CENTRAL BANK OF NIGERIA

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Central Bank of Nigeria

Mandate

▪Ensure Monetary and Price Stability

▪Issue Legal Tender Currency in Nigeria

▪Maintain External Reserves to safeguard the international value of the Legal Tender Currency

▪Promote a Sound Financial System in Nigeria

▪Act as Banker and Provide Economic and Financial Advice to the Federal Government

Vision

"To be a people-focused Central Bank promoting confidence in the economy and enabling an improved standard of living"

Mission Statement

"To **ENSURE** Monetary, Price and Financial System Stability as a Catalyst for Inclusive Growth and Sustainable Economic Development."

Core Values

Integrity

Partnership

Accountability

Courage

Tenacity

CONTENTS

Table of Contents

List of Tables

List of Figures

Page

STATEMENT BY THE GOVERNOR

Donetary Developments in the global and domestic environments presented daunting challenges to the conduct of Monetary policy in the second half of 2022. Several global developments have intensified the disruptions to the global supply chain, resulting in a sharp rise in food and energy prices across several economies. Key among these were the persistence of the war between Russia and Ukraine and lockdowns in major Chinese industrial cities to combat the resurgence of the COVID-19 Pandemic. The intractable inflationary pressures confronting advanced economy central banks necessitated spates of monetary policy normalization, exacerbating further tightening of financial conditions, thus, fuelling capital reversals and exchange rate pressure among Emerging Markets and Developing Economies.

On the domestic scene, the balance of forces between structural and economic headwinds, on the one hand, and a coordinated fiscal and monetary policies stimulus, on the other, maintained the economy on a moderate but steady recovery. Key amongst the challenges from the domestic front were the incidence of flooding in various communities causing acute shortages in food supply; unabating security challenges that disrupted business activities, especially in the farming communities; perennial scarcity of Premium Motor Spirit (PMS) and high cost of other energy sources, which disrupted productive activities; as well as oil theft in the Niger Delta. Data from the National Bureau of Statistics (NBS), however, showed that real Gross Domestic Product (GDP) grew by 2.25 per cent (year-on-year) in the third quarter and accelerated to 3.52 per cent (year-on-year) in the 4th quarter of 2022, driven largely by the non-oil sector. Inflationary pressure intensified while the foreign exchange market witnessed significant pressure arising from low accretion to external reserves.

The money market remained broadly active, while liquidity conditions in the banking system continued to underpin fluctuations in market rates. Reflecting several shocks from the global and domestic financial and economic environment, the capital market moderated marginally, as shown in the All-Share Index (ASI) and Market Capitalisation (MC). Notwithstanding, the period under review witnessed improved activities in the equities segment of the market, suggesting sustained investor confidence in the Nigerian bourse.

Monetary policy in the review period took cognizance of the foregoing global and domestic developments and their effects exacerbating domestic inflationary pressures, capital flow reversals, and exchange rate pressures. While keeping sight of the need to sustain the growth trajectory, monetary policy prioritized the primacy of its price and financial stability mandate and focused more on taming inflation. Thus, the monetary policy stance was contractionary during the review period. Consequently, the Monetary Policy Committee raised the MPR to 16.5 per cent; retained the asymmetric corridor of +100/-700 basis points around the MPR; raised the CRR to 32.5 per cent; and retained the Liquidity Ratio at 30 per cent.

Outlook for the domestic economy over the short-to-medium term indicates that inflationary pressure would decelerate. This is premised on the dampening impact of tight monetary policy, and the sustained intervention by the Bank in the Agriculture sector is expected to increase food output and moderate prices. Monetary policy will continue to be proactive and supportive of financial stability and non-inflationary growth.

Inflationary pressures in the short to medium-term will thus be monitored to ensure that the upside risks to inflation are minimized.

GODWIN I. EMEFIELE
Governor, Central Bank of Nigeria
February 2023.

CHAPTER ONE

1.0 OVERVIEW

This chapter summarises major economic and financial developments and the attendant policy responses by the Bank that shaped monetary policy during the second half of 2022. These include developments in output, prices, financial market, liquidity management and monetary policy in the global and domestic economies.

At the global scene, the key developments were the persistence of the war between Russia and Ukraine as well as lockdowns in major Chinese industrial cities to combat the resurgence of the COVID-19 Pandemic, both of which intensified the disruptions to the global supply chain. This was characterized by a sharp rise in food and energy prices across several economies. In addition, the lag impact of the substantial liquidity injections to ease the downside risks of the COVID-19 pandemic continued to put upward pressure on price levels across several economies. Consequently, several Advanced Economy central banks sustained their earlier thrust towards monetary policy normalization, resulting in a broad tightening of global financial conditions and capital flow reversals as well as exchange rate pressures in Emerging Markets and Developing Economies (EMDEs).

On the domestic front, the economy maintained a moderate but steady recovery in the face of new and legacy headwinds. Key amongst these were the incidence of flooding in various communities causing acute shortages to food supply; unabating security challenges disrupting business activities, especially in the farming communities; perennial scarcity of PMS and high cost of other energy sources which disrupted productive activities; oil theft in the Niger Delta; as well as exchange rate pressures. Other legacy infrastructural deficits such as poor road networks and epileptic power supply also impacted production and logistics across the country.

In the second half of 2022, growth was largely sustained by the services and agricultural sub-sectors on the back of continued policy support by both the fiscal and monetary authorities. This was achieved through the implementation of the Medium-Term National Development Plan (MTNDP) and aggressive credit policy intervention in targeted sectors of the economy by the Central Bank of Nigeria.

Accordingly, data from the National Bureau of Statistics (NBS) showed that real Gross Domestic Product (GDP) grew by 2.25 per cent (year-on-year) in the third quarter of 2022 compared with 4.03 and 3.54 per cent in the corresponding and preceding quarters, respectively. The growth in the third quarter was driven mainly by the non-oil sector which expanded by 4.27 per cent, compared with 5.44 and 4.77 per cent in the corresponding and preceding quarters, respectively. The oil sector, however, contracted further by 22.67 per cent in Q3 2022, compared with -10.73 and -11.77 per cent in the corresponding and preceding quarters, respectively. Output growth in the fourth quarter of 2022 continued to be sustained by the combined effort of both the fiscal and monetary authorities. Consequently, real GDP grew by 3.52 per cent (year-on-year) in the fourth quarter of 2022, compared with 3.98 and 2.25 per cent in the corresponding and preceding quarters, respectively. This was mainly driven by the non-oil sector which grew by 4.44 per cent, compared with 4.73 and 4.27 per cent in the corresponding and preceding quarters, respectively. The oil sector, however, contracted by 13.38 per cent in the fourth quarter compared with contractions of 8.06 and 22.67 per cent in the corresponding and preceding quarters, respectively.

In terms of prices, headline inflation increased by 1.70 percentage points from 19.64 per cent in July to 21.34 per cent in December 2022. Food inflation (year-on-year) increased by 1.73 percentage points from 22.02 per cent in July to 23.75 per cent in December 2022. Core inflation also rose by 2.23 percentage points from 16.26 per cent in July to 18.49 per cent in December 2022.

Pressure in the foreign exchange market continued in the second half of 2022 due largely to the persistent decline in foreign exchange inflows resulting in low accretion to reserves. The Bank, however, sustained its intervention in the market to boost liquidity and stabilise the exchange rate. To shore-up supply of foreign exchange, the Bank sustained the implementation of existing policies such as the Naira-4-Dollar and RT200. It also directed International Money Transfer Operators (IMTOs) to pay diaspora remittances in foreign currency to encourage remittance flows through official sources.

In the second half of 2022, the Nigerian financial market remained resilient despite considerable headwinds from the global and domestic environments. The Bank continued to deploy the following instruments to achieve its objective of price and monetary stability. The instruments were: the Monetary Policy Rate (MPR); the Cash Reserve Ratio (CRR); Liquidity Ratio; Open Market Operations (OMO); and Discount Window Operations. These were occasionally complemented with interventions in the foreign exchange market. The Monetary Policy Rate (MPR) remained the Bank's key instrument for monetary policy management in the review period. The MPR was raised thrice by 100 basis points (bp), 150 bp and 100 bp in July, September, and November 2022, respectively, to 16.5 per cent from 13.0 per cent. The asymmetric corridor was however, retained at +100/-700 basis points around the MPR during the period. The tight policy stance was adopted to rein in inflation and reduce the negative real effective interest rate margin.

In the second half of 2022, the Bank maintained the use of Open Market Operations (OMO) as its primary tool for liquidity management. Total OMO sales decreased significantly by 86.07 per cent to ₦95.84 billion in the second half of 2022 from ₦688.12 billion in the preceding half of 2022. This also represented a decrease of 98.48 per cent from ₦6,319.46 billion in the corresponding half of 2021. The development partly reflected shortage of liquidity in the system as well as the Bank's effort to reduce the cost of liquidity management.

Money market activities in the second half of 2022 fluctuated moderately, reflecting liquidity condition in the banking system. The major sources of banking system liquidity were: statutory monthly disbursement of funds to the three tiers of governments by the Federation Account Allocation Committee (FAAC); maturing government securities; and the various CBN interventions. The CBN, however, maintained its Open Market Operations to moderate liquidity levels in the market. In addition to this, the Bank maintained a tight monetary policy stance by hiking the policy rate to tame inflationary pressures. To this end, money market rates oscillated within the standing facilities corridor, suggesting moderate stability in the market.

The interbank segment of the market witnessed lower activities in terms of volume and active days relative to the OBB segment. The higher activities in the OBB segment reflected preference for lower risk exposure as transactions in the segment are collateralised.

In the capital market, the All-Share Index (ASI) and Market Capitalisation (MC) moderated marginally, even as the economy was confronted with several shocks from the global and domestic environment, suggesting continued investor confidence in the Nigerian bourse. Consequently, All-Share Index (ASI) decreased by 1.09 per cent from 51,817.59 at the end of June 2021 to 51,251.06 at end-December 2022. This was, however, an increase of 19.97 per cent compared with 42,716.44 at end-Dec 2021. Market capitalization (MC) also, decreased by 0.07 per cent from ₦27.94 trillion at end-June 2022 to ₦27.92 trillion at end-December 2022. Compared with ₦22.30 trillion in the corresponding period of 2021, MC increased by 25.20 per cent to ₦27.92 trillion at end-December 2022.

Activities in the bond market were dominated by Federal Government of Nigeria (FGN) securities in the second half of 2022. There were also some activities in the State/Municipal bonds and corporate bond segments of the market, with the former recording the least share by market volume.

In terms of outlook, Output growth in the domestic economy is expected to be sustained in 2023. This is predicated on improved prospects in the non-oil sector, especially services and agriculture. In addition, the effective implementation of the National Development Plan (NDP); expansion in manufacturing activities; positive impact of CBN interventions on growth-enhancing sectors; improvement in business confidence; and recovery in oil price are expected to drive growth in 2023. On the downside, supply chain disruptions mainly from intermittent shortage of PMS and the rising cost of energy could affect economic activities. Other factors that pose significant headwinds to the growth outlook include legacy challenges associated with epileptic power supply, poor transport infrastructure and lingering insecurity.

Headline inflation is expected to accelerate to 21.43 per cent in January 2023, from 21.34 per cent at end-December 2022 (CBN Staff estimates). However, it is estimated to decelerate to 21.32 and 21.26 per cent, in February and March, respectively, and ease further to 20.92 per cent in June 2023. This projection is premised on the anticipated dampening impact of tight monetary policy and implementation of the Naira Redesign Policy on price levels. In addition, the sustained intervention by the Bank in the Agriculture sector is expected to increase food output and moderate prices. Inflationary pressures in the short to medium-term will thus be monitored to ensure that the upside risks to inflation are minimized.

Monetary policy formulation and implementation will, therefore, continue to focus on dealing with these challenges, while pursuing the primary objective of price stability conducive to sustainable economic growth.

CHAPTER TWO

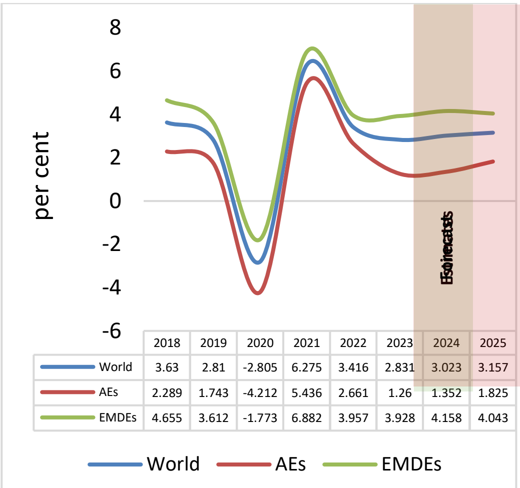
THE GLOBAL ECONOMY

2.1 Global Output

Global growth in 2022 was estimated by the International Monetary Fund (IMF) at 3.4 per cent, significantly lower than 6.3 per cent in 2021. The slowdown in global economic activities resulted from several factors, including the Russian invasion of Ukraine, energy price volatility, general rise in living costs and China's economic downturn following the extension of COVID-19 lockdowns. In addition, the rapid increase in monetary policy rates across several central banks to bring inflation down to long-run objectives, led to the tightening of global financial conditions with dampening effects on aggregate demand.

In the advanced economies, output growth was estimated at 2.7 per cent in 2022 down from 5.4 per cent in 2021. The significant slowdown in economic activities was largely attributed to volatile energy price and supply disruptions associated with the Russia-Ukraine war. In the United States, growth was estimated at 2.1 per cent in 2022, compared with 5.9 per cent in 2021. This was mainly due to rising inflation, which reduced real income and weakened consumer demand. In addition, the rise in interest rate contributed to a slowdown in investment. Growth in the Euro Area was estimated at 3.5 per cent in 2022, compared with 5.4 per cent in 2021. In Japan, growth declined to 1.1 per cent in 2022 from 2.1 per cent in 2021, while in the United Kingdom, output growth also slowed to 4.0 per cent compared with 7.1 per cent in 2021.

Figure 2.1: Global Output Growth (2018 - 2025)



	2018	2019	2020	2021	2022	2023	2024	2025
World	3.63	2.81	-2.805	6.275	3.416	2.831	3.023	3.157
AEs	2.289	1.743	-4.212	5.436	2.661	1.26	1.352	1.825
EMDEs	4.655	3.612	-1.773	6.882	3.957	3.928	4.158	4.043

Source: IMF Database (2023)

In the Emerging Market and Developing Economies (EMDEs), growth in 2022 was estimated at 4.0 per cent, compared with 6.9 per cent in 2021, due to improvement in demand driven by massive fiscal stimulus during COVID-19 period. While India growth was the highest in this group, it slowed down substantially to 6.8 per cent in 2022, compared with 9.1 per cent in the previous year. Growth in China was estimated at 3.0 per cent in 2022, a sharp drop from 8.4 per cent in 2021. This resulted from the Government's zero-COVID policy in which major industrial cities were placed on lockdown to contain the further spread of the Virus. In Brazil, output growth was estimated at 2.9 per cent in 2022, compared with 5.0 per cent in 2021. Growth in Russia also slowed significantly to 2.1 per cent in 2022, compared with 5.6 per cent in 2021. The moderation in the growth of this group of economies was largely attributed to high inflation, which resulted in capital flow reversals, leading to exchange rate pressures. Other factors include: supply-chain disruptions from extended COVID-19 lockdowns in China; energy price volatility due to the Russia-Ukraine war and the backlash of sanctions against Russia; as well as tightening global financial conditions as central banks in the advanced economies aggressively hiked policy rates to dampen inflationary pressures.

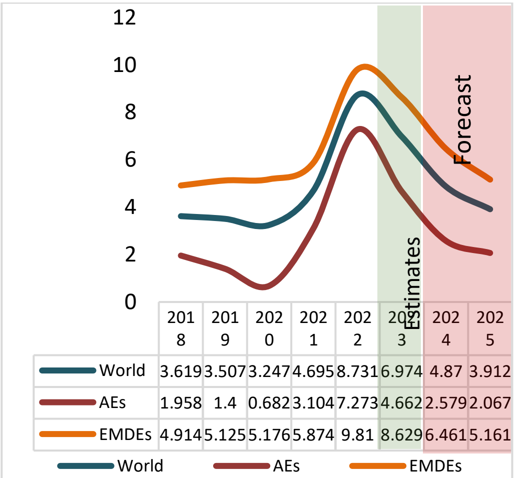
In sub-Saharan Africa, output growth was estimated to slow to 3.9 per cent in 2022 from 4.8 per cent in 2021. The main factors responsible for the moderation in growth across the region include the incidence of capital flow reversals and volatile energy prices, which heightened inflationary pressures and dampened investments as global financial condition tightened. The Nigerian economy, however, grew by an estimated 3.8 per cent in 2022, compared with 2.7 per cent in 2021. In South Africa, growth declined to 2.0 per cent in 2022 from 4.9 per cent in the previous year. Also, growth in Kenya moderated to 5.4 per cent in 2022 from 7.5 per cent in 2021. Growth in the Ethiopian economy, however, improved moderately to 6.4 per cent in 2022 from 6.3 per cent in 2021.

2.2 GLOBAL INFLATION

Global inflation remained elevated in the second half of 2022, due to persisting shocks to food and energy supply and demand. On the supply side, the sanctions imposed on Russia and associated backlash as well as the lockdown measures which followed China's zero-COVID policy to contain the spread of coronavirus, disrupted global supply chains and exerted upward pressure on prices. On the demand side, the residual pent-up demand from the post-COVID economic stimulus also mounted upward pressure on price levels. Accordingly, global inflation rose to 8.8 per cent in 2022 from 4.7 per cent in 2021.

In the advanced economies, inflation rose to 7.3 per cent in 2022 from 3.1 per cent in 2021. In the United States, inflation rose sharply to 8.0 per cent in 2022 up from 4.7 per cent in 2021. In the Euro Area, inflation also increased to 8.4 per cent in 2022 from 2.6 per cent in 2021. The uptick in inflation in the United Kingdom was the highest in the group, as it rose to 9.1 per cent in 2022 from 2.6 per cent in 2021.

Figure 2.2: Global Inflation (2018 - 2025)



	2018	2019	2020	2021	2022	2023	2024	2025
World	3.619	3.507	3.247	4.695	8.731	6.974	4.87	3.912
AEs	1.958	1.4	0.682	3.104	7.273	4.662	2.579	2.067
EMDEs	4.914	5.125	5.176	5.874	9.81	8.629	6.461	5.161

Source: IMF Database (2023)

In the Emerging Market and Developing economies, inflation rose to 9.9 per cent in 2022 from 5.9 per cent in 2021. In Brazil, inflation increased to 9.3 per cent in

2022, compared with 8.3 per cent in 2021. Inflation in India also rose to 6.5 per cent in 2022 from 5.5 per cent in the previous year. In China, inflation increased to 1.9 per cent in 2022 from 0.9 per cent in 2021, while Russia recorded the highest uptick in the group with inflation rising to 13.8 per cent in 2022 from 6.7 per cent in 2021.

In sub-Sahara Africa, inflation increased to 14.5 per cent in 2022 from 11.0 per cent in 2021. The major drivers of headline inflation in most countries within the group included exchange rate depreciation, rising food and energy prices, and supply chain disruptions due to infrastructural and security challenges. Ghana experienced the highest increase in inflation to 31.9 per cent in 2022 from 10.0 per cent in 2021. In Kenya, inflation rose to 7.6 per cent in 2022 from 6.1 per cent in 2021, while the South African inflation also rose to 6.9 per cent in 2022 from 6.1 per cent in 2021. Inflation in Nigeria increased moderately to 18.8 per cent in 2022 from 17.0 per cent in 2021.

2.3 Global Financial Market Developments

Most equity markets in the Advanced Economies (AEs) and Emerging Market & Developing Economies (EMDEs) during the review period experienced high volatility as a result of headwinds from various shocks, which forced investors to seek safe haven assets. Prominent among these was the impact of the Russia-Ukraine war which dampened global growth recovery. Also, the sanctions imposed on Russia and the associated backlash led to heightened commodity and energy prices culminating in elevated inflationary pressures. Consequently, major central banks sustained the pace of monetary policy normalization, thus further tightening global financial conditions with adverse impact on sovereign debt and debt service. This resulted in a flight by investors from equity to fixed income market due to rising yields.

2.3.1 Money Market and Central Bank Policy Rates

The general trend across central banks in both the Advanced Economies (AEs) and Emerging Market & Developing Economies (EMDEs) during the second half of 2022 was the hike in policy rate. In the Advanced Economies, tightening was implemented to moderate the persistent headline inflation that stood considerably above the long-run objectives of most central banks in this group. The high inflationary pressure emanated largely from a combination of pent-up demand and wage growth, as governments maintained post-COVID fiscal stimulus. In the EMDEs, the increased capital outflows put upward pressure on exchange rates and price levels. This was accentuated by commodity price shocks associated with global geo-political tensions.

Among the fourteen (14) central banks surveyed in the review period, eleven (11) raised their policy rates, two (2) lowered, while only one (1) maintained its rate.

In the advanced economies, the U.S. Federal Reserve Bank (the Fed), the European Central Bank (ECB), and the Bank of England (BOE) raised their policy rates between 200 and 250 basis points, as inflationary pressure persisted, staying considerably above their long-run objectives. The Bank of Japan, however, kept its policy rate unchanged to boost aggregate demand.

In the EMDEs, the Reserve Bank of India, the Central Bank of Indonesia, the Central Bank of Egypt, the Central Bank of Kenya, the South Africa Reserve Bank, the Bank of Ghana and the Central Bank of Nigeria raised their policy rates between 50 and 800 basis points. The primary objective of these rate hikes was to stem capital outflows, moderate exchange rate pressures and dampen inflation. The Peoples Bank of China and the Central Bank of Russia, however, remained accommodative, lowering their policy rates by 50 basis points, apiece.

With inflation remaining high and trending upwards, the US Fed, BoE and ECB maintained guidance of an upward trajectory of their policy rates. Consequently, the likelihood of medium-term capital inflows to EMDEs remain bleak, as fixed-income yields in these economies improve. Monetary policy in Nigeria should, therefore, focus on retaining the current stock of port-folio capital by raising the policy rate and maintaining a stable exchange rate regime.

Table 2.1
Policy Rates of Selected Countries July 2022 – December 2022

Country	**July-2022**	**Aug-2022**	**Sept-2022**	**Oct-2022**	**Nov-2022**	**Dec-2022**
Egypt	11.25	11.25	11.25	11.25	11.25	**16.25**
Kenya	7.50	7.50	**8.25**	8.25	8.25	**8.75**
S. Africa	**5.50**	5.50	**6.25**	6.25	6.25	**7.00**
Ghana	19.00	19.00	22.00	**24.50**	24.50	**27.00**
Nigeria	**14.0**	14.0	**15.50**	15.50	15.50	**16.50**
Brazil	13.25	**13.75**	13.75	**13.75**	13.75	13.75
USA	**2.25 - 2.50**	2.25 - 2.50	**3.00 - 3.25**	**3.00 - 3.25**	3.75 - 4.00	**4.25 – 4.50**
Japan	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10
Euro Area	**0.50**	0.50	**1.25**	**2.00**	2.00	**2.50**
India	4.90	**5.40**	5.40	**5.40**	5.40	**6.25**
Russia	**8.00**	8.00	**7.50**	7.50	7.50	7.50
China	3.70	**3.65**	3.65	3.65	3.65	3.65
UK	1.25	**1.75**	1.75	**2.25**	**3.00**	**3.50**
Indonesia	3.50	**3.75**	3.75	**4.75**	4.75	**5.50**

Source: cbrates.com

2.3.2 Global Capital Markets

Most global stock markets recorded a mixed performance in the review period, reflecting continued uncertainties as inflation rates surged higher and central banks around the globe tightened monetary policy further.

In Europe, the French CAC 40, the German DAX and the UK FTSE 100 indices increased by 9.3, 8.9 and 3.9 per cent, respectively, in the second half of 2022.

In North America, the Canadian S&P/TSX Composite, the Mexican Bolsa and the United States S&P 500 indices also rose by 2.8, 2.0 and 1.4 per cent, respectively.

In South America, the Argentine Merval index increased significantly by 128.50 per cent, while the Columbian COLCAP and the Brazilian Bovespa indices decreased by 2.8 and 1.8 per cent, respectively.

In Asia, the Indian BSE Sensex increased by 14.8 per cent, while the Chinese Shanghai SE and the Japanese Nikkei 225 indices decreased by 9.1 and 1.1 per cent, respectively.

In Africa, the Egyptian EGX CASE 30, the South African JSE All-Share and the Kenyan Nairobi NSE 20 indices increased by 58.2, 10.3 and 3.9 per cent respectively. Conversely, the Ghanaian GSE All Share index and the Nigeria NGX All-Share Index decreased by 4.0 and 1.1 per cent, respectively.

