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MONETARY POLICY RATE HIKED TO 26.75 PER CENT

The Monetary Policy Committee (MPC) of the Central Bank of Nigeria (CBN) held its 296th meeting on the 22nd and 23rd of July 2024 to review recent economic and financial developments as well as assess risks to the outlook. Eleven members attended the meeting.

Decisions of the MPC

The Committee's decisions are as follows:

1. Raise the MPR by 50 basis points to 26.75 per cent from 26.25 per cent.
2. Adjust the asymmetric corridor around the MPR to +500/-100 from +100/-300 basis points.
3. Retain the Cash Reserve Ratio of Deposit Money Banks at 45.00 per cent and Merchant Banks at 14 per cent.
4. Retain the Liquidity Ratio at 30.00 per cent.

Considerations

The Committee was mindful of the effect of rising prices on households and businesses and expressed its resolve to take necessary measures to bring inflation under control. It re-emphasized its commitment to the Bank's price stability mandate and remained optimistic that despite the June 2024 uptick in headline inflation, prices are expected to moderate in the near term. This is hinged on monetary policy gaining further traction, in addition to recent measures by the fiscal authority to address food inflation.

In its consideration, the Committee noted the persistence of food inflation, which continues to undermine price stability. It was observed that while monetary policy has been moderating aggregate demand, rising food and energy costs continue to exert upward pressure on price development. The prevailing insecurity in food producing areas and high cost of transportation of farm produce are also contributing to this trend. Members were, therefore, not oblivious to the urgent benefit of addressing these challenges as it will offer a sustainable solution to the persistent pressure on food prices.

Also noted in its consideration, is the increasing activities of middlemen who often finance smallholder farmers, aggregate, hoard and move farm produce across the border to neighbouring countries. The Committee suggested the need to put in check such activities in order to address the food supply deficit in the Nigerian market to moderate food prices. The MPC, therefore, resolved to sustain collaboration with the fiscal authority to ensure that inflationary pressure is subdued.

In addition, the Committee expressed optimism with the recent stop gap measures by the Federal Government to bridge the food supply deficit. In particular, the 150-day duty free import window for food commodities (maize, husked brown rice, wheat and cowpeas), amongst others, will moderate domestic food prices. It is noteworthy that these measures will not lead to direct injection of liquidity into the economy as to cause further inflation. While the measure is a welcome development and may prove effective in the short run, it is expedient that it is implemented with a defined exit strategy to avert a possible rollback of the recent gains in domestic food production. To support these initiatives, the Bank is already engaging Development Finance institutions like the Bank of Industry (BOI) to ensure adequate support to industries with a focus on Small and Medium Scale Enterprises (SMEs).

The MPC noted the narrowing spread between the various foreign exchange segments of the market, an indication of price discovery and improved market efficiency, thus reducing opportunities for arbitrage and speculation. The Committee noted that the increase in the level of external reserves would further build confidence for a more stable exchange rate and thus urged the Bank to explore available avenues to improve inflows, especially through diaspora remittances. In addition, Members noted the efforts of the Federal Government and private sector towards improving domestic refining capacity as this is expected to reduce foreign exchange currently being expended on the importation of refined petroleum products.

The MPC noted the sustained resilience of the banking system, reflected in improvements of key financial soundness indicators (FSIs). Members further encouraged the continued need for close monitoring of the system, as the implementation of the recapitalization exercise progresses.

To consolidate on the gains thus far achieved, the Committee re-emphasized its commitment to stay on course with its tightening cycle in view of the urgent need to address inflationary pressures.

Key Developments in the Domestic and Global Economies

According to the National Bureau of Statistics, domestic headline inflation rose marginally to 34.19 per cent in June 2024 from 33.95 per cent in May 2024, driven by the continued rise in the year-on-year components of food and core inflation. Similarly, month-on-month headline inflation rose to 2.31 per cent in June 2024, from 2.14 per cent in the preceding month. The food and core components rose to 2.55 and 2.06 per cent in June 2024 from 2.28 and 2.01 per cent in May, respectively.

Real GDP (year-on-year) grew by 2.98 per cent in the first quarter of 2024, compared with 3.46 per cent in the fourth quarter of 2023, driven by both the oil and non-oil sectors. Staff forecasts, however, suggest that the domestic economy will grow by 3.38 per cent in 2024, while the IMF has projected growth at 3.1 per cent in 2024.

As of July 18, 2024, external reserves stood at US$37.05 billion, compared with US$34.70 billion as at end-June 2024. This represents eleven (11) months of import cover for goods and services.

The global economy, according to the IMF, is forecast to grow at 3.2 and 3.3 per cent in 2024 and 2025, respectively. Headwinds to the global projection remain the tight global financial conditions and ongoing geopolitical tensions associated with the wars in Gaza and Ukraine, both of which have significant impact on commodity prices and the global supply chain.

Global inflation is forecast to continue to decelerate marginally in 2024 but may stay above the long-run objectives of most advanced economy central banks. Global financial conditions may, therefore, remain broadly tight through 2024 and into 2025.

The Committee reaffirmed its commitment to continue to monitor developments in the global and domestic economies to guide policy and ensure that inflation expectations are adequately anchored.

The next meeting of the Committee will be held on the 23rd and 24th of September 2024.

Thank you.

Olayemi Cardoso
Governor,
Central Bank of Nigeria
23rd July 2024

PERSONAL STATEMENTS BY THE MONETARY POLICY COMMITTEE MEMBERS MPC MEETING JULY 22 – 23, 2024

1. AKU PAULINE ODINKEMELU

I vote to raise the Monetary Policy Rate (MPR) by 50 basis points from 26.25 per cent to 26.75 per cent, adjust the asymmetric corridor around the MPR to +500/-100 basis points, retain the Cash Reserve Ratio for Deposit Money Banks at 45.00 per cent and Merchant Banks at 14.00 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 revised Global Economic Outlook for July 2024 indicates that the outlook for global growth remains cautiously optimistic despite tight financial conditions and heightened geopolitical tensions. Global growth is forecasted to stabilize at around 3.2 per cent in 2024, with modest improvements anticipated in 2025 and 2026 as trade growth strengthens and monetary policy eases. The Advanced Economies are projected to grow by 1.7 per cent in 2024, rising to 1.8 per cent in 2025, while the Emerging Markets and Developing Economies are expected to maintain a growth rate of 4.1 per cent in 2024, slightly increasing to 4.2 per cent in 2025. Growth in Sub-Saharan Africa is revised downward due toa 0.2 percentage point downward revision to Nigeria's growth outlook given the weaker than expected output in the first quarter of 2024.

The weaker than expected performance of the Nigerian economy during a period of tight monetary policy stance is consistent with theory, and signals that the impact of the previous rate hikes may still be permeating the economy. I, therefore, vote for a further but moderate rate hike. This would ensure that the fight to reduce inflation through the aggregate demand and exchange rate channels is sustained while paying attention to output performance. I expect that demand for consumer goods would reduce while individuals and firms would prefer to earn intertemporal returns on their investments in fixed income assets. I also expect that an increase in the policy rate would attract foreign capital which should bolster the supply of foreign exchange.

The International Monetary Fund and the World Bank project a decline in global inflation, with IMF estimating a drop from 6.8 per cent in 2023 to 5.9 per cent in 2024, and further to 4.5 per cent in 2025. The World Bank forecasts a decline to 3.5 per cent in 2024 and 2.9 per cent in 2025. However, several risks, including climate change, supply chain disruptions, and geopolitical tensions, pose challenges to achieving the desired inflation levels. In the Advanced Economies, tight monetary policies are expected to bring inflation down from 4.6 per cent in 2023 to 2.6 per cent in 2024 and further to 2.0 per cent in 2025. This alignment with long-term central bank objectives indicates a stabilizing economic environment. While global inflation is receding in Advanced Economies, Emerging Markets and Developing Economies face persistent inflationary pressures, projected to remain high at 8.3 per cent in 2024. Nigeria is no exception as inflationary pressures persist, with headline inflation rising to 34.19 per cent in June 2024, driven by high food and core components. Thus, further but moderate rate hike is necessary to effectively anchor inflation expectation.

2. Domestic Economic Developments and Outlook

Year-on-year real GDP growth slowed to 2.98 per cent in Q1 2024, from 3.46 per cent in Q4 2023. Growth was supported by both the oil and non-oil sectors. This performance was subdued due to persisting inflationary pressures which had depressed consumer demand and tightened domestic financial conditions. These factors muted the positive low base effects from the corresponding period of 2023. Headline inflation (year-on-year) rose to 34.19 per cent in June 2024 from 33.95 per cent in May 2024, driven by increases in both the food and core components. Major factors which precipitated the uptrend include persistent security challenges in food producing areas; high cost of energy impacting on logistics and manufacturing; exchange rate pressures driving money growth; and unfavourable climatic conditions hampering food supply.

