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Attention: News Editors/Gentlemen of the Press

MONETARY POLICY RATE HIKED TO 26.25 PER CENT

The Monetary Policy Committee (MPC) of the Central Bank of Nigeria (CBN) held its 295th meeting on the 20th and 21st of May 2024 to review recent economic & financial developments and assess risks to the outlook.

Decisions of the MPC

The Committee's decisions are as follows:
1. Raise the MPR by 150 basis points to 26.25 per cent from 24.75 per cent.
2. Retain the asymmetric corridor around the MPR to +100/-300 basis points
3. Retain the Cash Reserve Ratio of Deposit Money Banks at 45.00 per cent.
4. Retain the Liquidity Ratio at 30.00 per cent

Considerations

The key focus of the MPC at this meeting remained to achieve price stability by effectively by using tools available to the monetary authority to rein in inflation.

Members observed that while year-on-year headline inflation in April 2024 rose moderately, the month-on-month measures of headline, food and core all declined significantly. This follows a decline (month-on-month) of headline and food measures in March 2024, suggesting that the recent tight monetary policy stance of the Bank is beginning to yield the desired outcomes.

The MPC, however, noted that the inflationary pressure continues to be driven largely by food inflation. The Committee thus reiterated several challenges confronting the effective moderation of food inflation to include: rising cost of transportation of farm produce; infrastructure-related constraints along the line of distribution network; security challenges in some food producing areas; and exchange rate pass-through to domestic prices for imported food items. The MPC urged that more be done to address the security of farming communities to guarantee improved food production in these areas.

Members further observed the recent volatility in the foreign exchange market, attributing this to seasonal demand, a reflection of the interplay between demand and supply in a freely functioning market system. The Committee also noted the marginal increase in the external reserve balance between March and April 2024 and urged the Bank to sustain its focus on accretion to reserves. The MPC commended the Bank for the recent approval of licenses of fourteen (14) international Money Transfer operators (IMTOS). This is expected to improve competition and lower the cost of transactions, thus attracting more remittances through formal channels.

The Committee noted with satisfaction that the banking system remains safe, sound, and stable, despite the headwinds confronting the economy. It commended the recent recapitalization initiative and urged the management to sustain its regulatory oversight to ensure the continued stability of the banking system.

Members focused on the best policy approach to continue to guide the economy towards achieving an overall macroeconomic balance. At this meeting, the Committee was thus faced with the option of either continuing with policy tightening or hold to observe the impact of previous rate hikes. Following an extensive review of risks and the near-term inflation outlook, the balance of risks suggests further tightening of policy to build on the benefits accruing from previous rate hikes.

Key Developments in the Domestic and Global Economies

Domestic headline inflation rose further to 33.69 per cent in April 2024, from 33.20 per cent in March, driven by both the food and core components. On a month-on-month basis, however, headline inflation declined significantly to 2.29 per cent in April 2024, from 3.02 per cent in March. The food and core components also declined to 2.50 and 2.20 per cent from 3.62 and 2.54 per cent, respectively in the same period. According to the National Bureau of Statistics, real GDP grew by 3.46 per cent in the fourth quarter of 2023, compared with 2.54 per cent in the third quarter, driven by both the oil and non-oil sectors. Recent Purchasing Manager's Index (PMI) suggests that economic activities will continue to expand in 2024. In addition, staff forecasts indicate that the domestic economy will grow by 3.38 per cent in 2024.

According to the IMF, global growth in 2024 and 2025 is projected at 3.2 per cent apiece, while it revised Nigeria's growth upwards to 3.3 per cent from 3.0 per cent in 2024. The identified headwinds to this projection are the tight financial conditions and broad disruptions to the global supply chain associated with geopolitical tensions and economic fragmentations. While these are feeding directly into a rally in the prices of key commodities such as grains and oil, global inflation is projected to continue to decelerate in 2024 but could remain above the long-run objectives of advanced economy central banks. This group of central banks are likely to pause their rate hike cycles in the near term to observe the trend of inflation.

Accordingly, the Committee will continue to monitor developments in the global and domestic economies to guide policy and ensure that inflation expectations are adequately anchored.

All twelve members attended the meeting. The next meeting of the Committee will hold on the 22nd and 23rd of July 2024.

Thank you.

Olayemi Cardoso
Governor,
Central Bank of Nigeria
21st May 2024

PERSONAL STATEMENTS BY THE MONETARY POLICY COMMITTEE MEMBERS MPC MEETING MAY 20 – 21, 2024

1. AKU PAULINE ODINKEMELU

I vote to raise the Monetary Policy Rate (MPR) by 100 basis points from 24.75 percent to 25.75 percent, retain the asymmetric corridor around the MPR at +100/-300 basis points, Cash Reserve Ratio of Deposit Money Banks at 45.00 per cent, and the Liquidity Ratio at 30.00 per cent.

My decision is influenced by the following developments:

1. Global Economic Developments

The International Monetary Fund's (IMF) World Economic Outlook of April 2024 projected global growth at 3.2 per cent in 2024 and 2025. The drivers of growth in the global economy are the stronger than expected resilience in the Advanced Economies, the Emerging market and Developing economies as well as fiscal support in China. The Advanced Economies are projected to grow by 1.7 per cent in 2024 and 1.8 per cent in 2025, due to stronger than expected growth in the US, partly offset by weaker-than-expected growth in the Euro Area. Growth in the Emerging Markets and Developing Economies is expected to moderate to 4.2 per cent in 2024 and 2025, notwithstanding the mixed performance across the various regions. Growth in sub-Saharan Africa is projected to rise to 3.8 and 4.0 per cent in 2024 and 2025, respectively, from 3.4 per cent in 2023. The downside risks to growth remain geopolitical tensions, climate risk, tight financial conditions in advanced economies, and the disruption to the global supply chain.

The continued resilience of the Nigerian economy is evidenced by the IMF's upward revision of Nigeria's growth forecast from 2.9 per cent in 2023 to 3.3 and 3.0 per cent in 2024 and 2025, respectively as well as data from the National Bureau of Statistics (NBS) which indicated that Nigeria's real GDP grew by 3.46 per cent in the fourth quarter of 2023, compared to 2.54 per cent in the third quarter. The growth trajectory tends to suggest steady growth in a period of tight monetary policy, as against extant theory of tight policy stance hurting growth. I understand that the effect may not be contemporaneous, however, growth in an inflationary economy is merely stability of the graveyard. I, therefore, favor growth in a price stable economy, and vote for further but gradual rate hike.

Global inflation is projected to continue to moderate to an annual average of 5.9 per cent in 2024 and 4.5 per cent in 2025. The deceleration in global inflation is driven largely by tight financial conditions and sustained decline in the prices of global commodities. In advanced economies, inflation is projected to decline to 2.6 per cent in 2024 and 2.0 per cent in 2025 in line with the long-run objectives of the central banks in this group. Inflationary pressure in Emerging and Developing Economies is projected to remain high at 8.3 per cent in 2024, before moderating to 6.2 per cent in 2025, as the prices of food and energy are expected to trend downwards. The rise in Nigeria's headline inflation from 33.20 per cent in March 2024 to 33.69 per cent in April 2024 supports my resolve to vote for a sustained tight policy stance to effectively anchor inflation expectations.

2. Domestic Economic Developments and Outlook

As argued earlier, the Nigerian economy remains resilient with real GDP growing by 3.46 per cent in the last quarter of 2023, from 2.54 per cent in the third quarter. The IMF, World Bank and Federal Ministry of Finance, Budget, and National Planning, project the Nigerian economy to expand by 3.30, 3.30, and 3.88 per cent, respectively, in 2024. Despite the growth path and the resilience of the economy, growth is fragile due to domestic factors such as inflationary pressure, legacy issues and external factors – geopolitical tensions, climate change, tight financial conditions in advanced economies, and disruptions to the global supply chain.

Nigeria's headline inflation rose from 33.20 per cent in March to 33.69 per cent in April 2024. Lingering security challenges in food producing areas, infrastructural deficits, rising energy cost, and seasonal factors are the identified drivers. The growth in money supply in March 2024, however, tends to suggest that structural factors alone may not account for the inflationary pressure in the domestic economy. The continued depreciation of the Naira, however, may have accounted for the development. It is therefore important to sustain the tight policy stance, also curtail the demand for foreign exchange.

