significantly support the easing of food price pressures in the short to medium term. This is also expected to moderate foreign exchange demand for importation of refined petroleum products, with a positive spillover on external reserve and improvement in the overall balance of payment position.

Members assessed the performance of key financial soundness indicators and noted with satisfaction that despite familiar headwinds, the banking industry remains safe, sound, and stable. The Committee, however, emphasized the need to sustain supervisory oversight on the industry to strengthen its continued support to the economy.

Following these considerations, Members deliberated on the optimal policy option to sustain the downward trend in price development, contain emerging risks to inflation, stabilize the exchange rate and safeguard the banking system while also shielding the recovery of output growth. In addition, Members noted that the real policy rate remains negative even after the recent moderation in headline inflation. To attract investments into the economy, efforts must be sustained to achieve a positive real interest rate. This would enhance the economy's competitiveness for international capital, thereby improving the exchange rate. Following a review of the upside risks to price development and the downside risks to the recovery of output growth, the Committee opted to tighten policy further, to safeguard the gains already accrued in moderating inflationary pressure.

Key Developments in the Domestic and Global Economies

According to the National Bureau of Statistics, headline inflation moderated to 32.15 per cent in August 2024 from 33.40 per cent in July, driven by a decline in food inflation, while the core component inched up. Food inflation eased to 37.52 per cent in August 2024, compared with 39.53 per cent in July, while core inflation rose marginally to 27.58 per cent in August 2024, compared with 27.47 per cent in July. Month-on-month, headline inflation fell to 2.22 per cent in August 2024 from 2.28 per cent in the preceding month while food inflation eased to 2.37 per cent in August 2024, compared with 2.47 per cent in July. Core inflation, however, rose marginally to 2.27 per cent in August 2024, compared with 2.16 per cent in July.

Real GDP (year-on-year) grew by 3.19 per cent in the second quarter of 2024, compared with 2.98 per cent in the first quarter, driven by both the oil and non-oil sectors. Staff forecast indicates that the economy would grow by 3.32 per cent in 2024.

The external reserve stood at US$39.07 billion as at 19th September 2024 an increase of 17.4 per cent compared with US$33.28 billion in the corresponding period of 2023. This represents 8 months of import cover for goods and services and 13 months of imports of goods only.

Global growth projection by the IMF remains at 3.2 per cent in 2024 and 3.3 per cent in 2025. Some of the downside risks to this projection remain geoeconomic fragmentation, elevated global debt and ongoing geopolitical tensions between Russia and Ukraine as well as Israel and neighboring countries. As key central banks commence monetary easing, global financial conditions are expected to ease gradually and hopefully offset the downside risks to the recovery of global growth. Global inflation is expected to continue its deceleration in 2024 but may remain above the long-run targets of most central banks in the advanced economies.

Members thus, expressed their commitment to continuous monitoring of developments in the global and domestic economies to ensure that the appropriate response is always deployed to address emerging risks.

The next meeting of the Committee will be held on the 25th and 26th of November 2024.

Thank you.

Olayemi Cardoso

Governor,
Central Bank of Nigeria
24th September 2024

PERSONAL STATEMENTS BY THE MONETARY POLICY COMMITTEE MEMBERS MPC MEETING SEPTEMBER 23 – 24, 2024

1. AKU PAULINE ODINKEMELU

I vote to raise the Monetary Policy Rate (MPR) by 50 basis points, to 27.25 per cent from 26.75 per cent, the Cash Reserve Ratio of Deposit Money Banks by 250 basis points to 47.5% from 45% and Merchant Banks by 200 basis points, to 16% from 14%, retain the asymmetric corridor around the MPR at +500/-100 basis points, and the Liquidity Ratio at 30.00 per cent. My decision is influenced by the following factors:

1. Global Economic Developments

The Global economy is currently saddled with uncertainty despite the IMF projection that growth will stabilize around 3.2 per in 2024 and 3.3 per cent in 2025 and 2026. The lingering geopolitical tension flowing from elections in advanced economies, the Russia-Ukraine & Israel-Palestine conflicts pose serious risks to global growth. Despite the identified risks, growth in advanced economies is projected at 1.7 and 1.8 per cent in 2024 and 2025, respectively, while in the Emerging Markets and Developing Economies (EMDEs) it is projected at 4.1 and 4.2 per cent in 2024 and 2025 respectively. In Sub-Sahara Africa, the spillover effect of the lingering geopolitical conflicts pose a significant risk to growth as a result of which the outlook has been revised downwards due to a 0.2 percentage point downward revision to Nigeria's growth.

The deceleration in global inflation is projected to continue in 2024, particularly, towards the long-run target of the advanced economies' central banks. The IMF forecasts deceleration in global inflation from 6.7 per cent in 2023 to 5.9 and 4.4 per cent in 2024 and 2025, due to a decline in energy prices, slowdown in wage growth, and tight financial conditions in the advanced economies. The tight financial condition amidst cautious easing, is expected to decelerate inflation in the advanced economies from 4.6 per cent in 2023 to 2.6 per cent in 2024 and further to 2.0 per cent in 2025. This cautious easing in advanced economies' central banks is indicative of a stabilizing economic environment. In the Emerging Markets and Developing Economies, inflation is projected to decline marginally to 8.2 and 6.0 per cent in 2024 and 2025, respectively, from 8.3 per cent in 2024. In spite of the positive outlook to decelerating inflationary trend, upside risks to inflation by non-monetary drivers such as power shortages, poor transport networks, exchange rate pressures, and other structural issues persist. Against this backdrop, to effectively anchor inflation expectation and promote price stability, I vote for a further but gradual rate hike.

2. Domestic Economic Developments and Outlook

Year-on-Year real GDP grew by 3.19 per cent in Q2 2024, from 2.98 per cent in Q1 2024. The performance of the Nigerian economy was driven largely by the expansion in the oil sector. Muted growth in the non-oil sector, depressed consumer demand, exchange rate depreciation, elevated interest rate environment, and rising prices subdued output growth. While growth remained positive, it is important to maintain an oversight on the downside risks to growth.

Year-on-Year headline inflation decelerated by 1.25 percentage points for the second consecutive month to 32.15 per cent in August 2024 from 33.40 per cent in July 2024. The development was driven a combination of the base effect and moderation in the food component attributed largely to an improvement in the supply of staples from the strategic reserves and recent harvests.

In addition to efforts by monetary policy to contain the risk to price development, it is also essential that the government joins forces to address other risks to the outlook such as security challenges especially in food producing areas, high energy costs, structural and labour market rigidities and fiscal policy surprises.

My decision to vote for a further but gradual hike in the context of the above developments in the domestic economy is influenced by the following: Sustaining the tight policy stance during monetary policy easing in advanced economies could promote healthy international reserves, relatively resilient financial system, and exchange rate stability. Maintaining the relative stability and convergence in exchange rate across various market segments is extremely crucial in managing the shocks of monetary policy spillover from the advanced economies. Studies have shown that a flexible exchange rate regime is better in moderating monetary policy spillovers from advanced to emerging and developing economies. The Bank must, thus, closely monitor the behaviour of foreign currencies given the argument that the presence of foreign currency in a country's debt stock under floating exchange-rate regimes could morphe into an irreconcilable duo in the exchange rate regime and policy spillover relationship. Following from my last statement, sustaining the tight policy stance would allow the policy effectively permeate the economy, especially in narrowing negative real interest rate and sustaining exchange rate stability. I understand that excess liquidity is a common feature of the banking systems of developing economies, however, the continued growth of money supply in Nigeria, which is largely attributed to fiscal surprises, presents a serious challenge to monetary policy effectiveness. A further but gradual hike will also be effective in curtailing the excess liquidity in the banking system.

2. ALOYSIUS UCHE ORDU

GLOBAL ECONOMIC DEVELOPMENTS

The September MPC meeting took place at a time of considerable risks and uncertainties from heightened geo-politics and geo-economics facing the global economy. The Russian-Ukraine war continues to grind on while the Israel-

Hamas-Hezbollah-Iran war has escalated. There are multiple synchronized crises: energy crises, inflation, high interest rates and high levels of indebtedness. In addition to these, there are continuing debates about the institutional and governance gaps in the global financial architecture; climate change has also continued to wreak havoc, especially in Africa, with inadequate financing to address the global commons problem; while, long term fragility and insecurity continue to persist, especially in Africa's hotspots, including the Sahel and parts of Nigeria.