My decision to vote for further but moderate hike given the above developments in the domestic economy is influenced by the following: First, the impact of the previous rate hikes may still be permeating the economy, and the rise in inflation to 34.19 per cent in June 2024 from 33.69 in the previous month, resulted in further widening of the negative real rate. Second is the need to promote exchange rate stability. I understand that the major driver of inflation is food inflation which is largely driven by legacy issues such as inadequate power supply, poor road networks, and high insecurity in farming communities, as well as currency depreciation. Third is the growth in money supply. Credit has continued to grow, thus keeping aggregate demand relatively strong and putting upward pressure on inflation. Further tightening of monetary policy is essential to curtail credit growth. I, however, feel strongly that further tightening would moderate the monetary drivers of overall headline inflation, while I encourage the Management of the Bank to effectively collaborate with the fiscal authority to essentially address the drivers of food inflation.

Taking a nuanced view of these arguments coupled with the pressing need to effectively anchor inflation expectations and promote price stability, I vote for a further but moderate rate hike.

2. ALOYSIUS UCHE ORDU

GLOBAL ECONOMIC DEVELOPMENTS

In its June Global Economic Prospects, the World Bank projected global economic growth at 2.6 per cent in 2024, despite heightened geopolitical tensions and tight borrowing costs. The projections also show global inflation moderating to an average of 3.5 per cent during the same period.

Among the advanced countries, the US economy recorded an impressive performance, with solid growth. The latest jobs report for July showed that unemployment rose to 4.3 per cent, its highest level in almost three years, reflecting a weaker than expected labor market and raising concerns that interest rates have been too high for too long. The June data from the Bureau of Labor Statistics show inflation close to the Fed's 2.0 per cent target. Given the Fed's role to boost employment, to keep prices stable, and to maintain financial stability, the central bank will most certainly lower interest rates at its next meeting in September.

In the UK, economic growth at 0.7 per cent in the first half of 2024 was stronger than earlier anticipated and with inflation at the Bank of England's 2.0 per cent target in both May and June, the Bank cut lending rate to 5.0 per cent for the first time in four years, in an effort to stimulate growth.

In the Euro area, the ECB cut its key policy rate by 0.25 percentage points earlier in June, on account of progress in taming inflation and improved growth prospects. Six weeks later in July, the ECB kept rates on hold as it expects inflation to stay above its 2.0 per cent target in the period ahead.

Other central banks in the advanced economies (Australia, New Zealand) and most emerging market economies (Indonesia, Philippines) also kept interest rates on hold on account of persistent inflation risks.

In Africa, the burgeoning external debt and macroeconomic reforms continue to dominate the agenda. Remarkably, for the first time this century, in a move designed to improve trade competitiveness and the investment climate, Ethiopia liberalized its foreign exchange market and floated the Birr vis-à-vis major currencies. These reforms will be underpinned by external financing of about US$10 billion.

In Egypt, the ongoing reforms have benefited from substantial external financing inflows, including from the IMF, which is helping to stabilize the Egyptian Pound. At 27.5 per cent in June, inflation is at its lowest level since early 2023, and the Central Bank of Egypt has kept interest rates unchanged at 27.25 per cent to dampen food and energy inflation.

In Ghana, although inflation trended downward to 22.8 per cent in June, the Bank of Ghana maintained interest rates unchanged at 29.0 per cent in anticipation of increased campaign spending, during this highly contested Presidential election, coinciding with food price pressures and currency depreciation. And in South Africa where the new Government of National Unity has made great progress, the Reserve Bank has kept interest rates on hold to support the Rand and to keep inflation in check.

DOMESTIC ECONOMIC OUTLOOK

During the MPC meeting in July, CBN staff presentations highlighted recent developments on the domestic scene, a few of which are particularly noteworthy. First, as at mid-year, the composite Purchasing Managers Index (PMI) showed continued contraction, unemployment increased, and real GDP growth remained low in per capita terms.

Second, inflation rose to 34.19 per cent in June, driven by continuing increases in food and energy prices. On a month-on-month basis, inflation increased to 2.31 per cent in June, marking a reversal of the declining trend recorded in the preceding three months. High food and fuel prices have driven an acute and prolonged cost-of-living crisis in which millions of Nigerians are struggling.

Third, the federal government's budget data, for the period January to April, showed that revenues underperformed by 56.13 per cent vis-à-vis projections, and actual spending was 38.60 per cent below budget. These are worrisome numbers given the country's enormous development needs – poverty has increased with over 18 million Nigerians estimated as food insecure by the IMF, unemployment is high, human development indicators are below comparators, and deficiencies abound in the number and quality of infrastructure. Meanwhile, public debt grew from N97.34 trillion in Q4 2023 to N121.67 trillion in Q1 2024.

On monetary policy, the MPC has raised borrowing costs in an effort to tame high inflation and stabilize the naira and this is yielding some dividends. We need to remain vigilant and continue to monitor the impacts of our policies very closely. Indeed, the art of stabilization policy is about knowing just how hard and how long to push each policy component.

The balancing act facing the MPC is difficult in the best of times. It is far much more difficult when other policies – structural and fiscal – are not entirely pulling their weights. The monetary policy measures taken thus far are severely hemmed in by fiscal stresses that are making it difficult for monetary policy to do its job. Now more than ever, monetary policy needs much more help from fiscal and structural policies.

In this regard, the government's recent mandate that the NNPC should sell 450,000 barrels of crude oil per day directly to the Dangote and other local refineries is a welcome development, estimated to save over US$7 billion in foreign exchange.

Second, intense drive to clamp down on oil theft and vandalism, to bring marginal oil fields into production, and to reactivate dormant wells could raise oil production to the 1.78 million barrels per day assumed in the 2024 Federal budget.

Third, with tax revenues constituting less than 8% of GDP, it is worth repeating that Nigeria urgently needs to fix the structural weaknesses of our tax system. These measures combined with a commitment to reduce the overall cost of governance will dampen fiscal pressures and bolster the effectiveness of monetary policy.

Clearly, it matters that fiscal expectations are anchored. Indeed, our ability to control inflation and influence real economic activity rests fundamentally on fiscal behavior and Nigerian's expectations of appropriate fiscal behavior. Otherwise, the task of monetary policy in controlling inflation and stabilizing real economic activity is much more difficult.

Taking into account the wider context, including the evident hardships in the real sectors of the economy, **I vote for a hold in policy rate at this time.** We must minimize the risk that a further hike could backfire, especially at such a time of increased unemployment, rising poverty numbers, and nationwide protests about declining living standards and the exceptionally high cost of governance.

3. BALA MOH'D BELLO *MON*

Opening Statement
The Monetary Policy Committee held its July 2024 meeting amidst prospects of continued global economic recovery despite lingering risks such as tight global financial conditions, high public debt levels, and sustained geopolitical tensions, all of which have adverse implications for commodity prices and the global supply chain.

Considerations
The global economy has demonstrated remarkable resilience, with steady growth and declining inflation. This trend has reinstated confidence in the effectiveness of coordinated tightening of monetary policy worldwide to dowse price hikes driven mostly by the sharp rise in food and energy prices triggered by various geopolitical events. As a result, most major economies are gradually reaching their inflation targets, and the resilience of global trade amidst worldwide geopolitical tensions is a cause for optimism. These factors, taken together, suggest that global output and inflation are anticipated to continue their stable trajectory in the foreseeable future, a view I share and advocate.

In the light of the foregoing, the Committee broadly appraised its existing policies and their impact on domestic developments since the beginning of the year, with particular focus on its price stability mandate.

Data presented at the July 2024 meeting clearly suggests that the Committee's previous policies are yielding positive results, given the moderating pace of the uptick in headline inflation in recent months. On a year-on-year basis, headline inflation rose at a much slower pace in June 2024 to 34.19 per cent from 33.95 per cent in the previous month. On a month-on-month basis, headline inflation also increased moderately in June 2024, after four consecutive months of decline (between February and May 2024). This development highlights the efficacy of the tight stance of monetary policy as reflected by a cumulative 750 basis points increase in the Monetary Policy Rate (MPR) over the year, upward adjustment in the Cash reserve ratio (CRR) and other administrative policies to help curb inflation.

To consolidate on the gains recorded so far, it is pertinent that monetary policy remains on course with the tight stance to curb monetary-induced inflation while complementary fiscal measures are being explored to stem the hike in food prices – a key driver of headline inflation. Notably, the proposed measures by the Federal Government to bridge the food supply deficit, such as the 150-day duty-free import window for food commodities (maize, husked brown rice, wheat and cowpeas), amongst others, are expected to moderate domestic food price pressures in the short-term as more sustainable initiatives are being pursued by Development Finance Institutions such as the Bank of Industry and the Bank of Agriculture, with focus on supporting small and medium scale enterprises in the agriculture value chain.

