MPC Update: July 2022

MPR: 14%   MAY Inflation Rate: 18.60 %

Q1 Real GDP Growth Rate: 3.11%

Update on the Monetary Policy Committee (MPC) Meeting Held on July 18 and 19, 2022

At the end of today's Monetary Policy Committee (MPC) meeting, members unanimously voted to: Increase MPR by 100bps to 14%

Retain asymmetric corridor at +100bps / -700bps

Retain CRR at 27.50%

Retain liquidity ratio at 30%

Excerpts from Meeting

The CBN/MPC has gone further hawkish with its application of orthodox policy tightening measures to hike interest rates by 100 basis points to 14% from 13% after its July 2022 MPC assembly in its drive to rein in inflationary pressure in line with international trends and the adoption of aggressive policy normalization.

Most central banks in other climes have raised their benchmark interest rates since the start of the second quarter in a bid to stifle inflationary momentum while the CBN Governor, reading out the MPC Communique, asserted that there will be continued hawkish undertone by the committee should the spiraling inflation numbers stay unabated.

The committee's considerations at the meeting include:

The impact of emerging price shocks on the back of supply constraints from the international space such as the Russian-Ukraine crisis, broad shortage of foreign capital flows, aggressive policy normalization by major CBs and the continued tightening of external financial conditions.

Domestically, the continued upsurge in money supply, which is, fueling increased liquidity build-up due to pre-election spending; rising insecurity concerns; upward movement in price levels; rising debt profile and the level of elevated global uncertainties.

Furthermore, the committee noted that it was felt that the earlier increase by 150bps was yet to permeate the economy enough while other complementary measures to address money supply did not drive down inflationary trend. Consequently, it identified inflation as demand and supply driven, stating that demand is being addressed by the bank while the supply factors has called for support to the real sectors, e.g, agriculture; to enable the improvement of supply ease.

The MPC therefore harped on the federal government to strike a balance on rising price levels and pursuit for growth as well as the need for a well-diversified economy to strengthen the fiscal buffers.

We think increase in the MPR is a good move by the Central Bank as a policy tool to tackle accelerating inflation which could possibly lead to stagflation (high inflation & unemployment rates and slower growth), eventually pushing the economy into a recession in the medium term, and further driving down total money supply with aim to achieve sustainable economic growth. However, we see a rise in the cost of borrowing from commercial banks for businesses; a possible decline in consumers aggregate demand and as well stem currency pressures in the FX space.