# Analyst's Note on: July MPC Meeting – July 2023

## CBN on Soft Pedal with Less Aggressive Rate Hike by 25bps to 18.75%……

The Monetary Policy Committee (MPC), in its first meeting since the suspension of Godwin Emefiele, the CBN Governor, took to a less aggressive tone in its rate, raising the MPR by 25 basis points to 18.75%. This move aligns with our earlier expectations and marks the eighth consecutive meeting since May 2022, during which the committee has adopted a hawkish stance to combat rising inflation.

It's worth noting that the decision for a slower tightening was not unanimous. Among the members, 4 voted for a 25bps hike, 2 preferred a 50bps increase, while 5 members advocated keeping rates unchanged. Our view had been in line with a 25bps increase to 18.75%, as a measure to curb inflation, despite recognizing that many inflationary pressures are beyond the scope of monetary policy. Nevertheless, the committee's choice to raise rates was influenced by ongoing global and domestic economic uncertainties, elevated general price levels, and the need to support economic growth.

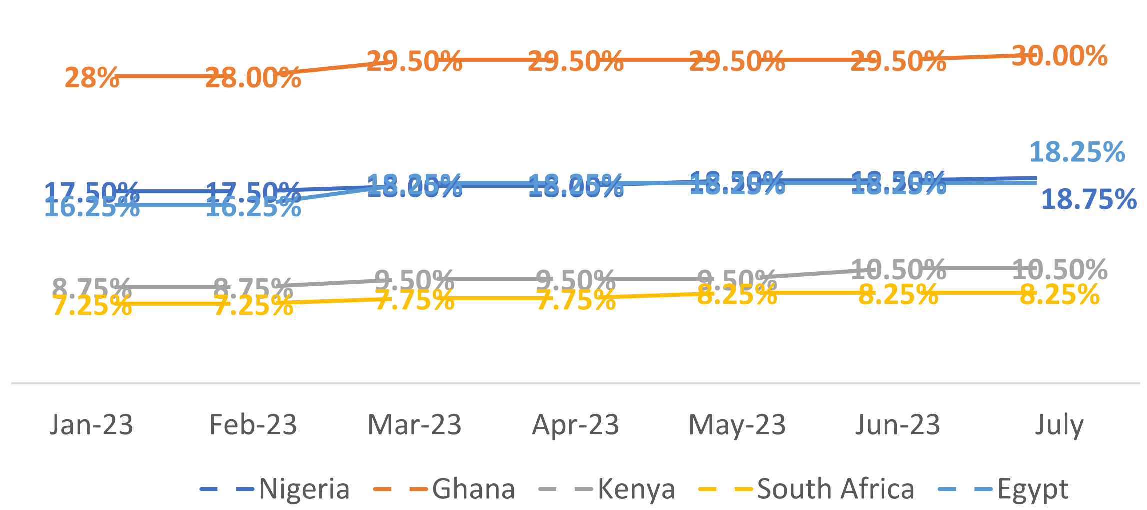
In contrast to some advanced economies experiencing a downward trajectory in inflation, Nigeria's headline inflation remained stubbornly high at 22.79% in June 2023 for the sixth consecutive month. This reflects a sustained build-up of inflationary momentum, with price increases observed in various divisions, including food and non-alcoholic beverages, housing, transportation, and others.

The decision to implement a token rate hike indicates the committee's commitment to addressing inflation concerns amid the heightened outlook. By adopting a moderate tightening stance, the committee aims to demonstrate that the current policy is effectively curbing rising inflation, discouraging excessive aggregate demand in the face of declining output growth, and narrowing the negative real interest rate gap.

Furthermore, the decision was based on expectations of liquidity injections into the economy from recent policy developments and their potential impact on inflation. The committee applied a cautious thread to encourage investments and foster output growth recovery. Consequently, all members agreed to narrow the asymmetric corridor around the MPR from +100/-700 to +100/-300 basis points while maintaining the Cash Reserve Ratio (CRR) and Liquidity Ratio at 32.5% and 30%, respectively.

Several factors continue to pose downside risks to output growth and present significant challenges to the policy environment. These include the uncertain overall outlook for domestic and global economic recovery, geopolitical tensions such as the war in Ukraine, slow recovery of the Chinese economy, and ongoing uncertainties in trade flows due to the bricsification process. Additionally, insecurity in farming communities, high prices of petroleum and other energy products, as well as foreign exchange market pressures, add to the complexity of the current economic situation.

Interest Rate Movement Across Major African Economy




Source: Central Bank Data, Cowry Research

From our perspective, the 25bps increase in interest rates shows the CBN's dedication to controlling inflation, boosting investor confidence, and maintaining price stability to safeguard consumer purchasing power. However, it's essential to be mindful of the potential drawbacks, as the rate hike could lead to challenges for businesses seeking to borrow money, potentially slowing output growth and raising the unemployment rate.

Regarding implications for the financial sector, we anticipate banks to benefit from the high-interest rate environment, leading to improved net interest margins due to higher asset yields. On the other hand, we may also witness an increase in credit impairments and a deceleration in loan growth as banks tighten their risk management frameworks. Furthermore, investors holding assets sensitive to interest rate variations, such as treasury bills and bonds, will likely experience increased yields based on the liquidity conditions in the system.