Table 2.2: Selected International Stock Market Indices as at December 30, 2022

Country	Index	31-Dec-21	30-Jun-22	30-Dec-22	Dec 31, 2021 - December 30, 2022 % Change	June 30, 2022 - December 30, 2022% Change
AFRICA						
Nigeria	NGX All-Share Index	42,716.44	51,817.59	51,251.06	20.0	-1.1
South Africa	JSE All-Share Index	73,709.39	66,223.31	73,048.57	-0.9	10.3
Kenya	Nairobi NSE 20 Share index	1,902.57	1,612.89	1,676.10	-11.9	3.9
Egypt	EGX CASE 30	11,949.18	9,225.61	14,598.53	22.2	58.2
Ghana	GSE All-Share Index	2,793.24	2,545.79	2,444.25	-12.5	-4.0
NORTH AMERICA						
US	S&P 500	4,772.14	3,785.38	3,839.50	-19.5	1.4
Canada	S&P/TSX Composite	21,198.03	18,861.36	19,384.92	-8.6	2.8
Mexico	Bolsa	53,150.36	47,524.45	48,463.86	-8.8	2.0
SOUTH AMERICA						
Brazil	Bovespa Stock	104,822.00	114,539.00	112,486.00	7.3	-1.8
Argentina	Merval	83,500.11	88,449.89	202,085.00	142.0	128.5
Columbia	COLCAP	1,410.97	1,322.88	1,286.07	-8.9	-2.8
EUROPE						
UK	FTSE 100	7,384.54	7,169.28	7,451.74	0.9	3.9
France	CAC 40	7,153.03	5,922.86	6,473.76	-9.5	9.3
Germany	DAX	15,884.86	12,783.77	13,923.59	-12.3	8.9
ASIA						
Japan	NIKKEI 225	28,791.71	26,393.04	26,094.50	-9.4	-1.1
China	Shanghai SE A	3,814.30	3,561.90	3,238.19	-15.1	-9.1
India	BSE Sensex	58,253.82	53,018.94	60,840.74	4.4	14.8

Source: Bloomberg

2.3.3 Bond Market and Sovereign Yields

The 10-year U.S. Treasury Bond was used as the benchmark to gauge the performance of similar bonds in other countries. Ghana, Columbia, Nigeria, Brazil, Mexico, Italy and Greece with positive yield spreads of 4,185, 908, 796, 221, 201, 80 and 63 basis points, respectively, were considered higher credit risk countries than the US.

In contrast, Japan, Germany, China, France, Canada, Portugal, Spain and UK, with negative yields of 347, 132, 105, 78, 58, 31 24 and 22 basis points respectively, suggest lower credit risk than a US bond of similar class.

The yield spreads of 796 basis points on the Nigerian bond indicates a high-risk premium, thus investors in this security would require a higher return. The Ghanian bond with a yield spread of 4,185 basis points, is however, a riskier security for investors.

Table 2.3: Sovereign Yields Spreads (Benchmark 10-Year Government Bonds) as at December 30, 2022

Table 2.3: Sovereign Yield Spreads (Benchmark 10-Year Government Bonds) as at December 30, 2022						
Country	December 31, 2021 Yield (%)	August 31, 2022 Yield (%)	October 31, 2022 Yield (%)	December 30, 2022 Yield (%)	Change in Yield (Basis Points)	December 30, 2022 Spread over the U.S. (Basis points)
AFRICA						
Nigeria (U.S. $)	6.53	12.71	14.86	11.84	5.30	796
Ghana (U.S. $)	10.43	25.69	48.93	45.73	35.30	4,185
NORTH AMERICA						
Canada	1.42	3.11	3.25	3.30	1.87	-58
Mexico	2.92	5.39	6.39	5.88	2.96	201
US	1.51	3.20	4.05	3.88	2.37	0
SOUTH AMERICA						
Brazil	4.47	5.86	6.39	6.08	1.61	221
Columbia	8.15	12.04	13.74	12.96	482	908
EUROPE						
France	0.19	2.14	2.67	3.10	2.91	-78
Germany	-0.19	1.53	2.14	2.56	2.74	-132
Greece	1.29	4.07	4.58	4.51	322	63
Italy	1.17	3.88	4.29	4.68	3.51	80
Portugal	0.46	2.62	3.12	3.57	3.11	-31
Spain	0.56	2.73	3.21	3.64	3.07	-24
UK	0.96	2.80	3.50	3.66	2.69	-22
ASIA						
China	2.77	2.64	2.64	2.83	0.07	-105
Japan	0.06	0.21	0.23	0.40	0.35	-347
Data for Columbia @ 29th December 2022						

2.3.4 Global Commodity Prices

During the second half of 2022, global commodity prices decreased, attributable to the weakening global demand and the impact of Black Sea Grain Initiatives anchored by the United Nations and Turkey, which allowed export of grains from Ukraine to other parts of the world.

As a result, the IMF primary commodity price index decreased by 16.08 per cent to 194.35 points at end-December 2022 from 231.60 points at end-June 2022. All the major sub-indices under the primary commodity index also fell during the period. Energy, food and Beverages, non-fuel, industrial inputs, and metals declined by 21.21, 12.59, 9.02, 10.22 and 7.97 per cent to 258.50, 134.04, 150.00, 161.98 and 184.30 points at end-December 2022 from 328.12, 153.35, 164.88, 180.42 and 200.26 points at end-June 2022, respectively.

The performance of the oil sector also weakened during the period as reflected by a 29.68 per cent decline in the actual price per barrel of the OPEC

Reference Basket to US$81.29 per barrel at the end of December 2022 from US$115.60 per barrel at the end of June 2022.

Similarly, the Food and Agriculture Organization (FAO) Food Price Index declined by 14.80 per cent to 131.80 points at the end of December 2022 from 154.70 points at end-June 2022. All the sub-indices under the FAO Food Price Index fell during the period. Meat, dairy, cereals, vegetable oils, and sugar fell by 10.72, 7.99, 11.43, 31.73 and 0.09 per cent, respectively, to 112.40, 138.20, 147.30, 144.60 and 117.20 index points at end-December 2022 compared with 125.90, 150.20, 166.30, 211.80 and 117.3 points at end-June 2022.

The decline in commodity prices particularly food prices is expected to result in moderation of inflation on imported food, however, the gain that should accrue from high commodity prices, in form of foreign exchange earnings, could be eroded. This could potentially lead to exchange rate pressure due to low accretion to external reserves. Also, the depreciation of the currencies of most EMDEs against the US dollar could lead to high inflation due to import dependent nature of most EMDEs. This would necessitate central banks among the EMDEs to raise interest rates to curb inflationary pressure which may cut investments and production in the short to medium term.

2.3.5 Global Foreign Exchange Market

In the second half of 2022, most currencies depreciated against the US dollar. This was driven largely by the sharp increase in capital outflows from these countries to US dollar-denominated assets, following the aggressive normalization of US monetary policy.

In Africa, the Nigerian naira, the South African rand, the Kenyan shilling, the Egyptian pound, and the Ghanaian cedi, depreciated against the US dollar by 9.78, 4.01, 4.46, 24.07 and 20.67 per cent, respectively.

In North America, the Canadian dollar depreciated by 5.15 per cent, while the Mexican Peso appreciated by 3.23 per cent against the US dollar.

In South America, the Argentine and the Colombian pesos depreciated significantly by 29.30 and 14.38 per cent, respectively, while the Brazilian real depreciated marginally by 0.57 per cent.

In Europe, the British pound sterling depreciated moderately against the US dollar by 1.20 per cent, while the Russian ruble depreciated substantially by 25.63 per cent. The Euro, however, appreciated by 1.06 per cent in the review period.

In Asia, the Chinese yuan and the Indian rupee depreciated against the US dollar by 2.90 and 4.51 per cent, respectively, while the Japanese yen appreciated by 2.98 per cent.

Table 2.4
Exchange Rates of Selected Countries (value in currency units to US$)

Exchange Rates of Selected Countries (Value in local currency units to US$)						
	Currency	**31/12/2021**	**30/06/2022**	**30/12/2022**	**PTP* % App/Dep**	**YTD % App/Dep**
AFRICA	**a**	**d**	**c**	**d**	**PTP (%)**	**YTD (%) a/d**
Nigeria	I&E	435.00	415.00	460.00	(9.78)	(5.43)
South Africa	Rand	15.94	16.28	16.96	(4.01)	(6.01)
Kenya	Shilling	113.14	117.90	123.41	(4.46)	(8.32)
Egypt	Pound	15.71	18.80	24.76	(24.07)	(36.55)
Ghana	Cedi	6.18	8.06	10.16	(20.67)	(39.17)
NORTH AMERICA						
Canada	Dollar	1.26	1.29	1.36	(5.15)	(7.35)
Mexico	Peso	20.51	20.11	19.48	3.23	5.29
SOUTH AMERICA						
Brazil	Real	5.57	5.26	5.29	(0.57)	5.29
Argentina	Peso	102.75	125.22	177.12	(29.30)	(41.99)
Colombia	Peso	4,064.92	4,153.19	4,850.83	(14.38)	(16.20)
EUROPE						
UK	Pound	0.74	0.82	0.83	(1.20)	(10.84)
Euro Area	Euro	0.88	0.95	0.94	1.06	(6.38)
Russia	Ruble	75.22	54.70	73.55	(25.63)	2.27
ASIA						
Japan	Yen	115.11	135.75	131.82	2.98	(12.68)
China	Renminbi	6.36	6.70	6.90	(2.90)	(7.83)
India	Rupee	74.30	79.01	82.74	(4.51)	(10.20)
PTP= Period to Period						
YTD = Year to Date						
Source: Bloomberg						

CHAPTER THREE

THE DOMESTIC ECONOMY

3.1 Output Growth

In the second half of 2022, growth was largely sustained by the services and agricultural sub-sectors on the back of continued policy support by both the fiscal and monetary authorities. This was achieved through the implementation of the Medium-Term National Development Plan (MTNDP) and aggressive credit policy intervention in targeted sectors of the economy by the Central Bank of Nigeria.

Data from the National Bureau of Statistics (NBS) showed that real Gross Domestic Product (GDP) grew by 2.25 per cent (year-on-year) in the third quarter of 2022 compared with 4.03 and 3.54 per cent in the corresponding and preceding quarters, respectively. The growth in the third quarter was driven mainly by the expansion of the non-oil sector by 4.27 per cent, compared with 5.44 and 4.77 per cent in the corresponding and preceding quarters, respectively. The key drivers of the non-oil sector growth were Services (7.01%), Agriculture (1.34%), and Industry (0.51%). Accordingly, the contribution of the non-oil sector to real GDP increased to 94.34 per cent in the third quarter of 2022 from 92.51 and 93.67 per cent in the corresponding and preceding quarters, respectively.

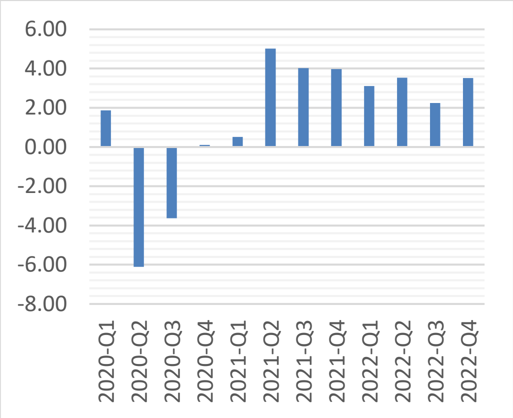
The oil sector, however, contracted further by 22.67 per cent in Q3 2022, compared with -10.73 and -11.77 per cent in the corresponding and preceding quarters, respectively. Accordingly, average daily oil production fell to 1.20 million barrels per day (mbpd) in the third quarter of 2022, compared with 1.57 and 1.43 mbpd in the corresponding and preceding quarters, respectively. This was mainly attributed to operational inefficiencies, technical hitches, and security challenges in the oil-producing Niger Delta region.

Output growth in the fourth quarter of 2022 continued to be sustained by the combined efforts of both the fiscal and monetary authorities. Consequently, real GDP grew by 3.52 per cent (year-on-year) in the fourth quarter of 2022, compared with 3.98 and 2.25 per cent in the corresponding and preceding quarters, respectively. This was mainly driven by the non-oil sector which grew by 4.44 per cent, compared with 4.73 and 4.27 per cent in the corresponding and preceding quarters, respectively. The key drivers of the expansion in the non-oil sector growth were Services (5.69%), Industry (4.09%), and Agriculture (2.05%). The share of non-oil in real GDP rose to 95.66 per cent in the fourth quarter from 94.81 and 94.34 per cent in the corresponding and preceding quarters, respectively.

The oil sector, however, contracted by 13.38 per cent in the fourth quarter compared with contractions of 8.06 and 22.67 per cent in the corresponding and preceding quarters, respectively. Average daily oil production in the fourth quarter of 2022 stood at 1.34 million barrels per day (mbpd) from 1.50 and

1.20 mbpd in the corresponding and preceding quarters, respectively.

Figure 3.1: Gross Domestic Product Growth Rate (2020Q1 – 2022Q4)



Source: National Bureau of Statistics (NBS)

3.1.1 DOMESTIC ECONOMIC ACTIVITIES

In real GDP in the second half of 2022 was largely driven by activities in the non-oil sector which expanded by 4.27 and 4.44 per cent in the third and fourth quarters, respectively.

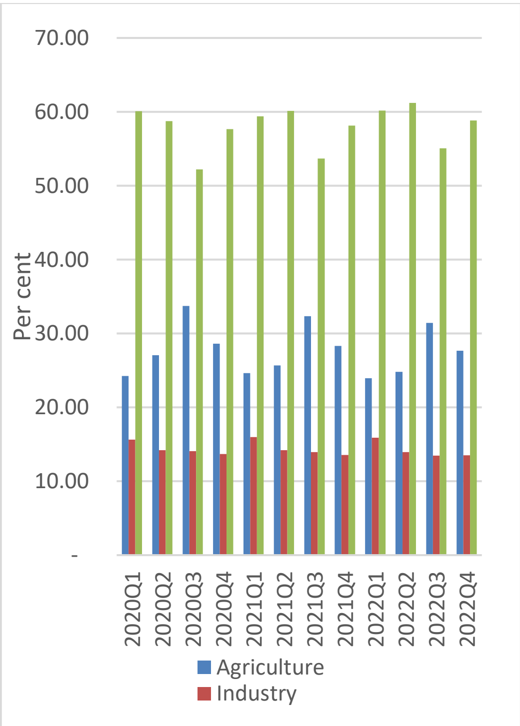
The major contributors to the overall performance of the non-oil sector in the third quarter were: Transportation and Storage (41.59%); Mining and Quarrying (38.01%); Financial and Insurance (12.70%); Information and Communication (10.53%); Arts, Entertainment & Recreation (7.79%); Accommodation & Food Services (6.77%); Construction (5.52%); Trade (5.08%); Human Health & Social Services (4.58%); Real Estate (4.56%); Administrative & Support Services (3.93%); and Water Supply, Sewage & Waste Management (3.89%). These performances compared with their respective growth rates of 20.61, -2.14, 23.23, 9.66, 3.68, 2.09, 4.10, 11.90, 4.99, 2.32, 3.36 and 12.97 per cent in the corresponding period of 2021.

The oil sector output, however, contracted further by –22.67% (year-on-year) in the third quarter of 2022, compared with -10.73 and -11.77 per cent in the corresponding and preceding quarters, respectively. This followed an average drop of daily oil production to 1.20 million barrels per day (mbpd) in the third quarter of 2022, representing decreases of 0.37 mbpd and 0.23 mbpd compared with 1.57 mbpd and 1.43 mbpd recorded in the corresponding period of 2021 and the preceding quarter, respectively. The development was attributed to divestments by oil majors and incidences of insecurity such as oil theft and vandalism which continued to hamper domestic oil production and export.

In the fourth quarter of 2022, the major activities that shaped the overall performance of the non-oil sector were: Mining & Quarrying (22.04%); Electricity, Gas, Steam & Air conditioner (15.22%); Financial & Insurance (11.61%); Information & Communication (10.35%); Water Supply, Sewage & Waste Management (8.81%); Arts, Entertainment & Recreation (7.52%); Accommodation and Food Services (5.12%); Trade (4.54%); Human Health & Social Services (4.20%); and Construction (3.80%). These performances compared with their respective growth rates of 43.50, 2.78, 24.14, 5.03, 28.84, 4.31, 1.27, 5.34, 5.14, and 3.46 per cent in the corresponding period of 2021.

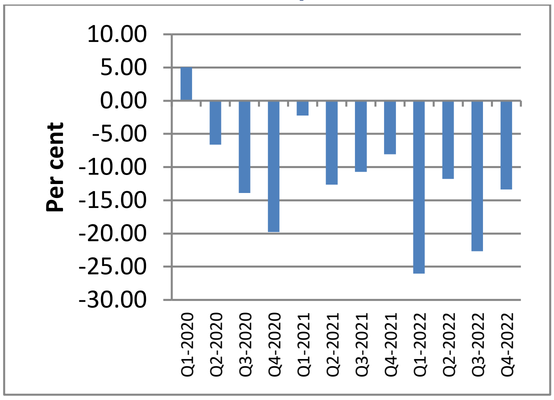
During the period, the oil sector contracted by 13.38 per cent (year-on-year) compared with -8.06 and -22.67 per cent in the corresponding and preceding quarters, respectively. Average daily oil production stood at 1.34 million barrels per day (mbpd) in the fourth quarter of 2022 from 1.50 mbpd and 1.20 mbpd recorded in the corresponding period of 2021 and the preceding quarter, respectively. The increase in oil production during the review period compared with the preceding quarter was attributed to the improved security architecture in the oil-producing areas.

Figure 3.2: Non-oil Sector Performance (2020Q1 – 2022Q4)



Source: NBS

Figure 3.3: Oil Sector Performance (2020Q1 – 2022Q4)



Source: NBS

3.1.2 Sectoral Analysis

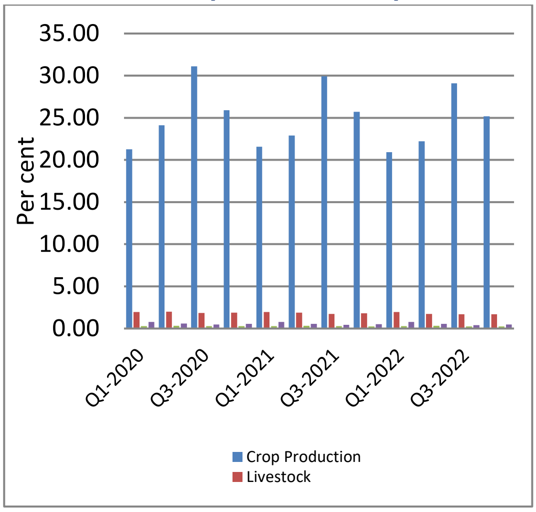
This section analyses the key factors in each sector that contributed to output growth in the review period.

3.1.2.1 Agriculture

In the third quarter of 2022, real output growth in the agriculture sector increased marginally to 1.34 per cent, from 1.22 and 1.20 per cent in the corresponding and preceding quarters, respectively. Output growth in the sector was mainly driven by forestry which expanded by 2.19 per cent, compared with 1.98 and 1.29 per cent in the corresponding and preceding quarters, respectively. This was followed by livestock which grew by 1.55 per cent, compared with 0.12 and -2.87 per cent in the corresponding and preceding quarters, respectively. Crop production however, slowed to 1.33 per cent from 1.36 and 1.54 per cent in the corresponding and preceding quarters, respectively. The share of the agriculture sector in overall GDP fell marginally to 29.67 per cent in the third quarter of 2022 from 29.94 per cent in the corresponding quarter. It was, however, an improvement compared with 23.24 per cent in the preceding quarter.

During the fourth quarter of 2022, real output growth in the agriculture sector slowed to 2.05 per cent compared with 3.58 per cent in the corresponding quarter. It was, however, an improvement in comparison with 1.34 per cent in the preceding quarter. Growth in the sector was driven mainly by Crop production which expanded by 2.41 per cent, compared with 1.33 per cent in the preceding quarter. This was, however, a moderation when compared with 3.87 per cent in the corresponding quarter. The Forestry sub-sector grew by 1.63 per cent compared with 1.41 and 2.19 per cent in the corresponding and preceding quarters, respectively. Fishing and Livestock sub-sectors, however, contracted by -3.02 and –1.59, compared with 1.69 and 0.41 per cent in the corresponding quarter, and 0.32 and 1.55 per cent in the preceding quarter, respectively. Consequently, the share of the agriculture sector in overall GDP, decreased to 26.46 per cent in the fourth quarter from 26.84 and 29.67 per cent in the corresponding and preceding quarters, respectively.

Figure 3.4: Sub-Components of Agricultural Sector Growth (2020Q1 – 2022Q4)



Source: NBS

3.1.2.1.1 Agricultural Policies and Institutional Support

In the review period, the Bank continued its interventions in the agriculture sector to support economic recovery using a variety of existing policies and institutional support, as highlighted below:

3.1.2.1.1.1 Commercial Agriculture Credit Scheme (CACS)

Under the scheme, ₦997.00 million was disbursed to two beneficiaries across large-scale agro-enterprises in the second half of 2022, compared with ₦28.30 billion disbursed to twelve beneficiaries in the first half of 2022. A total of ₦46.05 billion was repaid in the review period, compared with ₦32.86 billion in the first half of 2022.

3.1.2.1.1.2 Micro, Small and Medium Enterprises Development Fund (MSMEDF)

The sum of ₦10.00 million was disbursed to 130 beneficiaries during the second half of 2022. There was, however, no disbursement in the first half of 2022. Repayments during the review period totalled ₦5.08 billion, compared with ₦2.52 billion in the preceding half year.

3.1.2.1.1.3 Anchor Borrowers' Programme (ABP)

In the second half of 2022, the sum of ₦103.73 billion was disbursed to 245,361 smallholder farmers across the country for the cultivation of rice, maize, and wheat. This compares with ₦35.52 billion disbursed to 28,876 smallholder farmers in the first half of the year. In the review period, the sum of ₦63.37 billion was repaid compared with ₦42.99 billion in the preceding half year.

3.1.2.1.1.4 Accelerated Agriculture Development Scheme (AADS)

The Scheme recorded a disbursement of ₦180.00 million in the second half of 2022, compared with ₦1.50 billion in the first half. The sum of ₦1.64 billion was repaid in the period, compared with ₦4.37 billion in the previous period.

3.1.2.1.1.5 Agribusiness/ Small and Medium Enterprises Investment Scheme (AGSMEIS)

In the review period, ₦1.33 billion was disbursed to 592 projects, compared with ₦1.60 billion to 2,720 projects in the first half of 2022. Repayment in the review period was ₦2.10 million, compared with ₦7.66 million in the first half.

3.1.2.1.1.6 Paddy Aggregation Scheme (PAS)

Under the Scheme, there was no disbursement in the second half of 2022, while the sum of ₦6.20 billion was disbursed to three (3) projects in the first half. In the second half of the year, however, the sum of ₦1.00 billion was repaid, while no repayment was made in the first half due to the extension of the moratorium.

3.1.2.1.1.7 National Food Security Programme (NFSP)

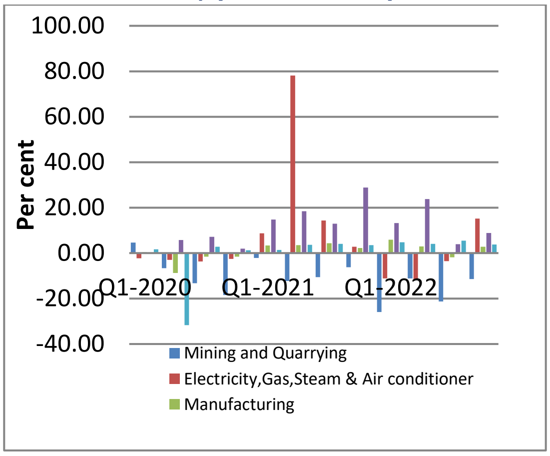
There was no disbursement under this programme in the review or preceding period. A total of ₦4.39 billion was repaid in the review period, compared with ₦2.03 billion in the first half.

3.1.2.2 Industry

The industry sector further contracted by 8.0 per cent in the third quarter of 2022, compared with -1.63 and -2.30 per cent in the corresponding and preceding quarters, respectively. Mining & Quarrying accounted largely for the contraction in the sector in the third quarter of 2022, shrinking by -21.83 per cent, compared with -10.56 and -11.09 per cent in the corresponding and preceding quarters, respectively. Crude Petroleum and Natural Gas led the contraction in the Mining and Quarrying sub-sector, as it contracted by 22.67 per cent in the third quarter compared with -10.73 and -11.77 per cent in the corresponding and preceding quarters, respectively. Electricity, Gas, Steam & Air conditioner sub-sector also contracted by 3.56 per cent in the third quarter of 2022, compared with 14.36 and -11.48 per cent in the corresponding and preceding quarters, respectively. The manufacturing sub-sector also contracted by 1.91 per cent in the third quarter of 2022, compared with growth of 4.29 and 3.0 per cent in the corresponding and preceding quarters, respectively.

The contraction in the industry sector was, however, moderated by growth in the Construction and Water Supply, Sewage & Waste Management sub-sectors. The Construction sub-sector recorded an improvement of 5.52 per cent in the third quarter of 2022 compared with 4.10 and 4.02 per cent in the corresponding and preceding quarters, respectively. Water Supply, Sewage & Waste Management also grew by 3.89 per cent in the third quarter of 2022 compared with 12.97 and 23.73 per cent in the corresponding and preceding quarters, respectively.

Figure 3.5: Industrial Sector Contribution by Activity (2020Q1-2022Q4)



Source: National Bureau of Statistics

3.1.2.2.1 Industry Policies and Institutional Support

During the review period, the Bank sustained its support to the industry sector as highlighted below:

3.1.2.2.1.1 Real Sector Support Facility (RSSF) Using Differentiated Cash Reserve Ratio (RSSF-DCRR)

Under the Facility, the sum of ₦89.55 billion was disbursed to 16 projects in the second half of 2022, compared with ₦210.29 billion to 34 projects in the first half. A total of ₦11.32 billion was repaid in the second half of 2022, compared with ₦18.50 billion in the preceding half year.