A bright spot has been the evident taming of inflation in advanced countries. At the annual Jackson Hole Economic Symposium in August, appropriately themed "*Reassessing the Effectiveness and Transmission of Monetary Policy*" the US Fed Chair, Jay Powell, emphasized that the time has come to start cutting its key interest rate.

This observation was underpinned by the slowing, but still positive job growth of the US economy, healthy levels of capital expenditures and unspent fiscal stimulus that should keep the economy on a path to a soft landing. Thus, after holding the Fed funds rate at an elevated level for 14 months – its second longest "hold" period in history, the Fed commenced its easing cycle in its September meeting, with a 50-basis points cut to 4.75 – 5.00 per cent. With inflation steadily declining (to about 2.5 per cent, almost at the Fed's 2 per cent target), the Fed has shifted its focus to protecting the labor side of its mandate (with the unemployment rate at 4.2 per cent). The expectation is for rate cuts to continue through 2025. A key difference from previous easing cycles is that the Fed is cutting rates pre-emptively, rather than responding to recessionary conditions. Because monetary policy works with a substantial lag, pre-emptive policy actions are considered appropriate and necessary.

Clearly, central banking is not an exact science. At a time of considerable uncertainty caution is warranted. The Fed's 50 basis points cut thus safeguards against adversely constraining economic growth at this moment in time.

Typically, what the Fed does, often sets the tone for monetary policy for the rest of the world.

In the **EU** where the economy is not as strong as in the US, the **ECB** cut rates in September for the second time in 2024. The **Bank of England** cut rates in August and indicated that further cuts may be in prospect this year. With the inflation rate down to 2.5 per cent, the Central Bank of **Canada** is also more concerned about the labor market and has indicated that further cuts in interest rate is likely, following an earlier cut this summer from 5.00 per cent to 4.25 per cent.

After years of deflation in the world's fourth-largest economy, the **Bank of Japan** raised interest rates to 0.25 per cent in July and held it at that level in September in an effort to strengthen the yen and reduce inflation risk via rising import prices. **Brazil** kept interest rate unchanged at 10.50 per cent consistent with its price stability objective. **Bank Indonesia** also held its policy rate at 6.25 per cent as part of its stabilization of the Rupiah exchange rate. In **Turkey**, the real interest rate turned positive for the first time since 2021, with inflation at 49 per cent in September versus the central bank's policy rate of 50 per cent.

Implications of the US easing cycle on emerging economies in Africa

It is noteworthy that the widening interest rate differential between the US and African economies ought to lead to increased capital inflows from global investors chasing higher yields. However, at a time of increased geo-political tensions, the strength of the US dollar also matters: A stronger dollar means tighter financial conditions, especially for Africa's highly indebted countries. These countries ability to attract inflows thus depends on the sensitivity of investors to currency fluctuations. Close monitoring is therefore warranted on the interplay between interest rate differentials and the strength of the US dollar.

In South Africa where the business-friendly Government of National Unity has continued to make progress, investor confidence is high, the rand is appreciating, and inflation at 4.4 per cent in August marked its lowest level since 2021. The South African Reserve Bank thus lowered its key interest rate to 8.00 per cent in an effort to stimulate growth. The favorable political and investment climate and higher export earnings will boost inflows of both portfolio and foreign direct investments.

Egypt has continued to inspire confidence in its ongoing reforms under the US$8 billion IMF Extended Credit Facility. The Egyptian Pound appreciated mildly in August, following the March devaluation, leading to a moderation in inflation. In its September meeting, the Central Bank of Egypt decided to maintain interest rates unchanged at 27.25 per cent due to persisting inflation risks.

In Ghana, the successful completion of its debt restructuring effort is expected to unlock additional financing from the IMF in support of the ongoing economic reforms. Increased financing inflows and easing inflationary pressures have provided much needed boost to the Cedi. The Bank of Ghana thus cut its benchmark monetary policy rate by 200 basis points to 27 per cent in September. In Kenya the Central Bank cut interest rate to 12.75 per cent on account of improved macroeconomic environment, notably lower inflation, stable exchange rate and brighter economic growth prospects.

DOMESTIC ECONOMIC OUTLOOK

The report on the economic conditions presented by CBN staff highlighted some noteworthy developments. First, growth in GDP per capita in 2024 is expected to remain tepid on account of depressed consumer demand and low levels of gross capital formation, especially by international oil companies. At 1.41 barrels per day (Q2 2024), oil production remained below the Government's budget benchmark of 1.78 barrels per day and also below Nigeria's OPEC quota. With rising tensions in the Middle East and a surge in oil prices, the Government needs to do whatever it takes to boost crude production. The opportunity costs, in terms of forgone output and foreign exchange earnings, are considerable. The non-oil sector continued to struggle despite improvements in the financial and insurance, ICT, crop production and trade sub-sectors. A modest expansion of the purchasing managers index was recorded in August (50.2 index points), as improvements in the services and agriculture sectors slightly outweighed the contraction in the industrial sector during the period.

Second, following the relentless acceleration in the rate of inflation in the past year, the August 2024 data showed that inflation moderated to 32.15 per cent. This is the second consecutive month of decline reflecting the moderation of food prices on account of improved farm harvests and grain releases from the national reserve. This could mark the beginning of an end, especially if food and petrol prices moderate further in the months ahead, following the Government's proposal to sell crude oil, in local currency to the Dangote Refinery and other domestic refineries.

Third, and particularly noteworthy, is that the Federal Government's short-term borrowing from the CBN decreased by over 75 per cent from end-December 2023 to July 2024. The reduction in monetary financing of the Federal Government is consistent with the current tight monetary policy stance. The Government and the CBN can help bring inflation and interest rates down faster by working together rather than by working at cross-purposes.

Fourth, on fiscal policy, challenges abound that are at odds with the CBN's firm anti-inflationary stance. A review of the fiscal indicators for the first-half of 2024, showed that FGN revenues under-performed, achieving only 37.9 per cent of target, due largely to the deficit in FAAC receipts. Recurrent spending exceeded targets, largely due to debt service payments, while spending on the capital account continued to under-perform. As at mid-2024, the overall fiscal deficit exceeded budget projections by over 85 per cent, emphasizing the need to reprioritize spending in favor of much needed capital projects. It also emphasizes the need for the CBN to avoid monetizing the deficit. The developments in the external sector remained positive with overall balance of payments surplus of US$2.47 billion, on account of the decline in import bills due to the tight monetary policy stance. The external reserves rose to US$37.44 billion on September 4, equivalent to over seven months of import cover, and the naira exchange rate marginally appreciated.

Rationale for my vote

The current cost-of-living crisis highlights the dislocation and pain inflation imposes, especially on low income families, the large segment of Nigeria's informal sector and small & medium-scale enterprises. The long-term consequences of inflation, such as reduced purchasing power and increased cost of living, are particularly detrimental to the most vulnerable segments of the economy. Inflation undermines trust in the government, making it a pressing issue that demands concerted attention from the whole of government. Clearly, Nigeria's current economic difficulties are tightly interwoven. To resolve them would require continued strong commitment to deal convincingly with inflation.

As I emphasized in my July MPC statement, in the battle to vanquish inflation, the central bank cannot do it alone. Indeed, credible monetary policy needs grounding in fiscal responsibility. I continue to believe that it is the combination of sound money and fiscal integrity that will restore price stability in Nigeria.

Accordingly, though the tide seems against us at this critical point in the inflation program, we must persist with maintaining a restrictive monetary policy stance long enough to bring inflation down. I thus voted for further tightening:

- **To raise the MPR by 50 basis points to 27.25 per cent;**
- **To raise the CRR of Deposit Money Banks by 50 basis points to 50 per cent and for Merchant Banks by 200 basis points to 16 per cent; and**
- **To retain, unchanged, the asymmetric corridor, and the liquidity ratio**.