Real Gross Domestic Product (GDP) maintained a positive trajectory with 2.98 per cent (year-on-year) growth reported for the first quarter of 2024, compared with 3.46 per cent in the fourth quarter of 2023. This was driven majorly by the services and industry sectors. Staff estimates project that real GDP will grow by 3.10 per cent and 3.22 per cent in the second and third quarters of 2024 respectively, reflecting the impact of coordinated efforts to support and boost output.

It is essential to maintain exchange rate stability to ensure stable prices, given the significant impact of exchange rate pass-through on import prices and inflation**. The central bank has made substantial efforts to stabilize the foreign exchange market, which has led to increased foreign portfolio investment inflow and a reduction in exchange rate volatility.** In addition to current measures being taken by the Bank, medium and long-term strategies are being explored to ensure that the exchange rate settles at a market determined equilibrium level.

In addition, the external reserves increased to US$37.88 billion as of July 15, 2024, from US$34.76 billion as of end-June 2024, a development that will further sustain the current exchange rate stability and narrowed premium across market segments, with positive implications for domestic prices.

A strong and robust financial system also propelled the resilience of the domestic economy. Banking system data presented at the July 2024 meeting, showed stability in broad financial soundness indicators and sustained improvement in asset quality. Of particular interest is the non-performing loans (NPLs) ratio, which declined further to 3.9 per cent in June 2024, compared with 4.8 per cent in April 2024. This reflects improvement in industry risk management practices and implementation of regulatory policies to manage NPLs, such as the Global Standing Instruction policy.

Also, the results of stress tests conducted by staff showed that financial soundness indicators remained above minimum regulatory thresholds under mild to severe shocks. Nonetheless, the Bank must remain vigilant and proactively manage any operational, asset quality and other risks to financial system stability.

Policy Decision

In summary, **recent domestic economic developments present the need for a delicate balance between containing inflationary pressures and maintaining a conducive environment for economic growth.** It is, however, comforting that the growth outlook offers some buffers for a continued anti-inflationary stance as previous and ongoing support for the real sector of the economy works their way through. **Tightening the stance of monetary policy to curb inflation would ensure that exchange rate stability is maintained, the negative real effective interest margin continues to narrow, market sentiment improves, and investor confidence is ultimately restored, all of which would translate to improved economic performance over time.**

Moreso, the deceleration in the rate of increase in inflation suggests that previous tightening policies in the year are gradually yielding positive outcomes. I am, therefore, persuaded that a further increase in the Monetary Policy Rate (MPR), combined with ongoing administrative policies of the Bank, would continuously anchor inflation expectations of economic agents and consolidate the decline in the inflation acceleration rate.

Thus, I vote to increase the Monetary Policy Rate by 50 basis points to 26.75 per cent from 26.25 per cent, adjust the asymmetric corridor around the MPR to +500/-100 basis points from +100/–300 basis points, retain the Cash Reserve Ratio (CRR) for Deposit Money Banks (DMBs) at 45.00 per cent and Merchant Banks at 14.00 per cent while retaining the Liquidity Ratio (LR) at 30.00 per cent

4. BANDELE A.G. AMOO

Having reviewed the empirical developments in both the domestic and international economies since the last MPC meeting of May 26, 2024, I hereby vote as follows:

(a) Raise the Monetary Policy Rate (MPR) by 50 basis points from 26.25 to 26.75 per cent.

(b) Adjust the asymmetric corridor around the MPR to +500/-100 basis points from +100/-300 basis points.

(c) Retain the Cash Reserve Ratio (CRR) at 45.0 per cent for Deposit Money Banks (DMBs) and 14.0 per cent for Merchant Banks.

(d) Retain the Liquidity Ratio (LR) at 30.00 per cent.

My decision is influenced by the following developments.

1 Global Economic Developments

The resilience witnessed in the global economy in the recent past continued in July 2024. This was attained despite heightened geopolitical tensions and higher than 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 per cent in 2024 and 2025 each, (IMF WEO April 2024), consistent with the World Bank (June 2024) projection of subdued global growth at 2.6 per cent in 2024 reflecting the impact of the prevailing restrictive monetary policies on growth and consumption.

Inflation has been decelerating globally and is now approaching the long run objectives of several central banks especially in the Eurozone where inflation is on a clearer downward trajectory towards the set 2.0 per cent threshold in 2024.

Policy rates have, however, remained extremely high compared with the levels seen in the past decade. With inflation declining, however, several central banks are beginning to ease rates or giving indications to do so in the short to medium term. Consequently, some AE central banks including the

Bank of Canada (BoC), the European Central Bank, and the Swiss National Bank (SNB) have begun their rate-cutting journeys while the Bank of England, has given indications of a near-term commencement of monetary easing. The United States Fed has, however, exhibited some caution, given that inflation, even though on the decline, has persisted above its long-run objective.

Global trade is projected to gradually rebound in the third quarter of 2024 and 2025 driven by declining inflation and a fast-recovering US economy. The IMF-WEO projected global trade to grow at 3.0 per cent in 2024 and 3.3 per cent in 2025, a downward revision of 0.3 percentage point compared with January 2024 projections. The Organization for Economic Co-operation and Development (OECD) and the World Trade Organization (WTO) also forecasted an uptick in global trade flows in 2024 (CBN, 2024).

A report by the Organisation of Petroleum Exporting Countries (OPEC) in June 2024 showed that global crude oil supply in the year would remain stable at 2.2 mbpd into the medium term on expectation that non-OPEC countries would ramp up production to offset ongoing production cuts by the OPEC+ countries.

2 Domestic Economic Developments and Outlook

The CBN, World Bank, IMF and FMFBNP projection that the Nigerian economy will expand by 3.38, 3.30 3.30 and 3.88 per cent, respectively in 2024 still subsists. The forecast is predicated on increased crude oil production levels, and the sustained growth momentum in the services sector.

As at end-June 2024, developments in selected macro-economic indicators such as external reserves, current account balance, government finances, balance of trade, crude oil price and production, monetary aggregates, average interest rates, and exchange rates were mixed. While external reserves, current account balance, and balance of trade increased, those of current account balance, government finances, average crude oil prices and production recorded varying levels of decreases.

Available information shows that the banking industry was relatively stable and sound as at end June 2024 given that the solvency and liquidity ratios, amongst other indicators, remained within the set regulatory thresholds. The NPL, CAR and LR remained within the maximum regulatory thresholds.

Data from the NBS reported that the headline inflation rate for June 2024 was 34.19% from 33.95% in May 2024. On an annual basis, the headline inflation rate stood at 11.40% points higher compared with June 2023 which was

22.79%. Food inflation increased by 0.27 percentage point to 40.87% in June 2024 from 40.66% in May. Evidently, data showed that food inflation drives MoM inflation in Nigeria. Core inflation increased by 0.36% to 27.40% in June 2024 from 27.04% in May. On an annual basis, it decreased by 20.06% compared with its level in the preceding year. A further breakdown of the inflation data shows that Food and Non-Alcoholic beverages were the major drivers of both year-on-year and month-on-month Headline inflation, contributing 17.7 and 1.2% respectively.

It is worthy to note that the rate of increase in headline inflation has been declining since February 2024 attributed to the impact of tightening measures and efforts by the MPC and fiscal authorities to subdue inflation. Further moderation in food prices is expected in the coming weeks as the harvest season sets in.

I therefore stress the urgency of addressing inflationary pressures, particularly persistent food inflation, 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 in the food price pressure being experienced.

To address these concerns, the Federal Government recently (May/June 2024) introduced and implemented some measures tagged "Inflation Reduction and Price Stability Fiscal Policy Measures etc) Order 2024" which gave specific tariff waivers on some specific items of food; manufacturing raw materials; agricultural production inputs; pharmaceutical products and poultry feeds; flour and grains for a period of 150-days.

Other measures in "Order 2024" include: authorisation of millers and other specific producers to import paddy rice, raw materials for food, electricity, pharmaceuticals and public transportation at zero duty and VAT for a period of six months to improve production and delivery capacities in those sectors. suspension of taxes and levies for SMEs and further suspension of VAT on diesel (AGO) for six months. A concessionary import duty exchange rate was also granted for such specified imports. These measures are aimed at moderating domestic food prices.