To effectively anchor inflation expectations, further tightening, albeit at a gradual pace, is important to sustain the gains observed in the decline on month-on-month headline, food, and core inflation between March and April 2024. I appreciate the argument that further tightening may impact on the stability of the banking system through the deterioration of key financial stability indicators such as NPLs and CAR. I also understand the argument on the other adverse effects of a high interest rate regime such as crowding out effect, higher cost of funds, and an inverted yield curve or short-term bias. While these arguments are plausible, containing inflationary pressure is critically important to banking system stability and fostering a conducive investment climate. Given the moderation in the rate of change of price development (month-on-month), further but gradual tightening is important to consolidate and build on the gains already achieved from previous rate hikes.

2. ALOYSIUS UCHE ORDU

GLOBAL ECONOMIC DEVELOPMENTS

In its April World Economic Outlook, the IMF projected growth of the global economy at 3.2% and global inflation at 5.9% in 2024. Despite the multiple global headwinds, the US economy continues to account for a significant share of the economic expansion. Although economic growth and consumer spending showed signs of slowing in recent months, the US labor market remained surprisingly robust. Data dependence is a bedrock principle of monetary policy, so the hotter-than-expected data on the job market for May complicated the forward path for Fed policy makers as they look for clearer signs of a slowing economy, confirming that inflation has fallen enough to ease tightening.

The ECB's guidance for possible future interest rate cuts reflects progress made in reducing annual inflation to 2.6% in May from 10.6% in October 2022. It also reflects optimism about the improving prospects as latest data reinforced signs that the eurozone's economic recovery, though uneven country and sector-wide, is continuing to progress albeit with overall GDP growth of 0.8% in 2024.

Earlier in the month, the Bank of Canada became the first G7 member to lower borrowing costs, dropping its policy rate by one-quarter of a percentage point to 4.75%. In the UK, inflation trended down to 2.3% in April, but the Bank rate remained unchanged at 5.25%, the highest policy rate since the 2008 global financial crisis.

After months of overshooting their inflation targets, central bankers in advanced economies are watchful as they trade off inflation and growth.

In emerging market economies, policy makers do not yet have the luxury of lowering borrowing costs. In Turkey, interest rates are at 50% as inflation hit 75.5% in May 2024 from 69.8% in April. Argentina continues to battle multiple crises, including inflation, which is heading towards 200%, a depleting reserve position, and rising poverty levels. In most other Latin American and the Caribbean countries, economic growth will slow to 2% with inflation down to 12.7% in 2024.

Growth in Asia and Pacific region has remained strong, with inflation decelerating. India, Malaysia, the Philippines and Vietnam remain the league leaders in the world's most dynamic region.

In Africa, the AfDB's Africa Economic Outlook, released in May, projected overall real GDP growth of 3.7%, with East Africa as the fastest growing region with 4.9% in 2024. West Africa is projected to record growth of 4.2% in 2024, reflecting stronger performances in Cote D'Ivoire, Ghana, Nigeria and Senegal.

Africa's average inflation is estimated at 17.8% in 2024 on account of sustained high food and energy prices, and currency depreciations. In Kenya, following four consecutive months of deceleration, inflation rose to 5.10% in May from 4.98% recorded in April. And in Ghana, the authorities held the monetary policy rate at 29% for the fifth consecutive month.

The tightened global financial conditions and high uncertainties continue to impact external financial flows to Africa, with overall declines in foreign direct investment, official development assistance and portfolio investment. Across the region, public debt levels remain high at around 60% of GDP in 2024, with debt service payments eroding fiscal space and constraining investments in vital infrastructure and human capital development.

With the US dollar on track to remain stronger for longer on account of robust US growth, high interest rates, and geopolitical risks, African economies will remain vulnerable as a stronger dollar raises the local currency costs of settling their international financial obligations. A strengthening dollar will also exacerbate the impact of higher oil prices on inflation and increase pressure on the balance of payments.

DOMESTIC ECONOMIC OUTLOOK

Reducing Nigeria's high inflation is both an economic and a political imperative of the first order. The MPC acted promptly and decisively during the February-March meetings, deploying the blunt instrument of excruciatingly tight money.

CBN staff presentations during the May meeting showed that Headline inflation (year-on-year) rose to 33.69% in April from 33.20% in March, driven by higher food and energy costs. Food inflation jumped to 40.53% from 40.01%

and Core inflation rose to 26.84% from 25.9% during the corresponding period, on account of increases in the price of farm produce and processed food items; insecurity and infrastructure deficits; and cost-push factors including increased cost of fertilizers and transport logistics.

Press coverage showed that the current state of play is wreaking havoc on consumers, particularly those on the lower end of the income scale who are more acutely feeling the pain from high inflation. This segment of our society is facing a myriad of challenges, including food and fuel, and they are financially strapped.

The CBN staff presentation also showed that on a month-on-month basis, the April numbers indicate a decline in Headline inflation to 2.29% from 3.02%; Food inflation to 2.50% from 3.62%; and Core inflation to 2.20% from 2.54% in March 2024.

Clearly, one month does not constitute a trend, but the April numbers indicate that policy is taking effect though the later reversal of the naira's positive momentum indicates continuing inflation risks.

To be sure, Nigeria is not the only emerging market economy that experienced outflows of portfolio investments. The key lesson from other countries, e.g., India, Indonesia, Vietnam, South Africa, etc., is to scale up improvements in overall investment climate to attract foreign direct investments which is much more sustainable. Nigeria needs urgent actions on this front.

Also, efforts to diversify Nigeria's export base remains of utmost importance. Measures are warranted to significantly boost oil production from 1.28 million barrels per day, which is well below the OPEC quota of 1.58 million barrels per day, especially as oil prices are above US$80 per barrel. Much more could also be done in the mining sector in view of the country's rich endowment in mineral resources.

Clearly, monetary policy ought not be the only game in town for the express purpose of stabilizing Nigeria's macroeconomy. An activist fiscal policy stance is urgently needed to bring inflation down quickly and painlessly.

Besides, another substantial increase in the policy rate in May 2024 may raise market expectations both about the risks of inflation — because the MPC is so concerned about it — and market expectations about the ultimate expected tightening that we intend based on a balanced view of the evidence presented by CBN staff. Taking all the available evidence into account, my own preference was for a moderate increase in the MPR at this meeting. We need to continue to urge patience and to let our restrictive policy stance do its work.

I therefore voted to raise the MPR by only 100 basis points, and to hold the CRR and the asymmetric corridor at their current levels.

3. BALA MOH'D BELLO *MoN*

Opening Statement

At the May 2024 MPC meeting, **I voted to raise the monetary policy rate (MPR) by 150 basis points** to 26.25 per cent from 24.75 per cent, whilst keeping all other policy parameters constant viz: the asymmetric corridor around the MPR at +100/-300 basis points; Cash Reserve Ratio of Deposit Money Banks at 45.00 per cent; and Liquidity Ratio at 30.00 per cent. My decision to further tighten the stance of monetary policy was guided by the continued stickiness of domestic prices, as well as data on other domestic macroeconomic indicators, discussed briefly in the following sections.

Considerations

According to the National Bureau of Statistics (NBS), headline inflation (year-on-year) rose to 33.69 per cent in April 2024 from 33.20 per cent in the previous month, driven by increases in both the food and core components. In April 2024, food inflation increased to 40.53 per cent from 40.01 per cent in the previous period, while core inflation rose to 26.84 per cent from 25.90 per cent in the same period. Exchange rate passthrough to domestic prices and structural issues continue to drive price movements in Nigeria.

The data also showed that **previous monetary policy rate hikes and other complementary policies are yielding some positive results** albeit slowly. Month-on-month, headline inflation declined significantly to 2.29 per cent in April 2024 from 3.02 per cent in the previous month. The month-on-month deviation of annual core and food inflation also follows similar pattern. This downward trend in the month-on-month rise in prices, thus suggests the need to press further with the tightening cycle to ensure that flattening of the inflation curve is quickly achieved to pave the way for a quick deceleration.

In addition, while money supply growth has been substantially reduced, it remains above the benchmarks for the year, thus, fueling credit growth above the desired level for inflation to be fully curtailed. Tightening the stance of monetary policy further to slow credit creation, combined with ongoing complementary fiscal policy initiatives is, thus, essential.