3. BALA MOH'D BELLO *MON*

Opening Statement

It is evident that the cumulative effect of previous hikes in the Monetary Policy Rate (MPR) is yielding some positive results in moderating inflation persistence. In the light of the moderate progress recorded, it is crucial that the decisions made at this meeting do not undermine our previous efforts. Consequently, at the September 2024 Monetary Policy Committee (MPC) meeting, I voted to **raise the MPR by 50 basis points to 27.25 per cent from 26.75 per cent; retain the asymmetric corridor around the MPR at +500/-100 basis points; raise the Cash Reserve Ratio of Deposit Money Banks and Merchant Banks by 500 basis points and 200 basis points to 50.00 per cent and 16 per cent, from 45.00 per cent and 14 per cent respectively and retain the Liquidity Ratio at 30.00 per cent.**

My decision to further tighten the stance of monetary policy was therefore guided by a proactive approach to managing lingering risks to price stability despite two consecutive months of decline in headline inflation. In addition, data on other domestic macroeconomic indicators, which are discussed briefly in the ensuing sections, were also considered in reaching this decision.

Considerations

Based on data from the National Bureau of Statistics, headline inflation (year-on-year) slowed to 32.15 per cent in August 2024 from 33.40 per cent in the previous month and 34.19 per cent in June 2024, representing the second consecutive month of deceleration. The decline was driven majorly by moderation in the food component to 37.52 per cent in August 2024 from 39.53 per cent in the previous month, due partly to improved supply from the recent harvests, release of grains from the strategic reserves as well as the base effect. Core inflation (year-on-year), however, rose to 27.58 per cent in August 2024 from 27.47 per cent in July 2024, reflecting increased energy prices and rising transportation costs, driven by the sharp rise in the price of Premium Motor Spirit (PMS). It is thus expedient to anchor inflation expectations and prevent energy costs from spiralling into broader price levels.

While addressing these concerns, adequate consideration was given to the various drivers of inflation, taking note of the role of both structural and monetary drivers. Notably, money supply has continued to grow and needs to be addressed urgently by monetary policy. **I also note the various roles being played by fiscal policy to address the structural drivers.** The simultaneous pushback by both monetary and fiscal policy is therefore expedient to effectively anchor expectations and contain price development.

Overall, to ensure that the reported decline in inflation is sustained, the stance of monetary policy needs to remain tight to improve inflation expectations. Consequently, all actions of the Bank must be geared towards curbing monetary-induced inflation to moderate domestic prices.

Developments in the foreign exchange market are also important considerations for monetary policy decisions in view of the high pass-through to domestic prices. The recent foreign exchange market reforms, which have resulted in exchange rate convergence, have increased market transparency, improved stability and would attract more foreign capital inflows over the medium term. The relative stability witnessed in the exchange rate market in recent months is a welcome development and particularly important due to its strategic role in anchoring investor confidence and pass-through to domestic prices. As efforts intensify to ramp up export proceeds, alongside the anticipated decline in demand for imported refined petroleum products, exchange rate pressures should moderate with positive implications for domestic prices.

It is delightful to note that real Gross Domestic Product (GDP) remained on a positive trajectory and expanded for the second quarter of 2024 by 3.19 per cent (year-on-year) compared with 2.98 per cent in the first quarter. The Composite Purchasing Managers Index also expanded to 50.2 index points in August 2024 from 49.7 index points in July 2024, an indication that the positive trajectory of output is expected to persist. This positive trend indicates that the Nigerian economy is gaining momentum, driven by improvements in key sectors such as agriculture, manufacturing, and services.

The resilience of the services and industry sectors, considering their contribution to GDP, is a positive development for the domestic economy, given the capacity of these sectors to create jobs, boost aggregate demand and improve economic inclusion. It further gives latitude to the MPC to focus on curbing inflation to ensure that growth is sustainable.

Notably, banking industry soundness indicators remain strong, with huge potential to support economic activities. **Stress test results also show that industry solvency and liquidity positions can withstand mild to moderate shocks in the short to medium term.** Nonetheless, the sector must continue to build adequate capital buffers as monetary policy tightens.

On the global scene, economic prospects remain broadly resilient. The moderate loosening of policy rates in many advanced economies, as inflation approaches its long-run objectives, would further boost output with positive spillover effects for emerging markets and developing economies.

For Nigeria, inflation, driven majorly by domestic shocks, is at a level adjudged inimical to economic performance, and forecasts suggest an uncertain trajectory in the near term. This requires concerted actions to stabilise prices at levels that are conducive to sustained growth and productivity. Thus, at this meeting, I consider it important to ensure that the expectation of economic agents remain adequately anchored, following recent multiple shocks to inflation.

4. BANDELE A.G. AMOO

Having reviewed the empirical developments in both the domestic and international economies since the last MPC meeting of July 23, 2024, I hereby vote to:

(a) Raise the Monetary Policy Rate (MPR) by 50 basis points from 26.75 to 27.25 per cent.

(b) Retain the asymmetric corridor around the MPR at +500/-100 basis points.

(c) Increase the Cash Reserve Ratio (CRR) to 50.0 per cent for Deposit Money Banks (DMBs) and 16.0 per cent for Merchant Banks. (d) Retain the Liquidity Ratio (LR) at 30.00 per cent.

My decision was influenced by the following developments.

1 Global Economic Developments

The resilience witnessed in the recent past in global economic outlook continued in September 2024. The steady but uneven expansion was attained despite heightened geopolitical tensions and differing average inflation rates witnessed in many countries. The downside risks have, however, persisted as escalating geopolitical tensions could further disrupt commodity prices, and increase fragmentation for trade networks.

Consequently, global growth is projected at 3.2 and 3.3 per cent in 2024 and 2025 respectively, (IMF, WEO, World Bank). With varying outlook for growth and inflation across countries, monetary policy is showing signs of divergence across jurisdictions. Headline Inflation is receding gradually across major economies, despite observed sticky prices in the services sector. Several central banks are cautiously moving towards policy pivots through forward guidance and rate cuts. The global composite and services PMI expanded by 52.8 and 53.8 index points respectively in August 2024 while the manufacturing PMI slowed to 49.5 index points.

Global trade is projected to further rebound gradually in the last quarter of 2024 and 2025 driven by declining inflation and a fast-recovering Europe, Asia and US economies. Consequently, it is expected to rise to 3.1% in 2024 and 3.4% in 2025, indicating significant shifts in trade patterns, amidst identified challenges. Global debt continued to surge, driven largely by increased borrowing by India, China and Mexico.

2 Domestic Economic Developments and Outlook

Domestic economic activities continued to be resilient in September 2024 compared with July 2024 (Pre-MPC). Specifically, external reserves increased to 39.07 billion (September 20, 2024), from its average level of 37.88 billion in July 2024. Other developments included: the maiden issuance of US$500billion domestic FGN Bond (August 19, 2024); commencement of PMS production by the Dangote Refinery in September 2024; intensification of DMBs towards the recapitalisation deadline; Senate approval of one-time windfall tax on banks' Forex gains in FY2023; as well as roll-out of CNG vehicles.

The interest rate spread between the lending and savings rates narrowed, while the patronage of Federal Government securities continued to rally, as activities in the Nigerian equities market turned bearish.

The Nigerian financial system remains solid and resilient while gaining strength from broader macroeconomic stability. Its well-capitalised and unclogged balance sheet is reflective of higher risk absorption capacity, with the specialized banks also showing improvements. Bank liquidity remained adequate in September 2024, as reflected by a high liquidity ratio at 52.9%. The Capital Adequacy Ratio (CAR) remained stable at 12.08%, demonstrating the system's capacity to absorb risk effectively. Meanwhile, Non-Performing Loans (NPL), as a proxy of credit risk, were also low in September 2024, as indicated by an NPL ratio of 4.2% below the regulatory threshold of 5.0%. In addition to these, the resilience of the Banking industry in terms of capital and liquidity was also confirmed by the latest stress tests.

Data from the National Bureau of Statistics (NBS) reported that the headline inflation rate for August 2024 was 32.15% down from 34.15% in July 2024. Food inflation eased from 39.53% in July 2024 to 37.52% in August 2024. Core inflation, however, inched up marginally from 27.47% in July 2024 to 27.58% in August 2024. A further breakdown of the inflation data shows that Food and NonAlcoholic beverages were the major drivers of the decline of headline inflation both year-on-year and month-on-month, contributing 16.65 and 1.15% respectively.