More importantly, the Federal Government has also taken a critical action towards reducing the pump price of petroleum products to the Nigerian market. It has approved and directed the NNPCL to transact all crude oil supply transactions with the local refineries (including Dangote) in Nigerian Naira. The eventual abolition of petroleum imports will further reduce the retail prices of petroleum products in Nigeria which will quickly transmit to moderation of general price levels. We expect the inflation trend to reduce over a short span of time into the third quarter 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 gains in domestic food and aggregate goods production/output.

3 My Concern

Fiscal developments so far in Nigeria have heightened my recourse to pro-market approach to economic management. Given the afore-mentioned issues, 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 in the Nigerian economy.

Expectedly, I believe that moderate tightening (50bps increase in MPR) is significant now, as it allows previous hikes to permeate the economy, aiming to rein in rising inflation. However, I am not unaware 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. I believe that the expected net positive impact of the staggered reforms so far under implementation will assist Nigeria to relatively contain inflationary pressure and improve the inflow of foreign investment (portfolio and direct), amid strong domestic growth potential.

The ongoing structural and policy reforms in Nigeria will continue yielding positive outcomes and mirror the impact of the base effect. While I greatly commend the efforts of the fiscal authorities that complemented the restrictive monetary arena started by the Committee in the past few months, I believe the positive reaction will continue on other outstanding issues. Other areas of concern include curbing smuggling activities, reduce social insecurity, improve legal system and administration, reduce aggregate food supply deficit, improve income inequality and administer efficient social safety nets over time. 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

In the period under review, global geopolitical risk, occasioned by heightened tensions in the Middle East and Eastern Europe, persisted with attendant global and domestic macroeconomic impact.

Notwithstanding, however, global economic activities expanded, though at a slower pace, driven by moderate expansion in both the manufacturing and services sectors. Generally, inflation tended to converge towards central banks' targets in the advanced and emerging markets & developing economies, although the deceleration in inflation rates across economies varied and was generally slower-than expected. Consequently, monetary authorities in major economies have maintained high policy rates, taking into cognisance the outlook for medium-term price development and financial conditions.

Global financial conditions eased in the review period, despite yields trending northwards, buoyed by higher corporate earnings and lower external financing risks. Though capital flows to emerging markets and developing economies rose in the review period, high U.S. interest rates tempered the outlook for such flows. According to the IMF, the projection for global growth remained optimistic, as the global economy is expected to remain resilient, however, at varied momentum across regions, due to recovery in trade.

Domestic Developments

On the domestic front, year-on-year inflation inched up, although at a decreasing rate, driven largely by persisting effects of food inflation, which is not unconnected with the consequences of age long rural-urban drift, climatic factors (flooding), security and infrastructural challenges, which have culminated in low agricultural output. Rising energy prices, high exchange rate pass-through and pessimistic inflation expectations also contributed to exacerbating the inflationary trend. Furthermore, liquidity level increased in June 2024, occasioned by high seasonal demand.

Economic activity improved during the review period, driven by fiscal discipline/operations and consumer demand for services. Particularly, crude oil production rose, buoyed by increased investment and reduction in theft and pipeline vandalism. Activities in the services sector also expanded due to improving consumer demand. Expansionary fiscal operations, particularly around infrastructural development, played a key role in supporting economic activities, though constrained by the tight fiscal space, debt dynamics and inflationary pressure.

Moreso, while the financial system remains resilient as indicated by several financial soundness indicators and scenario-based stress-tests, threats emanating from FX revaluation might ensue, necessitating the need to contain exchange rate fluctuations and negative inflation expectations.

From an outlook perspective, the domestic economy remains cautiously optimistic as growth is expected to expand in the near term. This assumption is predicated on the implementation of the minimum wage, enhancement of the fiscal space through the issuance of FCY-denominated debt instruments, and other welfare-enhancing policies of the monetary and fiscal authorities yielding sectoral gains.

The outlook for the external sector also remains optimistic on the account of favourable crude oil prices, increased domestic oil production, and expansion of the sector value chain through the operationalisation of the Dangote and Port Harcourt refineries.

Risks to this outlook remain elevated, stemming largely from the likelihood of escalating geopolitical tensions, potential shift in US foreign policy due to the forthcoming Presidential elections and the increasing risk of climate change. All these factors collectively pose significant risks to the domestic economy.

While I reckon that rising inflation has eroded real income of economic agents and dampened economic activity, it is imperative to anchor inflationary expectations and most importantly enhance policy coordination with the fiscal authority to avoid divergent objectives. I am also aware that strengthening the naira is essential to achieving price stability. Thus, narrowing the negative interest rate gap and making domestic assets attractive to foreign investors will facilitate exchange rate and price stability.

2.0 My Decision

While striving to attain price stability, I'm aware of the potential short-term impact of tight monetary policy on borrowing costs, economic growth, and financial stability. However, the opportunity costs of de-anchoring inflation expectations and leaving inflation unchecked pose a more significant risk to long-term economic performance and the stability of the financial system.

Thus, consequent upon the above factors and outlook for both the global and domestic economies, and in line with the Committee's commitment to price stability to improve the well-being of the Nigerian citizenry, I voted to:

I. Raise the MPR by 50 basis points to 26.75%, to narrow the negative interest gap and attract more capital inflows to stabilize the naira exchange rate.

II. Adjust the asymmetric corridor to MPR +500/-100 basis points from MPR +100/-300 basis points.

III. Retain the CRR for Merchant banks and Commercial banks at 14% and 45%, respectively; and

IV. Retain the LR at 30.0%.

6. LYDIA SHEHU JAFIYA

The July 2024 MPC meeting held against the backdrop of modest global economic growth, and inflation moving towards central bank targets in Advanced Economies and Emerging Market and Developing Economies (EMDEs), resulting from tight financial conditions associated with disinflation process. While current growth rates are in line with expectations, some signs of moderation are emerging, particularly in EMDEs as deepening geopolitical tensions and tight financial conditions remain major challenges. The IMF World Economic Outlook (WEO) for July 2024, has forecast global growth at 3.2 per cent in 2024 and 3.3 per cent in 2025, driven by stronger than expected resilience in the Advanced Economies and some Emerging Markets and Developing Economies, particularly in the US, China and India.

Inflation continues to reduce globally, on account of strong commitment by central banks to price stability and lower inflation expectations. Indeed, for most Advanced Economies and EMDEs, inflation has started to move towards their long run targets, but at a slower pace than earlier predicted. Accordingly, the IMF-WEO of July 2024, projects global inflation to decline to an annual average of 5.9 per cent in 2024, reflecting moderation in energy and goods prices, and supported by easing supply-chain disruptions and decline in Chinese export prices. While significant risks of geopolitical tensions continue to create inflationary pressures, especially in EMDEs, global inflation is forecast to moderate to 4.4 per cent in 2025.

Although inflation is moderating in many Advanced Economies, central banks may remain in a tightening mode in the near term, with adverse implications for capital flows to EMDEs.

International trade is expected to grow to 3.1 per cent in 2024 and 3.4 per cent in 2025. The projection is premised on sustained growth in output in the Advanced Economies and EMDEs, as well as further moderation in inflation and the normalization of monetary policy. Downside risks to the outlook include the spill over effects of geopolitical tensions on supply chains and trade routes.

THE DOMESTIC ECONOMY

On the domestic front, Real GDP (year-on-year) remained positive, growing by 2.98 per cent in Q1 2024 compared with 3.46 per cent in Q4 2023 and 2.31 per cent in Q1 2023. Non-oil GDP maintained an impressive contribution to real GDP on account of fiscal measures that improved revenue collection and trade facilitation. Oil GDP increased for the second consecutive quarter due to improved crude oil production. Overall, the outlook for the economy suggests that output is projected to grow by 3.10 per cent in Q2 2024.

Headline inflation (year-on-year) increased to 34.19 per cent in June 2024 from 33.95 per cent in May 2024, driven by both the food and core components of the index. It is noteworthy however, that the rate of increase in headline inflation decelerated further in June 2024. A breakdown of the components of the Headline index reveal that food inflation (year-on-year) increased to 40.87 per cent in June 2024 from 40.66 per cent in May 2024, while core inflation (year-on-year) rose to 27.40 per cent in June 2024 from 27.04 per cent in May 2024.

On the external sector front, foreign exchange inflows improved by 38.26 per cent (month-on-month), between April and May 2024, driven by increased receipts of oil and non-oil proceeds. Gross external reserve position at end-June 2024 could provide 7.59 months cover of import of goods and services and 10.88 months cover of import of goods. The foreign exchange market also witnessed relative stability and convergence of rates.

Despite current macro-economic challenges, the banking industry remained sound, as Financial Soundness Indicators (FSIs) were within their regulatory provisions.

