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MPC Update: March 2023

MPR: 18.00%   Feb. Inflation Rate: 21.91 %

FY'22 Real GDP Growth Rate: 3.11%

CBN Policy Onslaught Against High Inflation; A Trade-off for Economic Growth

The CBN, at the conclusion of its March 2023 MPC meeting, maintained its hawkish tone for the sixth consecutive time, by 50 basis points, to 18%. This is in line with expectations for slower tightening measures to stifle inflationary momentum, as all members voted to retain the asymmetric corridor at +100 bps and -700 bps around the MPR, the CRR at 32.50%, and the liquidity ratio at 30%. This is the sixth session in the past twelve months where the policy rate has trended higher and the apex bank has forgone growth to maintain price stability.

Excerpts from the meeting: In line with market-wide expectations for aggressive policy tightening, the CBN hiked interest rates to 18% from 17.50% at its last meeting. The decision comes as the committee detects the upward risk of rising prices on the back of expectations surrounding the removal of the PMS subsidy; rising prices of other energy sources, continuing exchange rate pressure, and uncertain climatic conditions.

From the latest consumer price inflation report from the NBS, annual headline inflation accelerated to 21.91% in February from January 2023 for the second month, reaching a near seventeen-and-a-half-year high, above market expectations for a paltry 5 basis points above the 21.82% reported in January 2023. The reported acceleration was partly a result of the persistent food shortages and the unprecedented Naira scarcity witnessed during the month as an upshot of the central bank's redesigned Naira policy. However, the NBS said the contributors to the rise in the headline index were prompted by increases in the prices of bread and cereal, actual and imputed rent, potatoes, yams, and other tubers, vegetables, and food.

The committee's considerations at the meeting include: Although the MPC was delighted that monthly inflation has been on the decline but has risen slowly year on year in recent time, it was not convinced that the slow acceleration in annual inflation was enough to begin to celebrate. Therefore, it considers that a hold or loosening option was not desirable as it focused attention not only on the inflationary trends in most major economies but also on the reported impact of policy rate hikes aimed at reining in inflation on financial system stability in the global financial system. Although it was debated whether to maintain the rate hike to dampen the rising inflation trajectory or hold to observe emerging developments and allow for the impact of the last five rate hikes to permeate the economy, it is believed that loosening would gravely undermine the gains achieved so far.

Also, the impact of the contagion emerging from the bank runs in some advanced economies was examined for its possibility of causing shocks to the Nigerian banking system, and it was discovered that the domestic financial system remains reasonably insulated from such likely contagion as there are in place stringent micro- and macro-prudential guidelines that have always ensured that individual banks and the banking industry in Nigeria have adequate buffers to ward-off global contagion.

Cowry Research thinks the 50 bps increase in the policy rate as a tool to tackle accelerating inflation could possibly lead to slower growth and further drive down the total money supply with the aim of achieving sustainable economic growth and price stability. However, rising inflation has continued to be a front burner in most economies across the globe, including Nigeria, and is escalating the price stability plans far from the hands of the monetary authority—an economic growth trade-off that may further drive the central bank's position for an extended contractionary stance. Similarly, we continue to see the downside risks of pressures from inflation as the central bank's aggressive monetary policy tightening measures will largely depend on the path of inflation.

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