Improved agricultural activities in the recent months have brightened the prospects of expanded output. To further address concerns around national output boost, the Federal Government continued the implementation of "Order 2024" measures. There was more deployment of CNG buses/vehicles to the states and suspension of Value Added Tax (VAT) on petroleum products in September 2024. Given expected stability in petroleum products pricing template of the functional domestic Refinery in the next few months, we expect the inflation trend to reduce over a short span of time into the last quarter of 2024.

While we heartily welcome these measures which will rapidly improve real sector production and price outcomes over the short-term horizon, it is crucial to implement them with a defined exit strategy to avoid reversing the gains in domestic food and aggregate goods production/output.

Nevertheless, I will continue to stress the urgency of addressing inflationary pressures, which has continued to undermine price stability. While monetary policy has moderated aggregate demand, production bottlenecks, rising food and energy costs continue to drive price increases. High transportation costs for farm produce and insecurity in food-producing areas also continue to play a key role. The MPC must remain vigilant to prevent spillovers or second round effects from persistent food inflation and preserve the gains made so far in monetary policy credibility.

3 MY CONCERN

The on-going Fiscal sector developments in Nigeria have heightened my recourse to a pro-market approach to economic management. Given the afore-mentioned issues, it is imperative that the current monetary tightening regime of past MPC sessions should continue, to allow complete policy pass-through in the Nigerian economy.

Going forward, the CBN should continue to be nimble and flexible in its liquidity management operations keeping in view the evolving liquidity conditions to ensure that money market interest rates evolve in an orderly manner. Mobilisation of household financial savings through innovative products and services offerings may help to reduce excess liquidity and help to shift credit to the productive sectors. Furthermore, the Bank will need to remain vigilant and take some measures on the orderly operations of digital lending ecosystem in Nigeria; deepen the speed and efficiency of digital payments; reposition the existing special purpose vehicles to give massive support to agricultural production and processing.

Expectedly, I believe that moderate tightening (50bps increase in MPR) is beneficial at this time, as it allows previous hikes to permeate the economy, aiming to rein in rising inflation. However, I am aware that the further hike in the MPR may negatively affect real sector players, particularly regarding interest expenses on debt funding. The massive rebate on taxes, duties, levies granted to small and big businesses by the Order 2024 should confer extensive financial relief to the product pricing for the affected sectors. When these happens, inflation will be subdued in the interim and may further abate when other long run measures set in.

5. EMEM USORO

1.0 My Considerations

Global developments since the last MPC meeting

Global economic activities have remained resilient, driven largely by the expansion in the services sector, despite emerging risks and uncertainties. Inflation rates have also generally moderated across several advanced economies, albeit concerns around persistent inflationary pressures in the face of supply chain disruptions and wage growth. Furthermore, volatility in the global financial markets have resurfaced since the last MPC meeting, fuelled by the amplification of leveraged trade in the equity market.

While central banks in major advanced economies, including the US Fed, have begun easing monetary policy to support growth, the balance of risks to the global outlook remains tilted towards geopolitical instability and climate-related shocks. In this regard, the ongoing rate cut cycle, geopolitical tensions and forthcoming U.S. general elections, will be key factors shaping global economic performance in the coming months, with markets closely watching for signs of further policy shifts and their implications for both domestic and international economies.

On the domestic front, risks to inflation remains a key concern despite disinflationary trends observed in the last two months. Headline inflation (year-on-year) moderated for the second consecutive month, reflecting the effectiveness of efforts to stabilize the economy. However, core inflation remained on an upward trajectory, propelled by supply-side constraints, structural issues and exchange rate pass-through to domestic prices.

It is pertinent to highlight drivers of recent price pressures, particularly the continued growth in broad money in July-2024, which portends further risks to inflation, thus, requiring an immediate policy response. Other pressure points for price stability include, the widening fiscal deficit occasioned by fiscal stress from the revenue side, exchange rate fluctuations emanating from seasonal effects and supply constraints, and climatic factors which have exacerbated supply chain disruptions.

The balance of risk to inflationary pressure is tilted to the upside with the recent increase in the price of PMS and other energy sources, persistent broad money growth driven by currency depreciation, imported food inflation, and climatic factors like flooding in food-producing regions, all pose short-term risks to price stability, thus requiring close monitoring. Nonetheless, proactive measures by the Federal Government, such as the suspension of import duties on staple foods etc, is expected to support the downtrend of inflation in the short to medium term.

The domestic outlook is cautiously optimistic with growth remaining in the positive territory, predicated on enhanced sectoral productivity (particularly in growth-enhancing sectors like the oil and gas, finance, and transport sub-sectors, and ripple effects of the infrastructural development initiatives and other fiscal reforms).

Noteworthy is the commencement of operations of the Dangote Refinery, which holds immense promise. The refinery is expected to reduce Nigeria's forex demand significantly, especially with the Direct Sales Direct Purchase (DSDP) agreement, which is set to commence on October 1, 2024, thereby helping to preserve foreign reserves and boost economic resilience, *ceteris paribus*.

Despite the optimistic growth outlook, upside risks to inflation are lurking in the corners, with potential risks on the global side stemming from escalating geopolitical tensions, projected outcome of the forthcoming US election, and climate change. On the domestic front, key risks include supply chain disruptions emanating from civil actions, de-anchoring of inflation expectations and pessimistic expectations from economic agents. As a result, the pace of inflation is projected to be elevated in the fourth quarter and towards the year end festive season.

Amidst these risks, I'm committed to adopting a balanced and data-driven approach to ensuring price stability. In the light of the above, it is important to anchor inflation expectations early enough to prevent the erosion of disinflationary gains realised so far. While I am not oblivious of the impact of recent policy actions on borrowing costs, it is, however, imperative to weigh the opportunity cost of attaining price stability and long-term economic growth against the identified short-term challenges.

2.0 My Decision

The inflation outlook is fraught with uncertainty, however, navigating these challenges with a commitment to long-term stability is vital. Consequently, I voted to:

i. Raise the MPR by 50 basis points to 27.25%, to further tighten financial conditions, reduce the negative interest gap and attract more capital inflows to stabilize the exchange rate;

ii. Retain the asymmetric corridor at MPR +500/-100 basis points;

iii. Increase the CRR for Merchant banks and Commercial banks to 16% and 50%, respectively, to enhance monetary control; and

iv. Retain the LR at 30.0%.

6. LAMIDO ABUBAKAR YUGUDA

Global Developments

Recent data show that global inflation is receding on the back of the decline in energy prices and slowdown in wage growth in the advanced economies (AEs). The IMF forecasts global inflation rate to decelerate significantly to 5.9 per cent and 4.4 per cent in 2024 and 2025 respectively, from 6.7 per cent in 2023. There are, however, upside risks to inflation arising from accelerating trade and geopolitical tensions especially in Eastern Europe and the Middle East.

In the AEs, inflation is steadily decelerating towards their respective long-run policy targets due to tight monetary stance and other complementary policies. The average inflation in these countries is expected to decline to 2.7 and 2.1 per cent in 2024 and 2025, respectively, from 4.6 per cent in 2023. In the EMDEs, however, inflationary pressure has remained strong and persistent owing to rising prices of food and other commodities, exchange rate pressures and other legacy structural issues. Despite these constraints, inflation in the EMDEs is expected to decline marginally to 8.2 and 6.0 per cent in 2024 and 2025, respectively, from 8.3 per cent in 2024 due to the lag impact of the synchronized tightening by central banks and expectation of reasonably sized capital inflows. In Sub-Saharan Africa the inflation picture is mixed. While inflation in July 2024 slowed to 4.6 per cent in South Africa, it remained elevated in Nigeria at above 30 per cent.

As a consequence of the decreasing inflation and the softening labour markets, some AE central banks (notably, the European Central Bank, the Bank of England and the US Fed) have started easing their policy stance. This development and the resulting wider sovereign bond yield differential between AEs and EMDEs is expected to benefit EMDEs by attracting much-needed capital flows to the latter.