3.1.2.2.1.2 Export Development Facility (EDF)

A total of ₦22.39 billion was disbursed to 14 projects under the Facility in the review period, compared with ₦17.08 billion to 15 projects in the preceding period. There was no repayment in both periods as some facilities were under moratorium.

3.1.2.2.1.3 Creative Industry Financing Initiative (CIFI)

In the second half of 2022, the sum of ₦174.30 million was disbursed to one (1) project under this initiative. There was, however, no disbursement in the first half of 2022. In the second half of 2022, the sum of ₦304.38 million was repaid compared with ₦280.24 million in the previous half.

3.1.2.2.1.4 Targeted Credit Facility (TCF)

DDuring the period under review, ₦1.21 billion was disbursed to 2,160 projects, compared with ₦24.37 billion to 50,302 projects in the previous period. In the second half of 2022, ₦835.48 million was repaid, while no repayment was made in the previous half, as facilities were under moratorium.

3.1.2.2.1.5 Presidential Fertilizer Initiative (PFI)

Under this initiative, there was no disbursement, while a total of ₦4.00 billion was repaid in the review period, compared with a repayment of ₦3.00 billion in the preceding period.

3.1.2.2.1.6 Real Sector Support Facility (RSSF)

TThere was no disbursement under this Facility in the review period, as the intervention has been discontinued. A total of ₦11.15 billion was, however, repaid in the second half of 2022, compared with ₦21.65 billion in the preceding half year.

3.1.2.2.1.7 Non-oil Export Stimulation Facility (NESF)

There was no disbursement in the period under review. A total repayment of ₦7.91 billion was made in the second half of 2022, compared with ₦2.00 billion in the preceding period.

3.1.2.2.1.8 Shared Agent Network Expansion Facility (SANEF)

There was no disbursement in the review period. Total repayment stood at ₦606.31 million in the second half of 2022, compared with ₦369.25 million in the preceding period.

3.1.2.2.1.9 Nigeria Youth Investment Fund (NYIF)

There was neither disbursement nor repayment in the review period. However, a total of ₦278.50 million was repaid in the preceding period.

3.1.2.2.1.10 Health Sector Intervention Fund (HSIF)

The sum of ₦16.03 billion was disbursed to 8 projects in the second half of 2022, compared with ₦17.21 billion to 11 projects in the first half. A total of ₦2.13 billion was repaid in the review period, while there was no repayment in the previous period as a significant portion of the facilities were under moratorium.

3.1.2.2.1.11 Healthcare Sector Research and Development Intervention Scheme (HSRDIS)

There was no disbursement in the review period, while the sum of ₦14.75 million was disbursed as additional tranche to one (1) of the five (5) projects/grant recipients in the preceding period.

3.1.2.2.1.12 COVID-19 Intervention Facility for the Manufacturing Sector (CIMS)

In the review period, the sum of ₦112.91 billion was disbursed to 29 projects compared with ₦413.89 billion to 50 projects in the first half. A total of ₦3.52 billion was repaid in the review period, compared with ₦12.00 billion in the preceding period.

3.1.2.2.1.13 SME/Rediscounting & Refinancing Facility (SMERRF)

Under this facility, no disbursement was made in the period under review. The sum of ₦4.21 billion was, however, repaid in the second half of 2022.

3.1.2.2.1.14 CBN-BOI Industrial Facility (CBIF)

In the second half of 2022, a total of ₦50.00 billion was disbursed, same as the amount disbursed in the preceding period. There was, however, no repayment in both periods.

3.1.2.2.1.15 Textile Sector Intervention Facility (TSIF)

The sum of ₦1.50 billion was disbursed to one (1) project in the review period, while there was no disbursement in the first half of 2022. The sum of ₦4.49 billion was repaid in the period under review, compared with ₦8.62 billion in the preceding period.

3.1.2.2.1.16 100 for 100 Policy for Production and Productivity (100 for 100 PPP)

Under this Initiative, the sum of ₦82.54 billion was disbursed to 31 projects in the second half of 2022, compared with ₦69.13 billion disbursed in the first half to 51 projects across manufacturing, agriculture, and healthcare. A total of ₦1.14 billion was repaid in the review period compared with ₦1.32 billion in the first half.

3.1.2.2.1.17 Tertiary Institutions Entrepreneurship Scheme (TIES)

The sum of ₦62.53 million was disbursed to 20 youth-led entrepreneurial projects in the review period, compared with ₦264.04 million disbursed in the preceding period to 53 beneficiaries. No repayments have been made so far as the facilities are still under moratorium.

3.1.2.2.1.18 Youth Entrepreneurship Development Fund (YEDP)

In the period under review, there was no disbursement or repayment. The sum of ₦116.94 million was, however, repaid in the preceding period.

3.1.2.2.1.19 Power and Airline Intervention Fund (PAIF)

There was no disbursement in the period under review, however, a total of ₦10.47 billion was repaid. This compares with ₦15.91 billion repaid in the first half of 2022.

3.1.2.2.1.20 Nigerian Bulk Electricity Trading - Payment Assurance Programme (NBET-PAF)

There was no disbursement in the period under review, compared with the sum of ₦26.93 billion disbursed to Nigeria Bulk Electricity Trading Plc. (NBET) in the first half of 2022. A total of ₦977.16 billion was repaid in the second half of 2022 compared with ₦322.87 billion in the preceding period.

3.1.2.2.1.21 Nigerian Electricity Market Stabilization Facility (NEMSF 1 & 2)

The sum of ₦6.47 billion was disbursed in the second half of 2022, compared with ₦34.37 billion in the first half. A total of ₦11.51 billion was repaid during the period compared with ₦10.91 billion in the preceding period.

3.1.2.2.1.22 National Mass Metering Programme (NMMP)

During the second half of 2022, the sum of ₦3.11 billion was disbursed, compared with ₦199.90 million in the first half. A total of ₦364.16 million was repaid in the second half of 2022, while there was no repayment in the preceding period as the facilities were still under moratorium.

3.1.2.2.1.23 Intervention Facility for National Gas Expansion Programme (IFNGEP)

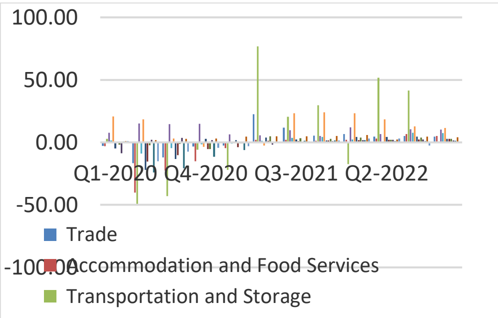
The sum of ₦9.30 billion was disbursed in the second half of 2022 to two (2) projects, compared with ₦26.00 billion to four (4) projects in the first half.

3.1.3.1 Services Sector

In the third quarter of 2022, the sector grew by 7.01 per cent compared with 8.41 and 6.70 per cent in the corresponding and preceding quarters, respectively. The growth in the sector was driven by Transportation & Storage (41.59%); Financial & insurance (12.70%); Information & Communication (10.53%); Art, Entertainment & Recreation (7.79%); Accommodation & Food Services (6.77%); Trade (5.08%); Human Health & Social Services (4.58%); Real Estate (4.56%); Administration & Support Services (3.93%); and Public Administration (2.33%). These performances compare with their respective growth rates of 20.61, 23.23, 9.66, 3.68, 2.09, 11.90, 4.99, 2.32, 3.36, and -0.15 per cent in the corresponding period of 2021. Growth in the sector was, however, moderated by a contraction of 2.67 per cent in Other Services sub-sector, compared with 0.73 per cent in the corresponding quarter.

During the fourth quarter of 2022, the sector grew by 5.69 per cent compared with 5.58 and 7.01 per cent in the corresponding and preceding quarters, respectively. Growth in the sector was driven by Financial & Insurance (11.61%), Information & Communication (10.35%), Arts, Entertainment & Recreation (7.52%), Accommodation & Food Services (5.12%), Trade (4.54%), Human Health & Social Services (4.20%), Professional, Scientific & Technical Services (2.92%), Administrative & Support Services (2.86%); and Real Estate (2.78%). These growth rates compare with their respective performances of 24.14, 5.03, 4.31, 1.27, 5.34, 5.14, 1.50, 2.70, and 1.47 per cent in the corresponding quarter. The sector's share in overall GDP rose to 56.27 compared with 55.11 and 51.96 in the corresponding and preceding quarters, respectively.

Figure 3.6: Sub-Components of Services Sector Growth (2020Q1-2022Q4)



Source: Statistics Department

3.1.4.1 Oil Sector

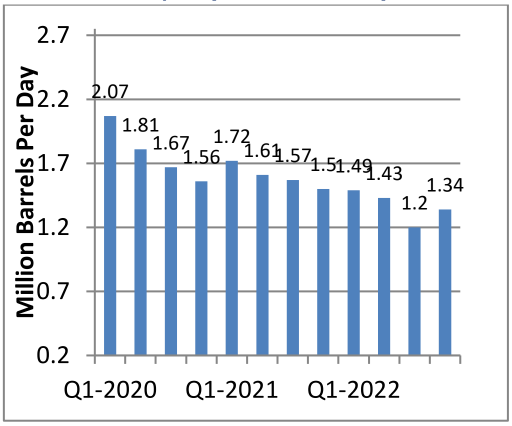
During the second half of 2022, the performance of the oil sector was largely influenced by both external and domestic factors. Some of these factors include the Russia-Ukraine war which caused significant supply chain disruptions. The development compounded the fragile recovery caused by the effect of the COVID-19 pandemic. Other factors include divestments by oil majors and incidences of insecurity such as oil theft and vandalism which continued to hamper domestic oil production and export.

Consequently, average daily oil production fell to 1.20 million barrels per day (mbpd) in the third quarter of 2022, compared with 1.57 and 1.43 mbpd in the corresponding and preceding quarters, respectively. Average daily oil production stood at 1.34 mbpd in the fourth quarter of 2022 compared with 1.50 and 1.20 mbpd in the corresponding and preceding quarters, respectively.

The price of Nigeria's reference crude, the Bonny Light 37⁰API, stood at US$82.50 per barrel (pb) at end-December 2022 compared with US$74.81 per barrel (pb) at end-December 2021 and US$130.30 per barrel (pb) at end-June 2022.

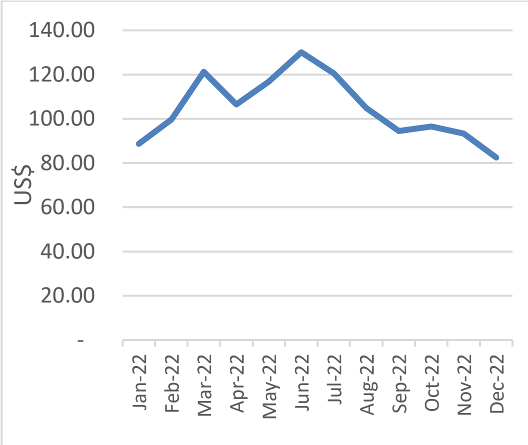
Overall, the average price of Bonny Light in the second half of 2022 at US$98.72 pb stood above the Federal Government of Nigeria's budget benchmark of US$62.0 pb for 2022. Barring any production challenges, the healthy difference between current oil prices and budget benchmark should bud well for improved fiscal revenue and lower deficit, accretion to external reserves and ease pressure in the foreign exchange market. However, the persistently lower crude oil production owing to incidences of pipeline vandalization and oil theft has kept the country from benefiting from high oil prices in the international market as Nigeria has failed to meet it OPEC quota for oil export over time.

Figure 3.7: Quarterly Domestic Oil Production and Export (2020Q1-2022Q4)



Source: NBS

Figure 3.8: Monthly Bonny Light Oil Price, January 2022 - December 2022



Source: Statistics Department

Table 3.1
Growth Rates of Real GDP by Expenditure (%), 2021 – 2022

	Q1-2021	Q2-2021	Q3-2021	Q4-2021	Q1-2022	Q2-2022	Q3-2022	Q4-2022
GDP (Basic Price)	0.51	5.01	4.03	3.98	3.11	3.54	2.25	3.52
GDP (Market Price)	0.41	5.36	4.07	4.64	3.60	3.40	2.38	3.64
Household Consumption	47.16	42.40	19.36	7.30	8.66	-5.21	-5.83	- 12.47
Gov. Consumption Expenditures	-4.57	- 53.56	- 39.51	- 16.76	-9.91	-6.23	-9.38	- 13.77
Gross Fixed Capital Formation	-0.03	6.11	7.52	5.86	5.98	3.72	4.78	-0.73
Net Exports	- 91.74	- 49.30	- 38.27	1.35	72.5 3	77.9 9	58.2 3	14.38
National Disposable Income	-6.46	-5.66	-1.48	2.84	1.55	1.84	1.08	4.98
Compensation of Employees	9.26	19.44	14.54	11.79	6.48	3.93	4.28	3.28
Operating Surplus	-3.15	-4.45	-1.01	0.79	1.11	2.86	1.36	3.62
Other Current Transfers from RoW Net	- 63.70	- 59.80	- 46.12	-6.38	27.3 2	11.0 8	31.4 3	56.48

Source: NBS

3.2 Domestic Price Developments

Inflationary pressures persisted in the review period, driven primarily by continued supply chain disruptions and shock spill overs from the global economy. In addition, structural factors such as insecurity, infrastructural deficit and rising energy prices sustained the uptrend in the domestic price level. Consequently, all three measures of inflation, headline, food, and core, maintained an uptrend in the review period, with headline inflation remaining significantly above the ceiling of the Bank's 6.00 to 9.00 per cent indicative benchmark. Price developments in the review period generally reflected the combined effects of both demand- and supply-side factors.

Food inflation remained the key driver of the general price level, aggravated mainly by persisting insecurity, rising cost of logistics and adverse weather conditions. In addition, the Russia-Ukraine war contributed to disruptions to global food supply. Furthermore, shortage in foreign exchange earnings and capital reversals, attributed largely to low oil revenue receipts from production shut-ins and oil price volatility exerted pressures on prices. Also, the considerable dip in migrant remittances during the period reduced exchange rate supply and therefore widened the premium. To shore-up the supply of foreign exchange, the Bank sustained the implementation of existing policies such as Naira-4-Dollar and RT200, among others.

On the demand side, the expansionary fiscal policy, arising from increased government borrowing due to revenue shortfalls, coupled with the residual impact of the COVID-19 interventions put upward pressure on domestic prices. To moderate the demand pressure on price development, the Bank maintained its tight monetary policy stance throughout the period. This impacted activities in the money market, reflected by higher rates in the Interbank Call and Open Buy Back windows compared with the previous half year. Consequently, credit growth declined moderately as most banks failed to meet the Bank's loan-to-deposit ratio of 65 per cent in the review period.

3.2.1 Trends in Inflation

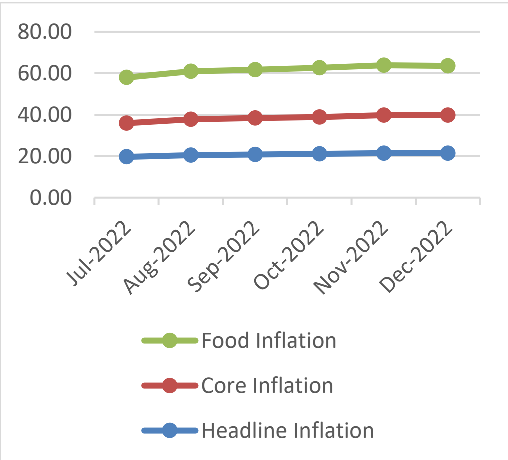
The three measures of inflation maintained upward trajectories during the period under review. The headline, core, and food measures of the consumer price index (CPI) rose to 499.4, 421.7 and 590.2, in December 2022, from 463.6, 393.0 and 545.6, respectively, in July 2022. Food inflation (year-on-year) thus increased by 1.73 percentage points to 23.75 per cent in December 2022 from 22.02 per cent in July. The Core measure, also rose by 2.23 percentage points to 18.49 per cent in December 2022 from 16.26 per cent in July. Consequently, headline inflation increased by 1.70 percentage points to 21.34 per cent in December 2022 from 19.64 per cent in July (Figure 3.9 and Table 3.2). Thus, food inflation was the major contributor to the overall uptick in consumer prices during the period (Table 3.4).

Table 3.2: Inflation Rates, July – December 2022

	Headline Inflation			Core Inflation			Food Inflation		
	CPI	YoY	12MMA	CPI	YoY	12MMA	CPI	YoY	12MMA
Jul-2022	463.6	*19.64*	*16.75*	393.0	*16.26*	*14.28*	545.6	*22.02*	*18.75*
Aug-2022	471.8	*20.52*	*17.07*	399.2	*17.20*	*14.60*	556.4	*23.12*	*19.02*
Sep-2022	478.2	*20.77*	*17.43*	405.5	*17.60*	*14.93*	564.4	*23.34*	*19.36*
Oct-2022	484.2	*21.09*	*17.86*	409.3	*17.76*	*15.31*	571.3	*23.72*	*19.83*
Nov-2022	490.9	*21.47*	*18.37*	416.2	*18.24*	*15.69*	579.3	*24.13*	*20.41*
Dec-2022	499.4	*21.34*	*18.85*	421.7	*18.49*	*16.08*	590.2	*23.75*	*20.94*

Source: Nigerian National Bureau of Statistics database

Figure 3.9: Headline, Core, and Food Inflation Rates (July – December 2022)



Source: Nigerian National Bureau of Statistics database

3.2.1.1 Headline Inflation

The increase in headline inflation during the review period was largely driven by Food & Non-Alcoholic Beverages, which rose to 14.10 per cent in December 2022 from 13.02 per cent in July. Health, Transport, and Education increased to 0.43, 1.16, and 0.57 per cent in December 2022 from 0.38, 1.01, and 0.50 per cent, respectively, in July (Figure 3.10). Headline inflation thus increased to 21.34 per cent in December 2022 from 19.64 per cent in July.

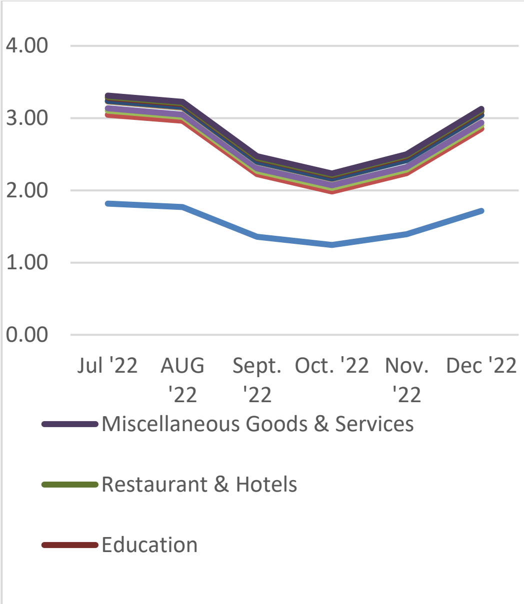
The uptick in headline inflation in the review period resulted primarily from continued disruptions to food supply due to the lingering insecurity in farming communities and incidences of flood. Also, the shocks to energy prices resulted in rising electricity tariffs which impacted the cost of production; high price of automotive gas oil (AGO), which put upward pressure on the cost of logistics as well as continued scarcity of premium motor spirit (PMS). Other factors such as increased spending towards the 2023 general elections also exacerbated the uptick in general price level.

To address this uptick in price level, the Bank maintained a tight monetary policy stance throughout the review period, adjusting the policy rate upwards at each of the three meetings of the Monetary Policy Committee (MPC).

Figure 3.10
Major Components of Headline Inflation (Y-on-Y), July – December 2022

Source: Nigerian National Bureau of Statistics database

Figure 3.11
Major Components of Headline Inflation (M-on-M July – December 2022



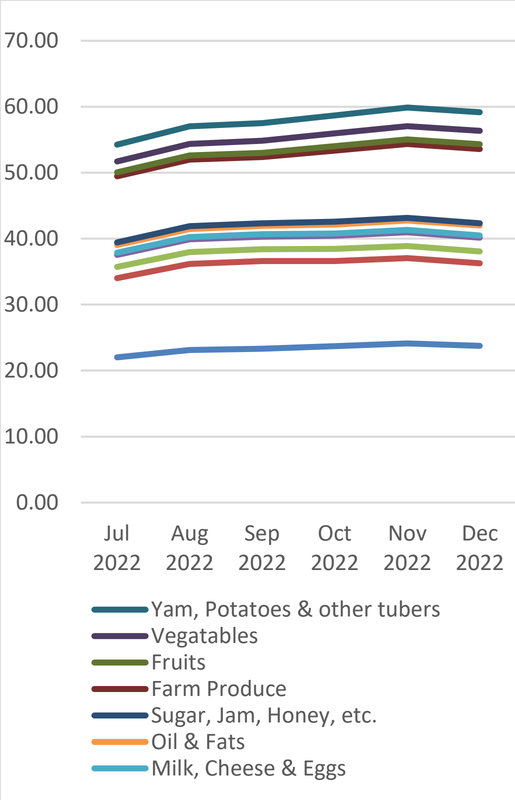
Source: Nigerian National Bureau of Statistics database

Month-on-month headline inflation, however, declined to 1.71 per cent in December 2022 from 1.82 per cent in July. The primary driver of this moderation was Food and Non-Alcoholic Beverages, which fell to 1.14 per cent in December 2022 from 1.23 per cent in July. Transport, however, rose marginally to 0.10 per cent in December 2022 from 0.09 per cent in July (Figure 3.5).

3.2.1.2 Food Inflation

Food inflation (year-on-year) rose to 23.75 per cent in December 2022 from 22.02 per cent in July. The main driver was processed food prices, which increased to 12.51 per cent in December from 12.00 per cent in July. The increase in the price of processed food resulted from the rise in prices of Meat, Fish & Seafood, and Oil & Fats by 0.09, 0.28, and 0.31 percentage points, respectively. Farm produce prices also rose to 11.25 per cent in December 2022 from 10.02 per cent in July, mainly attributed to the incidences of flooding and insecurity, especially in the food producing belt of the country.

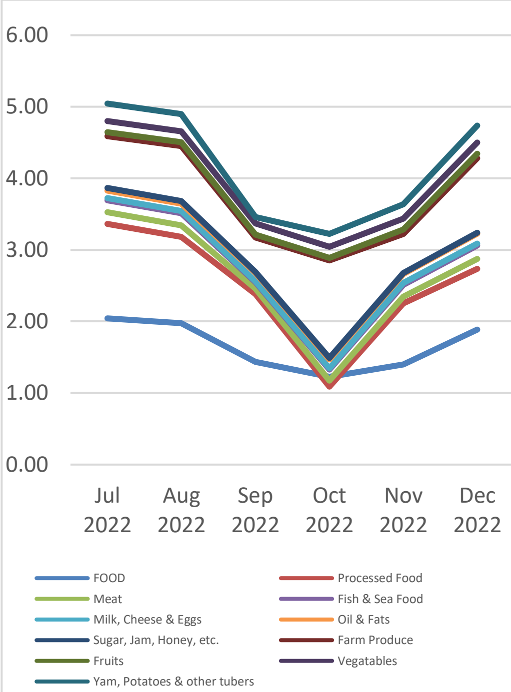
Figure 3.12: Major Components of Food Inflation (Y-on-Y), July - December 2022



Source: Nigerian National Bureau of Statistics database

On a month-on-month basis, however, food inflation declined to 1.89 per cent in December 2022 from 2.04 per cent in July. This was due to the drop in the price of processed food to 0.85 per cent in December 2022 from 1.32 per cent in July. The key drivers of the decrease in the price of processed food category were Fish & Seafood and Oils & Fats, which fell by 0.02 percentage points apiece. Farm produce, however, rose to 1.04 per cent in December from 0.72 per cent in July.

Figure 3.13: Major Components of Food Inflation July - December 2021



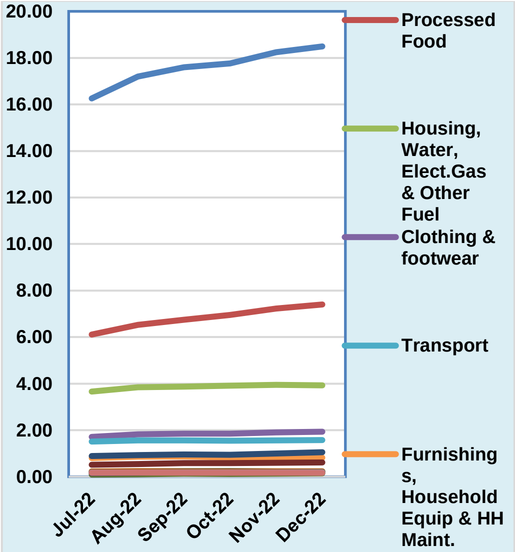
Source: Nigerian National Bureau of Statistics database

3.2.1.3 Core Inflation

Core inflation (year-on-year) rose to 18.49 per cent in December 2022 from 16.26 per cent in July, driven mainly by processed food which accounted for 1.29 percentage points of the increase. Other contributory components include: Housing, Water, Electricity, Gas, & Other Fuels (0.27 percentage point); Clothing & Footwear (0.22 percentage point); Education (0.16 percentage point), and Health (0.10 percentage point). Communication, however, declined marginally by 0.01 percentage point (Figure 3.14). Some of the key developments which led to the uptick in core inflation include: the persistent rise in energy prices especially PMS, AGO, and Liquified Petroleum Gas (LPG);

elevated prices of goods; and exchange rate pressures. In addition, the spill-over effect from the Russia-Ukraine war contributed to higher commodity prices.

