



Post Monetary Policy Committee Meeting

Rate Hike; Following Global Trends?

At the 285th Monetary Policy Committee (MPC) meeting held on 23rd and 24th of May 2022, the Central Bank (CBN), hiked Monetary Policy Rate (MPR) by 150 bps to 13%. This aligns with the global trend of hawkish monetary policy actions, as monetary authorities grapple with rising prices. The committee agreed unanimously to raise MPR. Six (6) committee members voted to raise the rate by 150bps, four (4) members voted to raise the rate by 100bps, and one (1) member voted to raise the rate by 50bps.

Summarily, the committee decided to:

- Raise MPR by 150bps
- Retain asymmetric corridor at +100/-700 basis points around the MPR
- Retain the CRR at 27.5%
- Retain the Liquidity Ratio at 30%

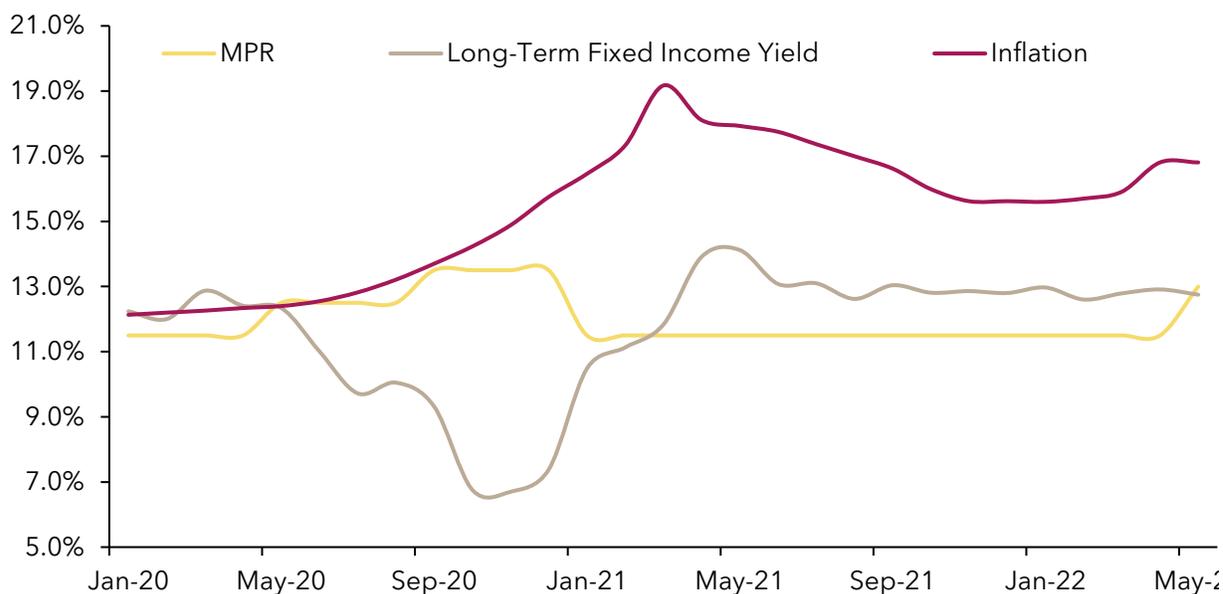
Committee's Considerations

The committee considered the events of the last 2 months vis-à-vis the outlook for both the global and domestic markets. Besides inflationary concerns, there is also the concern of a slow-down in global growth. The committee noted Russia-Ukraine conflict and the recent resurgence in Covid 19 cases in China, the USA, and South Africa. In the bid to combat the effect of these development, major central banks such as the US Fed, Bank of England, European Central Bank and Bank of Canada have resorted to upside adjustment of interest rates. We believe that the bank as a backdrop, sought for a higher rate to remaining competitive in the global capital market.

The committee noted that a dovish move might further spur money demand pressure which is likely to become more intense due to the upcoming 2023 election. Furthermore, given the surge (Up 90bps YoY to 16.82%) in Inflation in April 2022, such move could create additional price pressures. Lastly, they opined that reducing the rate might result in a rise in capital outflow and a quick dry up of the foreign credit lines.

Finally, the committee mentioned that tightening the rate would moderate the inflationary trade-off from the steady recovery posted hitherto and narrow the negative real interest rate, improve market sentiment, and restore investors' confidence in the market. They also noted that a hike in rate will provide incentives for foreign capital inflow, sustain remittances, and curtail government domestic borrowings.

Figure 1: MPR, Long-term Fixed income Yield and Inflation trend (%)



Source: National Bureau of Statistics, Central Bank of Nigeria, ARM Securities Research

Inflation: What does this action bode?

The current price variations as stated overtime remains majorly supply-side driven. Furthermore, seeing as the committee cited the rise in broad money supply as a likely precursor to rising prices, there might have been a justification for the hike. Nonetheless, we opine that the hike would amount to little or no effect in this case, as the current surge in money supply has been ascribed to rising pre-election spending.

Capital Market; Any Implication?

Prior to the meeting, profit-taking actions had permeated the bourse, especially among the tickers that recorded positive uptrend. This development ushered in the buck in trend recorded last week, ending five consecutive weeks of positive closing in the process. The trajectory

continued already in the week, and with the hike in rate, we expect intensified selloffs in the coming days, given what the action bodes for yield in the Fixed Income space.

In the Fixed Income space, there is bound to be improved demand for higher rates at the coming auctions. This activity is also expected to trickle into the respective secondary markets – fueling selloffs. In our [fixed income outlook for the year](#), we highlighted the recipe for higher yields in H2:2022 in the face of spiraling inflation – increased government borrowing, tighter liquidity and the inevitable interest rate hikes. These factors remain relevant.

Foreign Exchange Market; Would the Hike Work?

So far in 2022, the developments in the market have refused to spur optimism, largely due to concerns around Foreign Exchange flows into the economy. One of the major points is the dwindling crude-oil proceeds, an offshoot of the several encumbrances namely, oil theft, and pipeline vandalism, that have slowed crude oil production volume. The committee opined that the recent decision would help inflow of foreign capital – this should ordinarily be the case. However, we note the FX repatriation issues in the past twenty-five (25) months, and other concerns as a downside risk for such expectation. Thus, we opine that this (the hike) might not translate to improved inflow of capital amid the uncertainty within the Foreign Exchange space.

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