Exchange rate passthrough to domestic prices remains an important factor in the current inflation pressure. While the pressure on the naira reflects supply and demand imbalances in the foreign exchange (FX) market, I am certain that tightening the policy stance further would dampen demand pressure while also having a positive impact on autonomous FX supply as domestic yields improve. Recent approval of licenses of fourteen (14) international Money Transfer Operators is expected to improve remittance flows to dowse demand pressure.

With regards to financial system stability, data presented at the meeting showed that all major financial soundness indicators (capital adequacy, non-performing loans, and liquidity ratios) remained within their prudential thresholds. While industry earnings ratios have also remained comparatively strong, there is the need to continue strengthening macroprudential and capital buffers to further improve industry resilience to future shocks.

Real GDP grew by 3.46 per cent in the fourth quarter of 2023, compared with 2.54 per cent in the third quarter of the same year, driven by both the oil and non-oil sectors. There are also indications that economic activities will remain on a positive path as reflected in the Purchasing Managers' Index (PMI) which increased from 42.8 index points in March 2024 to 49.2 index points in April 2024.

On the global front, output growth in 2024 and 2025 is projected by the International Monetary Fund at 3.2 per cent a piece, indicating a steady pace of recovery despite identified headwinds. Inflation is also expected to continue to decelerate across major economies even though it is likely to remain above the long-run objectives of several key central banks. Consequently, global prices could remain high and persisting headwinds need to be curtailed to mitigate supply chain disruptions.

Overall, for Nigeria, maintaining a tight monetary policy stance over the short- to medium- term horizon remains the most ideal direction for monetary policy. Among the limited instruments available to the Committee, my preference at this May 2024 meeting, is an upward adjustment of the Monetary Policy Rate due to its potency to impact both money supply growth and exchange rate appreciation simultaneously. As the trajectory of key economic indicators unfolds, more information and assessments will become available to enable consideration of other policy instruments for further action.

4. BANDELE A.G. AMOO

Having reviewed the developments in both the global and domestic economies since the MPC meeting of March 26, 2024, I decided to vote as follows.

(a) Raise the Monetary Policy Rate (MPR) by 100 basis points from 24.75 per cent to 26.25 per cent.
(b) Retain the asymmetric corridor around the MPR at +100/300 basis points.
(c) Retain the cash reserve ratio at 45.0 per cent.
(d) Retain the cash reserve ratio of merchant banks at 14.0 per cent.
(e) Retain the Liquidity Ratio (LR) at 30.00 percent.

My decision was based on the following developments within the global and domestic economies.

1 Global Economic Developments

Economic developments in the global economy since March 2024 continued to be resilient despite rising geopolitical tensions. Growth in the advanced economies (AEs) recorded moderate improvement driven by expected improvement in the US economy while growth in the emerging markets and developing economies (EMDEs) is expected to moderate due to subdued growth in China. Even though the global economy is on a path of soft-landing, the steady growth recorded is still faced with the challenges of wide fiscal deficits, weak export earnings, low growth in comparative trade, as well as slow domestic growth.

High yields in gilt edged securities in the advanced economies has continued to mitigate significant capital inflows into the EMDEs. The high interest rate regime across several central banks, however, has implications for debt servicing especially for debt-ridden countries. Consequently, the current tight global financial conditions portend significant risk of a debt overhang for several sovereigns globally.

2 Domestic Economic Developments and Outlook

The empirical impact of March 2024 MPC decisions on the major sectors of the Nigerian economy showed mixed performances. Generally, the impact on the monetary base, (especially growth in broad money), as well as the money and equity markets was mixed.

The CBN monthly composite PMI improved to 49.2 index pts in April 2024 from 42.8 index points in March 2024 reflecting an expansion in new orders. This improved development remained below the 50.0 index threshold.

Consumers, however, expressed pessimism in their overall outlook on economic conditions in Q1:2024 and Q2:2024. The negative outlook was attributed to unfavourable economic conditions; worsening family situation; and declining income purchasing power.

On a year-on-year (y-o-y) basis, headline inflation increased marginally to 33.69% in April 2024 from 33.20% in March 2024. The same trend was recorded in respect of food (40.53%) and core inflation (26.84%). On a month-on-month (m-o-m) basis, headline inflation, however, declined to 2.29% in April 2024 from 3.02% in March 2024. Food inflation (m-o-m), also decreased to 2.50% in April 2024 from 3.62% in March 2024. The declines recorded were due to drop in prices of food & non-alcoholic beverage, farm produce, as well as the opening of the borders, which led to inflow of staple agricultural products respectively.

Specifically, the banking industry was adjudged relatively stable during the period under review as solvency and liquidity remained within the set regulatory standards. The maximum lending rate stood at 29.38% in March 2024 from 26.55% in February level.

While the naira exchange rate and external reserve levels increased slightly, the overall BOP (US$'B) balance remained stable. The fiscal sector recorded positive impact as federal government revenue increased while the fiscal deficit declined.

3 MY CONCERN

Given the afore-mentioned developments, it is imperative that the current monetary tightening regime which commenced at the February 2024 meeting of the MPC, should continue, to allow complete policy pass-through to the Nigerian economy. Given the fact that Nigeria is competing for investment capital with comparable EMDEs such as Egypt, Ghana, Kenya and others, there is a compelling need to further move the policy rate slightly upwards. Inflation is globally receding but still higher than the targets of most central banks. Given the structure of the Nigerian economy, we expect the inflation pass-through to domestic prices to continue especially through imports.

Substantive progress in addressing the rising cost-push factors and other supply-chain issues is required to minimize the risk that high inflation level might remain for long. Exchange rate fluctuations in recent past caused lots of instability in production sectors and adversely affects people's welfare in every sector of the Nigerian economy. These heightened the high electricity/energy deficit, unemployment, prevalent poverty, and high social insecurity. Consequently, it presents a serious policy dilemma for the MPC, given the imperative to sustain the growth trajectory with limited tools at its disposal, low productive capacity, high import dependence as well as the constricted fiscal environment. Addressing these issues by monetary-fiscal relationship and cooperation would greatly help to maximize the impact of monetary policy on the Nigerian economy.

5. EMEM USORO

1.0 My Considerations

Global developments since the last MPC meeting

The global economy remains on a solid path to recovery, as the service sector of major economies continues to expand, buoyed by business optimism. However, price levels across regions are exhibiting mixed trends, but largely softening amidst fading relative price shocks, declining core inflation and energy prices, which is not unconnected with the increased global energy supply and tight monetary policies. According to the IMF, the outlook for global growth is optimistic, as the global economy is expected to remain resilient amid tight monetary policy stance, and fiscal support in China.

Notwithstanding, inflation in most economies has remained above central bank targets, thus, most central banks are maintaining higher-for-longer positions to rein in price levels while not losing sight of the trajectory of inflation in the medium-term. Overall, global inflation is expected to continue to decline in the near-term, albeit at a moderate pace, especially in the advanced economies.

Global financial conditions eased in the review period, due to investor optimism about lower long-term yields and stock market rallies while most global currencies weakened against the US dollar owing to country-specific factors.

On the domestic front, inflationary pressures persisted at a slower pace on a year-on-year basis as prices of food and core inflation continued to rise. On a month-on-month basis, however, there was a notable decline in headline, food and core inflation since the last MPC meeting,.

The development in the domestic economy was occasioned by supply disruptions of Premium Motor Spirit (PMS), high exchange rate pass-through, lingering infrastructural deficit and security challenges.

In addition, tight financial conditions, occasioned by the recent monetary policy actions contributed to the recent price dynamics. Notably, average banking system liquidity declined in April, from its previous level in March, resulting in a rise in key market rates and tight credit market conditions. In addition, reduced exchange rate pass-through, emanating from the modest appreciation of the naira exchange rate in April, supported the easing of inflation outcomes.

In parallel, economic activity has improved since the last MPC meeting, due to improved business optimism and fiscal support. Composite PMI rose further in April 2024, due to increase in agricultural production and slower contraction in other subsectors. It is important to emphasise the strong association between agricultural output and deceleration in headline and food inflation, implying that inflation is more supply-driven than demand-driven. Thus, recent efforts by the Federal Government geared towards improving productivity in the agricultural sector and ensuring food security is commendable, given the potential to tame inflation.