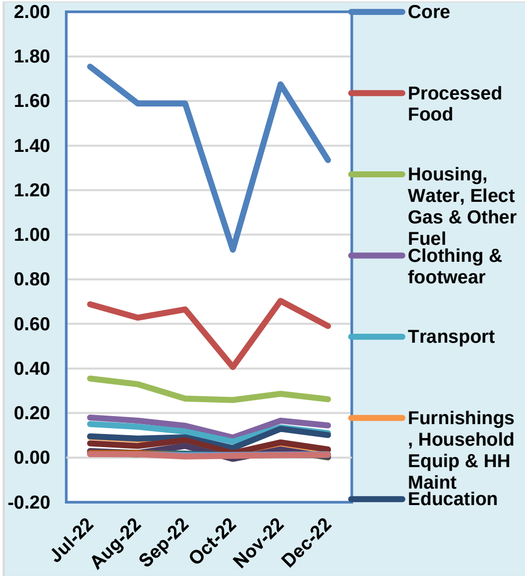
Figure 3.14: Major Components of Core Inflation (Y-on-Y), July – December 2022



Source: National Bureau of Statistics

Core inflation (month-on-month) decreased to 1.33 per cent in December 2022 from 1.75 per cent in July. The key drivers of the decline were: Processed food (0.01 percentage point); housing, water, electricity, gas & other fuels (0.09 percentage point); and furnishings, household equipment, & household maintenance (0.06 percentage point) (Figure 3.15).

Figure 3.15
Major Components of Core Inflation (M-on-M), July – December 2022



Source: National Bureau of Statistics

3.2.2 Seasonally Adjusted Inflation

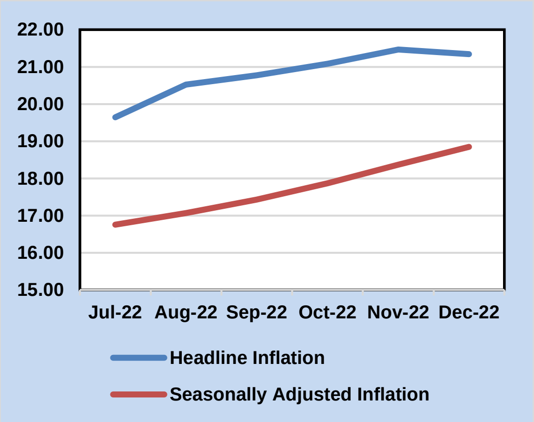
The actual and seasonally adjusted measures of headline inflation both trended upwards in the review period, with actual headline inflation trending above the seasonally-adjusted (SA) measure. Actual headline inflation increased to 21.34 per cent in December 2022 from 19.64 per cent in July, while the Seasonally-Adjusted measure also rose to 18.85 per cent in December 2022 from 16.75 per cent in July (Table 3.3 and Figure 3.16). The upward trend in both measures was attributed to incidences of flooding, impact of lingering insecurity in farming communities, and the persistent shock to energy prices which fed into rising cost of production and logistics. The increased spending towards the 2023 general elections also contributed to the uptrend.

Table 3.3
Actual and Seasonally Adjusted Headline Inflation, July – December 2022

Year	Headline Inflation	Seasonally Adjusted Inflation
Jul-22	19.64	16.75
Aug-22	20.52	17.07
Sep-22	20.77	17.43
Oct-22	21.09	17.86
Nov-22	21.47	18.37
Dec-22	21.34	18.85

Source: National Bureau of Statistics and CBN

Figure 3.16: Actual and Seasonally Adjusted Headline Inflation, July – December 2022



Source: National Bureau of Statistics and CBN

3.2.3 Key Factors that Influenced Domestic Prices

During the review period, the net effect of cost-push, demand-pull, and moderating factors generally influenced the trend in inflation. Major factors which contributed to the uptrend include: the fluctuation in supply of PMS, uptick in energy prices, food supply shortages and perisistent insecuirty. Others include the liquidity effects of capital releases from the budget, impact of festive and pre-general election spending, the continued pressure on the exchange rate, as well as the impact of the Russia-Ukraine war.

3.2.3.1 Demand-side Factors

The uptrend in headline inflation in the review period was influenced by several demand-side factors. These include Government capital releases for infrastructural projects and settlement of contractual obligations, continued intervention in the real sector to strengthen output recovery, residual effect of COVID-19 interventions as well as the demand pressure in the foreign exchange market with pass-through to domestic prices. The net effect of these factors was a sustained increase in inflationary pressure.

3.2.3.2. Supply-side Factors

The supply-side factors that intensified headline inflation during the review period include the shortage of food supply as a result of incidences of flooding and security challenges across the country, perennial scarcity of PMS and legacy infrastructural deficits as well as the impact of the Russia-Ukraine conflict on global supply. In addition, the lockdown in major industrial cities in China as a result of the resurgence of the COVID-19 Pandemic contributed to the disruption in global supplies. The cumulative impact of these factors hampered supplies in the review period.

3.2.3.3 Moderating Factors

The uptrend in inflation in the review period was moderated by a number of factors. These include: the sustained implementation of the Bank's initiative to boost foreign exchange supplies such as the RT200 and Naira-4-Dollar policies, which helped moderate exchange rate pressure; the Bank's intervention in the real sector to boost agriculture and manufacturing output and Government's continued implementation of the policy to improve the ease of doing business. In addition, the Bank maintained a tight policy stance throughout the period to moderate the rise in inflation.

3.3 Monetary Policy and Liquidity Management

In the second half of 2022, monetary policy was influenced by various developments in the global and domestic economic and financial environments.

On the global scene, the key developments were the persistence of the war between Russia and Ukraine as well as lockdowns in major Chinese industrial cities to combat the resurgence of the COVID-19 Pandemic, both of which intensified the disruptions to the global supply chain. This was characterized by a sharp rise in food and energy prices across several economies. In addition, the lagged impact of the substantial liquidity injections to ease the downside risks of the COVID-19 pandemic continued to put upward pressure on price levels across several economies. Consequently, several Advanced Economy central banks sustained their earlier thrust towards monetary policy normalization, resulting in a broad tightening of global financial conditions and capital flow reversals as well as exchange rate pressures in Emerging Markets and Developing Economies.

On the domestic front, the economy maintained a moderate but steady recovery in the face of new and legacy headwinds. Key amongst these were the incidences of flooding in various communities causing acute shortages to food supply; unabating security challenges disrupting business activities especially in the farming communities; perennial scarcity of PMS and high cost of other energy sources which disrupted productive activities; oil theft in the Niger Delta; as well as exchange rate pressures. Other legacy infrastructural deficits such as poor road networks and epileptic power supply also adversely impacted production and logistics across the country. During the review period, there was a significant reduction in open market operations by the Bank, partly as a result of shortage of liquidity in the banking system as well as the resolve of the Bank to cut the cost of liquidity management.

3.3.1 Monetary Policy Response to Evolving Economic Conditions

During the second half of 2022, monetary policy formulation and implementation focused on alleviating the impact of the various global and domestic shocks on the domestic economy. Some of these shocks were the persistent increase in energy prices, heightened food prices, rising inflation, supply chain bottlenecks, and sharp increase in interest rates which dovetailed to tightening external financial conditions. Oil price volatility resulting from the various policies by OPEC+ and the US Government, also created considerable instability in the market which led to further uncertainties in the global economy. Accordingly, the International Monetary Fund (IMF) downgraded global growth for 2022 to 3.2 per cent.

The domestic economy continued to face uncertainties arising from persisting insecurity; rising cost of debt and debt servicing; deteriorating fiscal balances; increased spending towards the 2023 general elections; and continued uptrend in inflationary pressure. Data from the National Bureau of Statistics (NBS), however, showed that real Gross Domestic Product (GDP) grew by 3.54 per cent (year-on-year) in the second quarter of 2022 and 5.01 per cent in the corresponding period of 2021. This marked the seventh consecutive quarter of growth, following the exit from recession in 2020. The consistent expansion was driven largely by growth in the non-oil sector, particularly in the services and agricultural sub-sectors.

Headline inflation (year-on-year) rose for the ninth consecutive month to 21.09 per cent in October 2022 from 20.77 per cent in the previous month, an increase of 0.32 percentage point. On a month-on-month basis, however, headline inflation decelerated to 1.24 per cent in October 2022 from 1.36 per cent in the previous month, an indication that price development was responding to the Bank's policy rate hikes.

Broad money supply (M3) grew by 13.80 per cent in October 2022, (year-to-date) compared with 11.00 per cent in September, driven largely by increased claims on 'Other Sectors' (other financial corporations, public non-financial corporations, and private sector).

In the equities market, the All-Share Index (ASI) and Market Capitalization (MC) decreased to 43,839.08 and N23.88 trillion on October 31, 2022, from 49,836.51 and N26.88 trillion, respectively, on August 31, 2022. The decrease reflected profit taking and sustained sell-off by investors to rebalance their portfolios in favour of higher yield fixed income securities. Other contributory factors include inflationary and exchange rate pressures as well as tightening external financial conditions.

In the financial markets, money market rates oscillated below and within the asymmetric corridor of the discount facilities window, in tandem with liquidity conditions in the banking system. Consequently, the monthly weighted average Open Buy Back (OBB) rate increased to 15.91 per cent in October 2022 from 11.49 per cent in September 2022.

These challenges and the desire to achieve the Bank's objective of price stability conducive to economic growth, were the key considerations that shaped monetary policy in the second half of 2022. Consequently, the Monetary Policy

Committee raised the MPR to 16.5 per cent; retained the asymmetric corridor of +100/-700 basis points around the MPR; raised the CRR to 32.5 per cent and retained the Liquidity Ratio at 30 per cent.

Furthermore, the Bank continued with its intervention programmes to support the recovery of output growth, lower unemployment, ease supply chain challenges, and drive down prices. The Bank's interventions primarily covered manufacturing/industries, agriculture, energy/infrastructure, healthcare and Micro, Small and Medium Enterprises (MSMEs)[1].

3.3.2 Monetary Policy Committee Meetings

The Monetary Policy Committee (MPC) met three times in July, September, and November 2022 during the second half of 2022. At its July meeting, the Committee assessed the impact of emerging external shocks and legacy issues on price and output developments in the short to medium term. In the opinion of Members, the major external shocks to the economy remained those associated with the supply constraints arising from the Russia-Ukraine war and the backlash from sanctions imposed on Russia. Others were the residual impact of the COVID-19 pandemic and tightening external financial conditions, following continued monetary policy normalization by some advanced economy central banks.

Members noted the rising demand for money, associated with election spending and the impact on month-on-month inflation between May and June 2022. The Committee also assessed the impact of persisting insecurity and upward pressure on energy prices on the general price level. It noted that the current upsurge in price levels remained a primary concern to monetary policy. The Committee clearly identified both demand and supply-side factors as key drivers of inflationary pressure, which should be addressed using different policy approaches. In the Committee's view, the demand-side factors were being broadly addressed by the Bank, using the relevant direct and indirect instruments. On the supply side, the Bank has continued to provide the necessary support, through its development finance initiatives in the real sector, to ease supply constraints. The Committee, therefore, called on the Federal Government to prioritize efforts to curb the menace of insecurity to enable farming and other business activities return to normalcy. Members also noted the impact of the prolonged scarcity of Premium Motor Spirit (PMS) on price developments and called on the Federal Government to seek a long-term and viable solution to strike a balance between its pricing and supply.

[1] Details of the interventions in the review period are contain in sections 3.1.2.2 and 3.2.2.2

The Committee noted the continued recovery of output growth despite the headwinds and urged the Bank and the Federal government to sustain the recent economic gains.

The MPC appreciated the Bank's efforts toward ensuring exchange rate stability, in the face of external shocks, and applauded the RT200 and other initiatives targeted at improving foreign exchange inflows and accretion to reserves.

Similarly, the Committee noted the stability in the banking system, given the continued decline in Non-Performing Loans (NPLs) and enjoined the Bank to sustain its surveillance to ensure continued resilience of the banking sector.

Given the foregoing developments and the upside risks to inflation, the Committee decided to raise the MPR by 100 basis points to 14.0 per cent; retain the asymmetric corridor at +100/-700 basis points around the MPR; CRR at 27.5 per cent; and liquidity ratio at 30.0 per cent.

During the September 2022 meeting, the MPC expressed concerns about the high level of global inflation, and its adverse impact on the recovery of both the Advanced and Emerging Market Economies. Members further noted the downside risks associated with other headwinds confronting the global economy.

In Nigeria, output growth was sustained by the combination of development finance interventions by the Bank and fiscal stimulus by the Federal Government. Members noted that in the last 3 years, the Bank invested over N9 trillion in its intervention programmes. While the Committee believed that these interventions helped the recovery significantly, Members were of the view that the current spike in inflation would be detrimental to growth.

On the financial market, the MPC noted the moderate downturn in the equities market, attributing it to the continued outflow of portfolio capital as investors re-assigned their portfolios to higher yield US dollar-denominated fixed income securities. The Committee, thus, called on the Federal Government to continue to improve the ease of doing business in Nigeria and sustain investor confidence in the economy.

The MPC applauded the Bank for its continued stringent regulatory measures over the banking system, noting the progressive decline in the Non-Performing Loans (NPLs) ratio of the banking system despite the heightened macroeconomic uncertainties.

On inflation, the MPC was concerned about the considerable rise in inflation in the past four months to 20.52 per cent in August 2022 from 17.71 per cent in May. The Committee was thus, of the view that given the primacy of its price and monetary stability mandate, it was expedient to focus on taming inflation. Members, therefore, decided to: raise the MPR by 150 basis points to 15.5 per cent; raise the CRR by 500 basis points to 32.5 per cent; retain the asymmetric corridor and liquidity ratio at +100/-700 basis points and 30.0 per cent, respectively.

At the November 2022 meeting, the MPC expressed concern about the global inflationary pressures and the tightening global financial conditions. The Committee, however, observed that domestic inflation (month-on-month) decelerated as a result of its progressive tight stance.

Members noted that domestic output growth remained positive due to the combined fiscal and monetary policy support and thus, urged both authorities to harmonize their various policies towards accelerating output growth and achieving a stable macroeconomic environment.

In reaching its decision, Members felt that the economy was still confronted by considerable headwinds arising from the Russia-Ukraine war, supply chain disruptions, and rising inflation in the advanced economies. In the opinion of the Committee, with rising inflation, loosening the stance of policy may lead to a more aggressive rise in inflation and thus, erode the gains already achieved. The MPC also noted that in view of the approaching festive season and ongoing election spending, 'a hold' policy was not an option as it could jeopardise the gains of previous policy rate hikes.

Consequently, the MPC decided to tighten further, but at a moderate pace, in order to narrow the negative real effective interest rate margin and improve investor confidence. The Committee thus voted to raise the MPR to 16.5 per cent; and retain the: asymmetric corridor of +100/-700 basis points around the MPR; CRR at 32.5 per cent; and Liquidity Ratio at 30 per cent. The communiques of the MPC meetings are reproduced in the appendix.

3.3.3 Instruments of Liquidity Management

The Bank continued to deploy its monetary policy instruments to achieve the objective of price and monetary stability. The instruments deployed were: the Monetary Policy Rate (MPR); the Cash Reserve Ratio (CRR); Liquidity Ratio; Open Market Operations (OMO); and Discount Window Operations. These were occasionally complemented with interventions in the foreign exchange market.

3.3.3.1 Monetary Policy Rate (MPR)

The Monetary Policy Rate (MPR) remained the Bank's key instrument for monetary policy management in the review period. The MPR was raised thrice by 100 basis points (bp), 150 bp and 100 bp in July, September, and November 2022, respectively, to 16.5 per cent from 13.0 per cent. The asymmetric corridor was however, retained at +100/-700 basis points around the MPR during the period. The tight policy stance was adopted to rein-in inflation and reduce the negative real effective interest rate margin.

3.3.3.2 Open Market Operations (OMO)

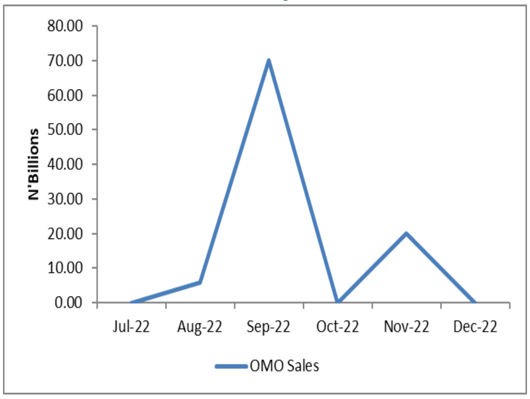
In the second half of 2022, the Bank maintained the use of Open Market Operations (OMO) as its primary tool for liquidity management. Total OMO sales decreased significantly by 86.07 per cent to ₦95.84 billion in the second half of 2022 from ₦688.12 billion in the preceding half of 2022. This also represented a decrease of 98.48 per cent from ₦6,319.46 billion in the corresponding half of 2021 (Table 3.9). The development partly reflected shortage of liquidity in the banking system as well as the Bank's effort to reduce the cost of liquidity management.

Table 3.4: OMO Bills Auction (July – December 2022) (₦'billion)

Date	2021	2022	% Change
Jan	452.67	130.00	-71%
Feb	763.23	248.12	-67%
Mar	381.92	170.00	-55%
Apr	63.19	-	-100%
May	66.64	100.00	50%
Jun	65.60	40.00	-39%
1st Half	**1,793.25**	**688.12**	-62%
Jul	151.26	0.00	-100%
Aug	1,411.89	5.84	-100%
Sep	1,398.60	70.00	-95%
Oct	772.66	0.00	-100%
Nov	884.22	20.00	-98%
Dec	1,700.83	0.00	-100%
2nd Half	**6,319.46**	**95.84**	-98%
Cumulative Figure	**8,112.71**	**783.96**	-90%

Source: CBN, Financial Market Department

Figure 3.17: OMO Bills Auction (July – December 2022)



Source: CBN, Financial Market Department

3.3.3.3 Reserve Requirements

In the second half of 2022, the Bank deployed the Cash Reserves Ratio (CRR) instrument to complement the MPR and OMO auctions for liquidity management. The Monetary Policy Committee thus increased the CRR to 32.5 per cent in September 2022 from 27.5 per cent to curb the excess liquidity in the banking system and maintained Liquidity Ratio at 30.0 per cent.

3.3.3.4 Standing Facilities

In the review period, Other Depository Corporations (ODCs) continued to access the standing facilities (lending/deposit) window to meet their daily liquidity requirements. The Bank maintained the asymmetric corridor at +100/-700 basis points around the MPR. The requests for Standing Lending Facility (SLF) increased significantly by 107.36 per cent to ₦9,372.01 billion in the second half of 2022 from ₦4,519.68 billion in the first half. This reflected a significant decrease of 175.12 per cent from

₦3,406.46 billion in the corresponding half of 2021 (Table 3.10).

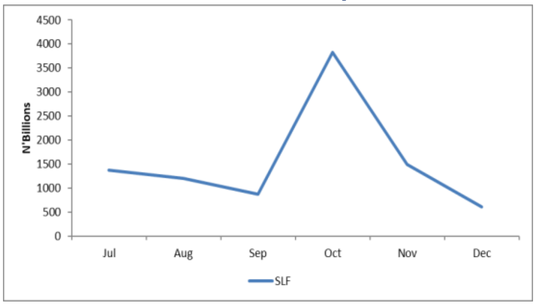
At the Standing Deposit Facility (SDF) segment, transactions decreased by 42.12 per cent to ₦1,224.96 billion in the second half of 2022 from ₦2,116.52 billion in the first half. Similarly, transactions decreased marginally by 0.25 per cent from ₦1,221.95 billion in comparison with the corresponding half year (Table 3.10). Transactions at the Window resulted in a higher net lending of ₦8,147.05 billion in the second half of 2022 compared with ₦2,184.51 billion and ₦2,403.16 billion in the corresponding and preceding half years. This reflected the impact of the tight monetary policy stance of the Bank.

Table 3.5: CBN Standing Lending Facility (January 2021 – December 2022) (N'billion)

Date	2021	2022	% Change
Jan	395.77	227.23	
Feb	552.66	253.44	
Mar	886.51	328.09	
Apr	2498.55	725.76	
May	4818.91	712.99	
Jun	589.44	2272.17	
1st Half	**9,741.84**	**4,519.68**	**-53.61%**
Jul	302.54	1,371.69	
Aug	472.57	1,197.43	
Sep	737.72	875.95	
Oct	513.22	3,822.44	
Nov	668.87	1,496.73	
Dec	711.54	607.77	
2nd Half	**3,406.46**	**9,372.01**	**175.12%**
Total	**13,148.30**	**13,891.69**	

Source: CBN, Financial Market Department

Figure 3.18: Standing Lending Facility (July – December 2022)



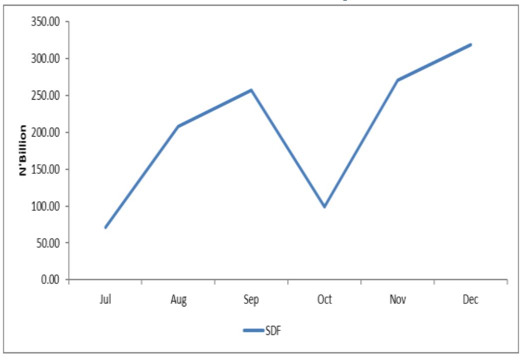
Source: CBN, Financial Market Department

Table 3.6: CBN Standing Deposit Facility (January 2021 – December 2022) (N'billion)

Date	2021	2022	% Change
Jan	528.33	293.79	
Feb	441.51	293.79	
Mar	420.36	595.69	
Apr	145.52	324.89	
May	123.89	368.21	
Jun	170.29	240.15	
1st Half	**1,829.90**	**2,116.52**	**15.66%**
Jul	218.06	71.06	
Aug	207.58	208.02	
Sep	200.35	257.43	
Oct	128.10	99.41	
Nov	237.64	270.51	
Dec	230.22	318.54	
2nd Half	**1,221.95**	**1,224.96**	**0.25%**
Total	**3,051.85**	**3,341.48**	

Source: CBN, Financial Market Department

Figure 3.19: Standing Deposit Facility (July - December, 2022)



Source: CBN, Financial Market Department

3.3.3.5 Foreign Exchange Intervention

Pressure in the foreign exchange market continued in the second half of

2022 due largely to the persistent decline in foreign exchange inflows resulting in low accretion to reserves. Total foreign exchange supply thus decreased by 21.45 and 10.26 per cent to US$8,281.64 million in the second half of 2022, compared with US$10,543.51 million and US$9,228.81 million in the corresponding and preceding periods (Table 3.12).

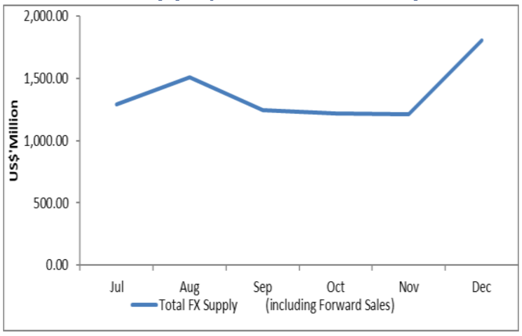
The Bank, however, sustained its intervention in the FX market to boost liquidity and stabilise the exchange rate. To shore-up supply of foreign exchange, the Bank sustained the implementation of existing policies such as the Naira-4-Dollar and RT200. It also directed International Money Transfer Operators (IMTOs) to pay diaspora remittances in foreign currency to encourage remittance flows through official sources.

Table 3.7
Foreign Exchange Supply by the CBN (US$ Million)

Date	2021	2022	% Change
	Total FX Supply (including Forward Sales)	Total FX Supply (including Forward Sales)	
Jan	717.05	1,421.68	
Feb	714.55	1,461.19	
Mar	770.08	1,712.77	
Apr	962.80	1,486.47	
May	1,283.74	1,632.90	
Jun	1,383.37	1,513.80	
1st Half	**5,831.59**	**9,228.81**	**58.26%**
Jul	1,764.80	1,290.25	
Aug	1,641.32	1,508.34	
Sep	1,405.29	1,244.75	
Oct	2,133.54	1,220.79	
Nov	1,717.77	1,212.68	
Dec	1,880.79	1,804.82	
2nd Half	**10,543.51**	**8,281.64**	**-21.45%**

Source: CBN, Financial Market Department

Figure 3.20: Total FX Supply (including Forward Sales) (July – December, 2022)



Source: CBN, Financial Market Department

3.3.4 Developments in Monetary Aggregates

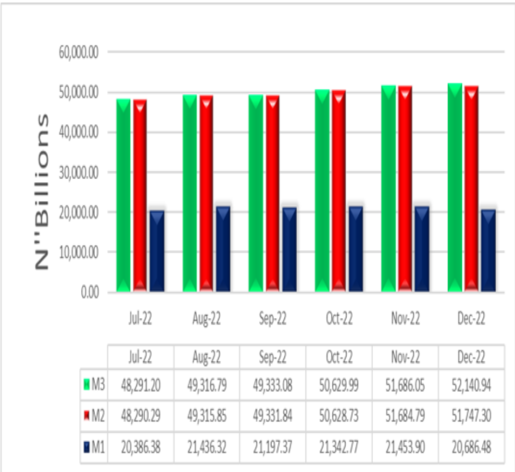
Monetary aggregates in the review period trended upwards compared with their performance in the first half of 2022, except for Net Foreign Assets (NFA) which trended downwards. The growth in broad money was largely attributed to the spill-over of earlier interventions by the Bank and fiscal authority to mitigate the downside risks of the COVID-19 pandemic, increased spending towards the 2023 general elections as well as deficit financing by the Government. The significant growth in Net Domestic Assets (NDA) was driven largely by growth in credit to government. Net Foreign Asset (NFA), however, declined relative to its level in the first half of 2022 due to low oil receipts, increased demand in the foreign exchange market and low accretion to foreign reserves.