CONSIDERATION FOR VOTING

The Nigerian economy continues to face high and persisting inflation. The Monetary Policy Committee (MPC), in response, has remained steadfast in deploying orthodox monetary policy tools to address the rising spate of inflation. Since February 2024, the Committee has raised the Monetary Policy Rate (MPR) by a cumulative of 750 basis points to contain the inflationary pressures. While inflation persistence may seem that the tightening stance of policy has not had impactful effect on domestic price developments, the counterfactual is that in the absence of the tight policy regime, inflationary pressures could have been a lot worse. For instance, while inflation remains elevated, the magnitude of increase in the rate decelerated in the last couple of months. Similarly, the foreign exchange market has witnessed relative stability in the recent past, as indicated by the narrowing spread in different segments of the market, driven by the efficiency of the market mechanism in foreign exchange allocation and price determination.

I am of the view that the current inflationary trend is propelled by a mix of monetary and structural factors. Hence, there is a need to implement an optimal policy blend that combines demand management and supply-side enhancement measures to stabilize the general price level and boost economic growth.

In addressing food inflation, the fiscal authority has initiated robust short and medium term non-inflationary measures to ramp-up food supply and accommodate demand pressure. Amongst these are: 150-day duty free import window for food commodities particularly (maize, husked brown rice, wheat, and cow peas) and importation of 250,000 metric tonnes of wheat and 250,000 metric tonnes of maize in their semi processed form for supply to small scale processors and millers. Other measures include stakeholder engagements to set Guaranteed Minimum Price and facilitate storage of excess supply in the National Strategic Food Reserve.

Furthermore, ongoing investment in the transport infrastructure (CNG vehicles), energy and power sector projects, including investments in oil and gas and national grid electricity projects are expected to reduce transportation costs, and increase energy supply to households and businesses, amongst others. I am confident that these fiscal interventions would lead to domestic price moderation and spur growth momentum in the near to medium term.

Whilst not being insensitive to the role a sustained tightening policy measure could play in anchoring inflationary expectations in the current circumstance; considering that monetary policy affects economic activity and inflation with a lag and taking note of the robust policy measures by the MPC since February 2024, I feel that a rate hike at this time may not be essential.

I, therefore, voted at this meeting to retain the MPR and other policy parameters at their extant levels to enable the observation of previous monetary policy actions as they work their way through the economy.

7. MUHAMMAD SANI ABDULLAHI

My Vote

The challenging inflationary environment leading to this meeting remains within the contemporary context. The previous three meetings have revealed our strong resolve to rein in inflationary pressures through a cumulative policy rate hike of 750 basis points. We are already seeing some positives as the trajectory of inflation is becoming flatter, suggesting that we are on the right path. This notwithstanding, we are yet to reach the turning point as inflation appears not to have plateaued, suggesting that the challenges are deep-rooted in global uncertainties and domestic structural issues. Consequently, I am constrained to aver that the option at this meeting is significantly restricted to remaining in tightening mode to ensure that the subsisting gains are not eroded. Given the tough policy environment and the need to allow the impact of the transmission lag from the three previous rate hikes to filter through the system, I am convinced that a moderate hike will be a sufficient response at this time, to not only signal our resolve, but also be consistent with our avowed commitment to subdue inflation. Staying true to this commitment, complimented with a further adjustment of the asymmetric corridor is essential to ensure that rates in the interbank market respond appropriately to signal the Bank's policy stance. I have no doubt that this is a pragmatic consideration.

Therefore, at this meeting, I voted to:

1) Increase the MPR by 50 basis points to 26.75 per cent from 26.25 per cent.
2) Adjust the asymmetric corridor to +500/-100 basis points from +100/-300 basis points around the MPR.
3) Retain the CRR for Deposit Money Banks 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

At previous meetings of the MPC, I was assertive that the inflationary tailwinds were far from clear, and that the operating economic and policy environments were challenging. I also restated our resolve to tirelessly engage appropriate monetary policy instruments to address these inflationary concerns. The MPC was unequivocal in providing clarity regarding the major drivers of headline inflation in Nigeria. We identified some binding constraints to domestic food production and other factors that shape Nigeria's inflation trajectory. Notwithstanding the lag in the transmission of our previous actions which resulted in the policy rate hike of 750 basis points between February and May 2024 to address inflationary concerns, our

commitment to the inflation fight remains sacrosanct, and encouraged by the slowdown in the rate of increase across all measures of inflation. Even though the rate of increase in headline halved between February and May 2024, we are clearly not yet where we want to be as the pressures remain. The June 2024 inflation data released by the National Bureau of Statistics (NBS), revealed that year-on-year headline inflation inched higher albeit at a slower pace (0.24 basis point) to 34.19 per cent from 33.95 per cent in May.
The renewed focus of the fiscal authorities in deploying non-monetary measures to curb domestic food inflation will complement the Bank's current efforts to a very significant extent. Ramping up domestic food production, however, remains key to moderating headline inflation. To achieve this, the improvement in security around the food producing belts should be complemented with deliberate actions by local government authorities towards the revamping of or establishing farm settlements to galvanise the resources of smallholder farmers and gender groups through the provision of basic amenities. This would strengthen food production at the subsistence level and for families as well as minimize the national food deficit.

On a positive note, the extreme swings in capital flows which has long been a cause for concern because of the potential risks to macroeconomic and financial system stability have moderated as a result of previous actions by the MPC. We have observed significant influx of foreign investment and other inflows in volume and composition from February to June 2024. This response clearly indicates the growing confidence in the Nigerian market and the belief that the risks of capital flow reversals may have waned.

The recent deceleration in inflation was disrupted by the June uptick albeit at a slower pace, highlighting the persistent nature of inflationary pressures. A combination of monetary and other structural factors have been identified as the factors at work in explaining Nigeria's inflation dynamics. Inflation remained high in June 2024 at 34.19 per cent, 40.87 per cent and 27.40 per cent for headline, food and core components, respectively. Food inflation persists due to supply chain disruptions, impact of climate change, insecurity and other lingering challenges in the sector. The increase in the core inflation index in June 2024 was not unexpected because of higher transportation costs and exchange rate pressures. Regarding food inflation, it is expected to moderate as we approach the 2024 harvests season and as security improves around the food belts of the country.
Rising food, transport and energy prices and the challenges faced by farmers in food producing regions in Nigeria, remain the key risks to inflation outlook.

Reflecting the need for economic growth, one thing is clear, reducing inflation remains a top priority in ensuring that inflation expectations stay well-anchored to allow for investment and sustained economic growth. Thus, the Bank's response must be geared towards deliberate measures to ensure a stable naira in view of the exchange rate passthrough to domestic prices and support access to affordable credit.

As the fiscal operations of the FGN resulted in a higher deficit, 4.0 per cent of GDP in June 2024, expectations of a quick turnaround in the fiscal deficit may be deferred against the backdrop of the planned fiscal stimulus package by the FGN and the implementation of a new minimum wage. Monetary policy must stand ready in order not to be presumptively ineffective in addressing inflation concerns as the new policies may necessitate recourse to borrowing and a rise in interest payment. Nonetheless, continued fiscal retrenchment, improved oil production, and enhanced revenue receipts are positive signs for the economy and could moderate the likely impact of this development and the overall fiscal outlook for 2024.

Regarding inflows, our recent decisions have been very instrumental in rendering significant outcomes and providing the needed support for exchange rate stability and market efficiency which remains the big push for price stability. Our inflows doubled during the first quarter of 2024 compared with the corresponding period in 2023. encouraging inflows maybe a priority, we are optimistic that improvements in local refining capacity will support measures to spur foreign exchange savings.

Economies within the emerging markets group 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

The IMF WEO update for July 2024 showed that global growth would continue to remain positive in 2024 and 2025, though subdued, reflecting the broadly restrictive monetary policy. Global growth is forecast at 3.2 per cent in 2024 and 3.3 per cent in 2025. Growth is projected to expand to 1.7 per cent in 2024 in the Advanced Economies before rising to 1.8 per cent in 2025, reflecting stronger than expected output in the US and other large economies. Growth in the Emerging Markets and Developing Economies is, however, expected to remain at 4.3 per cent apiece in 2024 and 2025, despite the expected mixed performance across the various regions. Growth in EMDEs is susceptible to shocks arising from rising energy prices, exchange rate pressures, labour market friction, and socio-political crisis. Thus, the recovery in the EMDEs is expected to progress moderately with China and India leading the pack with output growth at 5.3 and 7.8 per cent, respectively, in the first quarter of 2024.

Driven majorly by the services sector which recorded a growth of 4.32 per cent in Q1:2024, Nigeria's gross domestic product (GDP) expanded (year-on-year) by 2.98 per cent in Q1 2024 compared with 3.46 per cent in Q4 2023, indicating that the economy remains on a growth trajectory. Services contributed 58.03 per cent to aggregate GDP in the first quarter of 2024. The oil sector also showed improvement in June as it grew by 2.4 per cent to 1.28mbp from 1.25mpbd in the month of May due mainly to increased production from various terminals because of improved security around oil infrastructure.