With respect to crude oil prices, though data in September showed a declining trend in prices, the IMF forecast (revised July 2024) points to an increase of 0.8 per cent, as opposed to the 2.5 per cent decline earlier published. Support for the expected increase comes from heightening tensions in the Middle East and the sustenance of production cuts by OPEC+. It would therefore, be advisable for the FGN to design strategies to position the economy to benefit from the expected increase in crude oil prices.

Domestic Developments

The domestic economy in Q2:2024 grew by 3.19 per cent - up from 2.98 per cent in Q12024 - driven mainly by the non-oil sector, particularly services. The contributions of the agriculture and oil sectors though positive, still fall below their respective potentials. Thus, there is urgency to increase mechanization of the Agric sector, improve security, and attract more investment in the oil sector. Also, domestic PMI rose to 50.2 index points in August 2024 from 49.7 index points in July, a good indication that the economy is on the desired path despite the tight monetary policy stance. While the tight monetary policy stance has been necessary to fight inflation and stabilize the exchange rate, the recent uptick in the PMI reflects a modestly improving business environment.

Headline inflation (y-on-y) slowed to 32.15 per cent in August 2024 from 33.40 per cent in July. The decline was driven by falling food prices supported by increased supply of staples from strategic reserves and new harvests. On a month-on-month basis, the trend in headline inflation also declined. However, core inflation increased modestly to 27.58 per cent, from 27.47 per cent. This increase is a result of exchange rate pressure weighing heavily on transportation and manufacturing costs.

Broad money supply increased by 34.1 per cent in July 2024 over the preceding December, and was 18.5 percentage points higher than the programme target for fiscal 2024. The growth in money supply was fueled by increases in both net foreign assets and net domestic assets driven by the depreciating currency. This outturn points to lingering inflationary pressure from the monetary side. On a positive note, I observe that claims on the Federal Government (FGN) fell by 43.4 per cent.

Revenue generation remains a daunting challenge for the FGN. From January to June, the retained revenue showed a significant (33.31 per cent) improvement over the corresponding period in 2023, but nonetheless fell 62.10 per cent short of the target for the period. This low revenue base underscores the poor fiscal performance in the period. Provisional numbers show that the level of fiscal deficit at mid-year (January to June, 2024) is already 91.94 per cent of the projected amount for 2024.

<u>Key Risk Factors</u>

The deceleration in the inflation rate and the slight uptick in the PMI are good indications that the tight monetary policy is succeeding in stabilizing the economy in the short to medium term. However, the fact that core inflation is still rising suggests that inflationary pressures persist.

In addition, the announcement by NNPC of the increase in the pump price of premium motor spirit (PMS) early in September 2024 is expected to find expression in higher transportation and other related costs and is likely going to stoke more inflation.

Finally, monetary policy must recognize, and adopt measures to manage the effects of, the significant liquidity injection occasioned by the higher-than-forecast provisional fiscal deficit.

Given the aforementioned considerations, coupled with the need to bring inflation down to tolerable levels, achieve exchange rate stability and curtail exchange rate pass-through to domestic prices, monetary policy needs to remain tight.

Consequently, I voted to:

a) Raise the MPR by 50 basis points to 27.25 per cent from 26.75 per cent;
b) Raise the CRR: for Deposit Money Banks by 5 per cent to 50 per cent from 45 per cent; and for Merchant Banks by 2 per cent to 16 per cent from 14 per cent;
c) Retain the asymmetric corridor around the MPR at +500/-100 basis points; and
d) Retain the LR at 30 per cent.

7. MUHAMMAD SANI ABDULLAHI

My Vote

The recent inflation trends in July and August present an opportunity to assess the efficacy of our monetary policy tightening, particularly following a cumulative increase in the Monetary Policy Rate (MPR) by 800 basis points. As I highlighted in my statement at the July meeting, early indicators, such as the improvement in business expectations for August 2024, suggest that inflationary pressures may be easing. However, despite this progress, it is critical to maintain the momentum and avoid complacency, as the policy environment remains challenging, with difficult trade-offs. Our resolve to rein in inflationary pressures notwithstanding, we must continue to provide the necessary guardrails to prevent losing traction and to ensure that we preserve current gains. My view at this meeting therefore remains consistent with the position I have taken in the last four Monetary Policy Committee (MPC) meetings. Consequently, I voted to:

1. **Increase the MPR by 50 basis points**, bringing it to 27.25 per cent from 26.75 per cent.
2. **Retain the asymmetric corridor** around the MPR at +500/-100 basis points.
3. **Increase the Cash Reserve Ratio (CRR) for deposit money banks** by 500 basis points to 50.00 per cent and **merchant banks** by 200 basis points to 16.00 per cent.
4. **Maintain the Liquidity Ratio** at 30.00 per cent.

My Considerations

The Committee's response to persistent inflationary pressures is beginning to yield positive outcomes, as evidenced by the decline in headline inflation in both July and August 2024. After rising for 19 consecutive months, inflation fell to 33.40 per cent in July and further to 32.15 per cent in August. There is, however, no room to cut a slack as negative real interest rates persist, and key drivers of inflation—such as food inflation, core inflation, and imported inflation—remain elevated.

On food inflation, I am mindful of the efforts by the federal government to address the constraints to food production and supply and the likely positive impact on inflation. Several headwinds, however, threaten to undermine these gains. The rise in the price of Premium Motor Spirit (PMS), higher electricity tariffs, and recent flood incidents, present significant risks to the inflation trajectory. These supply-side constraints could therefore offset some of the expected benefits from government interventions. Additionally, as the dry season farming period approaches, policies aimed at enhancing irrigation efficiency and cultivating drought-resistant crop will help reduce food supply deficits.

Mindful of the renewed focus of the fiscal authorities to address domestic drivers of headline inflation, particularly food, I am therefore cautiously optimistic that fiscal measures will gradually ease food inflation in the coming months.

Further analysis of the inflation dynamics suggests that the recent deceleration in inflation in July and August could be disrupted in September by the recent uptick in the price of Premium Motor Spirit (PMS), which could drive up transportation and related costs, subsequently. In August 2024, inflation rates stood at 32.15 per cent (headline), 37.52 per cent (food), and 27.58 per cent (core). Core inflation remains elevated, driven by higher transportation costs and exchange rate volatility. Nonetheless, these pressures are likely to moderate in the months ahead as food supply increases and exchange rate stability is further reinforced. Looking forward, the outlook for food inflation may improve with the anticipated reduction in food prices and improved security around food-producing regions.

The risks to inflation in Nigeria are well known, taming inflation therefore remains a top priority for the MPC. The policy rate needs to go higher given the inflation outlook and the need to ensure that inflation expectations remain well-anchored, which in turn supports the federal government's broader economic growth objectives. In this context, maintaining the Bank's tight monetary policy stance is critical to sustain domestic price stability.

The stabilizing exchange rate, bolstered by the Bank's tight monetary stance, has already mitigated some inflationary pressures. The exchange rate exhibited relative stability in the review period, supported by a favourable crude oil market and ongoing efforts to enhance remittance flows. The Bank's initiatives to expand formal remittance channels and reduce transaction costs have led to significant improvements in foreign exchange inflows, which now represent 9.4 per cent of total external reserves (US$39.07 billion as of September 19th, 2024). The remittance inflows have had a positive impact on liquidity in the foreign exchange market, signalling growing confidence in the Nigerian economy. Thus, strengthening the regulatory framework has ensured greater transparency and ease transactions in the remittance ecosystem.

The federal government's fiscal operations resulted in a budget deficit of 7.6 per cent of GDP as of August 2024. Monetary policy must thus remain proactive in dampening the likely consequences of the deficit especially when the implementation of the new minimum wage gains traction. The deficit could however narrow as ongoing efforts to enhance revenue generation and reduce government expenditure are expected to improve the fiscal outlook. The narrowing of the fiscal deficit will have positive implications for overall macroeconomic stability.

Global and Domestic Economic Developments

The International Monetary Fund's (IMF) July 2024 World Economic Outlook (WEO) projects global growth at 3.2 per cent for 2024 and 3.3 per cent for 2025. Growth in the advanced economies is expected to remain subdued at 1.7 per cent in 2024, while the emerging markets and developing economies are projected to grow at 4.3 per cent.