3.3.4.1 Broad Money (M3, M2)

Broad money (M3 & M2) grew substantially in the review period compared with the first half of 2022. M3 grew by 6.63 per cent to ₦52,140.94 billion at end-December 2022 from ₦48,898.34 billion at end-June 2022. Compared with the end-December 2021 level of ₦44,443.97 billion, it increased by 17.32 per cent. This increase was above the 2022 provisional indicative growth target of 14.94 per cent.

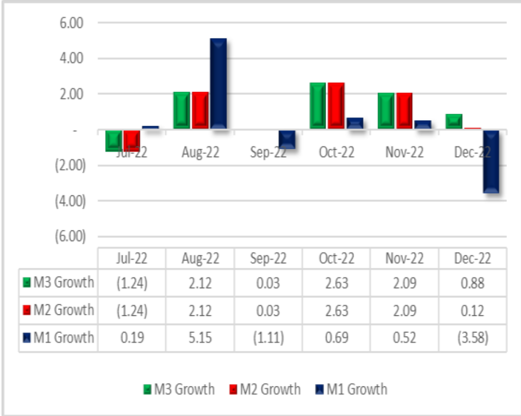
Similarly, M2 grew by 5.83 per cent to ₦51,747.30 billion at end-December 2022 from ₦48,897.45 billion at end-June 2022. Compared with ₦44,443.07 billion in the corresponding period of 2021, it increased by 16.44 per cent. This increase was also above the 2022 indicative growth benchmark of 14.92 per cent.

Figure 3.21: Money Supply (M1), (M2) and (M3) (July - December 2022)



Source: Statistics Department as at December 2022

Figure 3.22: Growth in Money Supply (M1), (M2) and (M3) (July - December 2022)



Source: CBN, Statistics Department

3.3.4.2 Narrow Money (M1)

Narrow Money (M1) increased marginally by 1.66 per cent to ₦20,686.48 billion at end-December 2022 from ₦20,348.21 billion at the end-June 2022. Compared with the corresponding period of 2021, it grew by 14.57 per cent. This was slightly lower than the 2022 indicative growth benchmark of 15.48 per cent (Figures 3.21 and 3.22). The moderation in M1 growth relative to its target reflected the impact of the Naira Redesign and cashless policy implementation.

3.3.4.3 Net Foreign Assets (NFA)

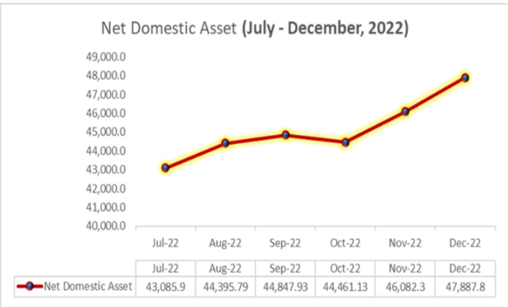
Net Foreign Assets (NFA) contracted by 30.38 per cent to ₦4,253.14 billion at end-December 2022 from ₦6,109.03 billion at end-June 2022. Compared with the corresponding period of 2021, NFA fell by 54.52 per cent to ₦9,352.15 billion. This was significantly below the 2022 provisional indicative growth target of 0.89 per cent. The under-performance of NFA in the review period was attributed to the contraction in foreign asset holdings of the Central Bank. Other factors responsible for the weak performance of NFA were the drop in crude oil production owing to theft and pipeline vandalism, as well as increased utilization of foreign exchange to meet external obligations.

3.3.4.4 Net Domestic Assets (NDA)

Net Domestic Assets (NDA) increased by 11.92 per cent to ₦47,887.80 billion at end-December 2022 from ₦42,789.31 billion at end-June 2022. Compared with ₦35,091.83 billion at end-December 2021, NDA grew by 36.46 per cent. This was significantly higher than the 2022 indicative benchmark of 1.79 per cent. The growth in NDA was attributed to the significant increase in Credit to Government (NCg).

Net Domestic Credit (NDC) increased year-on-year by 36.30 per cent, largely driven by the growth in Credit to Government (NCg) and Credit to Private (CPs) of 78.15 and 19.71 per cent, respectively. The growth in NDC at end-December 2022 outperformed its annual benchmark of 16.23 per cent.

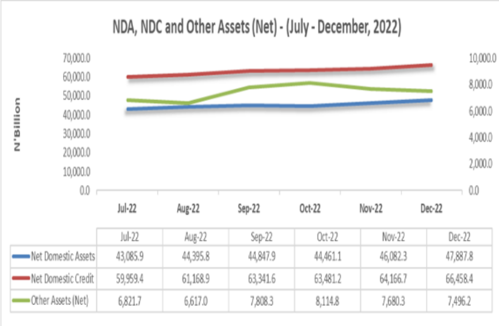
Figure 3.23: Net Domestic Asset (NDA) (June - December 2022)



	Jul-22	Aug-22	Sep-22	Oct-22	Nov-22	Dec-22
Net Domestic Asset	43,085.9	44,395.79	44,847.93	44,461.13	46,082.3	47,887.8

Source: CBN, Statistics Department

Figure 3.24: NDA, NDC and Other Assets (Net) (July – December 2022)



	Jul-22	Aug-22	Sep-22	Oct-22	Nov-22	Dec-22
Net Domestic Assets	43,085.9	44,395.8	44,847.9	44,461.1	46,082.3	47,887.8
Net Domestic Credit	59,959.4	61,168.9	63,341.6	63,481.2	64,166.7	66,458.4
Other Assets (Net)	6,821.7	6,617.0	7,808.3	8,114.8	7,680.3	7,496.2

Source: CBN, Statistics Department

3.3.4.5 Credit to Government (Cg)

Net Credit to Government (NCg) increased by 35.36 per cent to ₦24,656.23 billion at end-December 2022 from ₦18,214.63 billion at end-June 2022. Compared with ₦13,839.91 billion in the corresponding period of 2021, it grew by 78.15 per cent. This was significantly higher than the 2022 indicative growth target of 12.26 per cent. The developments during the period reflected sustained borrowing by government to finance the budget deficit.

3.3.4.6 Credit to the Private Sector (Cp)

Credit to the private sector (CPs) grew by 6.55 per cent to ₦41,802.19 billion at end-December 2022 from ₦39,233.61 billion at end-June 2022. Compared with ₦34,920.73 billion at end-December 2021, CPs grew by19.71 per cent. This was higher than the 2022 provisional indicative growth target of 17.73 per cent.

The Bank's sustained implementation of its Loans-to-Deposit ratio (LDR) policy and real sector interventions were largely responsible for the improved flow of credit to the critical sectors of the economy.

Figure 3.25: Domestic Credit to Private Sector (July - December 2022)

Source: CBN, Statistics Department

3.3.4.7 Monetary Base (MB)

Monetary Base (MB) increased significantly by 15.67 per cent to ₦16,032.05 billion at end-December 2022 from ₦13,860.27 billion at end-June 2022. Year-on-year, MB grew by 20.59 per cent compared with ₦13,295.15 billion at end-December 2021.

The growth in MB during the period was largely associated with the spillover of earlier interventions by the Bank to boost economic activities in sectors affected by the COVID-19 pandemic. The increased spending towards the 2023 general elections and deficit financing by the Government also contributed to the growth.

A summary of the major monetary aggregates and their provisional outcomes as at end-December 2022 is presented in Table 3.13.

Table 3.8a: The Performance of Monetary Aggregates and their Implications

Variables	Actual H2 2021	Actual H1 2022	Actual H2 2022	Benchmark 2022	H2:2022 Deviation from Benchmark	Change in H2, 2022 over H2, 2021
M3 (N'b)	44,443.97	48,898.34	52,140.94	50,355.15	1,785.80	3,242.60
M3 (%)	14.24%	10.02%	17.32%	14.92%	2.40%	7.30%
M2 (N'b)	44,443.07	48,897.45	51,747.30	50,355.15	1,392.16	2,849.86
M2 (%)	17.48%	10.02%	16.44%	14.92%	1.52%	6.41%
M1 (N'b)	18,055.86	20,348.21	20,686.48	20,981.56	-295.08	338.27
M1 (%)	14.00%	12.70%	14.57%	15.48%	-0.91%	1.87%
MB (N'b)	13,295.15	13,860.27	16,032.05	15,056.48	975.57	2,171.79
MB (%)	1.43%	4.25%	20.59%	13.25%	7.34%	16.34%
NDC (N'b)	48,760.64	57,448.24	66,458.43	56,396.07	10,062.35	9,010.19
NDC (%)	17.83%	17.82%	36.30%	16.23%	20.07%	18.48%
Cg (N'b)	13,839.91	18,214.63	24,656.23	14,960.82	9,695.41	6,441.60
Cg (%)	20.42%	31.61%	78.15%	12.26%	65.89%	46.54%
Cp (N'b)	34,920.73	39,233.61	41,802.19	41,435.25	366.94	2,568.59
Cp (%)	16.83%	12.35%	19.71%	17.73%	1.98%	7.36%
NFA (N'b)	9,352.15	6,109.03	4,253.14	8,892.91	-4,639.77	-1,855.89
NFA (%)	4.22%	-34.68%	-54.52%	0.89%	-55.41%	-19.84%
NDA (N'b)	35,091.83	42,789.31	47,887.80	41,462.23	6,425.57	5,098.49
NDA (%)	21.92	21.94%	36.46%	1.79%	34.67%	14.53%

Source: CBN, Statistics Department

Table 3.8b: The Performance of Monetary Aggregates and their Implications

/N	Monetary Aggregates	Performance	Implication
1	Overall Monetary Aggregates	Upward Performance	Most monetary aggregates trended upwards above their respective indicative benchmarks. This translates to growth in aggregate demand and hence inflationary and exchange rate pressures.
2	Broad Money (M3, M2)	Above targets	This increase in money supply attributed to growing credit to government has implication for higher inflationary and exchange rate pressures.
3	Narrow Money (M1)	Slightly below target	The performance of M1 below its target was attributed to the reduction in COB in the review period due to the impact of the Naira Redesign. This could have a dampening effect on inflationary pressure.
4	Net Foreign Assets (NFA)	Below target	The downward performance of NFA reflects rising external obligations with implications on exchange rate stability.
5	Net Domestic Assets (NDA)	Above target	Credit to government was the major driver of growth in NDA, implying crowding out of the private sector and rising inflationary pressure.
6	Net Credit to the Govt (NCg)	Above target	The rising credit to government implies increased debt service burden, which may further narrow the fiscal space.
7	Credit to the Private Sector (CPs)	Above target	The improved performance of CPs demonstrates the increasing role of the private sector in driving economic activities. If sustained, this could strongly lead to the creation of new jobs and reduce unemployment.

Source: Staff Analysis

3.4 Domestic Financial Market Developments

In the second half of 2022, the Nigerian financial market remained resilient despite considerable headwinds from the global and domestic environments. With inflation remaining high in several economies, advanced economy central banks progressed with monetary tightening, thus redirecting capital flows from Emerging Market and Developing Economies (EMDEs). The war in Ukraine also caused disruptions to the global energy and commodities markets in addition to supply chain pressures associated with developments in China. To maintain stability in the foreign exchange market, the Bank sustained its interventions aimed at providing adequate liquidity to ease demand pressure. Despite shocks from the global environment, investor confidence in the Nigerian capital market was sustained through the period as the All-Share Index (ASI) and Market Capitalisation (MC) moderated marginally. In the money market, both the interbank call and OBB rates declined, reflecting liquidity conditions in the banking system. The collateralised OBB segment, however, witnessed more activities compared with the interbank call segment, which had several non-trading days in the review period.

3.4.1 The Money Market

Money market activities in the second half of 2022 fluctuated moderately, reflecting liquidity condition in the banking system. The major sources of banking system liquidity were: statutory monthly disbursement of funds to the three tiers of governments by the Federation Account Allocation Committee (FAAC); maturing government securities; and the various CBN interventions. The CBN, however, maintained its Open Market Operations to moderate liquidity levels in the market. In addition, the Bank maintained a tight monetary policy stance by hiking the policy rate to tame inflationary pressures. To this end, money market rates oscillated within the standing facilities corridor, indicating moderate stability in the market.

In the period under review, the interbank segment of the market witnessed lower activities in terms of volume and active days relative to the OBB segment. The higher activities in the OBB segment reflected preference for lower risk exposure as transactions in the segment are collateralised.

The MPC raised the Monetary Policy Rate three consecutive times in the review period, maintained the Standing Facilities corridor at +100/-700 basis points around the MPR, and retained the Cash Reserve Ratio (CRR) and Liquidity Ratio (LR) were retained at 27.5 and 30.0 per cent, respectively during the period.

3.4.1.1 Short-term Interest Rate Developments

Money market rates in the review period were largely influenced by liquidity conditions in the banking system. The interbank call rate averaged 12.06 per cent in the period, declining to 12.08 per cent in December 2022 from 13.00 per cent in July 2022. The OBB rate averaged 13.20 per cent in the period, declining to 11.66 per cent in December 2022 from 14.15 per cent in July 2022. The 30-day Nigerian Interbank Offered Rate (NIBOR), which mirrors the Nigerian interbank short-term lending rates for some selected banks, however, rose to 13.25 per cent in December 2022 from 11.01 per cent in July 2022, indicating a mixed trend in the review period.

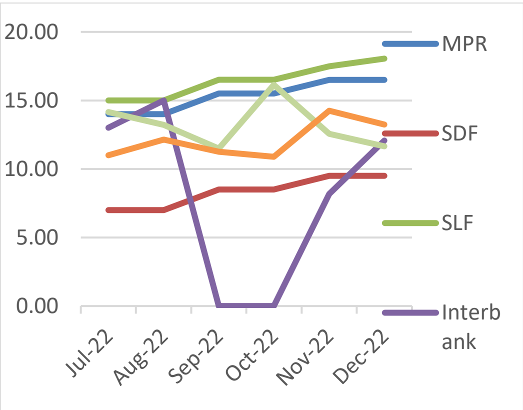
Table 3.9: Weighted Average Monthly Money Market Interest Rates (%) July-December, 2022

Period	Interbank	OBB	SDF	MPR	SLF	NIBOR-30 Days
Jul-22	13.00	14.1	7.0	14.0	15.0	11.01
Aug-22	15.00	13.2	7.0	14.0	15.0	12.14
Sept-22	-	11.4	8.5	15.5	16.5	11.25
Oct-22	-		8.5	15.5	16.5	10.89
Nov-22	8.17	12.5	9.5	16.5	17.5	14.25
Dec-22	12.08	11.6	9.5	16.5	17.5	13.25
Averag	**12.06**	**13.2**	**8.3**	**15.3**	**16.4**	**12.13**

Source: CBN Statistical Database

Note: NIBOR figures daily averages

Figure 3.26: Average Weighted Monthly Money Market Interest Rates (July-December, 2022)



Source: CBN Statistical Database

3.4.1.1.1 The Interbank Call Rate

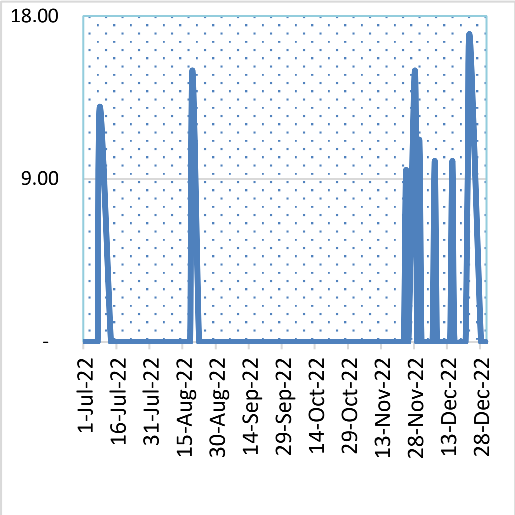
In the second half of 2022, the interbank segment recorded lower activities than the collaterized OBB segment, an indication of preference for lower risk transactions at the collaterized segment. Consequently, there were several non-trading days in the review period.

The weighted average interbank call rate declined to 12.08 per cent in December 2022 from 13.00 per cent in July 2022. While the highest rate of 15.00 per cent was recorded in August 2022, there were however, no transactions in September and October 2022. In November 2022, the rate declined significantly to 8.17 per cent before rising to 12.08 per cent in December (Table 3.14). Key factors that influenced these rate movement in the review period include: adjustments to the Monetary Policy Rate, OMO sales and maturities, CRR debits, interventions in the real sector, and fiscal disbursements.

The analysis of the daily interbank call rate showed that for days where trading activities took place in the review period, the call rate ranged from 9.50 per cent on trading days to 16.75 per cent between July and December 2022. The peak of 16.75 per cent in December was largely due to Bank's mopping up activities. In the second half of 2022, the average interbank call rate rose to 12.21 per cent from an average of 9.92 and 9.38 per cent recorded in the corresponding and preceding periods, respectively.

Overall, the average interbank call rate in the review period at 12.06 per cent was 2.06 percentage points higher than 9.92 per cent in the second half of 2021 and 2.08 percentage points higher than 9.98 per cent in the first half of 2022.

Figure 3.27: Daily Interbank Call Rate (July – Dec 2022)



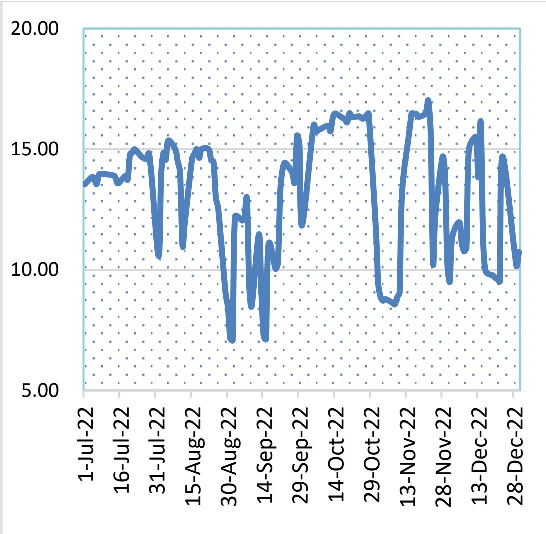
Source: CBN Statistical Database

3.4.1.1.2 The Open Buy Back (OBB) Rate

The collateralised OBB segment of the market recorded higher number of transactions during the reviewed period, compared with the interbank call segment. The weighted average OBB rate declined to 11.66 per cent in December 2022 from 14.15 per cent in July 2022. In August 2022, the rate fell to 13.21 per cent and fell further to 11.49 per cent in September but rose substantially to 16.14 per cent in October 2022. In November, the rate declined to 12.56 per cent and closed the year at 11.66 per cent in December 2022. The general downtrend in the review period reflected continued liquidity surfeit in the banking system.

In the review period, the daily Open Buy Back rate ranged from 7.08 per cent on trading days to 17.01 per cent between July and December 2022. The peak of 17.01 per cent in December trading was largely due to tight liquidity conditions associated with increased OMO sales. The average OBB rate rose to 13.09 per cent in the second half of 2022, from an average of 11.81 and 8.23 per cent recorded in the corresponding and preceding periods, respectively.

Figure 3.28: Daily OBB Rate (July – Dec 2022)



***Source:* Financial Markets Department, CBN**

3.4.1.1.3 The Nigerian Interbank Offered Rate (NIBOR)

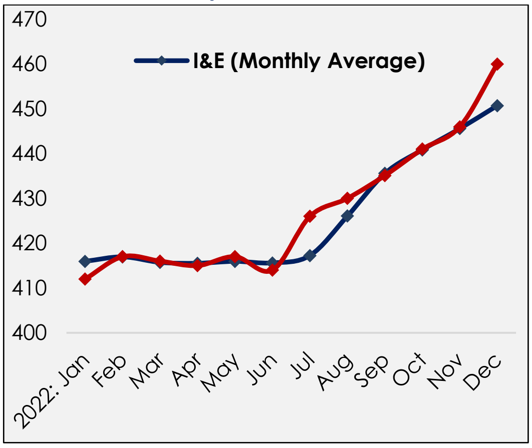
The Nigerian money market reference rate, the NIBOR, fluctuated moderately following the trend with other short-term interest rates in the review period. The weighted average 30-day NIBOR rose from 11.01 per cent in July 2022 to 12.14 per cent in August. It however, moderated to 11.25 and 10.80 per cent in September and October, respectively. In November, the rate rose to 14.25 per cent and closed at 13.25 per cent in December 2022. The weighted average 30-day NIBOR for the second half of 2022 stood at 12.13 per cent compared with 11.00 per cent in the corresponding period and 8.77 per cent in the preceding half year.

3.4.2 Foreign Exchange Market

In the period under review, the Nigerian foreign exchange market was shaped by both external and domestic developments. At the external front, advanced economies continued to be confronted with rising inflation which eroded real incomes. In response, advanced economies central banks progressed with monetary policy tightening, which aggravated capital outflows from Emerging Market and Developing Economies (EMDEs). In addition, the disruption to the global supply chains owing to the Russia-Ukraine war resulted in inflationary and exchange rate pressures in the domestic economy.

On the domestic scene, crude oil production during the period recorded low output owing to several factors including oil theft, pipeline vandalism, divestment by oil majors, among others. These developments hindered Nigeria from accessing the full benefits of the relatively high oil price during the period and, therefore, reduced accretion to foreign reserves. In addition, the country's high dependence on imports of refined petroleum products and the sustenance of subsidy regime on premium motor spirit (PMS) accentuated the foreign exchange demand pressure. In response to these developments, the Bank sustained its interventions in the foreign exchange market to ensure adequate liquidity. The Investors' and Exporters' (I&E) window remained the default reference exchange rate for official transactions which enhanced transparency and market confidence in the economy. In addition, the CBN continued with the implementation of the Naira-4-Dollar policy; and the RT200 policy on repatriation of export proceeds. Other development finance initiatives of the Bank were also sustained to boost domestic production and reduce the demand for foreign exchange for imports.

Figure 3.29: Monthly Naira/US Dollar Exchange Rate January 2022 – December 2022



Source: CBN Statistics Department

3.4.2.1 Average and End-Period Exchange Rates

The average exchange rate at the I&E window depreciated during the review period. The average exchange rate depreciated by 4.60 per cent to ₦436.01/US$ in the second half of 2022 from ₦415.95US$ in the first half.

In the period under review, the monthly exchange rate fell progressively from ₦414.00/US$ at end-June 2022 to

₦460.00/US$ at end-December 2022. The end-period monthly average exchange rate depreciated by 5.57 per cent to ₦439.68/US$ in the second half of 2022 from ₦415.17/US$ in the first half of 2022. The weakening of the naira in the review period was due to increased demand pressures amidst supply.

3.4.2.2 Nominal and Real Effective Exchange Rates

The Nominal Effective Exchange Rate (NEER) decreased by 1.56 per cent to an average of 193.24 in the second half of 2022 from 196.26 in the first half of 2022. Compared with 200.57 in the corresponding period of 2021, the NEER also decreased by 3.79 per cent. The fall in the NEER indicates depreciation of the local currency against the weighted basket of currencies of Nigeria's trading partners.

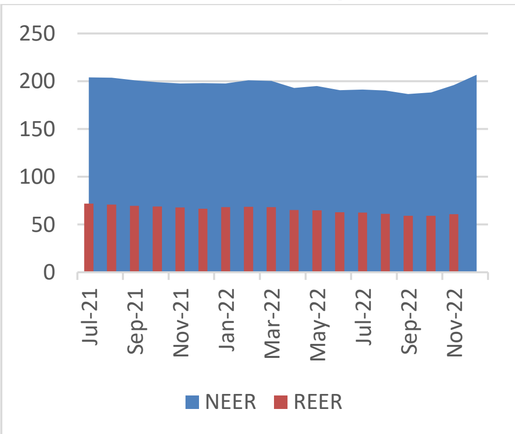
The Real Effective Exchange Rate (REER) decreased by 5.52 per cent to an average of 62.65 in the second half of 2022 from 66.31 in the first half of 2022. Compared with 69.23 in the second half of 2021, the REER also decreased by 9.50 per cent in the second half of 2022. The decrease in REER implies an increase in trade competitiveness with Nigeria's trading partners as exports became cheaper and imports become more expensive (Table 3.17 and figure 3.30).

