MPC Update: May 2023

MPR: 18.50%   Apr. Inflation Rate: 22.22 %

Q1'23 Real GDP Growth Rate: 2.31%

CBN Stay Hawkish at the Altar of Growth with 50bps Raise in MPR

The CBN, at the conclusion of its May 2023 MPC meeting, maintained its hawkish tone for the seventh consecutive session since May 2022, by another 50 basis points, to 18.50%, in the face of lingering economic headwinds, even as the majority of 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%.

Excerpts from the meeting: In line with market-wide expectations for more aggressive tightening, the MPC's decision to raise interest rates was driven by concerns about rising inflation. Having being confronted by surging levels of inflation which has failed to decelerate towards the bank's long run objective, committee saw the imperative to tilt focus on price and monetary stability, though in a less aggressive manner given that rising inflation levels would hurt growth.

Headline inflation in Nigeria accelerated to 22.22% in April 2023, its highest level in almost two decades. This continued uptrend in the headline consumer price index was attributed to the devalued Naira which has made imported goods more expensive; increasing cost of gas, as well as the cost of electricity generation and distribution (3.72%). Also, the contributions of items on the divisional level further precipitated the acceleration. Thus, food and non-alcoholic beverages (11.51%), clothing and footwear (1.70%), transportation cost (1.45%) and household furnishing and equipment (1.12%).

The committee's considerations at the meeting include: Although the MPC was delighted that monthly inflation has been on the decline, it was convinced that the gradual rate hikes have impacted the targeted parameters and yielding the expected outcome, although slowly. It stated that the policy rate hikes have also moderated growth in new credit and reduced the pent-up aggregate demand contributing to the inflationary pressures. Reviewing the argument to further hike the policy rate in a bid to subdue aggregate demand, Members noted that the current uptrend in inflationary pressure was driven by a combination of both demand and supply side issues. The MPC observed the continued upward risk to price development driven primarily by expectations of rising energy and food prices; unabating security challenges in food producing areas; as well as persisting exchange rate pressure.

In considering the impact of a tightening stance on rising inflation and real income, committee opted for a moderate tightening in order to stamp that current policy stance is moderating the rising inflation; discourage further build-up in aggregate demand in the face of declining output growth; narrow the negative real interest rate gap and moderate the associated consequences, including discouraging domestic savings mobilization and waning investors' confidence; effectively tame the monetary phenomenon driving inflation by tapering both economic and financial conditions, and sweep-up excess liquidity in the system; and boost the Bank and Committee's credibility following its earlier forward guidance to continue to tighten when confronted with unabated rising inflation.

Cowry Research thinks that the MPC's decision to raise interest rates is just one of a number of factors that may trigger macroeconomic instability in the Nigerian economy. However, rising inflation has continued to be a front burner in most economies across the globe, including Nigeria. Thus, we think the 50bps hike will help to slow the pace of inflation which is beneficial to households and businesses by reducing the cost of living, making it easier to borrow money and on the other hand, dampen Nigeria's economic growth.