Economic growth in Nigeria accelerated in Q2 2024, with real GDP expanding by 3.19 per cent year-on-year, compared to 2.98 per cent in Q1 2024. This was driven by both the oil and non-oil sectors, with the oil sector recording a remarkable 10.18 per cent growth due to higher crude oil production and prices. The negative output gap narrowed slightly by 0.06 percentage point from -5.53 per cent in Q1 2024 to -5.47 per cent in Q2 2024. The output gap is expected to narrow further towards the end of the year 2024 based on GDP growth projections. In addition, the Purchasing Managers Index (PMI) improved to 50.2 in August 2024, attributed largely to the agricultural and service sectors.

Despite macroeconomic challenges, the banking sector remained resilient, with Non-Performing Loans (NPLs) remaining below the prudential threshold of 5.0 per cent, and the sector continues to support economic activity. The Bank remains vigilant in addressing emerging risks and implementing policies to ensure the stability and soundness of the financial system.

In general, both food and core inflation remain key concerns, and the balance of risks points toward maintaining a firm stance on inflation control. My decision to vote for a 50-basis point increase in the policy rate, along with adjustments to the CRR, reflects my commitment to staying the course in combating inflation and ensuring long-term price stability.

8. MURTALA SABO SAGAGI

Context

In the recent past, Nigeria witnessed reckless economic management leading to the evaporation of the country's foreign reserves, massive debt accumulation and further weakening of the nation's productive capacity. To restore confidence in the economy and stimulate sustainable growth, reforms measures, mainly orthodox, have been introduced since mid-2023. The monetary aspect of the reforms has been largely guided by the Central Bank's pursuit of price stability, financial stability and exchange rates stability. However, legacy issues, contemporary shocks and internal rigidities continue to challenge the Bank's resolve, especially, in taming inflation and restoring the value of the naira. At this MPC, the Committee had reached a unanimous decision to safeguard the nation's economy in a period coinciding with inflation deceleration and looming uncertainties.

Global and Domestic Economic Environment

In the recent past, Nigeria witnessed reckless economic management leading to the evaporation of the country's foreign reserves, massive debt accumulation and further weakening of the nation's productive capacity. To restore confidence in the economy and stimulate sustainable growth, reforms measures, mainly orthodox, have been introduced since mid-2023. The monetary aspect of the reforms has been largely guided by the Central Bank's pursuit of price stability, financial stability and exchange rates stability. However, legacy issues, contemporary shocks and internal rigidities continue to challenge the Bank's resolve, especially, in taming inflation and restoring the value of the naira. At this MPC, the Committee had reached a unanimous decision to safeguard the nation's economy in a period coinciding with inflation deceleration and looming uncertainties.

Major Considerations

The elevated inflationary pressure and foreign exchange volatility informed the decisions of the MPC to sustain its tightening stance since February 2024. During its July meeting, the Committee sought for a counterfactual study to evaluate the outcome of the sustained monetary tightening in order to guide its future decisions. The results of the study carried out revealed that a strong correlation exists between the headline variable and certain key economic indicators, namely money supply, exchange rate, PMS prices, and diesel price. Also, the study suggested that changes in food inflation are closely associated with fluctuations in these economic indicators in addition to other structural factors, such as excess liquidity and insecurity.

In essence, the study associates a slowdown in the pace of inflation in Nigeria to the commencement of policy rate hikes in February 2024. In specific terms, inflation could have risen to about 38.52 per cent in August 2024 (instead of the 32.15 per cent recorded in August 2024) if the MPR and CRR were left unchanged at 18.75 per cent and 32.5 per cent, respectively. Hence, the monetary actions taken so far have reasonably contributed to slowing down inflationary pressures. It is worth noting, however, from the study that inflation in Nigeria is not entirely a monetary phenomenon as indicated by the demand and supply side drivers of inflation which can only be optimally addressed with the alignment of monetary and fiscal policy actions.

Furthermore, recent events in the economy have pointed to the imminent threats to inflation and foreign exchange stability. Primary amongst these include:

i. Increase in petrol and energy prices in August and September even after the commencement of production by the Dangote refinery.

ii. Flooding in some food producing states which may reverse the downward trend in food prices.

iii. Insecurity and the ongoing militarily actions to restore peace and security in some key food producing locations.

iv. Availability of cash and possible credit lines to mope up food during harvest thereby creating artificial scarcity.

v. Excessive money supply growth due to excessive liquidity in the system, massive fiscal injections and the high likelihood of large portion of the liquidity chasing foreign exchange.

vi. Local government autonomy and possible massive injection of liquidity into the system.

vii. The demand for foreign exchange is increasing rapidly due to speculative activities, importation and seasonal demand.

viii. Absence of remittance of foreign exchange by the NNPC into the federation account.

ix. Fiscal incentives and investment promotion drive have not attracted significant Foreign Direct Investments into the economy.

There are certain positive developments that are equally worth noting, including:

i. Food importation: the commodities under the duty waiver scheme have started arriving and hopefully pressure on food prices will reduce.

ii. Harvest period: more food is expected from various parts of the country thereby boosting food supply.

iii. Inflows: Remittances reaching $ 585 million in August.

iv. Trade surplus in Q2 stood at N6.95 trillion.

v. Foreign reserve reached N39.07 billion as at September 19, 2024.

vi. Dangote refinery: to help improve domestic supply of energy and lessen pressure on foreign exchange.

Decision

The easing of inflation for the last two consecutive months was greeted with caution considering the prevailing dynamics that could easily reverse its trajectory. To preempt the likely occurrence of further shocks to the economy, the MPC unanimously decided to tighten further with the hope that a stronger coordination with the fiscal side would help restore confidence and place the economy on the pedestal of sustainable inclusive growth.

My Vote

Consistent with the tight monetary policy stance of the Bank to restore price stability using available monetary tools, I voted to:

- Raise the Monetary Policy Rate (MPR) by 50 basis points.
- Retain the Asymmetric Corridor around the MPR to +500/-100 basis points.
- Increase the Cash Reserve Ratio of Deposit Money Banks by 500 basis points.
- Increase Cash Reserve Ratio of Merchant Banks by 200 basis points.
- Retain the Liquidity Ratio at 30.0 per cent.

Recommendations

1. **Food security:** both the fiscal and monetary sides are expected to develop a comprehensive framework and action plan towards curbing food inflation in the country.

2. **Local energy production**: with abundant crude oil reserves and the presence of mega and modular refineries, the government should aim at energy security in the medium term.
3. **Foreign exchange**: fiscal dominance is a contributor to the excessive pressure on the country's foreign exchange. A policy alignment is instructive.

9. MUSTAPHA AKINKUNMI

Context

Two recent flooding events include natural flooding in Kebbi and Sokoto in the Northwest region of Nigeria and the overflow of Alau Dam into Maiduguri, affecting other parts of Borno State, Yobe State, and down to Taraba State in the Northeast. This has caused significant distress to farmers, as hundreds of farmlands containing crops such as rice, millet, guinea corn, sorghum, beans, and others have been submerged. These crops contribute 16.65% year-on-year and 1.15% month-on-month, making them the largest contributors to inflation. The loss of crops indicates that food inflation would likely continue to impact overall inflation if not addressed.

However, there was a 1.25% decline in the headline inflation rate for August 2024 compared to July 2024, driven by a decrease in food inflation. The exchange rate remains relatively stable, with convergence across various market segments. Studies have shown a strong correlation between FAAC releases, banking system liquidity levels, and their impact on the exchange rate. Additionally, irregularities in the downstream petroleum sector pushed gasoline (PMS) prices up to US$0.39/Liter in August 2024, raising the petrol pump price to a range of N950–N1,200 per liter.

Given these circumstances, the committee unanimously voted to increase the Monetary Policy Rate (MPR) by 50 basis points, raise the CRR from 45% to 50% for Deposit Money Banks and from 14% to 16% for Merchant Banks, and retain the asymmetric corridor at +500 and -100 basis points around the MPR.