Table 3.10: Average Nominal and Real Effective Exchange Rates Indices (July 2021 – December 2022)

Period	NEER	REER
2021: Jul	204.17	71.89
Aug	203.84	70.92
Sep	201.03	69.65
Oct	198.88	68.82
Nov	197.59	67.74
Dec	197.89	66.38
2021: H2	**200.57**	**69.23**
2022: Jan	197.81	68.18
Feb	200.86	68.6
Mar	200.41	68.18
Apr	193.07	65.16
May	194.82	65.00
Jun	190.61	62.73
2022: H1	**196.26**	**66.31**
Jul	191.18	62.42
Aug	190.14	61.02
Sep	186.48	59.07
Oct	188.26	59.29
Nov	195.91	60.81
Dec	206.75	63.29
2022: H2	**193.24**	**62.65**

Source: CBN Statistics Department

Figure: 3.30: Average Nominal and Real Effective Exchange Rates Indices (January 2021 – December 2022)



Source: CBN Statistics Department

3.4.2.3 Foreign Exchange Flows through the CBN

Foreign exchange inflows through the CBN stood at US$13,487.72 million at the end of the second half of 2022. Compared with US$26,007.93 and US$16,402.44 million, in the corresponding and preceding periods, inflows declined by 48.14 and 17.77 per cent, respectively. Foreign exchange outflows through the Bank also declined by 13.50 and 4.95 per cent from US$18,558.74 and US$16,888.19 million in the corresponding and preceding periods, respectively, to US$16,052.63 million in the second half of 2022.

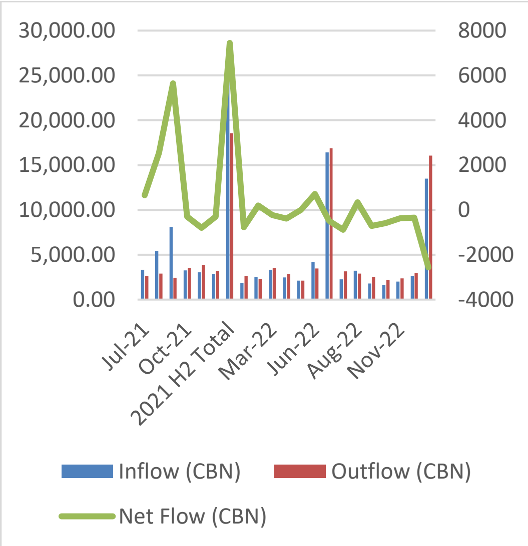
Accordingly, net outflow increased to US$2,564.91 in the review period compared with US$485.75 in the preceding half year, in contrast to the net inflow of US$7,449.19 in the corresponding period of 2021. The increase in net outflows was attributed to a substantial reduction in inflows from oil receipts, portfolio capital and other non-oil sources.

Table 3.11: Monthly Foreign Exchange Flows through the CBN (July 2021 – December 2022) (Million US$)

US$ (Million)			
Date	**CBN Inflow**	**CBN Outflo**	**Net Flow**
Jul-21	3,314.4	2,655.7	658.70
Aug-21	5,427.6	2,888.6	2,538.
Sep-21	8,089.2	2,436.9	5,652.
Oct-21	3,247.7	3,547.6	-
Nov-21	3,048.9	3,852.5	-
Dec-21	2,879.8	3,177.1	-
2021 H2	**26,007.**	**18,558.**	**7,449.**
Jan-22	1,823.2	2,601.2	-
Feb-22	2,492.7	2,288.3	204.40
Mar-22	3,316.6	3,545.0	-
Apr-22	2,468.1	2,860.8	-
May-22	2,118.7	2,123.0	-4.29
Jun-22	4,182.8	3,469.7	713.14
2022 H1	**16,402.**	**16,888.**	**-**
Jul-22	2,267.6	3,152.0	-
Aug-22	3,230.2	2,892.3	337.93
Sep-22	1,781.2	2,498.3	-
Oct-22	1,608.5	2,188.0	-
Nov-22	1,999.5	2,376.1	-
Dec-22	2,600.4	2,945.6	-
2022 H2	**13,487.**	**16,052.**	**-**

Source: CBN Statistics Department

Figure 3.31: Monthly Foreign Exchange Flows through the CBN (July 2021 – December 2022) (US$' Billion)



Source: CBN Statistics Department

3.4.2.4 Foreign Exchange Flow through the Economy

Total foreign exchange inflows to the economy in the review period dropped substantially by 32.04 and 8.88 per cent to US$34,512.80 million in the second half of 2022, from US$50,785.23 million and

US$37,876.44 million in the corresponding half of 2021 and the preceding half year, respectively. Similarly, foreign exchange outflows declined by 15.97 and 13.82 per cent to US$18,974.45 million in the second half of 2022, from US$22,581.43 million and US$22,017.63 million in the corresponding half of 2021 and the preceding half year, respectively.

Consequently, net foreign exchange inflows to the economy at US$15,538.36 million in the review period, was lower than US$28,203.80 million and US$15,858.81 million in the corresponding period of 2021 and the preceding half year. The fall in net foreign exchange flows in the economy was attributed to the significant drop in foreign exchange earnings from both oil and non-oil sources.

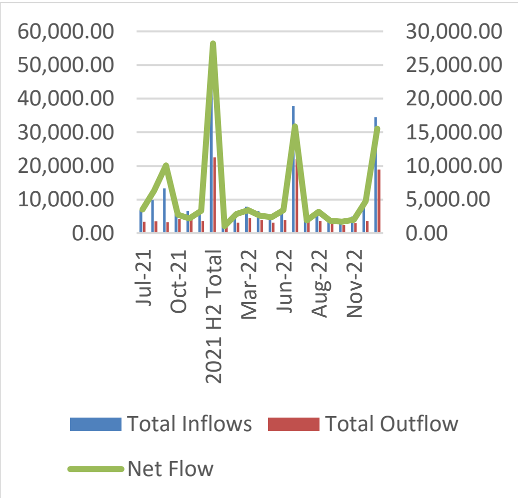
Table 3.12: Monthly Foreign Exchange Flows through the Economy (July 2021 – December 2022) (US$ Million)

Period	Inflows (CBN)	Inflows (Autonomous)	Total Inflows	Outflows (CBN)	Outflows (Autonomous)	Total Outflow	Net Flow	Net Flow (CBN)	Net Flow (Auton
Jul-21	3,314.48	3,663.42	6,977.90	2,655.78	772.86	3,428.63	3,549.26	658.70	2,890.56
Aug-21	5,427.65	4,421.94	9,849.59	2,888.68	652.08	3,540.76	6,308.82	2,538.97	3,769.86
Sep-21	8,089.20	5,266.70	13,355.89	2,436.94	818.26	3,255.21	10,100.69	5,652.26	4,448.43
Oct-21	3,247.73	3,806.18	7,053.92	3,547.67	760.32	4,307.99	2,745.93	-299.93	3,045.86
Nov-21	3,048.99	3,586.16	6,635.15	3,852.52	602.23	4,454.75	2,180.40	-803.53	2,983.93
Dec-21	2,879.88	4,032.91	6,912.79	3,177.15	416.94	3,594.09	3,318.70	-297.27	3,615.97
2021 H2 Total	**26,007.93**	**24,777.31**	**50,785.23**	**18,558.74**	**4,022.70**	**22,581.43**	**28,203.80**	**7,449.19**	**20,754.61**
Jan-22	1,823.21	2,607.82	4,431.03	2,601.21	763.03	3,364.24	1,066.78	-778.00	1,844.79
Feb-22	2,492.77	3,558.85	6,051.62	2,288.37	880.21	3,168.59	2,883.04	204.40	2,678.64
Mar-22	3,316.66	4,573.32	7,889.98	3,545.00	905.84	4,450.83	3,439.15	-228.34	3,667.49
Apr-22	2,468.19	4,123.89	6,592.08	2,860.86	1,087.83	3,948.69	2,643.39	-392.66	3,036.06
May-22	2,118.72	3,410.41	5,529.14	2,123.01	1,017.40	3,140.41	2,388.72	-4.29	2,393.01
Jun-22	4,182.88	3,199.71	7,382.59	3,469.74	475.13	3,944.87	3,437.72	713.14	2,724.57

2022 H1 Total	**16,402.44**	**21,474.00**	**37,876.44**	**16,888.19**	**5,129.44**	**22,017.63**	**15,858.81**	**-485.75**	**16,344.56**
Jul-22	2,267.65	3,036.47	5,304.12	3,152.07	226.10	3,378.17	1,925.95	-884.42	2,810.37
Aug-22	3,230.27	3,595.62	6,825.89	2,892.34	735.25	3,627.59	3,198.30	337.93	2,860.37
Sep-22	1,781.20	3,022.04	4,803.24	2,498.36	424.88	2,923.24	1,880.00	-717.16	2,597.16
Oct-22	1,608.56	2,600.38	4,208.94	2,188.06	278.02	2,466.07	1,742.87	-579.50	2,322.37
Nov-22	1,999.59	3,007.51	5,007.10	2,376.11	613.24	2,989.36	2,017.75	-376.52	2,394.26
Dec-22	2,600.45	5,763.06	8,363.51	2,945.69	644.33	3,590.02	4,773.49	-345.24	5,118.73
2022 H2 Total	**13,487.72**	**21,025.08**	**34,512.80**	**16,052.63**	**2,921.82**	**18,974.45**	**15,538.36**	**-2,564.91**	**18,103.26**

Source: CBN Statistics Department

Figure 3.32: Monthly Foreign Exchange Flows through the Economy (July 2021 – December 2022) (US$ Billion)



Source: CBN Statistics Department

3.4.2.5 Balance of Payment Position

The weakening global economic conditions amidst growing risks, continue to weigh on the external sector performance. Consequently, Nigeria recorded a Balance of Payments (BOP) deficit of –US$1.11 billion, representing –0.85 per cent of the GDP In Q42022. The current account, nonetheless, posted an impressive surplus position of US$2.35 billion, buoyed by positive trade performance and lower deficits in the services and primary income accounts, as well as sustained surplus in the secondary income account. The financial account recorded a lower net incurrence of financial liabilities of US$0.85 billion, compared with US$2.69 billion in Q32022, reflecting tight global monetary conditions.

3.4.3 The Capital Market

The All-Share Index (ASI) and Market Capitalisation (MC) moderated marginally, amidst several shocks from the global and domestic environment that confronted the Nigerian economy, suggesting continued investor confidence in the Nigerian bourse. However, the real yields in the bond market continued to be eroded as inflationary pressures persisted during the period.

3.4.3.1 Equities Market

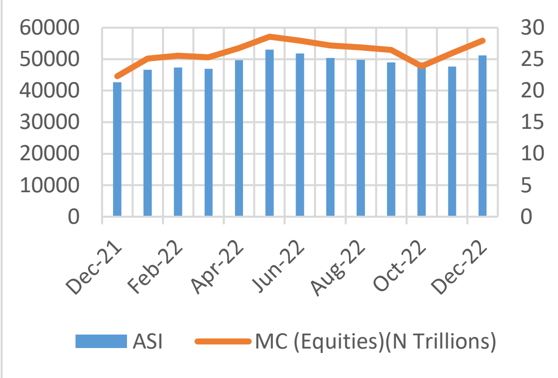
The All-Share Index (ASI) decreased by 1.09 per cent to 51,251.06 at end-December 2022 from 51,817.59 at end-June 2022. This was, however, an increase of 19.98 per cent compared with 42,716.44 at end-December 2021. Market capitalization (MC) decreased by 0.07 per cent to ₦27.92 trillion at end-December 2022 from ₦27.94 trillion at end-June 2022. Market Capitalization, however, increased by 25.20 per cent compared with ₦22.30 trillion in the corresponding period of 2021.

Table 3.13: NSE All-Share Index (ASI) and Market Capitalization (MC) (December 2021 – December 2022)

Date	ASI	MC(Equities) N'Trillion)
Dec-21	42,716.44	22.30
Jan-22	46,624.67	25.12
Feb-22	47,111.21	25.39
Mar-22	47,482.73	25.59
Apr-22	49,638.94	26.76
May-22	52,990.28	28.57
Jun-22	51,817.59	27.94
Jul-22	50,370.25	27.16
Aug-22	49,836.51	26.88
Sep-22	49,024.16	26.45
Oct-22	43,839.08	23.88
Nov-22	47,660.04	25.96
Dec-22	51,251.06	27.92

Source: NGX

Figure 3.33: NGX All Share Index (ASI) and Market Capitalization (MC) (December 2021 - December 2022)



Source: NGX

3.4.3.1.2 Market Turnover

Aggregate stock market turnover in the second half of 2022 stood at 24.45 billion shares, valued at ₦332.57 billion in 449,233 deals. This represents a significant decline of 68.04 per cent compared with 76.52 billion shares, valued at ₦831.83 billion in 616,334 deals in the first half of 2022. Compared with the corresponding period, it also decreased by 42.74 per cent year-on-year from 42.70 billion shares, valued at ₦428.74 billion in 500,858 deals at end-December 2021.

3.4.3.1.3 Sectoral Contribution to Equity Market Capitalization

In the review period, the 'Telecommunication' sector continued its dominance in terms of contribution to market capitalization. However, its share of the market capitalization decreased to 37.69 per cent at end-December 2022 from 41.45 per cent at end-June 2022. This was attributed to the listing of other non-telecommunication companies such as the 2.5 billion shares of Geregu Power plc in October 2022. Other sectors that contributed significantly to overall market capitalization were Dangote Cement, Building Materials, and Food & Beverages, with market shares of 15.93, 13.40 and 11.93 per cent, respectively, at end-December 2022 (Figure 3.35).

Figure 3.34: NSE Market Capitalization by Sector as at End-December 2022

Source: NGX

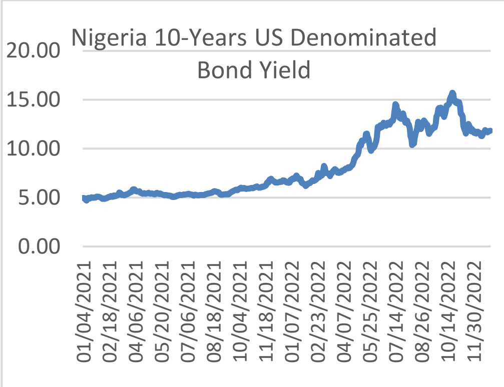
3.4.3.2 Bond Market

Federal Government of Nigeria (FGN) securities dominated activities in the bond market in the second half of 2022. There were some activities in the State/Municipal bonds and corporate bond segments of the market, with the former recording the least share by market volume.

3.4.3.2.1 FGN Bonds

Nigeria's 10-year dollar-denominated bond yield decreased by 83 basis points to 11.84 per cent at end-December 2022, from 12.67 per cent at end-June 2022. It was, however, an increase of 531 basis points compared with 6.53 per cent at end-December 2021 (Figure 3.38).

Figure 3.35: 10-Year U.S. Dollar-denominated Bond Yield for Nigeria (December 2021 – December 2022)



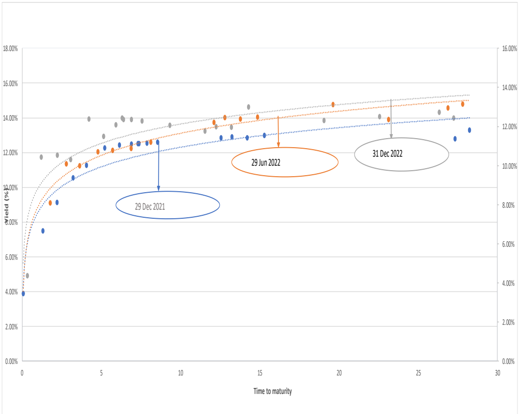
Data Source: Bloomberg

The yield curve depicts the interest rates on debt for a range of maturities for end-December 2021, end-June 2022, and end-December 2022. The graph displays bond yields on the vertical axis and time-to-maturity across the horizontal axis. Interest rates for longer terms are often higher than those for shorter terms. As duration lengthens, the yield curve typically slopes upward.

During the review period, the average yields on the federal government (FGN) bonds exhibited an upward trend. The yield curve for end-December 2022 increased at both the short and long ends, in comparison to the preceding periods of end-June 2022 and end-December 2021.

The upward sloping (normal-shaped) yield curve implies a positive outlook for the Nigerian economy, suggestive of a continuous growth trajectory.

Figure 3:36: FGN Bond Yield Curves: December 29, 2022 & June 29, 2022 Vs December 31st 2021.



Data Source: FMDQ

3.4.3.2.2 State/Local Government Bonds

The sub-national bond market continued to record low activities during the review period. The total value of outstanding State/Local Government bonds remained unchanged at end-December 2022 from its end-June 2022 value of N148.91 billion. It was, however, a decrease of 28.26 per cent compared with the N207.56 billion at end-December 2021.

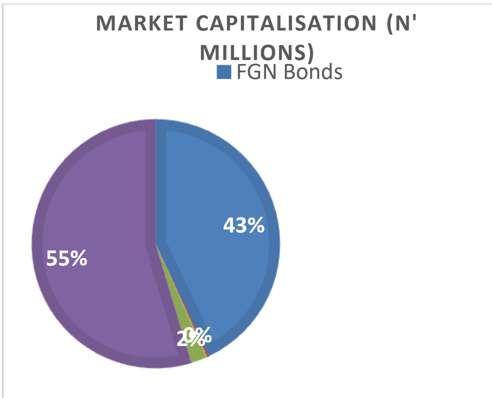
3.4.3.2.3 Corporate Bonds

Activities in the corporate bond segment increased in the review period. The value of outstanding corporate bonds rose by 43.23 per cent to N1.06 trillion at end-December 2022, from ₦739.01 billion at end-June 2022. Compared with ₦718.30 billion in the corresponding period of 2021, it increased by 47.57 per cent. The rising trend reflects continued attractiveness of fixed income securities as bond prices declined with rising inflation, thus improving their yields.

3.4.3.3 Overall Analysis of the Nigerian Capital Market

The value of FGN bonds increased by 3.14 per cent from N21.34 trillion at end-June 2022 to N22.01 trillion at end-December 2022, and by 16.95 per cent, compared with N18.82 trillion at end-December 2021. FGN bonds accounted for 42.99 per cent of aggregate market capitalization at end-December 2022. The value of state/municipal bonds and corporate bonds were N148.91 billion and N1.06 trillion, accounting for 0.29 and 2.07 per cent of aggregate market capitalization, respectively. In general, the equities market contributed 45.30 per cent of aggregate market capitalization at end-December 2022, while the bonds market accounted for the balance of 54.70 per cent (Figure 3.40).

Figure 3.37: Structure of the Nigerian Capital Market (December 2022)



Source: Nigerian Exchange Group

CHAPTER FOUR

ECONOMIC OUTLOOK AND RISKS

4.1 Outlook for Global Output

Global output growth was projected to slow to 2.9 per cent in 2023, from 3.4 per cent in 2022 (IMF WEO, January 2023). This estimate was premised on the anticipated impact of new shocks on the global economy that was recovering from the downsides of the COVID-19 pandemic. These shocks, which were primarily supply-side related, include the war in Ukraine and lockdown measures in China to stem the renewed spread of the Coronavirus, resulting in a hike in commodity and energy prices. Consequently, major central banks responded by adopting a tight monetary policy stance to rein in inflation, though, with dampening effect on global output.

In the advanced economies, growth was forecast to moderate to 1.2 and 1.4 per cent in 2023 and 2024, respectively from 2.7 per cent in 2022. The downgrade was predicated on the impact of accelerated interest rate hike by central banks to curb the rising inflation which has reduced real income with adverse impact on spending and investment. In addition, the Russian invasion of Ukraine continued to impact commodity and energy prices. Consequently, growth in the United States was forecast to slow to 1.4 and 1.0 per cent in 2023 and 2024, respectively, from 2.0 in 2022. In the euro area, growth was projected to slow to 0.7 and 1.6 per cent in 2023 and 2024, respectively, from 3.5 per cent in 2022. In the United Kingdom, output growth was estimated to contract by -0.6 per cent in 2023 before recovering to 0.9 per cent in 2024, from 4.1 per cent in 2022. Output growth in Canada was forecast to moderate to 1.5 per cent apiece in 2023 and 2024 from 3.5 per cent in 2022. In Japan, however, growth was projected to improve to 1.8 per cent in 2023 from 1.4 per cent in 2022 but expected to decline to 0.9 per cent in 2024.

In the emerging Market and developing economies, growth was projected to expand to 4.0 and 4.2 per cent in 2023 and 2024, respectively, from 3.9 per cent in 2022. In the emerging and developing Asia, growth was forecast to improve to 5.3 and 5.2 per cent in 2023 and 2024, respectively, from 4.3 per cent in 2022. The emergence of China out of the zero COVID-19 restrictions and easing supply chains was expected to drive growth in this group. In China, growth was, therefore, projected to increase to 5.2 per cent in 2023 from 3.0 per cent in 2022. It is, however, expected to slow to 4.5 per cent in 2024, owing largely to slow structural reforms. In India, growth was projected to moderate to 6.1 per cent in 2023 from 6.8 per cent in 2022 before rising to 6.8 per cent in 2024.

In Latin America and the Caribbean, growth was forecast to moderate to 1.8 and 2.1 per cent in 2023 and 2024, respectively, from 3.9 per cent in 2022, on account of tightening financial conditions and lower export demand. Growth in Brazil is expected to moderate to 1.2 and 1.5 per cent in 2023 and 2024, respectively, from 3.1 per cent in 2022. In

Mexico, output growth was forecast to fall to 1.7 and 1.6 per cent in 2023 and 2024, respectively, from 3.1 per cent in 2022.

In sub-Saharan Africa, growth was projected at 3.8 in 2023 unchanged from 2022, before improving to 4.1 per cent in 2024, owing to improved outlook for Nigeria, a major economy in the region. In Nigeria, output growth was estimated to rise to 3.2 per cent in 2023 from 3.0 per cent in 2022, due to anticipated increase in oil output resulting from improved security in the Niger Delta region. It was, however, forecast to moderate to 2.9 per cent in 2024. The South African economy was forecasted to decline substantially to 1.2 and 1.3 per cent in 2023 and 2024, respectively, from 2.6 per cent in 2022, due to infrastructural challenges, and weaker export demand.

Table 4.1 Global Output and Inflation Outlook

	2021	2022*	2023*	2024
A. World Output				
World Output	6.2	3.4	2.9	3.1
Advanced Economies	**5.4**	**2.7**	**1.2**	**1.4**
USA	5.9	2.0	1.4	1.0
Euro Area	6.3	3.5	0.7	1.6
Japan	2.1	1.4	1.8	0.9
UK	7.6	4.1	-0.6	0.9
Canada	5.0	3.5	1.5	1.5
Other Advanced Economies	5.3	2.8	2.0	2.4
Emerging & Developing Economies	**6.7**	**3.9**	**4.0**	**4.2**
Latin America and the Caribbean	7.0	3.9	1.8	2.1
Middle East and Central Asia	4.5	5.3	3.2	3.7
Sub-Saharan Africa	4.7	3.8	3.8	4.1
B. Commodity Prices (US Dollars)				
Oil	65.8	39.8	-16.2	-7.1
Non-fuel	26.4	7.0	-6.3	-0.4
C. Consumer Prices	**4.7**	**8.8**	**6.6**	**4.3**
Advanced Economies	3.1	7.3	4.6	2.6
Emerging & Developing Economies	5.9	9.9	8.1	5.5

Source: IMF WEO, January 2023 Updates
***Forecast**

4.2 Outlook for Global Inflation

Global inflation is forecast to moderate to 6.6 per cent in 2023 from 8.8 per cent in 2022. This is expected to be driven by declining cost of energy, weaker global demand, and dampening impact of policy rate hikes on core inflation. In the advanced economies, inflation is projected to decelerate to 4.4 per cent in 2023 compared with 7.2 per cent in 2022, due to easing supply constraints, declining prices of energy and base effect. In the US, inflation is expected to decelerate to 3.5 per cent in 2023 from 8.1 per cent in 2022. In the euro area, inflation is forecast to decelerate to 5.7 per cent in 2023 from 8.3 per cent in 2022. Similarly, inflation in the UK is forecast to decline to 9.0 per cent in 2023, compared with 9.1 per cent in 2022. Inflation in Japan is also forecast to fall to 1.4 per cent in 2023, compared with 2.0 per cent in 2022.

In the emerging market and developing economies (EMDEs), inflation is projected to decline to 8.1 per cent in 2023, compared with 9.9 per cent in 2022, driven by the impact of tight monetary policy and easing global supply chains. In China, inflation is forecast to remain unchanged at 2.2 per cent in 2023 from the level in 2022.

Inflation in India is forecast to decline to 5.1 per cent in 2023, compared with 6.9 per cent in 2022. Brazil's inflation is also expected to fall to 4.7 per cent in 2023, compared with 9.4 per cent in 2022. Similarly, inflation in Mexico is projected to decelerate to 6.3 per cent in 2023, compared with 8.0 per cent in 2022.

In sub-Saharan Africa, inflation is projected to decline to 11.9 per cent in 2023 from 14.4 per cent in 2022. In Nigeria, inflation is forecast to fall to 17.3 per cent in 2023 from 18.9 per cent in 2022. Inflation in South Africa is projected to fall to 5.1 per cent in 2023 from 6.7 per cent in 2022.