The negative output gap of -6.18 per cent in Q1 2024 is expected to narrow towards the end of the year based on GDP growth projections. The Composite Purchasing Managers Index (PMI) improved slightly to 48.8 index points in June 2024, from 46.0 index points in May 2024. Agriculture and industry PMI contracted, while services PMI expanded during the period.

Nigeria's external sector has remained resilient with the current account posting a surplus of US$2.66 billion or 5.82 per cent of GDP in Q1 2024 on account of a surplus in the goods accounts, and current transfers (remittances and grants).

The trend of financial soundness indicators shows that overall, the financial system remains liquid, sound, and safe as the industry Non-performing Loans (NLs), remain below the prudential maximum of 5 per cent. It decreased slightly to 3.9 per cent in June 2024 from 4.1 per cent in December 2023 attributable to the impact of the depreciation of the naira. It is expected that the recently announced banking system recapitalization will propel Nigerian banks to be better positioned to contribute to the real sector growth and financial inclusion agenda.

Overall, the balance of risks necessitated a cautious but firm approach to monetary policy. My vote for a moderate increase in the policy rate along with adjustments to the standing facility corridor, will signal an unwavering commitment to fight inflation and stabilize the economy.

8. MURTALA SABO SAGAGI

Context

The transition of the CBN from Heterodox monetary policies to the current orthodoxy regime was deliberate and not prescriptive. This bold effort became necessary in view of the inflationary and distortive outcomes of the previous government's excessive interventions which were believed to be poorly managed. The massive injection of the naira into the economy through ways of means totaling 22.7 trillion in 2023 created unprecedented economic dislocation. With the eventual free fall of the naira after the removal of fuel subsidy and the deregulation of exchange rates, the CBN had limited options but to embrace conventional monetary policy tools to ensure price and exchange rate stability and restore domestic and international confidence in the economy. Indeed, the actions taken by the MPC from February 2024 have moderated the exchange rate and month-on-month Headline inflation rate had decelerated in the last four months.

While the tight monetary stance of the Bank is yielding positive results, market imperfections and market failures abound and can lead to unintended outcomes in terms of distortions in resource allocation leading to sub-optimal performance of the conventional policies deployed, especially in the face of fiscal dominance. Therefore, an alignment of monetary policies with fiscal interventions is critical in sustaining the CBN's consistent efforts to attain macroeconomic stability. This is more so because improvements in government expenditure, interest rate, inflation, exchange rate, money supply and export could fast track economic growth in Nigeria. Achieving a balanced approach, however, remains a challenge because the dynamics and unstable nature of the Nigerian economy make conventional tools less effective and modelling solutions particularly difficult. Nevertheless, constant evaluation of policy actions to determine effectiveness in terms of outcomes and impact on the general economic health of the country should inform policy decisions.

Global and Domestic Economic Environment

The global economy is showing signs of resilience and recovery. The massive injection of funds into economies by various countries in response to the COVID-19 pandemic and heightened regional conflicts induced volatilities and disruptions which, in turn, fueled global inflation. Recent estimates have shown relative easing in global inflation and thus projected to continue its downtrend from 6.6% in 2023 to 5.9% in 2024 (IMF, 2024). This was mainly as a result of sustained tight monetary stance by central banks and fiscal measures to stabilize global supply chains. A more promising projection by the World Bank (2024) shows that global inflation will drop to 3.5% in 2024. The projected ease in inflation has encouraged many central banks to halt tight monetary regimes and, some countries, have started bringing down rates. Global economic growth projections remain at 3.2% (IMF, 2024). The outlook for the global financial market is also positive as policy rates begin trending downwards and growth potentials appear realistic. For the Emerging Markets and Developing Economies (EMDEs) there are signs of inflation moderating mainly due to the reduction in energy and food prices. Also, output in EMDEs is expected to grow by 4.1% in 2024. In the Sub-Saharan Africa, economic growth is expected to rise from 3.4% in 2023 to 3.8% in 2024 (IMF, 2024). However, potential disruptions in economic activities in Kenya and Nigeria are envisaged due to the public pushback on government economic reform policies.

In Nigeria, headline inflation increased to 34.19% in June 2024 driven by continued upward pressure mainly from food prices. Real GDP growth is projected at 3.10% and 3.22% for Q2 2024 and Q3 2024 respectively. The projected growth, however, is insufficient to generate enduring wealth considering the population growth rate of 2.42% (WPR, 2024) and unemployment rate of 5.0% (NBS, 2023). Remarkably, the exchange rate is gradually stabilizing and the naira regaining its value with an appreciation of 0.85% recorded in June, 2024. In addition, the convergence of rates at the parallel market and the Nigerian Autonomous Foreign Exchange Market (NAFEM), has reduced the risk of arbitrage substantially, enabling domestic productivity to improve.

Major Considerations

1. Positive global economic outlook: There are indications of reduced global risks to the Nigerian economy increasing the possibility of its inflation moderating in the short to medium term.

2. Positive domestic economic outlook:

a. Inflation is projected to moderate to 26% by the end of 2024 (Augusto & Co, 2024).

b. Real GDP growth will reach 3.22% in Q3, 2024 and the external reserve has increased to US$37.91 billion in July (CBN, 2024).

c. Debt-service- to-revenue ratio improved to 74.3% (N1.3 trillion) in QI, 2024 lower than 149.5% (1.97 trillion) in Q1, 2023 (CBN, 2024).

d. Windfall tax is likely to support budget implementation without recourse to excessive borrowing.

3. Positive Investor confidence: Beside rates, investors are cognizant of Nigeria's high investment potential made possible by its teeming youth population (15-35 years) estimated by the National Youth Survey, 2020, at 95,315,144, nearly 50% of the total population; emerging creative industry; natural resource endowment; resilient informal sector; and improved macroeconomic governance. With coordinated investment promotion efforts, Nigeria's investment diversification is feasible in the medium term.

4. Planned and on-going Economic stimulus initiatives: in response to worsening food crisis, increasing cost of living and cost of doing business, and deteriorating purchasing power of the citizens, the FGN is intervening to restore growth and improve welfare. To this end, $1.3 billion has been earmarked to boost agriculture, energy, health and social welfare; palliatives distribution, tax relief and tariff waivers granted to certain businesses and sectors; as well as granting financial autonomy to local governments to spur growth, especially in rural communities, among others. The cumulative effects of fiscal interventions would result in significant recovery in the economy.

5. Planned increase in ways and means: the FGN increased ways and means from 5% to 10%. This is likely to increase the government appetite to spend more, thereby generating excess liquidity.

6. Weak policy coordination and policy transmission mechanism: assessments by BMI (2024), Fitch ratings, (2024) and Augusto & Co, (2024) indicated systemic gaps in policy coordination and institutional mechanisms to transmit the monetary policy thereby limiting the potency of continued rate hikes to tame inflation in Nigeria. Instead, persistent rate hikes engender high borrowing costs, heighten credit risks and limit lending to the real sector.

Conclusion

The last three MPC meetings have consistently raised rates in addition to adjusting the Asymmetric Corridor around the MPR with the aim of mopping up excess liquidity in the banking system. An evaluation of the outcome of the sustained monetary tightening is instructive at this stage. Recent experiences in developed and developing countries suggest that improved policy coordination will help achieve a good mix of orthodox and heterodox policies to achieve stability and fast track inclusive growth. This suggests that efforts aimed at reducing excess liquidity should extend beyond rate hikes. By so doing, the Bank's tight monetary stance can be sustained, investor confidence enhanced and the flow of finance to the real sector achieved. The CBN, as a critical economic manager, is in a unique position to lead towards achieving a balance between price stability and forging partnerships to boost the local economy in view of the positive global economic outlook and the renewed hope summarized by the Agusto & Co (2024) as "Nigerian economy is unlikely to be as poorly managed in the next four years as it was in the previous eight."

My Vote

I vote to:

- Retain the Monetary Policy Rate (MPR) at 26.25%
- Adjust the Asymmetric Corridor around the MPR to +500-100 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

To increase the effectiveness of monetary policy in taming inflation, stabilizing exchange rates and enhancing productiveness of the economy, the following are proposed:

I. **Reform NNPC:** Immediate overhaul of the NNPC is instructive to reduce inefficiencies and enhance inflows to stabilize the exchange rate.

II. **Ways and Means Advances:** FGN to consider reversing its decision to increase ways and means to promote fiscal discipline and improve investor confidence.