The Global Economy

According to the IMF, projections for global economic growth indicate a growth of 3.2% in 2024 and 3.3% in 2025, supported by global resilience and fiscal efforts from China. Advanced economies are expected to grow by 1.7% in 2024 and 1.8% in 2025, primarily driven by stronger-than-expected growth in the U.S., which will help offset weaker performance in the Euro Area. Emerging markets and developing economies (EMDEs) are projected to grow by 4.3% in both years, mainly due to robust growth in India and moderate growth in China. This improvement is attributed to private consumption and investment.

In the U.S., the annual growth rate of real GDP reached 3.0% in Q2 2024, surpassing the 2.1% forecast, following a 1.4% rise in Q1 2024, driven by consumer spending and business inventories. Similarly, the Euro area economy expanded by 0.6% in Q2 2024 compared to 0.4% in Q1 2024, fueled by wage-induced private consumption. The UK emerged from recession in Q1 2024 with 0.3% growth, reflecting strong expansion in the service sector, followed by a 0.6% rise in Q2. Japan’s economy grew by 0.8% in Q2 2024 after a 0.6% contraction in Q1, driven by private consumption and investment.

Growth in the advanced economies in 2024 will be led by the U.S. (2.6%), the EU (0.9%), Japan (0.7%), and the UK (0.7%). In the EMDEs, Nigeria's GDP grew by 3.2% in Q2 2024, driven primarily by the services sector, contributing about 59% to aggregate output. Ghana's economy also improved, achieving a 6.9% growth in Q2 2024, driven by the industry, gold, and services sectors. Conversely, China's annual growth dropped to 4.7% in Q2 2024 due to a persistent property downturn and weak domestic demand. Meanwhile, India, Kenya, and South Africa experienced declines in growth rates of 6.7%, 5.0%, and 0.3%, respectively.

Despite some setbacks, strong growth is anticipated in the EMDEs, with India projected to grow at 7.0% and China at 5.0% in 2024. Nigeria is expected to achieve an annual growth rate of 3.1%, driven by improvements in oil and agriculture output, as well as enhanced security. Capital inflows to emerging markets saw a significant increase, rising from US$20.4 billion to US$36.5 billion in July 2024.

Global inflation is expected to decline due to easing supply chain issues and lower Chinese export prices. The IMF forecasts global inflation to be 5.0% in 2024 and 4.5% in 2025, down from 5.2% in 2023. In the advanced economies, inflation is projected at 2.7% in 2024 and 2.1% in 2025. However, risks of rising inflation remain due to ongoing conflicts in Europe and the Middle East. In the U.S., inflation moderated to 2.5% in August 2024 from 2.9% in July, mainly due to decreases in energy, food, and transportation costs. In the Eurozone, inflation dropped to 2.2% in August, while it remained steady at 2.2% in the UK. In contrast, In Japan, it rose to 3.0% in August from 2.8% in July.

In the EMDEs, inflation is expected to remain at 8.3% in 2024 before declining to 6.2% in 2025, driven by anticipated reductions in food and energy prices and continued monetary tightening amid the Middle East crisis. In South Africa, inflation consistently declined to 4.4% in August 2024 from 4.6% in July. Similarly, in Ghana and Nigeria, inflation rates slowed to 20.4% and 32.2% in August from 20.9% and 33.4%, respectively, in the previous month. Conversely, China's inflation rose to 0.60% in August 2024 from 0.5% in July, while India's inflation increased to 3.65% in August from a revised 3.6% in July. Kenya also saw a slight inflation increase to 4.4% in August from 4.3% in July.

Monetary policy rates globally, showed divergence. The U.S. Federal Reserve lowered its rate range to 4.75-5.00%, while the ECB and Canada reduced their rates to 3.5% and 4.25%, respectively. The Bank of England and Japan maintained their rates at 5.0% and 0.25% during their September meetings. Most EMDEs either retained or lowered their rates, except Nigeria, which increased its monetary policy rate by 50 basis points to 27.25% in its September meeting. Ghana and South Africa reduced their policy rates by 200 and 25 bps to 27% and 8%, respectively, while Egypt retained its rate at 27.25%.

The global PMI improved to 52.8 index points in August 2024 from 52.5 points in July, indicating faster expansion in output and new orders. Global Services PMI stood at 53.8 index points in August, driven by an increase in business activities, new orders, and new export business.

The Domestic Economy

Following the COVID-19 pandemic, Nigeria's economic growth rate hovers around 4 per cent. The country grew at a rate of 3.19 per cent in Q2 2024, down from the peak of 3.54 per cent in Q2 2023. A significant increase in oil production, from 1.22 mbpd in Q2 2023 to 1.41 mbpd in Q2 2024, led to positive performance in the industry sector, rebounding from its negative growth in Q2 2023. In Q2 2024, the non-oil sector contributed 94.30 per cent to the economy, compared to 5.7 per cent from the oil sector. This upward trend in industry performance is expected to continue in Q3 2024 as crude oil production rises. However, the country's economic performance may be hindered by recent spikes in energy costs and the impact of flooding.

Nigeria's headline inflation declined from 33.40 per cent in July 2024 to 32.15 percent in August 2024, the second consecutive month of decline. Similarly, food inflation dropped from 39.53 per cent in July to 37.52 per cent in August. However, core inflation edged up slightly from 27.47 per cent in July to 27.58 per cent in August. The recent increases in energy costs and the flooding in September are expected to disrupt this declining trend in headline inflation.

The naira depreciated to N1,638.19 on September 26, 2024, from N1,585 on July 19, 2024. However, the external reserve stood at US$39.07 billion as of September 19, 2024, and is projected to cover approximately 13 months of goods imports and about 8 months of goods and services imports.

In Q2 2024, crude oil exports comprised the bulk of the country's total exports, accounting for 74.98 per cent, while the import of refined petroleum products made up 25.83 per cent of its commodity imports. In terms of trade destinations, Nigeria's exports went primarily to Europe, while its imports came mainly from China, Belgium, and India in Q2 2024. Moreover, the import of PMS is expected to decrease due to domestic production.

The employment situation in Nigeria showed slight improvement, with unemployment and underemployment rates fell to 5.3 per cent and 10.6 per cent, respectively, in Q1 2024, compared to 5.4 per cent and 11.1 per cent in 2023. However, rural unemployment increased to 4.3 per cent in Q1 2024, up from 3.5 per cent in 2023.

Decision

In my earlier context, I indicated an increase in money supply from FAAC allocations and demand-pull inflation as a result of the supply shock caused by flooding in the Northeast and Northwest of Nigeria. These two factors—rising money supply and demand-pull inflation—aggravate inflation and, more importantly, are causes of hyperinflation. With the current inflation levels, if proper measures are not taken, inflation rates could spiral out of control and develop into hyperinflation.

Hyperinflation causes the value of a currency to plummet in foreign exchange markets. As a result, the nation's importers go out of business due to skyrocketing costs of foreign goods. Unemployment rises as companies shut down, and government tax revenues fall, making it difficult to provide basic services.

Considering the above, I voted in unanimity with other colleagues to increase the Monetary Policy Rate (MPR) by 50 basis points, raise the CRR for Deposit Money Banks from 45% to 50% and for Merchant Banks from 14% to 16%, as well as retain the asymmetric corridor at +500 and -100 basis points around the MPR.

10. PHILIP IKEAZOR

Despite the macroeconomic headwinds, our tightening stance has led to moderating of inflation for the first time in 19 months. Further tightening will thus, strengthen the gains from the previous hikes and signal the Bank's commitment to sustainable stabilization of the economy.

I therefore voted to:

1. Raise the MPR by 75 basis points to 27.50 from 26.75 per cent.

2. Retain the Asymmetric corridor around the MPR at +500/-100 basis points.

3. Raise the Cash Reserve Ratio (CRR) of DMBs to 50.00 from 45.00 per cent.

4. Raise the Cash Reserve Ratio of Merchant Banks to 16.00 from 14.00 per cent.

5. Retain the Liquidity Ratio at 30.00 per cent.

Developments in the Global and Domestic Economy

The path to global economic recovery and the risk of higher inflation in 2024 and 2025 remain as projected by the IMF in the revised July 2024 economic outlook. Though in many countries, growth and inflation are in a safe zone; and the expected prolonged rate hike in response to the slowdown in the momentum of inflation deceleration, is now viewed with cautious optimism, as major central banks cut rates. Notably, the US Fed, ECB, and Bank of England have commenced rate cuts, while other central banks have cautiously maintained a tight stance.