Table 4.2 Global Inflation Outlook (Average)

	2021	2022*	2023*
Advanced Economies	**3.1**	**7.2**	**4.4**
USA	4.7	8.1	3.5
Euro Area	2.6	8.3	5.7
Japan	–0.2	2.0	1.4
Emerging & Developing Economies	**5.9**	**9.9**	**8.1**
China	0.9	2.2	2.2
Russia	6.7	13.8	5.0
India	5.5	6.9	5.1
Sub-Saharan Africa	**11.1**	**14.4**	**11.9**
Nigeria	17.0	18.9	17.3
Ghana	10.0	27.2	20.9
Angola	25.8	21.7	11.8
LIC	13.0	14.2	12.0
Ethiopia	26.8	33.6	28.6

Source: IMF WEO, October 2022
***Forecast**

4.3 Outlook for Domestic Output Growth

Output growth in the domestic economy is expected to be sustained in 2023. This is predicated on improved prospects in the non-oil sector, especially services and agriculture. In addition, the effective implementation of the National Development Plan (NDP); expansion in manufacturing activities; positive impact of CBN interventions on growth-enhancing sectors; improvement in business confidence; and recovery in oil price are expected to drive growth in 2023.

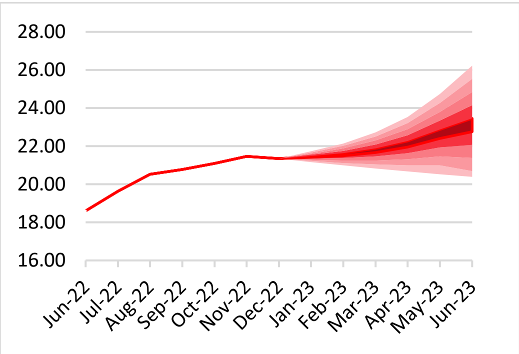
On the downside, supply chain disruptions mainly from intermittent shortage of PMS and the rising cost of energy could affect economic activities. Other factors that pose significant headwinds to the growth outlook include legacy challenges associated with epileptic power supply, poor transport infrastructure and lingering insecurity.

Consequently, the International Monetary Fund (IMF) forecast Nigeria's growth for 2023 at 3.2 per cent, while the World Bank estimated the growth of 2.8 per cent. The Central Bank of Nigeria (CBN) Staff projection forecasts real GDP growth at 3.09 per cent.

4.4 Outlook for Domestic Inflation

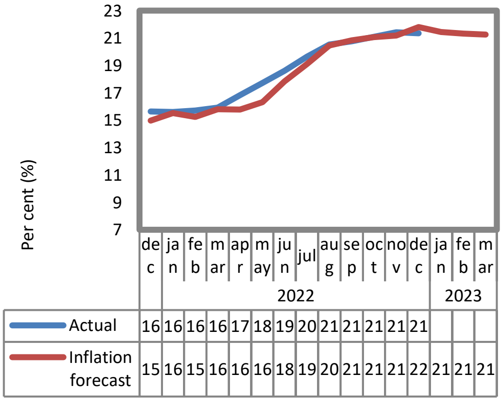
Headline inflation is expected to accelerate to 21.43 per cent in January 2023, from 21.34 per cent at end-December 2022 (CBN Staff estimates). However, it is estimated to decelerate to 21.32 and 21.26 per cent, in February and March, respectively, and ease further to 20.92 per cent in June 2023. This projection is premised on the anticipated dampening impact of tight monetary policy and implementation of the Naira Redesign Policy on price levels. In addition, the sustained intervention by the Bank in the Agriculture sector is expected to increase food output and moderate prices. Inflationary pressures in the short to medium-term will thus be monitored to ensure that the downside risks to inflation are minimized.

Figure 4.1: Fan Chart of Inflation Forecast



Source: CBN Staff Estimates

Figure 4.2: Inflation Forecast



Source: CBN Staff Estimates

4.5 Outlook for Monetary Policy in The First Half of 2023

The Bank's Monetary Policy formulation and implementation in the first half of 2023 will continue to be guided by the Medium-Term Expenditure Framework (MTEF) of the Federal Government of Nigeria. Monetary Policy would sustain its ultimate objective of price and financial system stability towards achieving an inclusive growth. This would entail the effective management of expectations; provision of time-consistent policies to respond to emerging shocks; strengthening growth recovery; and maintaining external and internal balance in the economy.

The Bank will continue to monitor global developments and their likely impact on the Nigerian economy. According to the International Monetary Fund (IMF), global growth is projected at 3.4 and 2.9 per cent for 2022 and 2023, respectively, from 6.2 per cent in 2021 (WEO, January 2022). The downgrade in growth forecast is largely driven by various headwinds including the war in Ukraine which has significantly disrupted the global supply chain resulting in rising food and energy prices. In addition, the re-introduction of restrictions in major industrial cities in China due to the resurgence of the COVID-19 Pandemic, has imposed a drag on the global supply chain. Similarly, the continued hike in monetary policy rate by advanced economy central banks to rein in inflation have led to tightened financial condition, with adverse effect on growth. A combination of these uncertainties portends a bleak outlook for global economic recovery in 2023. These developments have exacerbated policy trade-offs between growth and price stability. While most central banks in both the advanced and emerging market economies continue to prioritize price stability by adopting tight monetary policy stance, fiscal policy continues to be expansionary to sustain economic recovery.

In the domestic economy, downside risks facing monetary policy include rising inflationary pressures, lingering insecurity especially in farming and oil-producing communities, rising domestic debt stock, exchange rate pressure, uncertainty around the removal of the fuel subsidy, rising energy prices, and other structural bottlenecks.

Consequently, monetary policy response will have to maintain a close watch on emerging developments in order to strike a balance between price stability and inclusive growth in order to contain these challenges and achieve price and financial system stability conducive for economic growth.

4.6 Major Risks to the Outlook

4.6.1 Risks to Global Output and Inflation

The major downside risk that could undermine global growth outlook is the escalating war in Ukraine, which has caused monumental disruption to the supply chain. In addition, China's slow growth recovery accentuated by the zero COVID-19 policy and the property market crisis could put a drag on global growth. Also, the rising inflationary pressure which has raised inflation above the long-run target of most central banks is likely to elicit further contractionary monetary policy response, and hence tighten global financial conditions. Other risks include: rising public debt and the likelihood of debt distress in several countries, thus, further constraining fiscal space; rising geopolitical tension and its implication on global trade and investment; as well as the adverse effect of climate change on agricultural systems as compliance to the Paris Agreement remains weak.

4.6.2 Risks to Domestic Output and Inflation

Output growth trajectory is expected to remain positive over the medium-term, but will however, be confronted with several headwinds from both external and domestic sources. According to the International Monetary Fund, Nigeria's GDP growth is projected to improve marginally to 3.2 per cent in 2023 from 3.0 per cent in 2022 (IMF WEO, January 2023).

At the external front, downside risks to the outlook include supply disruptions due to the war in Ukraine; and monetary policy tightening by advanced economy central banks which will aggravate capital outflow and foreign exchange pressures, among others.

Domestic downside risks include the legacy infrastructural challenges, especially power and transportation; rising public debt stock and tight fiscal space; as well as lingering insecurity such as armed banditry, kidnapping, and herders-farmers clashes. Also, several challenges confronting the oil sector including the aging and inefficient infrastructure; oil theft and pipeline vandalisation, as well as divestments by International Oil Companies (IOCs) from Nigeria, poses considerable risk to growth in the medium-term.

However, sustained efforts by the federal government to improve security in the Niger-Delta and food-producing regions will boost commodity output and export. Similarly, the planned oil subsidy removal will avail government of more resources to finance infrastructural projects and other public investments.

Headline inflation remained above the upper band of the Bank's implicit inflation target range of 6.0 - 9.0 per cent in the review period. However, staff forecasts suggest that headline inflation would moderate in the near-term. The major risks that could shape inflation outlook include continued exchange rate pressure, resulting from low accretion to reserves; impact of anticipated subsidy removal on price level; rising fiscal deficit; and adverse effect of climate change resulting in severe flooding and desertification with implication on food output. In addition, spending towards the 2023 general elections is expected to exert further pressure on prices.

Table 1: Nigeria's GDP Growth Outlook Scenarios

Period Indicator	Pessimistic	Baseline	Optimistic
2021Q2	5.01	5.01	5.01
2021Q3	4.03	4.03	4.03
2021Q4	3.98	3.98	3.98
2021	**3.38**	**3.38**	**3.38**
2022Q1	3.11	3.11	3.11
2022Q2	3.54	3.54	3.54
2022Q3	2.25	2.25	2.25
2022Q4f	**-0.22**	**2.61**	**3.85**
2022f	**2.17**	**2.88**	**3.19**
2023f	**2.92**	**3.09**	**3.70**
Crude oil price	**$60/b**	**$100/b**	**$120/b**
Crude oil production	**0.7mbpd**	**1.2mbpd**	**1.5mbpd**
Govt Expenditure	**10% lower than budget**	**MTEF (₦17.31 trillion)**	**5% higher than budget**
Economic Activity	**1 index point decline in PMI**	**1 index point increase in PMI**	**2 index points increase in PMI**

Source: CBN Staff Estimates

Table 2: Inflation Forecast

YEAR-ON-YEAR INFLATION RATE

Status	Month	Headline inflation	Food inflation	Core inflation
Actual	Jul-2022	19.64	22.02	16.26
	Aug-2022	20.52	23.12	17.20
	Sep-2022	20.77	23.34	17.60
	Oct-2022	21.09	23.72	17.76
	Nov-2022	21.47	24.13	18.24
	Dec-2022	21.34	23.75	18.49
Forecast	Jan-2023	21.43	23.82	18.57
	Feb-2023	21.32	23.80	18.60
	Mar-2023	21.26	23.80	18.57
	Apr-2023	21.14	23.79	18.54
	May-2023	21.04	23.78	18.51
	Jun-2023	20.92	23.77	18.49

12-MMA INFLATION RATE

Status	Month	Headline inflation	Food inflation	Core inflation
Actual	Jul-2022	1.82	2.04	1.75
	Aug-2022	1.77	1.98	1.59
	Sep-2022	1.36	1.43	1.59
	Oct-2022	1.24	1.23	0.93
	Nov-2022	1.39	1.40	1.67
	Dec-2022	1.71	1.89	1.33
Forecast	Jan-2023	1.54	1.68	1.32
	Feb-2023	1.54	1.85	1.36
	Mar-2023	1.69	1.98	0.96
	Apr-2023	1.66	1.99	1.19
	May-2023	1.70	2.01	1.85
	Jun-2023	1.71	2.04	1.54

APPENDICES

CENTRAL BANK OF NIGERIA COMMUNIQUÉ NO. 143 OF THE MONETARY POLICY COMMITTEE MEETING HELD ON MONDAY 18th AND TUESDAY 19th July 2022

1.0 Background

The Monetary Policy Committee (MPC) met on the 18th and 19th of July 2022, confronted with heightened macroeconomic uncertainties, broad based inflation across countries, and weakening global recovery associated with the ongoing Russian-Ukraine war, as well as backlash from a wide range of sanctions imposed on Russia. The Committee reviewed developments in the global and domestic economies in the second quarter of 2022 and the outlook for the rest of the year. Majorly, these developments include the unabated rise in global inflation, driven by the disruptions to the global supply chain; tightening global financial conditions as several advanced economies pursue an aggressive regime of monetary policy normalization; declining global trade; and growing risks to financial stability, associated with the burgeoning global private and public debt profile.

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

Global Economic Developments

The Committee noted with concern, the downtrend in global recovery, aggravated by supply chain disruptions as a result of the Russia-Ukraine conflict and the spillbacks and spillovers from sanctions imposed on Russia by the US and its allies. This has resulted in an unprecedented rise and widespread global inflation which is exacerbating downward pressure on the fragile recovery of the global economy. In addition, lingering headwinds associated with the COVID-19 pandemic are constraining the smooth functioning of the global supply chain. The rising risk of tightening global financial conditions, implies that developing economies now face the risk of constrained access to global capital which would further depress growth in this group of economies. This is expected to result in increased financial vulnerabilities due to the huge volume of corporate and public debt accumulated in the wake of the sharp downturn driven by the COVID-19 lockdown. In the light of these developments, the key risk confronting the global economy is that of a recession which may crystalize as second quarter growth figures for major advanced and developing economies begin to emerge. Consequently, the International Monetary Fund (IMF) in its April 2022 World Economic Outlook (WEO), downgraded its global output growth forecast for 2022 and 2023 to 3.6 per cent apiece from 4.4 and 3.8 per cent, respectively, with the likelihood of a further downgrade, given the continued deterioration in output growth.

Inflation in several advanced economies pushed higher and further away from the long-run objectives of their central banks, reflecting the sustained increase in the price of food, energy, and other commodities due to the harsh combination of persisting supply chain disruptions and pent-up demand. In the Emerging Markets and Developing Economies (EMDEs), inflation is also on the rise, compounded by legacy structural challenges as well as heightened exchange rate pressures, driven by rising capital flow reversals in addition to the outlined shocks from the global economy.

In the financial markets, available data suggests that investors are now rebalancing their portfolios away from gold and equities to fixed income securities, to take advantage of rising yields in the advanced economies as major central banks progress with interest rate hike. Consequently, the tightening of global financial conditions is expected to heighten investment and debt default risks, leading to the likelihood of a broad economic slowdown.

Domestic Economic Developments

According to the National Bureau of Statistics (NBS), Real Gross Domestic Product (GDP) grew by 3.11 per cent (year-on-year) in the first quarter of 2022, compared with 3.98 per cent in the fourth quarter of 2021 and 0.51 per cent in the corresponding period of 2021. The economy has thus grown for six consecutive quarters, following its exit from recession in 2020. This consistent positive performance was driven largely by the continuous growth in the non-oil sector, specifically, in the services and agriculture subsectors; ongoing policy support post-COVID lockdown; and the base effect from the corresponding period.

Staff projection showed that the economy is expected to remain on a path of sustained positive growth observed in the last few quarters. The Committee also noted that both the Manufacturing and Non-Manufacturing Purchasing Managers' Indices (PMIs) increased above the 50-index point benchmark to 51.1 and 50.3 index points in June 2022, compared with 48.9 and 49.9 index points, respectively, in May 2022. This reflects the continued rebound in economic activities due to improvements in supplier delivery time; raw materials inventory; employment levels as well as expansion in some sectors such as agriculture, accommodation, electricity, amongst others.

The Committee noted with concern the persisting uptick in headline inflation (year-on-year) to 18.60 per cent in June 2022 from 17.71 per cent in May 2022, an 89-basis point increase in just one month. This continued increase in inflation was driven by increases in both the core and food components to 15.75 and 20.60 per cent in June 2022. The considerable rise in core inflation resulted largely from the rising cost of production due to high energy prices associated with the persistent disruptions to power supply, hike in electricity tariff, continued scarcity of Premium Motor Spirit (PMS), and rising price of Automotive Gas Oil (AGO). The increase in the food component was, however, driven by shocks to food prices associated with continued insecurity in food producing areas and along major access routes across the country; the continued impact of the war in Ukraine on the supply of fertilizer inputs, wheat and other grains; exchange rate pressures; and the impact of monetary policy normalization on capital flows away from emerging markets. The Committee, however, expressed confidence in the Bank's sustained intervention programmes, noting that inflation is expected to abate as food supply improves and the fiscal authority sustain its efforts to tame the legacy structural challenges which put upward pressure on domestic price levels. Members, therefore, urged the fiscal authority to expand and sustain its support for all the recently deployed stimuli to the real sector of the economy.

The MPC noted that broad money supply (M3) rose significantly to 11.52 per cent in June 2022, compared with 10.86 per cent in May 2022. This was largely driven by the growth in Net Domestic Assets (NDA) of 18.02 per cent in June 2022, compared with 17.37 per cent in the previous month. The sustained growth in Net Domestic Assets (NDA) was attributed to the increase in claims on the Federal Government and other sectors (public nonfinancial corporations, private sector, and state and local governments).

Money market rates oscillated within the asymmetric corridor, reflecting prevailing liquidity conditions in the banking system. Consequently, the monthly weighted average Open Buy Back (OBB) and Inter-bank Call rates increased in June 2022 to 10.89 and 11.10 per cent, from 9.39 and 8.38 per cent in May, respectively. The increase in both the Open Buy Back (OBB) and Inter-bank Call rates reflected the tight liquidity conditions in the banking system.

The Capital Adequacy Ratio (CAR) and the Liquidity Ratio (LR) both remained above their prudential limits at 14.1 and 42.6 per cent, respectively in June 2022. The Committee, noted the reduction in the Non-Performing Loans (NPLs) ratio to 4.95 per cent in June 2022, compared with 5.7 per cent in June 2021. The MPC, thus, urged the Bank to sustain its tight prudential regime to ensure that the NPLs ratio is brought well below its prudential benchmark.

The MPC noted the very moderate decline in the performance of the equities market in the review period, as the All-Share Index (ASI) and Market Capitalization (MC) moderated to 51,817.59 and N27.94 trillion on June 30, 2022, from 52,990.78 and N28.56 trillion on May 31, 2022, respectively. The market, however, remains resilient, reflecting continued confidence in the Nigerian economy, as both the monetary and fiscal authorities work assiduously to improve macroeconomic fundamentals in Nigeria.

The Committee noted the marginal increase of 1.61 per cent in the level of external reserves to US$39.22 billion at end-June 2022 from US$38.60 billion at end-May 2022 due to the increase in inflows from non-oil sources.

The Committee reviewed the performance of the Bank's intervention programmes targeted at stimulating productivity in agriculture, manufacturing/industries, energy/ infrastructure, healthcare, exports and micro, small & medium enterprises (MSMEs). Between May and June 2022, under the Anchor Borrowers' Programme (ABP), the Bank released the sum of N3.62 billion, as disbursements to 12 projects for the cultivation of rice, wheat, and maize, bringing the cumulative disbursement under the Programme to N1.01 trillion, to over 4.21 million smallholder farmers cultivating 21 commodities across the country. The Bank also disbursed N3.72 billion to finance three (3) large-scale agricultural projects under the Commercial Agriculture Credit Scheme (CACS). These disbursements brought the cumulative disbursements under this Scheme to N744.32 billion for 678 projects in agro-production and agro-processing.

As part of its effort to support the manufacturing sector, the CBN disbursed the sum of N113.08 billion to 19 new projects under the Real Sector Facility. The funds were utilized for both greenfield and brownfield projects under the COVID-19 Intervention for the Manufacturing Sector (CIMS) and the Real Sector Support Facility from Differentiated Cash Reserve Requirement (RSSF-DCRR). Cumulative disbursements under the Real Sector Facility currently stands at N2.183 trillion for the financing of 414 real sector projects across the country. Furthermore, under the 100 for 100 Policy on Production and Productivity, the Bank has released N9.98 billion for five (5) projects, bringing the cumulative disbursements under the intervention to N68.13 billion for 48 projects, comprising twenty-six (26) in manufacturing, seventeen (17) in agriculture, three (3) in healthcare and two (2) in the services sector.

In the healthcare sector, the Bank disbursed N4.44 billion to three (3) healthcare projects under the Healthcare Sector Intervention Facility (HSIF), bringing the cumulative disbursements to N133.42 billion for 129 projects, comprising seventy-six (76) hospitals, thirty-two (32) pharmaceuticals and twenty-one (21) other healthcare services. To further expand the nation's non-oil export basket under the Export Facilitation Initiative (EFI), the Bank released the sum of N36.00 billion for five (5) projects in domestic production and value addition of cocoa and sesame seeds towards improving non-oil foreign currency revenue.

To improve electricity supply in order to lower the overall cost of production in the real sector, the Bank also intervened in the power sector to facilitate the deployment of enabling infrastructure. Summarily, the sum of N2.53 billion was disbursed to Distribution Companies (DisCos) for their Operational Expenditure (OpEx) and Capital Expenditure (CapEx), under the Nigeria Electricity Market Stabilization Facility –

Phase 2 (NEMSF-2). Cumulative disbursement under the NEMSF-2 currently stands at N254.46 billion. Under the National Mass Metering Programme (NMMP), the Bank disbursed N47.82 billion for the procurement and installation of 865,956 meters across the country.

Outlook

The broad outlook for both the global and domestic economies in the medium-term remain clouded with uncertainties associated with headwinds, such as the substantial disruptions to the supply chain, the Russian-Ukraine war and the lingering impact of the COVID-19 pandemic. Others include the rising level of corporate and public debt in the Advanced Economies and Emerging Market and Developing Economies; as well as the broad shocks to foreign capital flows driven by the aggressive normalization of monetary policy in some of the Advanced Economies.

On the domestic front, available data on key macroeconomic variables indicate the likelihood of a subdued output growth for the Nigerian economy in 2022. This is hinged on ongoing and expected shocks from the global economy, particularly from supply blockages of essential exports from both Russia and Ukraine; the impact of high crude oil prices, given Nigeria's position as an oil exporter and importer of refined petroleum products; and the aggressive normalization by some Advanced Economies. Accordingly, the Nigerian economy is forecast to grow in 2022 by 3.33 per cent (CBN), 4.20 per cent (FGN) and 3.40 per cent (IMF).

The Committee's Considerations

The Committee assessed the impact of emerging external shocks and legacy issues on price development and the recovery of output growth in the short to medium term. Members further noted the continued effort by both the monetary and fiscal authorities to dampen price pressures and sustain the recovery of output growth.

In the opinion of Members, the major external shocks to the economy remained those associated with the supply constraints arising from the Russia-Ukraine war and backlash from sanctions imposed on Russia; residual impact of the COVID-19 pandemic; and tightening external financial conditions, following the aggressive normalization of monetary policy by some advanced economy central banks. On the domestic scene, Members assessed the impact of the continued upsurge in money supply resulting from the increased demand for money, associated with election spending and increase in month-on-month inflation between May and June 2022. In addition, the Committee assessed the continued impact of rising insecurity, the rising cost of Automotive Gas Oil (AGO), and the persisting upward pressure on other energy prices on the general price level.

The MPC noted that the current upsurge in price levels remains a primary concern to monetary policy as

Members focused on the optimal policy approach required to address this development while protecting the fragile recovery. The Committee clearly identified that inflationary pressure was being driven by both demand and supply-side factors, which should be addressed using different policy approaches. In the Committee's view, the demand-side factors were being broadly addressed by the Bank, using the relevant direct and indirect instruments. On the supply side, the Bank has continued to provide the necessary support, through its development finance initiatives in the real sector, to ease supply constraints. The Committee called on the Federal Government to prioritize efforts to curb the menace of insecurity to enable farming and other business activities return to normalcy. The MPC thus called on the Bank to continue its support to increase food supply in a bid to addressing food inflation. Members also noted the upward price pressure, particularly on transportation, resulting from the prolonged scarcity of Premium Motor Spirit (PMS) and called on the Federal Government to seek a long-term and viable solution to strike a balance between the pricing and supply of PMS in Nigeria.

The Committee appraised the continued recovery of output growth, noting that despite the obvious external and internal headwinds, the recovery has remained resilient with hopes of a stronger medium-term recovery. This is however, hinged on the continued support by the Bank and the Federal government to ensure that recent economic gains are sustained.

The MPC welcomed the Bank's concerted efforts towards ensuring exchange rate stability, noting the current difficulties associated with managing the stream of external shocks impacting the economy. The Committee applauded the performance of the RT200 and similar initiatives targeted at improving accretion to reserves and stabilizing the exchange rate. The MPC noted that foreign exchange inflow through the RT200 FX Programme in Q1 and Q2, 2022, had increased substantially to approximately US$600 million as at June 2022. Members also noted the increase in Diaspora remittances as a result of the Naira for Dollar incentive and urged the Bank not to relent in its efforts to encourage foreign exchange inflow to the economy.

The Committee noted the Federal Government's increasing debt profile and expressed concerns over debt sustainability given that global uncertainties remain elevated. The MPC thus reiterated its call to the Federal Government to urgently diversify its revenue sources through various initiatives, such as, the development of a viable tax framework for the extractive and mineral export industries, to strengthen its fiscal buffers. Despite the apparent headwinds confronting the economy, the MPC noted that the banking system remained robust given the continued decline in NPLs below the prudential threshold and enjoined the Bank to sustain the trend by maintaining its vigorous surveillance to ensure continued resilience of the banking industry.

The Committee's Decision

The MPC noted with concern the continued aggressive movement in inflation, even after the rate hike at its last meeting, and expressed its unrelenting resolve to restore price stability while providing the necessary support to strengthen the fragile recovery.

As regards the decision as to whether to tighten, loose or hold, Members were unanimous and so did not consider both loosening and retaining rates at existing levels at this meeting. This is because on loosening, the MPC felt it could worsen the existing liquidity condition in the economy and further dampen money market rate, necessary to stimulate savings and investment. Members also felt that loosening would trigger the weakening of the exchange rate which could pass through to domestic prices.

The MPC did not also consider retaining the policy rate because a hold stance may suggest that the Bank is not responding sufficiently, to both the global and domestic price development, as inflation numbers continue to trend aggressively upwards.

As regards tightening policy stance, Members were unanimous that given the aggressive increase in inflation, coupled with the resultant negative consequences, particularly on the purchasing power of the poor, as well as retarding growth, there is the need to continue to tighten. However, the policy dilemma was hinged around the level of tightening needed to rein-in inflation, without dampening manufacturing output, which could result from the higher cost of borrowing. Aside from narrowing the negative real interest rate gap, Members were also of the view that tightening would signal a strong determination of the Bank to aggressively address its price stability mandate and portray the MPC's sensitivity to the impact of inflation on vulnerable households and the need to improve their disposable income.