On the fiscal side, limited revenue amid rising expenditure, with trickled down effect on inflation, continue to be a challenge. Rising public debt continues to limit the fiscal space with attendant threat to fiscal sustainability, even though, the financial system remains resilient.

On the external front, recent upgrades of Nigeria's credit ratings from stable to positive by international rating agencies, such as Fitch and Moody's have lent supports to investor confidence in attracting sizeable inflows to the official exchange rate market, thereby dousing demand pressures. Resultantly, exchange rate fluctuations have been largely contained, and external reserves remain at a sufficient level in line with international standards.

Therefore, sustaining a tight monetary policy stance potentially makes domestic yields more attractive for domestic and foreign investors, supports the naira and accretion to the external reserves. It also helps tame imported inflation, which is crucial given the import-dependent nature of the Nigerian economy.

Looking forward, the domestic outlook remains cautiously optimistic, as the economy is projected to expand in the near-term. This outlook is hinged on fiscal reforms, infrastructural development initiatives, efforts toward continuous deepening of the financial markets through FCY-denominated debt instruments, positive expectations around crude oil prices, increased domestic oil production, and commencement of operations at the Port Harcourt refinery. Additionally, tight monetary policy stance is expected to support this outlook by attracting more capital inflows to improve accretion to reserves. Inflation is, however, expected to remain elevated, but commence moderation in the second half of the year, due to the tight monetary policy, and base effects.

A risk assessment reveals the existence of several risks confronting the global and domestic economies. In the global economy, these include escalating geopolitical tensions and the impact of climate change, which might heighten uncertainties and disrupt global markets. On the domestic front, supply chain disruptions emanating from geopolitical tensions and other supply shocks such as increase in electricity tariffs, exchange rate depreciation, among others, pose a threat to price stability in the near term.

2.0 My Decision

I remain committed to the Committee's disinflationary drive, to stabilize economic conditions and improve the well-being of the Nigerian citizenry. Consequently, on the basis of the above developments and outlook for both the global and domestic economies, I vote to:

i. Raise the MPR by 150 basis points to 26.25%, to further tighten financial conditions, reduce the negative interest gap and attract more capital inflows to stabilize the naira exchange rate.

ii. Retain the asymmetric corridor at MPR +100/-300 basis points.

iii. Retain the CRR for Merchant banks and Commercial banks at 14% and 45%, respectively, to realise the full benefits of the bank lending channel of monetary policy transmission; and

iv. Retain the LR at 30.0%.

6. LYDIA SHEHU JAFIYA

Global economic growth has remained strong, supported by improved economic activities in the US and robust fiscal support in China. Recent data regarding the Composite Performing Managers Index (Composite PMI) suggests that economic activity expanded in April 2024, remaining above the 50.0 index points benchmark for the fifteenth consecutive month. The IMF World Economic Outlook (WEO) released in April 2024, forecast global growth at 3.2 per cent in 2024. Growth in the Advanced Economies is projected to rise to 1.7 per cent in 2024, while in Emerging Market and Developing Economies (EMDEs), growth is expected to increase to 4.2 per cent in 2024.

Global inflation is decelerating but remains above the long-run targets for many central banks. Despite reaching the peak of their interest rate hike cycles, many central banks remain cautious about relaxing the restrictive stance of monetary policy, given the lingering upside risks to price stability, including geopolitical and country specific factors. The IMF April 2024 WEO, projected global inflation at an annual average of 5.9 per cent in 2024, from 6.8 per cent in 2023.

International trade is solidly picking up, indicating a partial normalization of trade patterns, notwithstanding escalating geopolitical tensions and disruptions in major sea routes.

Foreign capital inflows to Emerging Markets improved, as Advanced Economies steadily approach the end of their monetary policy tightening regimes.

THE DOMESTIC ECONOMY

The domestic economy grew by 3.46 per cent (year-on-year) in Q4 2023 from 2.54 per cent in Q3 2023. Non-oil output grew by 3.07 per cent, while oil GDP expanded by 12.11 per cent, after 14 consecutive quarters of contraction. Services, Industry and Agriculture sectors grew by 3.98 per cent, 3.86 per cent, and 2.10 per cent, respectively. The solid pace of economic expansion is reinforced by recently released Q1 2024 real GDP data which indicated an output growth of 2.98 per cent (year-on-year) in Q1 2024, higher than the 2.31 per cent recorded in Q1 2023.

Headline inflation (year-on-year) inched up by 0.49 percentage points to 33.69 per cent in April 2024 from 33.20 per cent in March 2024, largely driven by food and core inflation, which increased to 40.53 per cent and 26.84 per cent, respectively, in April 2024. Month-on-month, headline inflation declined to 2.29 per cent in April 2024 from 3.02 per cent in March 2024, driven by moderations in both the food and core components.

Inflation expectation declined to 26.50 per cent in April 2024 from 28.34 per cent in the preceding month. The moderation in expectations reflect the impact of the appreciation of the naira in April 2024, the Bank's resolve to sustain the current restrictive monetary policy stance to address inflation persistence and ongoing credible fiscal policies, as well as commitment to fiscal responsibility. These have collectively contributed in restoring public confidence and anchoring inflation expectations.

Financial soundness indicators remain within their regulatory requirements, indicating safety and soundness of the banking system.

CONSIDERATION FOR VOTING

The economy has sustained a positive growth trajectory since exiting the COVID-19 induced recession. Even though headline inflation year-on-year, rose at a moderated pace, the significant decline in the month-on-month measure, indicates that the monetary policy tightening of the last two MPC meetings has started to impact on prices.

There is no gainsaying that domestic financial conditions are tight and may be putting upward pressure on public debt service, however, further tightening of monetary policy will help restore investor confidence and sustainable recovery of output growth.

While the current specter of inflation is driven by both monetary and structural factors, the Government remains committed to providing the right fiscal support to address structural side bottlenecks. For instance, most fiscal revenue collection platforms have been automated to improve revenue generation and facilitation of non-oil export trade. Indeed, revenue generation has witnessed enormous improvement which has enabled the government to meet its debt obligations and thus ease pressure from the tight financial conditions associated with tighter monetary policy. It also continues to invest in affordable public transportation system, infrastructure development and improvement of the security situation to support economic activities.

Considering that high yields in Advanced Economies continue to attract foreign capital destined for EMDEs including Nigeria, there is need to firmly anchor inflationary expectations to moderate the volatility in the exchange rate through a sustained hike in the policy rate. I thus aligned with the view to sustain the current tight stance of policy, albeit moderately, so as not to hurt investments and economic growth.

In the light of the foregoing considerations, I voted for a relatively modest increase in the Monetary Policy Rate (MPR) by 100 basis points, while maintaining all other policy parameters at their extant levels.

7. LAMIDO ABUBAKAR YUGUDA

Global Developments

The recovery of the global economy is expected to progress at a slower pace. The IMF expects global GDP to grow at 3.2 per cent for 2024 and 2025. Though this expected growth is significant, the sustained tightening by leading central banks has kept it under the historical trend line. Growth in the Emerging Markets & Developing Economies (EMDEs) would be stronger compared to the Advanced Economies (AEs), although the relative contribution of EMDEs to the total size of the global economy, lags that of AEs. For 2024 and 2025, growth in EMDEs would hold steady at 4.2 per cent. For the AEs, growth will improve from 1.7 per cent to 1.8 per cent, propelled by better-than-expected outturn in the US.

Global inflation is expected to decelerate to 5.9 per cent in 2024 and further to 4.5 per cent in 2025 from 6.8 per cent in 2023. Food inflation is expected to help moderate prices with expected decline in commodity prices in 2024. The decline in inflation is expected to be priced in by markets, thus raising the expectation of rate cuts among central banks, and as a result bond yields in several countries have commenced a gradual decline in response. The equity markets have also responded to the expectation of change in policy stance with most indices recording positive performance. Overall, AEs are expected to reach their long-term inflation objectives quicker than the EMDEs.

