



## 293<sup>rd</sup> Post Monetary Policy Committee Meeting

### MPC Takes a More Aggressive Stance Against Inflation

The first (1<sup>st</sup>) Monetary Policy Committee (MPC) meeting chaired by the new Central Bank of Nigeria (CBN) Governor, Dr. Yemi Cardoso, was held on the 26<sup>th</sup> and 27<sup>th</sup> of February 2024. At the meeting, monetary policy tools were aggressively tightened to rein in inflation and curb excess money supply. The Committee after several considerations came to the following decisions:

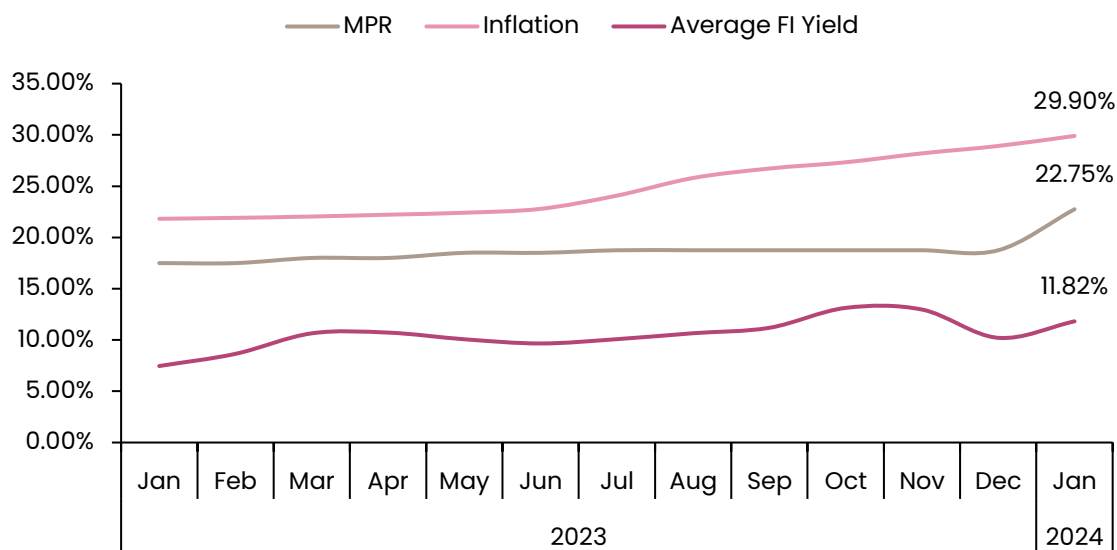
- Hike the Monetary Policy Rate (MPR) by 400bps to 22.75% from 18.75%
- Adjust the asymmetric corridor to +100/-700 basis points from +100/-300 basis points around the MPR
- Raise the Cash Reserve Ratio (CRR) to 45% from 32.50%
- Retain the Liquidity Ratio at 30.00%

The Committee's focus was primarily on addressing prevailing inflationary pressures, exacerbated by insecurity in food-producing regions, a rapid depreciation of the Naira, and soaring transport costs. Additionally, a significant uptick in money supply (+18.25% MoM to NGN93.72 trillion in January 2024) prompted the Committee to adopt a hawkish stance. Consequently, the increase in CRR mandates banks to reserve a higher proportion of customer deposits with the CBN, thereby limiting the funds available for lending into the economy. However, this contradicts the expansion of the asymmetric corridor to +100/-700bps around the MPR, as it discourages banks from depositing more with the CBN on the back of lower interest rates.

Furthermore, the Committee discussed recent exchange rate pressures driven by insufficient foreign exchange (FX) supply and speculative activities in the market. They acknowledged recent CBN policies such as the unification of the FX market, promotion

of a willing buyer-willing seller market, removal of limits on margins for International Money Transfer Operator (IMTO) remittances, introduction of a two-way quote system, and broad reforms in the Bureau de Change (BDC) segment. These measures are expected to yield favorable outcomes in the short to medium term. The hawkish stance adopted by the CBN could serve as a positive signal to foreign investors, potentially attracting more Foreign Portfolio Investment (FPI), thereby bolstering FX reserves. Moreover, the clearance of approximately USD400mn of the USD2.2bn FX backlogs could enhance foreign investors' confidence in the economy.