Members also noted that the 150 basis points hike by the Committee in May 2022, had not permeated enough in the economy to halt the rising trend in inflation and noted that the month-on-month percentage point increase in headline inflation rose sharply in June 2022 compared with May 2022. The MPC also noted that other complementary administrative measures deployed by the Bank to address the growth in money supply did not moderate the inflationary trend.

Addressing the balance of policy objectives and developments in the global and domestic environment, the Committee resolved that the most rational policy option would be to further strengthen its tightening stance in order to effectively curtail the unabated rising trend of inflation. Members were conscious of the fact that output growth remained fragile, however, not curtailing inflation now could erode the moderate gains achieved in improving consumer purchasing power and thus worsen poverty level for the vulnerable populace. To ensure that output still remains in focus, the MPC advised the Bank's Management to continue to use its development finance tools to support the agricultural and manufacturing sectors.

The Committee thus voted unanimously to raise the Monetary Policy Rate (MPR). One member voted to increase the MPR by 150 basis points, six members by 100 basis points, one member by 75 basis points and three members by 50 basis points. Consequently, the Committee resolved to increase the MPR by 100 basis points from 13.0 per cent to 14.0 per cent.

In summary, the MPC voted to:

I. Increase the MPR from 13.0 to 14.0 per cent;
II. Retain the asymmetric corridor at +100/-700 basis points around the MPR;
III. Retain the CRR at 27.5 per cent; and
IV. Retain the Liquidity Ratio at 30 per cent.

I thank you for your attention.

Godwin I. Emefiele
Governor, Central Bank of Nigeria
19th July, 2022

CENTRAL BANK OF NIGERIA COMMUNIQUÉ NO. 144 OF THE MONETARY POLICY COMMITTEE MEETING HELD ON MONDAY 26th AND TUESDAY 27th SEPTEMBER, 2022

The Monetary Policy Committee (MPC) met on the 26th and 27th of September 2022, amidst continued weakening of the global economy due largely to the lingering disruptions to the global supply chain as a result of the Russia-Ukraine war, persisting global inflationary pressure, and lockdowns in China. Other contributing factors include tightening global financial conditions, declining global trade, and increasing risks of a financial meltdown owing to the burgeoning global private and public debt portfolios. The Committee reviewed these and other developments in the global and domestic economies in the third quarter of 2022 as well as the outlook for the rest of the year.

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

Global Economic Developments

The Committee expressed concern over the heightened risk of spillovers associated with the broadly weakening global recovery. These have been further exacerbated by uncertainties emanating from lingering supply chain bottlenecks, due to the Russia-Ukraine war and continued COVID-19 lockdown in China. Consequently, global trade maintained a steady decline while inflation remained unabating despite aggressive rate hikes by several central banks. The risk of yet another global recession would be extremely damaging for fragile economies still confronted with the lag impact of the 2020 recession, especially for emerging market and developing economies currently confronted with huge capital flow reversals and tightening global financial conditions.

Consequently, the International Monetary Fund (IMF), in its July 2022 growth forecast, further downgraded global output growth for 2022 and 2023 to 3.2 and 2.9 per cent, respectively, from 3.6 per cent apiece.

In the Advanced Economies, inflation remains high and considerably above the long-run objectives of several central banks' threshold despite progressive rate hikes, due largely to persistent increase in the prices of food and energy. In major Emerging Market and Developing Economies (EMDEs), the uptrend in inflation is expected to continue in the medium term, driven by legacy structural issues, elevated exchange rate pressures, rising capital flow reversals, in addition to the outlined shocks from the global economy.

In global financial markets, investors have continued to rebalance their portfolios as yields on fixed income securities improve with the ongoing policy rate increases. Gold price is thus gradually declining, as investors move steadily towards the fixed income market. In addition, risk-averse portfolio investors have continued with reassignment of their portfolios from perceived risky emerging market securities to less risky advanced economy securities.

Domestic Economic Developments

According to the National Bureau of Statistics (NBS), Real Gross Domestic Product (GDP) grew by 3.54 per cent (year-on-year) in the second quarter of 2022, compared with 3.11 per cent in the first quarter of 2022 and 5.01 per cent in the corresponding quarter of 2021. The economy has thus maintained continuous growth for seven consecutive quarters, following its exit from recession in 2020. This consistent positive performance was driven largely by the sustained growth in the non-oil sector, particularly services and agricultural sub-sectors, supported by continued policy interventions, as well as credit expansion to the private sector.

While output growth remains positive, the Committee, was concerned about the contraction in economic activities, as indicated by the Composite Purchasing Managers' Index (PMI), which fell to 47.2 index points in August 2022, below the 50-index point benchmark, compared with 50.4 and 51.9 index points in July and June 2022, respectively, an indication of weakening output growth. The contraction was attributed to a decline in production levels, new orders, inventory levels, employment levels and persisting shocks from the global economy associated with both the Russia-Ukraine war and the unabating Pandemic, as well as other domestic shocks. The Committee, however, expressed optimism on the economy's recovery in the short to medium term in view of the unwavering support by both the monetary and fiscal authorities in Nigeria.

The Committee noted the continued uptrend in inflation for the seven consecutive months, with headline inflation (year-on-year) rising to 20.52 per cent in August 2022, from 19.64 per cent in July. Both the food and core components rose to 23.12 and 17.20 per cent in August 2022, from 22.02 and 16.26 per cent in July 2022, respectively. The hike in energy prices, such as rising price of Automotive Gas Oil (AGO), hike in electricity tariff, as well as the perennial scarcity of Premium Motor Spirit (PMS) contributed significantly to the building of expectations, thus pushing up the cost of transportation and production. Other contributory factors include: the broad-based insecurity across the country, which continue to dampen production activities; legacy structural factors such as the inadequate state of critical infrastructure; high cost of importation of essential grains, such as wheat; and increased demand for money associated with the forthcoming electoral campaign season. The ongoing monetary policy tightening by the US Federal Reserve Bank is also putting upward pressure on local currencies across the world, with pass-through to domestic prices, as investors exit these economies to seek higher yields in US dollar denominated fixed income securities.

The Committee noted that broad money supply (M3) grew by 11.05 per cent in August 2022, compared with 8.66

per cent in July. This was driven largely by the growth in Net Domestic Assets (NDA) of 26.19 per cent in July 2022, compared with 22.78 per cent in the preceding month. The sustained growth in Net Domestic Assets (NDA) was driven largely by increased claims on the Federal government and other financial corporations and the private sector.

Money market rates continued to fluctuate, reflecting liquidity conditions in the banking system. Consequently, the monthly weighted average Open Buyback (OBB) rate declined to 13.21 per cent in August 2022, from 14.15 per cent in July, while the Inter-bank Call rate increased to 15.00 per cent in August 2022, from 13.00 per cent in July. The Capital Adequacy Ratio (CAR) and the Liquidity Ratio (LR) remained above their prudential limits at 13.4 and 40.1 per cent, respectively, in August 2022. The Committee, applauded the improvement in the Non-Performing Loans (NPLs) ratio to 4.8 per cent in August 2022, compared with 5.0 per cent in June 2022, reiterating its call on the Bank to sustain its tight prudential regime, to ensure that the NPL ratio is kept below its 5 0 per cent prudential benchmark.

The MPC noted the development in the equities market in the review period, as the All-Share Index (ASI) decreased to 49,836.51 index points on August 31, 2022, from 51,817.59 index points on June 30, 2022. Market Capitalization (MC) also decreased to ₦26.88 trillion, from ₦27.94 trillion in the same period. The bearish performance reflected sustained profit taking and sell-off by investors rebalancing their portfolios in favour of higher yields in the fixed income market.

The Committee noted the marginal increase of 0.39 per cent in the level of external reserves to US$38.46 billion at end-August 2022 from US$38.31 billion at end-July 2022 despite continued demand pressure. With crude oil price forecast to continue to moderate in the short to medium term, Members urged the Bank not to relent on the various policies put in place to support non-oil exports to shore up external reserves.

Under the Real Sector Facility, the Bank released the sum of ₦66.99 billion to 12 additional projects in manufacturing and agriculture. Cumulative disbursements under the Real Sector Support Facility (RSSF) currently stood at ₦2.10 trillion disbursed to 426 projects across the country.

Furthermore, under the 100 for 100 Policy on Production and Productivity (PPP), the Bank disbursed the sum of ₦20.17 billion to 14 projects in healthcare, manufacturing, and services, bringing the cumulative disbursement under the facility to ₦93.39 billion to 62 projects. In the healthcare sector, ₦4.00 billion was disbursed to two (2) healthcare projects under the Healthcare Sector Intervention Facility (HSIF), bringing the cumulative disbursement to ₦130.54 billion for 131 projects, comprising of 32 pharmaceuticals, 60 hospitals and 39 other services. Under the Export Facilitation Initiative (EFI), the Bank funded several commodity projects in the non-oil export segment for value-addition and production to the tune of ₦3.24 billion, aside the ₦50.00 billion disbursed through the Nigerian Export Import Bank (NEXIM).

In the Micro, Small and Medium Enterprise (MSME) sector, the Bank supported entrepreneurship development with the sum of ₦39.26 million under the Tertiary Institutions Entrepreneurship Scheme (TIES), bringing the total disbursement under this intervention to ₦332.43 million. Under the Intervention Facility for the National Gas Expansion Programme (IFNGEP), the Bank disbursed ₦1.00 billion to support the adoption of Compressed Natural Gas (CNG) as the preferred fuel for transportation and Liquefied Petroleum Gas (LPG) as the preferred cooking fuel.

Outlook

The broad outlook of the global and domestic economies in the medium-term remains clouded by uncertainties associated with lingering headwinds from the Russia-Ukraine war and the residual impact of the COVID-19 pandemic. Others include tightening global financial conditions with elevated shocks to foreign capital flows, as some Advanced Economies continue to pursue aggressive policy rate hikes; the high level of corporate and public debt with heightened risk of another global financial meltdown; and the high level of inflation across several economies.

On the domestic front, available data on key macroeconomic variables indicate that output growth will continue for the rest of 2022, however, at a much-subdued pace. Some of these domestic shocks include: the high level of insecurity currently disrupting the free flow of economic activities; heightened sovereign risk as the 2023 general elections approach; continued upward pressure on inflation, driven by exchange rate pressures amongst other domestic factors. In addition, domestic price development is expected to maintain the current upward trend in light of the build-up of increased spending and demand for money, as the 2023 general elections approach. Accordingly, the Nigerian economy is forecast to grow in 2022 by 3.52 per cent (CBN), 4.20 per cent (FGN) and 3.40 per cent (IMF).

The Committee's Considerations

At this meeting the focus of the MPC was on the aggressive acceleration of inflation globally and how this had begun to retard growth in both Advanced and Emerging Market Economies. Members noted that though the global economy was progressively weakening due to the various headwinds confronting the recovery. In Nigeria, output growth had been sustained as a result of the combination of development finance interventions by the Bank and fiscal stimulus by the Federal Government. Members noted that in the last 3 years, the CBN has injected over N9 trillion into the economy, in addition to offering 2- year moratorium for 10-year long-term loan facilities. The Committee believe that these interventions have significantly helped engendered growth. However, in light of the persisting pressures on inflation, the Committee encouraged the Bank maintain a close watch on the inflationary implications of the interventions.

The MPC noted the moderate downturn in the equities market, attributing it to a continued outflow of portfolio capital as investors re-assign their portfolios to more attractive US dollar denominated fixed income securities. The Committee, however, also called on the Federal Government to continue to improve the ease of doing business in Nigeria to retain the current patronage of foreign investors through sustained investor confidence in the Nigerian economy.
The MPC applauded the Bank for its continued stringent regulatory measures over the banking system, noting the progressive decline in the Non-Performing Loans (NPLs) ratio of the banking system despite the heightened macroeconomic uncertainties.

The MPC was concerned that within a four-month period, inflation had accelerated aggressively by 280 basis point from 17.71 per cent in May 2022 to 20.52 per cent in August 2022. The Committee was thus, of the view that given the primacy of its price and monetary stability mandate, it was expedient that significant focus must be given to taming inflation.

The Committee was therefore of the view that a hold or loosen option was not in consideration at this meeting. This is also because a loosening will further widen the negative real interest rate gap and worsen the financial market conditions, as savings mobilization and investment inflows would decline further. It was also of the view that with the aggressive policy normalization in Advance economies, loosening the stance of policy would result in a sharp depreciation of exchange rate, leading to further hike in capital outflows.

As regards a hold decision, this would mean a continuous deterioration in real earnings of fixed income earners and the livelihood of middle- and low-income households.

The MPC noted that a tight policy stance would help consolidate the impact of the last two policy rate hikes, which is already reflecting in the slowing growth rate of money supply in the economy. It also felt that an aggressive rate hike would slow capital outflows and likely attract capital inflows and appreciate the naira.

The Committee's Decision

Members deliberated on the impact of the widening margin between the current policy rate of 14 per cent and the inflation rate of 20.52 per cent. At this Meeting, the option to loosen the policy rate was not considered as this would be gravely detrimental to reining-in inflation. The Committee thus, agreed unanimously to raise the policy rate to narrow the negative real interest rate gap and rein-in inflation.

The Committee thus voted unanimously to raise the Monetary Policy Rate (MPR) and the Cash Reserve Requirement (CRR). Ten members voted to raise the MPR by 150 basis points, one member by

100 basis points, and another member by 50 basis points. Ten Members voted to increase the CRR by 500 basis points, while two Members voted to increase CRR by 750 basis points.

In summary, the MPC voted to:

I. Raise the MPR to 15.5 per cent;
II. Retain the asymmetric corridor of +100/-700 basis points around the MPR;
III. Increase the CRR to a minimum of 32.5 per cent; and
IV. Retain the Liquidity Ratio at 30.0 per cent.

Thank you.

Godwin I. Emefiele
Governor, Central Bank of Nigeria
27th September, 2022

CENTRAL BANK OF NIGERIA COMMUNIQUÉ NO. 145 OF THE MONETARY POLICY COMMITTEE MEETING HELD ON MONDAY 21st AND TUESDAY 22nd NOVEMBER 2022

The Monetary Policy Committee (MPC) met on the 21st and 22nd of November 2022, confronted with the continued weakening of the global economy due primarily to the persistent increase in energy prices, supply chain bottlenecks, rising inflation, looming food crisis, and sharp increase in interest rates leading to tightening external financial conditions. The volatility of the oil market, driven by policy stance by OPEC+ and the US Government, is also creating considerable uncertainty in the market, thus making the overall direction relatively unclear. Moreover, global trade has dwindled significantly in 2022, with the outlook for 2023 looking rather weak. Global private and public debt portfolios remain high and, in some cases, expanding as several countries around the globe acquire debt to stay afloat. The Committee appraised these and other developments in the global and domestic economies, as well as the outlook for the rest of the year and into the first quarter of 2023.

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

Global Economic Developments

Global output growth remained weighed down by familiar headwinds arising from the war in Ukraine, China's zero-COVID policy and the ongoing normalization of monetary policy in the advanced economies. These have collectively resulted in an energy price shock, historically high levels of price development across several economies and dwindling investment in capital markets of emerging market economies. With the war in Ukraine showing no signs of abating in the near-term, the disruptions to energy and commodity markets associated with it are more than likely to persist well into 2023.

While the pandemic has mostly dissipated in most parts of the world, China's zero-COVID policy is keeping its impact very significant as the frequent lockdowns in major industrial cities, continue to derail the smooth functioning of the global supply chain. Consequently, the resulting macroeconomic uncertainties and associated shock spillovers, remain heightened, thus increasing the risk of a global recession which would severely retard the recovery of several fragile economies. Those to be most affected would be Emerging Markets and Developing Economies (EMDEs) still confronted with the lag impact of the 2020 recession. The ongoing capital flow reversal from perceived higher risk emerging market securities to US dollar denominated securities with improved yields, is also further hindering orderly global recovery to pre-COVID-19 pandemic levels.

The International Monetary Fund (IMF), having downgraded for 2022 and 2023 several times, retained global output growth at 3.2 per cent for 2022, but further downgraded the 2023 forecast to

2.7 per cent compared with 2.9 per cent in its July 2022 forecast.

Inflation across several Advanced Economies is expected to remain elevated in 2022, despite progressive rate hikes by several central banks in these economies. This is predicated on sustained high energy prices associated with the Ukraine war and continued disruptions to the global supply chain. In the Emerging Market and Developing Economies (EMDES), inflation is expected to remain high for other reasons including, the persistence of exchange rate pressures, dwindling capital inflows and a host of legacy structural issues.

In the global financial markets, activities in several equity markets have gradually declined as investors take advantage of improved fixed-income yields in the Advanced Economies, with the progressive hike of policy rates. Global financial conditions are thus, expected to continue to tighten in the near term, as risk-averse investors reassign their portfolios.

In general, therefore, the global economy and financial markets, are confronted with significant risks in the short to medium-term. The huge build-up of both private and public debt and the rising risk of default associated with the current trend of rising interest rates, disruptions to the energy market and poorly functioning supply chains may tip several fragile economies into a new era of recession.

Domestic Economic Developments

Data from National Bureau of Statistics (NBS) on Real Gross Domestic Product (GDP) showed that it grew by 3.54 per cent (year-on-year) in the second quarter of 2022 and 5.01 per cent in the corresponding period of 2021. The economy has thus, sustained positive output growth for seven consecutive quarters, following the exit from recession in 2020. The consistent positive performance recorded was driven largely by the positive growth in the non-oil sector, particularly in the services and agricultural sub-sectors, complemented by continued policy support by the Bank.

CBN Staff projections showed that the economy is expected to remain on a path of sustained positive growth, given the expected strong performance in the fourth quarter of 2022 and steady rebound in economic activities.

Members noted with concern, the persisting uptick in inflation for the ninth consecutive month with headline inflation (year-on-year) rising to 21.09 per cent in October 2022 from 20.77 per cent in September 2022, an increase of 0.32 percentage point. On month-on-month basis, however, headline inflation decelerated to 1.24 per cent in October 2022 from 1.36 per cent in the preceding month, an indication that price development is responding to the Bank's recent policy rate hikes.

The persisting uptrend in energy prices and the prolonged period of scarcity of Premium Motor Spirit (PMS), contributed to a sharp rise in transportation, logistics and manufacturing costs, which fed through to consumer prices. Other contributory legacy factors include the lingering insecurity across the country; perennial flooding in major food producing states; critical deficit of infrastructure in the country; and poor road networks amongst others.

The Committee noted that broad money supply (M3) grew further by 13.80 per cent in October 2022, (year-to-date) compared with 11.00 per cent in September, 2022. This growth was driven by increased claims on 'Other Sectors' (other financial corporations, public non-financial corporations, and private sector).

In the financial markets, money market rates oscillated below and within the asymmetric corridor of the discount window facilities, in tandem with fluctuating liquidity conditions in the banking system. Consequently, the monthly weighted average Open Buy Back (OBB) rate increased to 15.91 per cent in October 2022 from 11.49 per cent in September 2022.

The Capital Adequacy Ratio (CAR) of the banking system declined in October 2022 to 13.4 but remained within its prudential limit of 10.0 -15.0 per cent. At 40.1 per cent, the Liquidity Ratio (LR) was above its prudential limit of 30.0 per cent. The Non-Performing Loans (NPLs) ratio also improved to 4.8 per cent in October 2022 from 4.9 per cent in the previous month, staying below its prudential benchmark of 5.0 per cent. The MPC thus, called on the Bank to continue to maintain its tight surveillance over the banking system to ensure that the NPLs ratio remains below the prudential benchmark.

The MPC noted with concern the continuing bearish performance of the equities market in the review period. The All-Share Index (ASI) and Market Capitalization (MC) decreased to 43,839.08 and N23.88 trillion on October 31, 2022, from 49,836.51 and N26.88 trillion respectively, on August 31, 2022. This decrease reflected the sustained sell-off and profit taking by investors rebalancing their portfolios to benefit from higher yields in the fixed income market. Other contributory factors include inflationary and exchange rate pressures, and tightening external financial conditions.

The Committee observed the decline in the external reserves position, as gross external reserves decreased by 1.34 per cent at end-October 2022 to US$36.87 billion, from US$37.39 billion at end-September 2022. With indications of lower crude oil prices in the futures market, Members urged the Bank to sustain its current policies to boost non-oil exports in order to shore up the external reserves.

Between September and October 2022, under the Anchor Borrowers' Programme (ABP), the Bank disbursed ₦41.02 billion to several agricultural projects, bringing the cumulative disbursement under the Programme to ₦1,067.29 billion to over 4.6 million smallholder farmers cultivating 21 commodities across the country. The

Bank also disbursed ₦0.30 billion to finance large-scale agricultural projects under the Commercial Agriculture Credit Scheme (CACS). Consequently, the total disbursement under the Scheme for agro-production and agro-processing stands at ₦745.31 billion for 680 projects.

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

In support of the resilience of the healthcare sector, the Bank also disbursed ₦5.02 billion to four (4) healthcare projects under the Healthcare Sector Intervention Facility (HSIF), bringing the cumulative disbursement to ₦135.56 billion for 135 projects in pharmaceuticals (33), hospitals (60) and other services (42).

Under the Micro, Small and Medium Enterprises (MSME) sector, the Bank provided support for entrepreneurship development with the disbursement of ₦1.33 billion and ₦10.00 million under the Agribusiness/Small and Medium Enterprise Investment Scheme (AgSMEIS) and Micro, Small, and Medium Enterprise Development Fund (MSMEDF), respectively. Hence, the total disbursement under these interventions amounted to ₦150.22 billion and ₦96.08 billion, respectively. Under the Export Facilitation Initiative (EFI), the Bank provided support for export-oriented projects to the tune of ₦5.34 billion, such that the cumulative disbursement under this intervention stands at ₦44.58 billion.

Outlook

The overall medium-term outlook for both the global and domestic economies remain clouded by uncertainties associated with the Russia-Ukraine war, lingering COVID-19 pandemic and continued lockdown of major industrial cities in China. The persistent tightening of global financial conditions and slowing global trade are also significant pointers to a weakening global economy.

On the domestic front, available data on key macroeconomic indicators suggest rebound in output growth for the rest of 2022, which may occur at a much-slower pace than earlier anticipated, in the light of unfolding domestic and external shocks to the economy. The domestic shocks originate from the persisting insecurity inhibiting economic agents; rising cost of debt and debt servicing; deteriorating fiscal balances; increased spending as the 2023 general elections approach; and continued uptrend in inflationary pressure. Accordingly, the Nigerian economy is forecast to grow in 2022 by 3.30 per cent (CBN), 3.20 per cent (IMF) and 4.20 per cent (FGN).

The Committee's Considerations

At this meeting, the MPC was concerned that the global inflationary pressures have continued to trend higher and financial markets were also facing challenges. It observed that this was indeed the trend in Nigeria, with inflation attaining 21.09 per cent in October, 2022. The Committee, however, seized the opportunity to appraise the efficacy of its decisions at the last couple of meetings, and came up with the conclusion that the decisions were beginning to yield the desired results, given that the rate of increase in inflation was beginning to moderate , in view of the month-on-month deceleration in prices presented by the Consumer Price Index.

Members noted that though the global economy was progressively weakening due to the various headwinds derailing the recovery, domestic output growth remained positive as a result of the combined support from fiscal and monetary policy. The MPC, therefore, urged both authorities to continue to harmonize their various policies to achieve the desired objectives of stable prices and steady growth.

In reaching the decision of whether to loosen, hold or tighten the stance of policy, Committee felt that, given that all the causative factors, such as the Russia-Ukraine war, supply chain disruptions, slowdown in China, rising inflation in advanced economies and other headwinds were still dominant, a loosen option was not desirable at this meeting. The Committee also felt that, with the rising inflation, loosening the stance of policy would lead to a more aggressive rise in inflation and erode the gains already achieved through tightening.

As regards whether to hold, MPC was of the view that a hold stance at a period close to December festive season and expected heavy spending during the 2023 general election at a time of high inflation would greatly jeopadise the gains of the previous policy rates hikes and plunge the economy deeper into the inflation trap.

The MPC therefore decided to continue to tighten, but at a somewhat lower rate, noting that tightening the stance of policy would narrow the negative real effective interest margin and thus improve market sentiment and further restore investor confidence. MPC also felt that recent developments in terms of observed month-on-month deceleration in the rate of increase in inflation, suggests that the previous tightening policies were yielding the expected outcome. It therefore felt that sustaining the tightening would further consolidate the decline in inflation, albeit more significantly.

The Committee's Decision

The MPC noted that inflation has continued an uptrend, even though at a decelerating rate, despite its last three consecutive sizeable policy rate hikes. The Committee's choices were on whether to further hike rates or pause for the impact of the last three rate hikes to continue to feed through the economy. At this MPC, therefore, the options considered were primarily to hold or further tighten the policy rate. The option to loosen was not considered as this would gravely undermine the gains of the last three rate hikes.

The Committee thus voted unanimous to raise the Monetary Policy Rate (MPR). Nine (9) members voted to raise the MPR by 100 basis points and 2 members voted to raise the MPR by 50 basis points.

In summary, the MPC voted to:

I. Raise the MPR to 16.5 per cent;
II. Retain the asymmetric corridor of +100/-700 basis points around the MPR;
III. Retain the CRR at 32.5 per cent; and
IV. Retain the Liquidity Ratio at 30 per cent.

Thank you.

Godwin I. Emefiele
Governor, Central Bank of Nigeria
22nd November 2022