Domestic Developments

The Nigerian economy grew by 2.98 per cent in Q1:2024. This performance was better than the corresponding period of 2023 (2.31 per cent), but below the growth achieved in Q4:2023 (3.46 per cent). Growth in Q1:2024 was mainly driven by the services sector, which contributed 58.04 per cent to aggregate GDP. Agriculture and industry grew by 0.18 per cent and 2.19 per cent respectively. The main subsectoral highfliers in terms of contribution include crop production (19.24%), trade (15.70%), and telecommunications and information services (14.58%). The performance of crop production is particularly encouraging given its prospect of helping to lower domestic food inflation. However, agriculture underperformed in Q4:2023.

The gains made in the oil sector in Q4:2023 was sustained in Q1:2024 as it grew by 5.70 per cent in Q1:2024 compared to 12.11 per cent in Q4:2023. Oil being the mainstay of foreign exchange earnings should grow consistently to help drive the economy on a sustainable path. In this regard, it would be necessary that the impediments to the performance of the sector are adequately addressed with a view to reaching Nigeria's OPEC oil production quota.

The PMI for April improved to 49.2 index points from 42.8 index points in March. While this remains within the contractionary region this improvement, if sustained for May and June, would suggest that the business environment is responding positively to the more stable exchange rate environment despite the increasing cost of borrowing.

There is still considerable pressure on domestic prices, given the continued rise in headline inflation to 33.69 per cent in April from 33.20 per cent in March. Although the core component also increased, the pressure from food deserves urgent steps to ensure enhanced food supply. As the Bank wields its instruments to combat inflation, it is imperative that the fiscal authorities fast-track solutions to ensure that farm produce moves seamlessly from farm gates to consumption centres. The need for improved security and appropriate pricing of energy cannot, therefore, be over-emphasized.

Monetary developments were somewhat encouraging in March 2024. Broad money (M3) grew by 16.52 per cent over end-December 2023, reflecting a growth in Net Foreign Assets (NFA) and a decline in net domestic assets (NDA). The increase in the NFA bodes well for the health of the external sector, helping to increase liquidity in the foreign exchange market. Consequently, the external sector posted a favourable position, with an overall BOP surplus. The decline in Net Domestic Assets (NDA) also contains good news as it was mainly on account of reduced claims on government.

Although there was marked improvement in the Federal Government retained revenue in the first quarter of 2024, relative to the corresponding period in 2023, it fell short of the budget projection such that the overall fiscal deficit was higher than the target for the quarter.

For the external sector, although the country posted a surplus in the Balance of Payments in Q4:2023, in contrast to the deficit in Q3:2023, the current account recorded a deficit in Q4:2023, indicating that more needs to be done to increase the level of exports, while at the same time reducing imports by substituting them with locally made products.

Issues to Consider by the MPC

I. Fighting inflation remains the key to achieving other macroeconomic objectives: inflation remains a major challenge for the economy as it is still way above the threshold, and our instruments must be deployed to counter the trend, to promote growth in the economy.

II. The strengthening of the US dollar in the face of widening inflation differential between Nigeria and AEs (especially, the US) has implications for both the naira exchange rate and the prospects for Foreign Portfolio Investment inflows to Nigeria. FPI inflows are important to stabilizing Nigeria's foreign exchange market in the short-to-medium term until the CBN's traditional sources of foreign exchange improve.

III. The stronger US dollar is having adverse spillover effects in many countries, and that could, in part, explain the recent fluctuations in the naira exchange rate.

IV. Studies have shown that structural factors are also driving inflation, therefore, the fiscal authorities must step up efforts to address these factors, while the Bank continues to deploy its instruments to douse the demand-side component of inflation.

V. The deceleration in month-on-month inflation is indicative that policy actions thus far are having the desired impact and, therefore, there is the need to sustain the policy stance to maximize the gains already accruing.

My Vote

1. Raise the MPR by 150 basis points.
2. Keep all other policy parameters unchanged.

8. MUHAMMAD SANI ABDULLAHI

My Vote

The upside risks and uncertainties identified at both the February and March 2024 meetings of the MPC still pose some challenges to domestic price developments. From the April 2024 inflation data released by the National Bureau of Statistics (NBS), year-on-year headline inflation remains high at 33.69 per cent. However, detailed analysis of the inflation numbers suggests that the rate of change has slowed, indicating that the effect of the previous rate hikes may have started setting in. Additionally, the month-on-month numbers show a clear deceleration in all measures of headline, food, and core inflation. The choice at this meeting, therefore, is either a hold stance to allow the impact of the previous rate hikes continue to permeate the economy or tighten further to consolidate the current gains in slowing down price development. In arriving at my decision, I considered the economic cost of higher interest rates to borrowing, consumer spending and output growth and the risks of higher inflation on these and other macroeconomic variables. Having voted for two consecutive significant hikes in the past, I am convinced that a further hike at this time will be consistent with my decisions at the February and March 2024 meetings of the Committee and necessary to signal our stance on curtailing inflation. At this meeting, therefore, I voted to:

1) Increase the MPR by 150 basis points to 26.25 per cent from 24.75 per cent.
2) Retain the asymmetric corridor at +100/-300 basis points around the MPR.
3) Retain the CRR at 45.00 per cent.
4) Retain the CRR for Merchant Banks at 14.00 per cent; and
5) Retain the Liquidity Ratio at 30.00 per cent.

My Considerations

The choices before the MPC at this meeting are the same as in the February and March 2024 meetings - stemming inflation to allow for medium to long term sustainable growth. At both MPC meetings, I spared no details regarding the deep realities that the prevailing inflationary pressures could create, potentially, driving prices even higher and undermining the credibility and integrity of monetary policy if no significant actions were taken to steer headline inflation downward. My analysis of the situation, fitted more appropriately to the empirical evidence at the disposal of the Committee at those meetings. The April 2024 headline inflation figure of 33.69 per cent, broad money (M3) growth and inflation outlook further substantiate this position. Reflecting the weight of evidence, this has not changed, in my judgement. Therefore, we must continue to do whatever it takes to address these concerns. Notwithstanding the tepid growth in output, there is no ambiguity regarding the medium to long term trade-off between growth and the cost of higher inflation.

Although the recent data shows that headline inflation remains high, our desire to shorten the recovery period towards a low inflation environment has gained traction with the April 2024 inflation numbers which showed that the rate of increase in headline inflation slowed thus suggesting that inflation could be nearing its peak. The month-on-month inflation eased across all measures in April 2024 - headline, food, and core, for the first time since October 2023. The development could be further enhanced if other structural issues driving price increases are simultaneously addressed. Bearing in mind our responsibility towards addressing inflation and stemming the risk of its resurgence, the primacy of stability is consequential and will remain the focus of policy using all available monetary policy instruments. This suggests unambiguously that monetary policy must not change its course of action, with the CBN keeping the policy rate high to attract the much-needed inflows that would support foreign exchange market liquidity.

The Bank's response to the drivers of headline inflation may be limited to monetary causes. Thus, we must also strengthen the conversation with fiscal policy, around combating food inflation, addressing food security and the entire food production ecosystem. Growing the food economy will complement our monetary policy actions as well as lead to job and wealth creation and thus, push the Nigerian economy to full recovery. To this end, I applaud the efforts of the Federal Government to boost food production and supply through deliberate and targeted interventions in the entire agricultural value chain. Regarding the exchange rate passthrough to domestic prices, the data shows that volatility has reduced measurably in the aftermath of the MPC's March 26, 2024, rate hike. I am, therefore, optimistic that stability in the foreign exchange market will bring about effective demand planning and management and optimization of business processes. The stability is complemented by consumer and business expectations which are now anchored on monetary policy actions as indicated by the inflation expectations survey of April 2024.

The fiscal deficit decreased month-on-month, by 30.5 per cent to negative 1.07 trillion naira in March 2024 from negative 1.55 trillion naira recorded in February 2024. Improved oil production and revenue collection arising from ongoing reforms will lead to wider fiscal space that will enhance overall government fiscal operations and positive fiscal outlook and the ability to finance the 2024 budget.

Portfolio inflows have continued to respond to ongoing reform efforts and other complementary measures with the economy posting continued positive net inflow since the beginning of 2024, despite increased outflows. Economies within the emerging markets will continue to compete with the advanced economies for capital inflows to the extent that the rates remain competitive. Notwithstanding, market data shows increased month-on-month inflows with total inflows into the economy at US$29.75 billion as of April 2024. The inflows reflect investor perception of the reforms and have supported efforts to stem volatility in the foreign exchange market with greater potential for price stability.