III. **Stimulus package to MSMEs:** The problem of Nigeria is production not necessarily consumption. The CBN and Fiscal authority should develop a common approach to channeling funding to small businesses to fast track growth and job creation in a manner that would curtail excess liquidity.

IV. **Investment promotion**: the FG and the Bank should develop a holistic framework for engaging, attracting and facilitating investments in high potential sectors.

V. **Replenish food strategic reserve**: in view of the fast-approaching harvest season, the need to restock the country's strategic reserve is paramount. This should be complemented by working with supply chain actors to discourage hoarding and unregulated exports of staple food items.

VI. **Infrastructure:** Fast track the completion of on-going rail projects to enhance efficiency in the supply chain thereby reducing cost of food in the country.

VII. **Export promotion:** to rapidly remove binding constrains to exporting made-in-Nigeria products.

9. MUSTAPHA AKINKUNMI

Context

Recent indicators suggest that the tightened measures implemented in previous meetings are beginning to yield positive results. This is evidenced by the moderation in the rate of increase in inflation. While farm produce has increased, there is an increased trend of cross-border trade of farm produce with neighboring countries, made attractive by the weak naira. In the domestic market, however, the exchange rate has effectively converged across various market segments, thus moderating the opportunity for naira arbitrage. Although the Naira depreciated just before the July MPC meeting, it has since gained value as of the time of writing of this statement.

In light of the above and the proposed expansionary fiscal policy, I supported a marginal increase in the Monetary Policy Rate (MPR) and proposed tightening the asymmetric corridor.

The Global Economy

The global economy is projected to grow by 3.2 per cent in 2024 and 3.3 per cent in 2025, bolstered by resilience from major advanced economies and fiscal support from China. Advanced economies are expected to grow by 1.7 per cent in 2024 and 1.8 per cent in 2025, driven by stronger-than-expected growth in the US, which will offset weaker growth in the Euro Area. However, the key driver of global growth will be emerging markets and developing economies (EMDEs), projected to grow by 4.3 per cent in both years, mainly due to robust growth in India and moderate performance in China.

In the US, real GDP grew at an annual rate of 2.8 per cent in Q2 2024, exceeding the 2.1 per cent forecast, following a 1.4 per cent rise in Q1 2024, driven by increased consumer spending and business inventories. Similarly, the European economy grew by 0.4 per cent in Q1 2024 compared to 0.2 per cent in Q4 2023, aided by wage-induced private consumption. The UK economy emerged from recession with 0.2 per cent growth in Q1 2024, reflecting strong expansion in the service sector. In contrast, Japan's economic growth fell to 0.2 per cent in Q1 2024 from 1.2 per cent in Q4 2023 due to reduced consumer spending driven by high living costs and sluggish wages.

In 2024, growth in the advanced economies will be led by the US at 2.6 per cent, the Euro Area at 0.9 per cent, Japan at 0.7 per cent, and the UK at 0.7 per cent.

In the EMDEs, China and Ghana had economic expansions of 5.3 per cent and 4.7 per cent, respectively, in Q1 2024. China's annual growth dropped to 4.7 per cent in Q2 2024 due to a persistent property market downturn and weak domestic demand. India, Kenya, Nigeria, and South Africa experienced declines in their growth rates to 7.8, 5.0, 2.98, and 0.5 per cent, respectively. Nonetheless, strong growth is expected in EMDEs, with growth in India and China in 2024, projected at 7.0 and 5.0 per cent respectively. Nigeria is expected to grow by 3.1 per cent, driven by improved oil and agriculture outputs and improved security. Capital inflows into emerging markets increased significantly to US$16.1 billion in June 2024 from US$5.5 billion in May.

While the synchronized rate hike cycle in the advanced economies has been paused global inflation is expected to decline as policy rates within this group of economies remain broadly elevated. The IMF forecasts global inflation at 5.0 per cent in 2024 and 4.5 per cent in 2025, down from 5.2 per cent in 2023. Inflation in the advanced economies is projected at 2.7 per cent in 2024 and 2.1 per cent in 2025. However, inflation risks could rise due to ongoing conflicts in Europe and the Middle East. In the US, inflation moderated to 3.0 per cent in June 2024 from 3.3 per cent in May 2024, due to declines in shelter, gasoline, and air transport prices. Eurozone inflation dropped to 2.5 per cent, while in Japan and the UK inflation remained at 2.8 per cent and 2.0 per cent, respectively.

In the EMDEs, inflation is expected to remain at 8.3 per cent in 2024 before declining to 6.2 per cent in 2025, driven by anticipated decline in food and energy prices supported by continued monetary tightening. Inflation in China decreased to 0.20 per cent in June 2024, while in India, it increased to 5.08 per cent. In South Africa, inflation remained steady at 5.1 per cent in June 2024, while it declined to 4.60 and 22.80 per cent in Kenya and Ghana, respectively. In Nigeria, however, inflation rose, at a moderated pace, to 34.19 per cent in June 2024.

The Domestic Economy

High inflation remains an obstacle to robust economic growth in Nigeria. Annual real GDP declined to 2.74 per cent in 2023 from 3.10 per cent in 2022. Additionally, the country's growth rate recorded a weaker-than-expected 2.98 per cent in Q1 2024, compared to 3.46 per cent in Q4 2023, driven mainly by the services sector, which accounted for 58.04 per cent of GDP. While the services sector grew by 4.32 per cent in Q1 2024 compared with 3.98 per cent in Q4 2023, the agriculture and industry sectors witnessed declining growth. Factors such as rising prices, exchange rate pressures, and increasing energy costs contributed to this weaker-than-expected growth.

Headline inflation in Nigeria rose to 34.19 per cent in June 2024 from 33.95 per cent in May 2024. This increase was mainly driven by food supply deficits caused by a weak naira, which increased neighboring countries' demand for Nigerian agricultural produce and ongoing insecurity in farming communities. This is compared with South Africa's 5.1 per cent, India's 5.08 per cent, and Russia's 8.6 per cent inflation rates. Year-on-year food inflation in Nigeria, increased slightly from 40.66 per cent in May 2024 to 40.87 per cent in June 2024.Month-on-month core inflation also rose, due to the rising price index of processed food, driven by security challenges, infrastructure constraints, high farm input costs, and seasonal factors.

The naira depreciated to N1,605.50 on July 19, 2024, from N1,525.00 on June 28, 2024. Gross external reserve stood at US$34.88 billion as of June 2024, projected to be about US$32.93 billion at the end of May 2024. This reserve could cover imports for about 11 months of goods and about 8 months of goods and services.

Crude oil production in Nigeria increased slightly to 1.28mbpd in June 2024 from 1.25mbpd in May 2024, attributed to reduced oil theft and increased output from Qua Iboe and Erha terminals. However, production remains below the OPEC quota of 1.58mbpd. Government revenue performance remains below target, with total FGN retained revenue at N2.87 trillion as of April 2024. The fiscal deficit was N3.01 trillion as of April 2024, 0.7 per cent below the budget projection. Nigeria's debt-GDP ratio increased from 41.5 per cent in Q4 2023 to 51.2 per cent in Q1 2024, with external debt constituting 46.1 per cent of the public debt stock.

Decision

Nigeria's public debt-to-GDP ratio has risen to about 53 percent, surpassing the sustainability threshold of 40 percent, primarily due to exchange rate depreciation. The debt service burden now consumes approximately 56 percent of tax revenues, exceeding the 30 percent threshold.

The country's monetary policy aims to contain inflation, strengthen real income and improve household welfare as well as boost foreign investment inflows. The 2023 introduction of the willing buyer/willing seller model in Nigeria has significantly narrowed the spread in the exchange rates, thus enhancing transparency in the foreign exchange market.

In view of the above developments and their likely impact on the domestic economy, I voted to increase the Monetary Policy Rate (MPR) by 50 basis points to 26.75% and to tighten the asymmetric corridor around the MPR to +500/-100 from +100/-300. Consequently, the CBN's Standing Lending Facility (SLF) rate stood at 31.75% and the Standing Deposit Facility (SDF) rate at 25.75%. In joined my colleagues to emphasize our commitment to price stability, noting the adverse impact of high inflation on household welfare and economic activities.

10. PHILIP IKEAZOR

In view of the need to consolidate the gains of the previous rate hikes, considering the continued uptick in the general price level, I was of the view that the only way forward to rein in inflation would be to stay on course with the rate hike cycle, albeit moderately. I thus voted as follows:

1. Raise the MPR by 50 basis points to 26.75 from 26.25 per cent.
2. Adjust the Asymmetric Corridor around the MPR to +500/-100 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 trajectory of the global economic recovery is projected to be stable but sticky in line with the April 2024 forecast, at 3.2 per cent in 2024 and 3.3 per cent in 2025, driven by the persistence in services inflation. According to the IMF, services inflation is constraining disinflation, thereby complicating the normalization of monetary policy and the upside risk to global inflation.

