



Post Monetary Policy Committee Meeting Report

MPC Maintains Tightening

May 2024

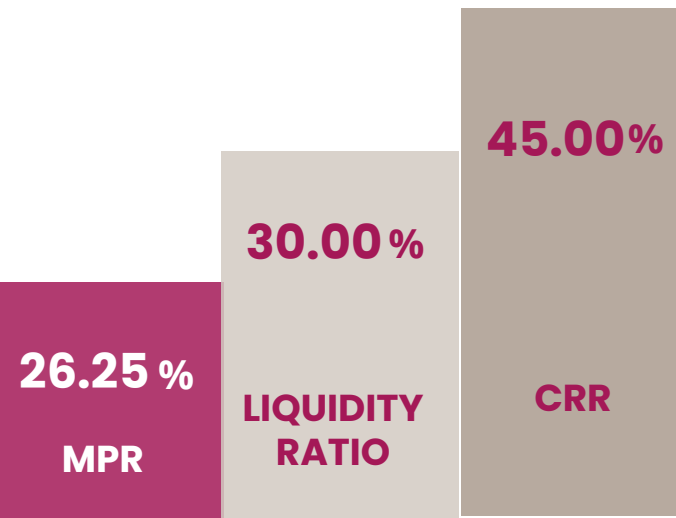
Committee's Decision

**+100/-
300bps
around the
MPR**

The Central Bank of Nigeria (CBN) maintained its hawkish stance at its 295th Monetary Policy Committee (MPC) meeting on May 20th-21st, 2024. The Monetary Policy Rate (MPR) was tightened further by 150bps to 26.25%. This decision is a strong signal of the apex bank's commitment to curbing inflation and addressing FX pressures through contractionary monetary policies. All other policy tools, including the asymmetric corridor, cash reserve ratio (CRR), and liquidity ratio, were left unchanged.

In summary, the committee decided to:

- Increase the MPR by 150bps to 26.25%.
- Maintain the Asymmetric Corridor at +100/-300 basis points around the MPR.
- Retain the CRR for commercial banks at 45%.
- Maintain the Liquidity Ratio at 30%.



MPC's Consideration

In April 2024, Nigeria experienced a softening of inflationary pressure on a Month-on-Month (MoM) basis, with headline inflation decreasing to 2.29% from 3.02% in March 2024. This decline partially reflects the impact of the recent benchmark interest rate hikes. However, on a Year-on-Year (YoY) basis, inflation rose to 33.69% in April, up from 33.20% in March 2024. The primary driver of this inflation was food prices, which increased significantly to 40.53% YoY from 40.01% YoY in March, due to supply, storage, and other infrastructural constraints.

With YoY inflation significantly exceeding the previous benchmark interest rate of 24.75%, investors faced negative real returns. This likely influenced the Committee's decision to raise rates further. The Committee also noted recent volatility in the foreign exchange (FX) market, which led to the depreciation of the Naira against the US Dollar.

This depreciation occurred despite the Naira being recognized as the world's best-performing currency by Goldman Sachs in April 2024. The decline in value may be attributed to seasonal demand for the USD, as well as profit taking activities by foreign investors.

On a positive note, the recent approval of licenses for 14 international Money Transfer Operators (IMTOs) is expected to enhance competition and potentially lower transaction costs. This could incentivize more remittances through formal channels.