Global and Domestic Developments

From available data, global growth would continue to remain in positive trajectory in 2024 albeit at a pace below historical averages because of the lagged impact of previous monetary rate hikes, heightened geopolitical risks, inflation risk, economic divergences and energy and food crisis, amongst others. Global growth is forecast at 3.2 per cent apiece in 2024 and 2025 (IMF WEO April 2024). In the Advanced Economies, growth is projected to expand to 1.7 per cent in 2024 before rising to 1.8 per cent in 2025, reflecting stronger than expected output in the US and other large economies, despite tight labor market conditions. Growth in the Emerging Markets and Developing Economies is, however, expected to remain at 4.2 per cent apiece in 2024 and 2025, despite the expected mixed performance across the various regions. The recovery in the EMDEs is expected to progress moderately with China and India posting significant output growth in Q1:2024. While China's growth is driven by expansion in industrial production, India's real estate, services and finance sectors will account for its projected growth. Inflation in the Advanced Economies is expected to return to their long-run objectives sooner than the Emerging Market and Developing Economies. However, the lingering downside risks and uncertainties to the recovery of the global economy identified at the February and March 2024 meetings of the MPC remain.

Nigeria's gross domestic product (GDP) expanded by 2.98 per cent (year-on-year) in Q1 2024 compared with 3.46 per cent (year-on-year) in Q4:2023, indicating that the economy remains on a growth trajectory. The improved performance in Q1:2024 was driven majorly by the services sector which recorded a growth of 4.32 per cent in Q1:2024 and contributed 58.03 per cent to aggregate GDP. In addition, the improvement in oil production with an average daily production of 1.57 mbpd in Q1:2024 is expected to support the tepid recovery. The Purchasing Managers Index (PMI) improved slightly to 49.2 index points in April 2024, from 42.8 index points in March 2024. Services and industry PMI contracted, while agriculture PMI expanded during the period.

Inflationary pressures have continued as headline inflation, *year-on-year*, rose to 33.69 per cent in April 2024 from 33.20 per cent in March driven by food and core inflation. However, the rate of increase for headline and food inflation slowed for the first time in April 2024 suggesting that inflation could be nearing its peak. The *month-on-month* measure showed a decline across all measures in April 2024 - headline, food, and core for the first time since October 2023. Analysis of the inflation expectations survey for the month of April 2024 showed a decline in the inflation expectation index, indicating that respondents expect prices to moderate at a gradual pace. The outcome of the survey is consistent with the actual month-on-month inflation numbers in April 2024. This is an indication that notable gains are being made and the Bank is coming strong on curtailing inflation. Additionally, it is salutary that domestic food items which remain the major driver of headline inflation showed a significant moderation of 112 basis points (1.12 per cent) in April 2024.

Provisional survey numbers indicate that the broad money supply (M3) grew year-to-date by 24.60 per cent at end-April 2024, a deviation of 9 percentage points above the 15.60 per cent provisional benchmark for 2024 driven largely by increase in Net Foreign Assets (NFA). Month-on-month, M3 growth was lower at 4.75 per cent in April 2024.

Developments around Nigeria's external sector has continued to be influenced by uncertainties around the global economic environment and other exogeneous factors. Notwithstanding the overall balance of payments in Q4 2023 recorded a surplus position of 0.3 per cent of GDP, compared with a deficit of -0.9 per cent of GDP in Q3 2023. The current account also posted a surplus of 4.16 per cent of GDP in Q4 2023 from 1.90 per cent of GDP in Q3 of 2023 following improvements in merchandise trade.

Data on the banking system shows that it remains safe, sound, and resilient. The major reforms announced recently on bank recapitalization will improve the robustness of the system and enhance the ability of Nigerian banks to continue to play their intermediation role and foster financial inclusion. This is in addition to innovations such as in digital banking, protection against cyber threats and keying into advancements in financial technology to enhance service delivery and overall stability.

9. MURTALA SABO SAGAGI

Context

The recent international credit rating of Nigeria by S&P Global Ratings of 'B-/B' suggests a positive outlook, while the Fitch rating of 'B-'indicates a stable outlook for the country. Both rating agencies noted the economic reforms implemented by the government to restore domestic and international confidence in the economy. Equally, they expressed concerns over structural rigidities that discourage investments in productive sectors and issues related to fiscal discipline. Accordingly, the task of boosting productive capacity and reducing fiscal dominance amidst the current monetary tightening stance of the Central Bank remains a critical challenge to reducing inflation in Nigeria. The efficacy of monetary policy tightening, a global best practice of taming inflationary pressure, is largely dependent on government's reform agenda anchored around reducing market distortions, stimulating inclusive economic growth and fostering innovation.

Innovation, in particular, is key to achieving economic growth, contributing about two-thirds of Europe's economic growth in recent decades (European Investment Bank, 2023). Ironically, Nigeria's innovativeness ranks 109th among the 132 economies and also ranks 11th among the 28 Sub-Saharan African economies (Global Innovation Index, 2023). This largely explains the limited growth prospect of the country even though the economic growth prospects of Emerging Markets and Developing Economies (EMDEs) is projected to surpass the global growth forecast. The task before the Nigerian economic managers is to harness local resilience with diverse sources of comparative/competitive advantages to maximally benefit from the moderating global inflation and the projected increase in global trade and investments.

Global and Domestic Economic Environment

In today's world, volatilities are the new normal. Amidst global uncertainties, modest economic recovery and relative ease in inflationary pressure is projected in 2024. The global growth forecast for this year remains at 3.2 per cent while global inflation is expected to decelerate from 6.8 per cent in 2023 to 5.9 per cent in 2024 (IMF, 2024). Also, the economic growth rate in the EMDEs is also expected to remain at 4.2 per cent in 2024 while inflation is expected to remain unchanged at 8.3 per cent in 2024. The decreasing global inflation is largely driven by decline in the prices of global commodities and the aftermath of tight monetary policies.

Even though inflation is just moderating in developing countries, the monetary authorities of Kenya, South Africa and Ghana maintained their rates in their recent policy meetings. In these countries, however, real rates have recently turned positive mainly due to easing inflation and improved growth outlook. In Nigeria, however, the negative real interest rates persists despite recent considerable interest rate hikes. Inflation continues to rise mainly due to high cost of energy, naira devaluation and persistent high cost of food. Headline inflation (year-on-year) rose to 33.20 per cent in March 2024 from 31.70 per cent in February (NBS, 2024). More worrisome is that the economy is projected to expand by only 3.38 per cent in 2024 (CBN, 2024). Considering the enormous growth opportunities ranging from solid minerals, agriculture, industry, trade and service, and high youth population (15-35 years) estimated by the National Youth Survey, 2020, at 95,315,144 million, nearly 50% of the total population, Nigeria is, thus, in a unique position to aim at double digit growth anchored around food and energy security and export diversification.

The net foreign exchange inflows for March was only US$3,734.29 million suggesting the need for renewed policy direction towards innovations and exports. In the process, the nation's foreign reserve which currently stood at US$32.21 billion would be significantly enhanced and, in turn, build confidence and enhance stability of the naira which exchanged for N1, 440.00/US$ in April.

The pursuit of price stability, financial stability and exchange rates stability by the Central Bank would constantly be challenged by shocks and internal rigidities. Also, increasing food prices will further complicate future monetary policy decisions. However, when economic managers think and act in line with the overall national needs for rapid development of strategic industries, as exemplified by the Korean Development model and pursue governance with the kind of discipline demonstrated by leaders of Singapore, Nigeria would, in the not-too-distant future, regain its strategic status in the comity of nations.

My Vote

Consistent with the tight monetary policy stance of the Bank to curb inflation using available monetary tools, I vote to:

- Raise the Monetary Policy Rate (MPR) by 100 basis points.
- Retain the Asymmetric Corridor around the MPR to +100/-300 basis points.
- Retain the Cash Reserve Ratio of Deposit Money Banks at 45.0 per cent.
- Retain the Cash Reserve Ratio of Merchant Banks at 14.0 per cent.

- Retain the Liquidity Ratio at 30.0 per cent.

