MPC Update: January 2023

MPR: 17.50% Dec. Inflation Rate: 21.34 %

Q3 Real GDP Growth Rate: 2.25%

Update on the Monetary Policy Committee (MPC) meeting held January 23 and 24, 2023

At the end of the January Monetary Policy Committee (MPC) meeting, the apex bank resumes in its hawkish tone to clip the wings of inflation as most members unanimously voted to hike policy rate by another 100bps to 17.50%, while it retained the Asymmetric Corridor at +100bps / -700bps around the MPR; CRR at 32.50%; and the Liquidity Ratio at 30%. This is the fifth session under twelve months where policy rate has trended higher.

Excerpts from the meeting

In line with expectations for aggressive tightening, the CBN/MPC hiked interest rates by 100 basis points to 17.50% from 16.50% in November 2022 and in its drive to rein in inflationary pressure which have surpassed the 20% mark and have reached a 17-year high in line with international trends and the adoption of aggressive policy normalization tool.

Just as we have witnessed in 2022, most central banks in advanced economies raised their benchmark interest rates to stifle inflationary momentum. However, the recent inflation report from the NBS revealed that for the first time in 11 months, inflation cooled marginally by 13bps to 21.34% year on year as a result of base effects amongst other factors. Still, the CBN had asserted that there will be continued hawkish undertone by the committee should the spiraling inflation numbers stay unabated above its 7%-10% target.

The committee's considerations at the meeting include:

Although the MPC was delighted that inflation has started to moderate year on year, it was not convinced that the marginal 13bps dip in December inflation was enough to begin to celebrate. Therefore, it considers that a hold or loosening option was desirable. It was reluctant in considering a hold as it will signal MPC's quick adjustment of its policy stance to a one-time marginal decline in inflation and against its policy stance at stemming inflation. Therefore, it was unanimously agreed to tighten but a dilemma stays on if it was necessary to continue tightening aggressively or moderately. The CBN noted that inflation at a high above 20% was already a threat to growth and among the highest in the world. Therefore, aggressive tightening would signal confidence in its external monetary policy stance, rein in inflation and instill stability in the exchange rate.

The impact of emerging price shocks on the back of supply chain disruptions from the international space such as the Russian-Ukraine crisis, wide-ranging scarcity of foreign capital flows, aggressive policy normalization by major central banks; the continued tightening of liquidity conditions in the economy and the impact from the resurgence of Covid-19 cases in China. Domestically, the continued upsurge in monetary aggregates; rising insecurity concerns; 2023 elections spending, upward movement in price levels; and the level of elevated global uncertainties associated with the wide expectations that the US Fed will raise policy rates in its next two meetings, drove committee's considerations.

For Cowry Research, we continue to see the downside risks to pressures from inflation as central bank's aggressive monetary policy tightening measures will largely depend on the path of inflation. In our December 2022 inflation statements, we noted that the moderate reversal in inflation will prompt members into voting for a further tightening stance to keep inflation at single digit. Having said that, we would note that loosening under a double-digit inflationary condition will be tantamount to the immediate reversal of the expected further downward trend in inflation.