Though inflation continues to decelerate, the slowdown in its momentum is an indication that monetary authorities will unlikely achieve the price stability objectives of monetary policy in the medium term. As such, the prospects of ending the global tightening cycle might be longer than initially projected.

In all, and unlike in the first quarter of 2024, central banks are now cautious in their approach to monetary easing, due to the persistent elevated uncertainty around the inflation outlook, especially in major advanced economies. Amidst escalating trade tensions and increased policy uncertainty, addressing the challenges, therefore, requires a carefully selected approach to policy sequencing to achieve the objectives of low inflation and stable growth.

In the domestic economy, the outlook for growth remains positive, even as the IMF revised the 2024 growth projection downwards by 0.2 percentage point to 3.1per cent, from the initial projection of 3.3 per cent. This revision was hinged on the continued inflationary pressure and the slower-than-expected growth in real domestic output in Q1-2024 compared with Q1-2023.

In Q1-2024, real gross domestic product, grew by 2.98 per cent, 0.67 per cent higher than the growth recorded in the corresponding quarter in 2023, and 0.49 per cent less than the growth recorded in Q4-2024, driven by the higher-than-expected 114.35 per cent growth in metal ores and the continued dominance of the services sector.

To further propel growth and slowdown the general price level, the fiscal authority is currently executing a short-term stimulus plan. Under the accelerated stabilization and advancement plan (ASAP), about N2 trillion is expected to be injected into the economy over the next 6 (six) months to set the economy path to long-term recovery. The focus of this intervention is on critical areas like agriculture, health, and energy – all of which are key drivers of non-core inflation.

Globally, a windfall tax is becoming a promising tool to curb inflation, dampen the effects of the cost-of-living crisis on lower-income households without shifting the tax burden. In line with the global trend, the amended Finance Act 2023 provided for the imposition of a Windfall Tax of 70.0 per cent on bank's foreign exchange revaluation gains from the favourable foreign exchange market condition. In furtherance of the fiscal consolidation plans, the FGN introduced a 150-day window for duty-free importation of food commodities; in addition to the proposed importation of 500,000 MT of wheat and maize under a price control system to boost domestic supply of staples and curb food inflation.

Inflation year-on-year at end-June 2024 stood at 34.19 per cent, up from 33.95 per cent at end-May driven primarily by food inflation. While there is a marginal increase in all the metrics of inflation, the tight monetary policy stance of the Bank has contributed significantly to decelerating the inflation momentum, signaling a foreseeable turning point in the near term. The projection by the CBN, IMF and the World Bank also supported a favourable near-term outlook for inflation.

My Considerations

Fiscal injections arising from short term fiscal stimulus and other government fiscal obligations, commodity and energy prices, exchange rate depreciation and the associated pass-through, are binding constraints on the moderation of the aggregate price level. These are complex factors; and to keep inflation under control, we need to maintain a tight stance, in addition to the deployment of administrative tools, to signal to the market our commitment to ensuring stable prices. Moreover, it is important to consolidate on the gains of the previous hikes to continue to address the challenges posed by system-wide liquidity.

Nonetheless, it is important to note that some of the recent policies by the fiscal authority, especially the stimulus policy, will rein in both the expected and actual food inflation, especially in the short run. In the spirit of monetary-fiscal policy coordination, monetary policy is under obligation to support these fiscal initiatives by deploying its policy tools to optimize the expected benefits. In the present circumstance therefore, aggressive tightening could negatively affect the redistributive effects of the policies that the fiscal authority intend to use to complement the instruments of monetary policy, to effectively dampen food inflation.

In deciding whether to raise the policy rate and to what magnitude, I was not oblivious of the fact that stimulus policies that have elements of passthrough to inflation are usually spiral in nature. On one hand, food importation and the temporary removal of the customs duties on imported food will boost domestic supply, discourage further hoarding of food because of its expected and actual disinflationary effect. On the other hand, its impact on the depreciation of the domestic currency, due to an increase in foreign exchange demand, could spike pass-through to inflation. The overall effect, therefore, will be significantly dependent on the net effect between the pass-through to inflation and the dampening effect on domestic prices. The response of monetary policy must thus be focused on offsetting the identified net effect on the general price level.

To accommodate these policies, monetary policy should follow a balanced path by counteracting the inflationary effect of government spending without constraining the aggregate demand effects of these stimulus policies. I thus, supported a moderate and systematic response of monetary policy to avoid offsetting the intended growth potentials of these fiscal actions.

As the net banking system liquidity persisted, the interbank market needs to be made more responsive, to ensure the effective transmission of monetary policy. To this end, it is important to adjust the asymmetric corridor to reflect the realities in the money market and discourage the attraction to the Bank's lending window.

To conclude, my view at this meeting was focused on the need to stay on course with our objective of price stability, while also being sensitive to the general plight of the macroeconomy and its impact on ordinary Nigerians. These views and the developments outlined above guided my decision to vote for a moderate rate hike and adjust the asymmetric corridor to ensure the proper transmission of monetary policy.

11. OLAYEMI CARDOSO

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

With inflation in advanced economies having been on the decline for the past two years and now approaching the long-run objectives of several central banks, there are clear signals suggesting that the earlier synchronized policy rate hike cycle by monetary authorities globally may have plateaued, thus ushering in a new era of possible rate cut cycles. Global food and energy prices are also expected to continue to moderate in the short to medium term, even in the face of prolonged geopolitical tensions, conflicts and risks of further supply chain disruptions. Global growth is expected to remain resilient despite the continued tight global financial conditions and ongoing geopolitical tensions.

Although the pace of growth in domestic inflation has slowed significantly compared with where we were at the beginning of the year, the modest rise in month-on-month headline inflation to 2.31 per cent in June 2024 from 2.14 per cent in May was a source of concern to the MPC. This suggests that inflationary pressures have not totally abated despite the successive tightening of monetary policy in the last three meetings.

Several identified emerging risks to the inflation outlook further suggest the need to tread cautiously towards disinflation as these risks imply that inflation may not be moderating at our desired pace. Some of these emerging risks include the recent increase in minimum wage, a supplementary budget that is poised to increase government spending, energy price adjustments for households and businesses, and the pass-through effect of the exchange rate depreciation to food, energy, and transportation prices.

Food inflation has remained worryingly high, leading to the continued rise in headline inflation. The upward pressure on prices of domestically produced food is being driven by the continued high level of insecurity in several farming communities. In addition, the increased smuggling of food produce from border farming communities to neighboring countries with fixed exchange rate regimes is a major drain on scarce domestic food supply. For imported food items, however, the depreciating exchange rate play a key role in the observed upthrust.

Whilst the ongoing policy reforms and tight monetary conditions may have adverse short-term effects on the domestic socio-economic environment, we have a responsibility to ensure we continue to make the right decisions based on the evidence of the economic data before us and within the tenets of our mandate.

There is no doubt that the actions of the MPC over the previous 3 meetings has had significant effect on slowing down the inflation trajectory, and forecasts shows that we are on track to see a decline in headline inflation in the coming months. The elevated risk in the outlook however dictates that we must remain on the tightening trajectory using as much of the monetary tools at our disposal as possible, and more importantly lay the right expectations for the market on our resolve to stay the course even in the face of negative public opinion.

Particular attention needs to be paid to developments in the foreign exchange markets and the outlook for the exchange rate in the short to medium term, given its major impact on inflation. The recently observed relative stability of the exchange rate is owed to the increased confidence of the market in the actions of the MPC to deliver the objective of bringing inflation within target. This fragile equilibrium must, however, be carefully managed in order not to jeopardize the achievements so far in attracting more capital flows to help sustain the recent stability in the market.

On the whole, both monetary and fiscal policy must work actively to fully arrest inflationary pressures and lay the foundation for sustainable growth of the economy. While the bulk of the necessary work rests in resolving the array of non-monetary issues facing the economy, the MPC must continue doing all that is in its powers in the short run, to curb inflationary pressure. The Committee remains conscious that the continued rate hike cycle may have some negative consequences on output growth in the short term, but also realizes that inflation could have a more devastating consequence on growth in the medium to long term if allowed to fester.

After careful consideration and weighing the balance of risks, I was convinced of the need to further tighten the stance of policy, albeit, moderately, taking into consideration our mandate for ensuring price stability.

I therefore voted to:

1. Increase MPR by 50 basis points to 26.75 per cent from 26.25 per cent.

2. Adjust the asymmetric corridor to -100/+500 basis points around the MPR from -300/+500.

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
July 2024