Recommendations

1. **Improve credit ratings:** To complement measures aimed at price stability, the government's growth and recovery agenda should aim at identifying and nurturing strategic industries across sectors to rapidly promote domestic productivity and competiveness, thereby improving the country's growth prospects in the medium to long term.

2. **Innovation:** Develop strong inter-MDA national innovation framework covering high potential sectors and use public-private dialogue and partnerships to foster innovation, especially among the youth.

3. **Communication and partnership:** Improve the communication of monetary policy to a wide range of stakeholders and foster strategic partnerships to anchor inflation expectations, restore stability, attract investments in infrastructure and industry, implement agricultural development policies, and foster inclusive growth.

10. MUSTAPHA AKINKUNMI

Context

Recent exchange rate fluctuations and significant passthrough from international commodity prices, along with domestic supply shocks, have continued to exert inflationary pressures, leading to an increase in headline inflation. However, the growth of inflation on a month-to-month basis has moderated somewhat due to the tightening of monetary policy in the recent meetings.

In response to these developments, the Central Bank reaffirms its commitment to ensuring the necessary conditions for sustainable economic development and maintains its primary mandate to achieve price stability over the medium term. Accordingly, the Monetary Policy Committee (MPC) will persist in targeting inflation as its principal anchor while allowing the exchange rate to be determined by market dynamics.

The unification of the exchange rate remains a critical goal since it helps to eliminate foreign exchange backlogs and close the gap between the official and parallel exchange rates. Considering these factors, and in alignment with the MPC's ongoing tightening stance, I support the decision to raise the Monetary Policy Rate (MPR) at the May 2024 meeting of the MPC.

The Global Economy

The global economy showed slight improvement in the Purchasing Managers' Index (PMI), with the index moving from 52.3 in March 2024 to 52.4 in April 2024, driven by an expansion in new orders. The global services PMI rose, while the global manufacturing PMI slightly decreased.

The International Monetary Fund (IMF) has revised the global economic growth forecast for 2024 slightly upwards to 3.2%, from an initial 3.1%, supported by increased global resilience and fiscal support from China. Growth in the advanced economies is now expected to reach 1.7%, up from the earlier projection of 1.5%, largely due to stronger-than-expected growth in the US, which is expected to offset weaker growth in the Euro Area. With a projected growth rate of at 4.2% in 2024 and 2025Emerging Markets and Developing Economies (EMDEs) are projected to drive global growth, with their economies expected to grow, led by steady growth in China and dynamic growth in India.

Real GDP growth in the United Staes in Q1 2024 decrease to 1.6% from 3.4% in Q4 2023. In the Euro Area growth in Q1 2024 was modest at 0.4%, driven by wage-induced private consumption. The UK exited recession with 0.2% growth in Q1 2024, thanks to expansions in the service sector and improved production, while India is projected to grow at 6.8%, and China at 4.6%.

Global inflation is expected to decrease from 6.8% in 2023 to 5.9% in 2024 and 4.5% in 2025, driven by falling energy and goods prices and easing supply chain pressures. In the advanced economies, inflation is projected at 2.6% in 2024, reducing to 2.0% in 2025. The US, Eurozone, and Japan all saw slight decreases in inflation in early 2024.

In the EMDEs, inflation is expected to remain steady at 8.3% in 2024 but decrease to 6.2% in 2025 due to falling food and energy prices as well as progressive monetary policy tightening. Inflation rates in the review period varied across countries, with some like China and Nigeria experiencing increases, while others like India, South Africa, and Kenya saw decreases.

In the review period, most central banks maintained stable policy rates to as inflation showed signs of moderation. The US Federal Reserve, Bank of England, and European Central Bank kept their rates unchanged to target their respective inflation goals. However, Nigeria and Indonesia raised rates to manage inflationary pressures, while Chile reduced its rate to support economic growth.

The Domestic Economy

In 2023, Africa's economic growth was 3.2%, significantly trailing Asia's nearly 5% growth. Despite a growing population, Africa struggles with widespread income inequality, resulting in slower per capita growth compared to Asia.

Nigeria is expected to grow by 3.3% in 2024, fueled by improvements in oil and agricultural outputs and enhanced security measures despite losing its status as Africa's largest economy, ranking behind South Africa and Egypt, It remains notable for having the second-highest number of fast-growing companies on the continent. The annual real GDP dropped to 2.74% in 2023 from 3.10% in 2022. Q1 2024 growth was 2.98%, primarily driven by the services sector, which grew by 4.32%. However, agriculture and industry sectors saw declines. The overall PMI for the Nigerian economy improved to 49.2 index points in April 2024, though still below the 50.0 index point threshold driven by improved agriculture sector PMI of 51.5 in April 2024.

The shift towards orthodox monetary policy aims to stabilize high inflation, which stands at 33.69%—the highest in three decades. Headline inflation rose to 33.69% in April 2024, driven by food supply deficits and security challenges. The debt-to-GDP ratio is expected to reach 46.59% in 2024 and 46.83% in

2025, but remain lower than the EMDE average. While year-on-year food inflation rose to 40.53% in April 2024, It, however, decreased month-on-month to 2.29% in April 2024.

Decision

Given the recent decisions by the Monetary Policy Committee (MPC) to raise key policy rates, I believe that the current monetary stance is suitably positioned to drive inflation towards a downward trend. We will continue to monitor its impact on the economy following a data-driven approach. The MPC emphasizes that future policy rate adjustments will be guided by inflation expectations rather than current rates, and we will not hesitate to use all available tools to ensure that our policy stance is focused on moderating inflation to maintain price stability. In alignment with these objectives, I vote to increase the Monetary Policy Rate (MPR) by 150 basis points while keeping other variables unchanged.

11. PHILIP IKEAZOR

The persistent pressure on the general price level justifies a sustained tight stance in all the instruments of monetary policy. However, to encourage growth, there should be restraint on the choice and the margin of elevation of policy instruments. Noting that averting hyperinflation takes priority over growth at this time.

I therefore voted to:

1. Raise MPR by 150 basis points to 26.25 from 24.75 per cent.

2. Retain the Asymmetric Corridor at +100/-300 basis points.

3. Retain the Cash Reserve Ratio (CRR) of DMBs at 45.00 per cent.

4. Retain the Cash Reserve Ratio of Merchant Banks at 14.00 per cent.

5. Retain the Liquidity Ratio at 30.00 per cent.

Developments in the Global and Domestic Economy

The global economic recovery continues to show remarkable resilience as most advanced economy central banks approach the end of their tightening cycles. This has resulted in uneven growth between the low-income developing economies still confronted with high inflationary pressures, and the rest of the world. As such, the revised forecast by the IMF projected a "soft landing" for the global economy — reining in inflation with slight disruptions to output growth.

The IMF revised its forecast of global growth in 2024 to 3.2 per cent, up from 3.1 per cent projected in January. The revision is contingent on robust first-quarter growth in China, strong consumer spending and productivity in the US, and the anticipated sharp decline in global inflation from 6.8 per cent at end-2023 to 5.9 and 4.5 per cent at end-2024 and 2025, respectively.

Notwithstanding, challenges in China's property market, the Middle East and Ukraine-Russia conflicts remain key downside risks to global growth. Moreover, the global economy could be susceptible to uncertainties arising from staggered and divergent growth in most low-income countries compared with the rest of the world which may not be offset by the robust growth in China and the exit of the United Kingdom from recession.

In the domestic economy, fiscal injections, energy prices, exchange rate depreciation and the associated pass-through, led to persistent inflationary pressure. Nonetheless, on a month-on-month basis, headline inflation and its components continued to decline significantly in response to the Bank's contractionary stance which started in February 2024. Headline inflation declined to 2.29 per cent in April from 3.02 per cent in March, food inflation decelerated to 2.5 per cent down from 3.62 per cent, while core inflation declined to 2.2 per cent compared with 2.54 per cent in March. In addition, imported food inflation also declined to 2.3 per cent from 3.9 per cent at end-March 2024.

CBN estimates show that real output would grow by 3.38 in 2024, driven by the expected growth in the agricultural sector, improvements in the oil sector, fiscal reforms, and improved investor sentiment. However, the expected growth could be moderated by the sluggish growth in the manufacturing sector, and external sector vulnerability to swings in global commodity prices.