Notwithstanding, there continues to be economic consequences arising from escalating geopolitical tensions, energy price volatility, and instability in the global financial environment. Central banks are also bracing up for these challenges through targeted policy communication and demonstration of renewed commitment to price stability.

In the domestic economy, fiscal interventions and sustained tight monetary policy stance are complementarily moderating the general price level and driving real growth through a safe and sound financial system. As such, the prospect for growth in the domestic economy remains positive, though sticky, as real output increased by 2.92 per cent in the second quarter of 2024 up from 2.91 per cent in the first quarter, while headline inflation declined to 32.15 per cent in August, from 33.40% in July 2024, driven by food inflation.

To complement the decline in food inflation, core inflation needs to decelerate to stimulate the sticky growth, even as the composite purchasing managers index indicates a more robust real output growth in the third quarter. Composite PMI for August stood at 50.2 points against the 49.7 points recorded in July 2024, the first economic expansion above 50.0 points in several months. The realization and sustenance of this growth might significantly be determined by expansion in domestic production and global demand for crude oil, as well as the expected rise in global oil price, following the escalation of geopolitical tension.

Generally, the global and domestic macroeconomy remain confronted with several risks, including trade tensions, climate-related disasters, and increased disruption in the global and domestic supply chain.

My Considerations

Domestic inflationary pressure, especially food inflation, is gradually dissipating but has not reached the desired level to warrant an easing of the current tight monetary policy stance. Factors such as climate change, transition to optimal energy pricing, and exchange rate depreciation, though stable, continue to pose sufficient upside risks to low and stable prices. Therefore, in my view, it is too early to end the tightening cycle, given that the enduring path to the current moderation in inflation rate and stability in the naira exchange rate, is yet to crystallize.

As such, the priority remains the restoration of price stability and addressing legacy issues that hinder the effective transmission of monetary policy. In this regard, the emphasis should be on reining in currency outside depository corporations and reducing banking system liquidity. System-wide liquidity poses an undesired risk to the easing of monetary policy, despite the sustained tight policy stance of the Bank. At end-August 2024, growth in currency outside depository corporations between July and August almost doubled the growth recorded between June and July 2024. It increased to 3.87 trillion in August from 6.8 per cent at end-July to 12.7 per cent at end-August 2024. These are obvious signs that the tight stance of the Bank is yet to fully permeate the economy and have a significant effect on system-wide liquidity.
Raising the rates could incentivize households to rein in the currency outside the banking system and reduce the speculative attack on foreign exchange. Besides, a prolonged negative real interest rate, occasioned by the continued inflationary pressure, could have an adverse impact on business confidence, particularly on the inflow of foreign investment.

In line with this, a hike in the policy rate will further boost business confidence, attract foreign investment, strengthen the naira, and moderate the pass-through to inflation. However, on raising the CRR, I exercised some caution because on one hand, there is indication that banking system liquidity may be putting upward pressure on the domestic prices, which in most cases, is traced to liquidity injections by sub-national governments. Statistics also show that imported food inflation, which stood at 38.3 per cent, year-on-year, in August, up from 36.9 per cent in July, is directly affected by swings in the foreign exchange market and the pass-through to inflation.

On the other hand, the Open Buy Back (OBB) was above the ceiling of the standing facilities corridor, signifying tight financial conditions in the banking system. The skewness in banks holding of excess liquidity was also a compelling reason to weigh the implications of a uniform CRR on the scale of operations of various banks, perhaps, as a guide to future decisions in this respect.

Lastly, the upward adjustment in CRR is also forward guidance on the commitment to further tackle the consequences of fiscal injections if fiscal actions continue to hamper the smooth conduct of monetary policy.

11. OLAYEMI CARDOSO

Governor of the Central Bank of Nigeria and Chairman, Monetary Policy Committee

Our meeting held against the backdrop of a socioeconomic environment plagued with persisting global and domestic economic challenges. Even as we seek to draw lessons from history and lean on the varied expertise at our disposal, the myriad of crisis facing the Nigerian economy is unprecedented and leaves us with limited reference points for applicable handy solutions. It is therefore more important that we continue to apply extreme rigor in our interrogation of the economic data at our disposal and be open to adopt innovative solutions in the course of executing our price stability mandate.

The latest inflation report presented a mixed outcome with the continued deceleration in headline inflation now accompanied by an uptick in core inflation. A number of developments across various sectors of the economy has resulted in elevated risks to the outlook, necessitating a significant upward revision to our short-term inflation forecast. Some of these developments include the upward review of energy prices, flooding across major food producing regions of the country and the pass-through effect of a weaker exchange rate on wider prices of goods and services, all of which may reverse the decelerating trend of prices in the coming months. Our efforts to limit demand side pressures is further hampered by the increases in statutory distributions from the fiscal authority, resulting in excess liquidity in the banking system.

On the global scene, the emergence of a moderate to positive outlook and the broad expectation of a soft landing in advanced economies is now transmitting to a lowering cycle of policy rates. Whilst this is encouraging for emerging economies from a capital flows perspective, it is important to note that the destination of capital is ultimately driven by real returns on investments. Consequently, we must continue with the ongoing reforms to position Nigeria ahead of other emerging market economies, and take policy and administrative measures to deliver positive real interest rates in the near term.

The Committee has maintained its commitment to monitor global and domestic economic developments and to ensure that policy actions are guided by available data, that inflation expectations are adequately anchored. Previous aggressive policy measures by the Monetary Policy Committee (MPC), where both the Monetary Policy Rate (MPR) and Cash Reserve Requirement (CRR) were raised, are yielding dividends. In addition, the counter-factual evidence suggests that inflation would have entered a galloping phase, had we not taken these difficult policy measures. The recent relative stability of the foreign exchange market and convergence in exchange rates across the various market segments have also been achieved largely on the back of increased capital flows witnessed as a result of the tight policy stance adopted by this MPC since February 2024.

The wider reforms of the Foreign Exchange market is also delivering a positive trade balance in the balance of payments, and positive business expectations in the short to medium term are firmly anchored on the expectation of a stable exchange rate regime. The exchange rate is a significant variable for monetary policy in Nigeria given its broad pass-through effect to domestic prices as well as the important role it plays in anchoring future inflation expectations of businesses and shaping the behavior of all economic agents. It is therefore of the essence that we seek to prioritise the stability of the exchange rate within the adopted market driven framework for price discovery.

From the foregoing, it is clear that a lot more still needs to be done to stay on the course of decisively taming inflationary pressures to realize the Bank's mandate of price and monetary stability. Given that there is no substitute for favorable macroeconomic fundamentals in the long run, monetary policy must continually strive to use the tools at its disposal to deliver solutions that buy enough time to allow other fiscal measures to materialize.

I draw optimism from the steps taken by the fiscal authority to ensure the increased capacity for the local refining of petroleum products is optimized, as this would strengthen economic fundamentals and improve energy security to support growth and development. We also expect that the interventions in the agricultural sector would boost production and facilitate the importation of critical food items. All these will contribute to the reduction in food prices and further support the deceleration in headline inflation in the coming months.

There is a general sentiment that the Committee should hold or loosen policy rate in light of the observed decelerations in headline inflation and the perceived adverse effects of tight monetary policy on the economic recovery and general well-being of Nigerians. This, in my judgment, will be premature because in as much as the effects of previous hikes have been effective in altering the trajectory of inflation, the balance of risks indicates that these gains may be reversed if we do not maintain a tight stance to mitigate the tailwinds.

I therefore voted to:

1. Increase the MPR by 50 basis points from 26.75 per cent to 27.25 per cent.

2. Retain the asymmetric corridor around the MPR at -100/+500 basis points.

3. Adjust the Cash Reserve Requirement (CRR) for Deposit Money Banks by 500 basis points to 50 per cent from 45 per cent and Merchant Banks by 200 basis points to 16 per cent from 14 per cent.

4. Retain liquidity ratio at 30.00 per cent.

OLAYEMI CARDOSO
Governor
September 2024