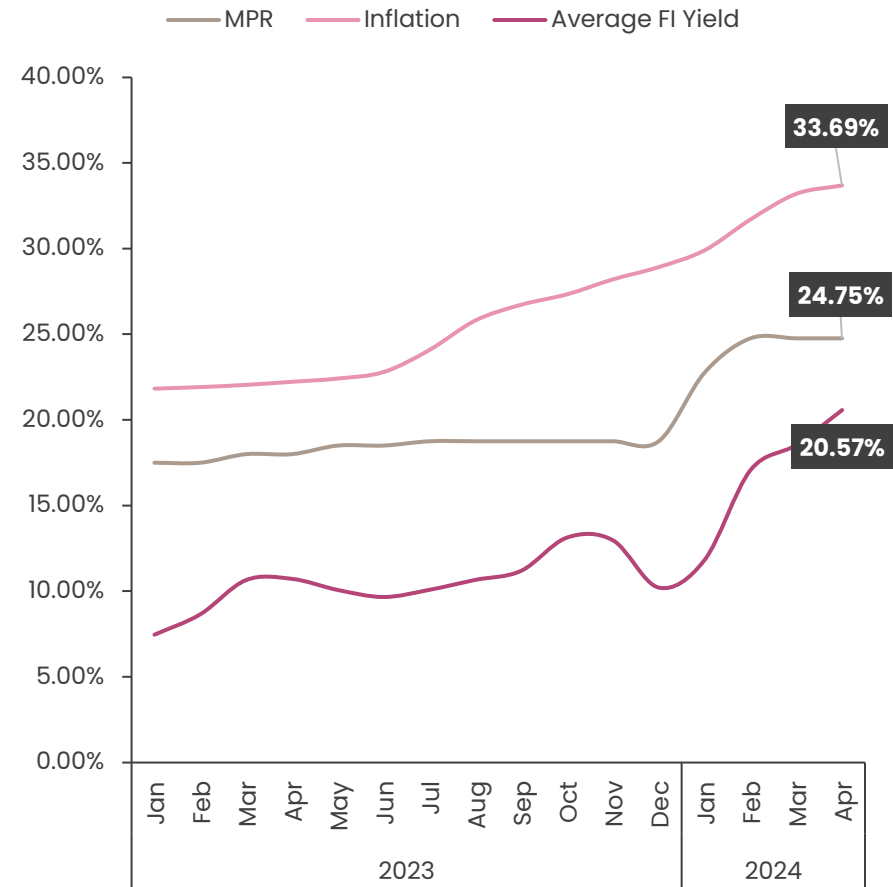
Overall, the CBN faces a complex situation with inflation pressures and FX market volatility. While the MoM decrease offers a glimmer of hope, the YoY increase, and negative real interest rates necessitated the recent rate hike. The further hike in the interest rate is also likely to attract Foreign Portfolio Investment (FPI), which may help boost FX liquidity in the market. Additionally, the expected World Bank USD2.25mn FX inflow, the remaining USD1.05bn loan from the AFREXIM Bank, and the government's plan to issue an FX-denominated bonds are anticipated to enhance FX liquidity.

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However, it's important to note that higher interest rates can also have downsides, such as increased borrowing costs for businesses and consumers. This could dampen economic activity and investment. By carefully monitoring the impact of the rate hike and other measures, the CBN can strive to achieve a balance between curbing inflation and maintaining economic growth.

To effectively address inflationary pressures and FX issues, monetary policy needs to be complemented by restrictive fiscal policies. While the effect of this rate increase may not be pronounced in the May 2024 inflation rate, we expect a base effect to support lower prices come June 2024. The Committee will continue to monitor developments in the global and domestic economies to guide policy and ensure that inflation expectations are adequately anchored. This will influence the Central Bank of Nigeria's decisions in the next Committee meeting on July 22nd-23rd, 2024.

Chart 1: 12 Months Trend of Monetary Policy Rate, Inflation Rate and Average FI Yield