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



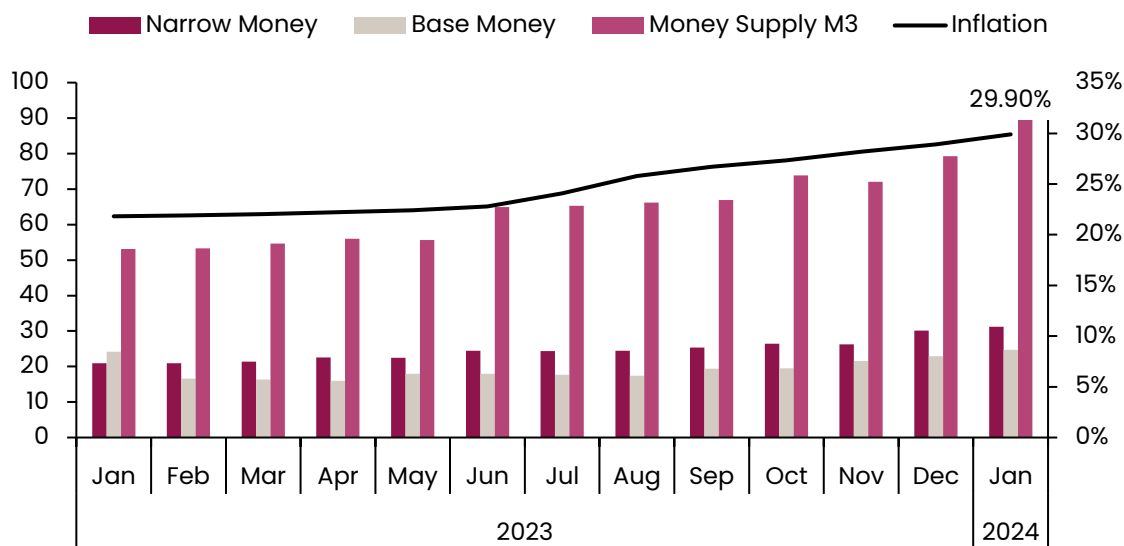
Source: NBS, CBN, ARM Research

### Money Supply and Inflation – Money Supply Sustains Growth

In January 2024, Broad Money Supply (M3) increased by 18.25% MoM to NGN93.72trn from NGN79.252trn in December 2023. This is following 23.14% MoM surge in Net Domestic Assets (NDA) to NGN86.09trn (vs. NGN69.91trn in December 2023). However, Net Foreign Assets (NFA) declined by 18.39% MoM to NGN76.21trn (vs. NGN93.38trn in December

2023). Specifically, as of January 2024, Narrow Money was at NGN31.23trn, and Base Money was at NGN24.735trn.

Figure 2: Inflation vs Money Supply Trend



Source: NBS, CBN, ARM Research

## Capital Market Outlook

### Equities Market

We believe the 400bps interest rate hike by the MPC is likely to shift investor preference away from the equities market, reducing its appeal. We have already witnessed the market’s reaction to the hike in interest rate. For context, the Nigerian Equities market closed bearish on the 27<sup>th</sup> and 28<sup>th</sup> of February 2024, declining by 1.38% and 1.27% respectively. Moving forward, we might see sustained sell-off activities in the market as investors pursue higher yields in the fixed income market. However, owing to potentially cheap valuation, we expect some investors to seize the opportunity to play in fundamentally sound tickers ahead of dividend-paying season.

### Fixed Income Market

In the Fixed Income market, we foresee a more dogged approach by the CBN to tackling the liquidity surfeit. Given the discontinuation of the discretionary CRR debits, the CBN would likely undertake a more aggressive, but cost-effective approach, in tackling the money supply glut in the system. We believe the increase in MPR would influence higher interbank rates, as the apex bank doubles down on excess liquidity (CRR at 45%, higher primary auction rates etc.), ultimately driving higher short-term rates on the yield curve. On a balance of factors, we believe investors may benefit by staying short on current short-term debt holdings, while locking in relatively higher yields from short-term instruments such as commercial papers and NT-bills, as the yield curve observes a bear flattening movement.

### Outlook: Next MPC Meeting

Given the CBN's commitment to curbing demand-side issues fueling inflationary pressures, we might see further hike in interest rate at the next MPC meeting holding on the 25<sup>th</sup> and 26<sup>th</sup> of March 2024. The Committee, in a bid to sustain foreign investor confidence, might resort to a mild increase in interest rate. Therefore, barring any respite in inflation figures, we expect a **50-100bps** hike at the next MPC meeting.

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