The credit channel will also witness a major boost with the introduction of the ₦100 billion ($142.86 million) Nigerian Consumer Credit Corporation (CREDICORP). In terms of monetary and financial system stability, it is expected that the scheme will enhance the efficacy of monetary policy and strengthen the interaction between the monetary and real sector.

Non-core inflation and exchange rate pass-through could also moderate in the near-term given fiscal policy actions to address some legacy infrastructure challenges in food producing areas. The approval of funds for infrastructural developments; notably award of contracts for the construction of new roads and upgrades of existing roads in farming communities, is expected to improve the distribution channel of agricultural commodities and moderate food inflation. In addition, the reconciliation and expansion of remittances to NITDA is expected to increase remittance inflows, boost liquidity in FX markets, lead to appreciation of the naira, and thus, reduce inflation pass-through.

My Considerations

The domestic economy faces adverse macroeconomic headwinds arising from the volatility in exchange rate, exposure of the external sector to swings in international commodity prices, fiscal injections, and increase in the domestic price of energy. In this regard, my tilt towards a hike in the policy rate is to moderate the adverse impact of these pressures on the general price level and sustain the gains from the previous monetary policy decisions.

Gains from the previous tight stance manifested in the deceleration of monthly headline, food, core, and imported food inflation. And in weighing the option for further tightening, I considered the margin of elevation in the policy rate that will not significantly alter the projected output growth path for the economy or worsen the exposure of the real sector to credit default.

Besides, monetary stance needs to be proactive, considering the consequences of inflation and inflation expectation on the ongoing wage floor negotiation and the consumer credit scheme, both of which could reshape the efficacy of monetary policy. It is, therefore, important to set in motion a monetary policy stance that will counteract the effects of these credit and income policies on the transmission mechanism of monetary policy.

In the last couple of months, the economy faced significant volatility in the exchange rate arising from the pause in foreign capital inflows due largely to the tight global financial conditions. Given the slowdown in rate hikes around the world, coupled with the deceleration of monthly domestic inflation, the hike in the policy rate will also improve the real interest rate and pave way for foreign investment and accretion to reserves.

Also, credit to individuals and households in Q1-2024 decreased by 7.46 percentage points, while the value of deposit money banks' (DMBs) new credits to the core private sector dropped to ₦1.14 trillion at end-April. Again, these are supply constraints; as such, any hike in the CRR will further worsen the supply of credit to productive sectors and impedes the effective transmission of monetary policy.

Provisional monthly data shows that growth in reserve money moderated by 5.82 percentage points to 4.29 per cent at end-April compared to the 10.11 per cent recorded at end-March, while currency outside the depository corporations declined significantly from 6.34 per cent at end-March to -0.64 per cent at end-April. In my view, these are clear signs that the Bank's tight monetary policy stance is effectively reining in liquidity and must thus be sustained.

Lastly, as the Bank continues to address the challenges of inflationary pressure with the available policy tools, there is also a holistic approach to respond to both core and non-core inflation. In the near term, a stronger alignment, which has already commenced, between the monetary and fiscal authorities is expected to bring inflation to the desired path. Moreover, as the fiscal authorities make a deliberate attempt to reduce fiscal dominance, the attendant moderation in inflation bias will anchor inflation expectations.

12. OLAYEMI CARDOSO

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

The Monetary Policy Committee (MPC) is meeting for the third time within a relatively short period under my leadership as the Chairman and Governor of the Central Bank of Nigeria (CBN). The MPC meetings have been deliberately scheduled to be held at short intervals to allow us to review the impact of policy actions on the economy and take corrective actions in a timely manner if, and when necessary. Whilst recognizing the expected lag time of 3-6 months for the transmission of monetary policy actions, I am glad to say that the economy has started responding positively to decisions taken by the MPC in its last two meetings to increase the Monetary Policy Rate (MPR) by a total of 600bps, increase the Cash Reserve Requirement (CRR) to 45%, and tighten the asymmetric corridor to -100/+300 basis points (bps) around the MPR.

After accelerating sharply in the first two months of 2024, the pace of inflation has slowed in the last three months and although year on year inflation rate inched up in April, the month-on-month trend shows that inflation is gradually decelerating. The economy, however, still faces several macroeconomic headwinds and the upside risks to inflation persists.

The latest outlook suggests a slight elevation in inflation arising from the possible upward revision of the minimum wage, adjustment in electricity tariffs, higher fuel prices, continued low agricultural output due to insecurity, the elevated consumption and spending during festive season, and the pass-through of exchange rate depreciation and volatility. These will continue to be closely monitored and necessary actions taken to avoid a reversal of the gains achieved thus far and to ensure sustained disinflation. It is also important to highlight that policy rate expectation was a key driver of lower inflation expectation and appreciation of the currency witnessed in April 2024, hence the MPC must remain resolute in its stance on using all available tools in its policy toolkit to tame inflation.

Globally, food prices have been observed as a common factor in the trajectory of inflation and Nigeria is not an exception in this regard. Food inflation particularly continued to rise due to a combination of domestic structural challenges and imported food items, but the positive news is that the Purchasing Manager's Index (PMI) from the agricultural sector now shows an upward trend, signaling a possible increase in productive activities in the sector and a likely short to medium term decline in food prices.

Emerging markets and developing economies (EMDEs) continued to see positive capital flows and foreign capital inflows to Nigeria recorded a significant uptick in the first quarter of 2024, a direct response to our policy and market reforms. Given the high pass-through of exchange rate depreciation to headline inflation and inflation expectations, it is important to sustain the momentum of capital inflows and strive to deliver positive real interest rates in the near term to further mobilise savings and investments in the domestic economy.

From the foregoing developments, the MPC was confronted with two major policy options which were either to retain or tighten further to sustain the disinflation trend. Many reasons may suffice to make a credible argument for holding the policy rates. Firstly, it will moderate the cost of borrowing to government and the private sector, especially small-scale businesses considering debt sustainability concerns in a lingering high interest rate environment. Secondly, it will ameliorate the prevailing challenging economic conditions and the resulting pressures being exerted on the financial system. Lastly, it can also be argued that positive results of previous tightening rounds are enough indication that adequate policy actions have already been taken and this will become more evident as the transmission effects further takes hold on economic activities.

On the other hand, there are compelling arguments to progress with the tightening regime. There is no evidence that the downward trend in month-on-month inflation rate is sustainable and would eventually manifest in downward trend in headline inflation. More so, considering the various upside risks to price development from both the global and domestic economies, there is sufficient reason to be concerned about the continued uptick in inflation if we rest on our oars at this critical point. Furthermore, tightening will help to sustain the current momentum of capital inflows into the economy and provide necessary support for the currency in the near term. It is important to highlight that lingering high interest rates in advanced economies presents a real dilemma for emerging market economies seeking to attract capital inflows, and we must ensure that interest rates differentials remain sufficiently competitive by achieving positive real rates in the short term.

We must also not lose sight of the fact that inflation is the major problem. A tighter monetary policy stance with the accompanying higher interest rates are policy tools we have at our disposal to solve the problem from a monetary angle, even as we admit that there are structural issues that must also be addressed alongside by various stakeholders.

The efforts of the fiscal authority is noted, but fiscal reforms must be sustained, and we look forward to the positive impact that the outcomes of these efforts will have on the economic trajectory. The tax reforms and other fiscal measures to boost government revenue, and reign in fiscal deficit is commendable and recent developments in the oil sector targeted at significantly increasing domestic refining capacity bodes well for energy security, price stability, and reduced pressure on the foreign exchange markets. The Bank must thus, continue to collaborate with the fiscal authority to avoid fiscal dominance and ensure that sustainable non-inflationary growth is achieved.

After careful consideration, I was convinced to align with other members of the Monetary Policy Committee to vote for further tightening of the stance of policy.

I therefore voted to:

1. Increase MPR by 150 basis points from 24.75 per cent to 26.25 per cent.

2. Retain the asymmetric corridor at +100/-300 basis points around the MPR.

3. Retain the Cash Reserve Requirement (CRR) for deposit money banks and merchant banks at 45.00 and 14.00 per cent, respectively.

4. Retain liquidity ratio at 30.00 per cent.

OLAYEMI CARDOSO
Governor
May 2024