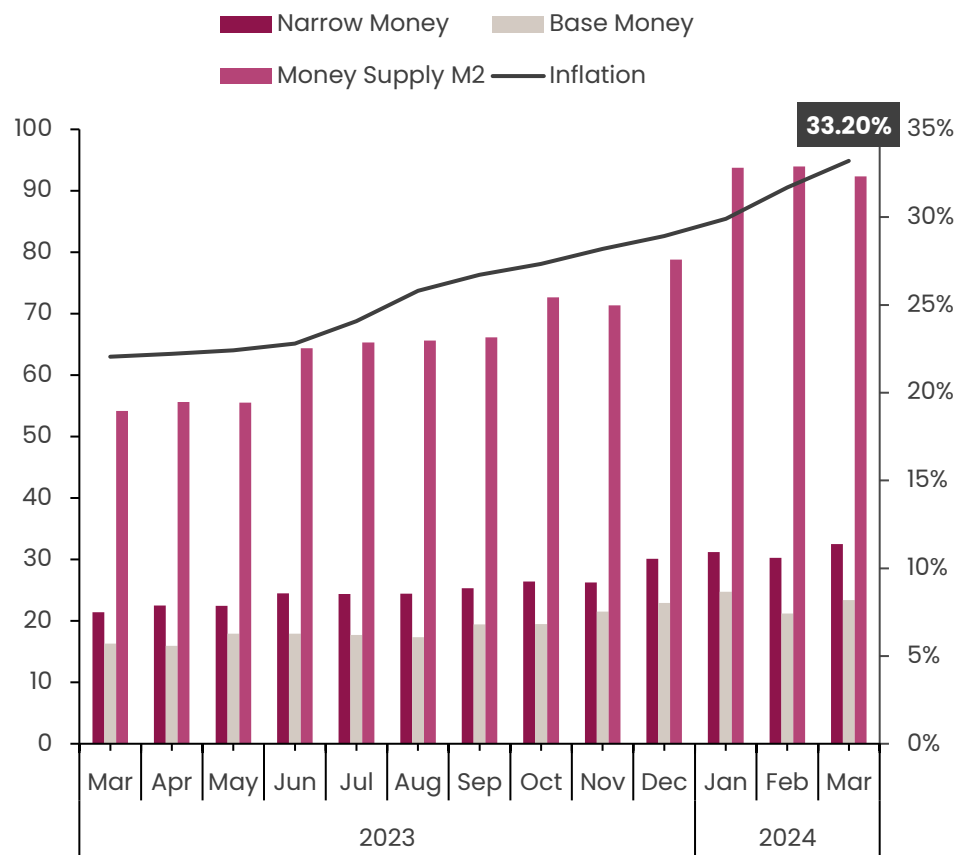


Source: NBS, CBN, ARM Research

Money Supply and Inflation – Money Supply Shows Mixed Trends

As of March 2024, the Broad Money Supply (M2), which includes narrow money (M1) plus savings and time deposits, decreased by 1.74% MoM to NGN92.33trn, down from NGN93.97trn in February 2024. This decrease was driven by a significant 35.8% MoM drop in Net Domestic Assets (NDA), which includes net domestic credit, fell to NGN56.55trn from NGN88.15trn in February 2024. This may be attributed to the Monetary Policy Committee’s (MPC) decision to raise interest rates by 200bps in March. However, M1, which includes currency in circulation and current account deposits with commercial banks, increased by 7.31% MoM to NGN32.48trn, compared to NGN30.27trn in February 2024. Likewise, Base Money, which consists of currency and coins outside the banking system plus bank deposits with the Central Bank of Nigeria (CBN), rose by 10.15% MoM to NGN23.38trn in March 2024. This may be attributed to increased government spending during the month.

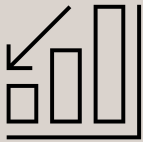
Chart 2: Inflation vs Money Supply Trend



Source: NBS, CBN, ARM Research

We expect a further increase in the MPR by 50-100bps during the next MPC meeting in July 2024.

Capital Market Outlook



Equities Market

With the continued interest rate hike, we expect that the bearish sentiment in the equities market would be sustained, on the back of traction to the fixed income market, as investors look toward more attractive real returns. However, we think that this MPC decision may bolster gains in tickers in the Banking sector, as it would help to boost their Net Interest Margin (NIM).



Fixed Income Market

As the CBN and MPC maintain their stance on curtailing excess system liquidity, we expect the bearish run of the fixed income market to persist, as investors take advantage of higher yields in the market.



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