Analyst's Note on: February MPC Meeting – March 2024

CBN Treads Lightly With 200bps Raise to 24.75% After Inflation-Served A' La Carte......

- Retains Policy Parameters to Enhance Investor Confidence….

At the conclusion of the March 2024 edition of the Monetary Policy Committee (MPC) meeting, Yemi Cardoso, the Governor of the Central Bank of Nigeria (CBN), announced a measured increase in the benchmark interest rate in response to the prevailing inflationary environment. Despite the soft tone of the rate hike, the CBN continued its adoption of the inflation-targeting framework by raising the Monetary Policy Rate (MPR) by 200 basis points to 24.75% from 22.75%.

This decision was in line with earlier expectations for a 200 basis points increase in the benchmark interest rate at the March 2024 meeting, marking the tenth consecutive meeting since May 2022 in which the committee has maintained a hawkish stance to combat rising inflation. Also, the decision to raise the rates was based on expectations of liquidity injections into the economy from recent policy developments and their potential impact on inflation. Consequently, all committee members agreed to retain the parameters at unchanged levels, with the asymmetric corridor around the MPR remaining at +100/-700, while also maintaining the Cash Reserve Ratio (CRR) at 45.00% and the Liquidity Ratio at 30%.

During the reading of the communique, the CBN chief noted that the committee deliberated on whether to further tighten or maintain the current stance, aiming to allow the effects of the last rate hike to permeate the economy while observing its impact. Nevertheless, the decision to hike rates in a less aggressive manner was intended to bolster investor confidence in the economy..

Key Monetary Policy Indicators

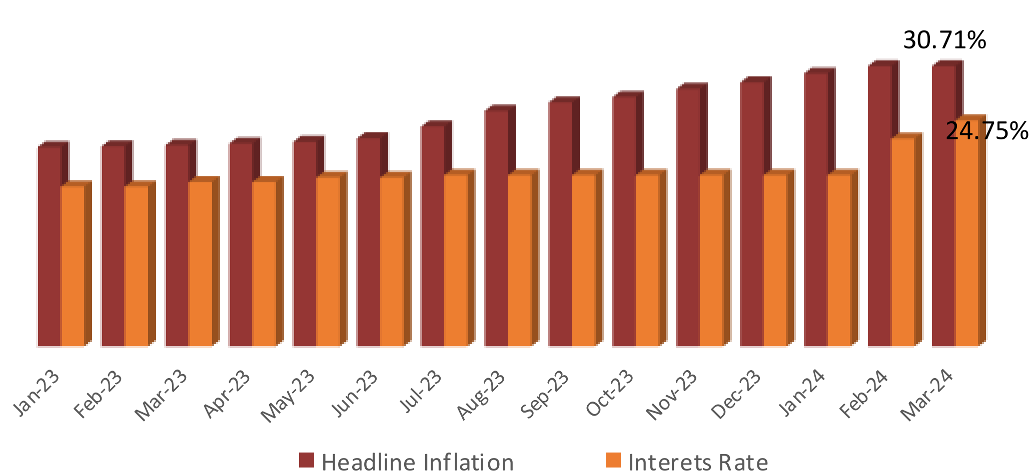
Indicator	Current	Previous
MPR	24.75%	22.75%
Asymmetric Corridor	+100bps /-700bps	+100bps /-700bps
Cash Reserves Ratio	45.00%	45.00%
Liquidity Ratio	30.00%	30.00%

Source: CBN, Cowry Research

The committee's choice to raise rates was influenced by ongoing global and domestic economic uncertainties, elevated general price levels, and the near-term inflation outlook. They also took into consideration key developments in the global economy, including inflationary trends in advanced economies and the monetary policy stance adopted by global central banks to moderate inflationary pressures. On the domestic front, the committee noted the pressures stemming from exchange rate depreciation and its significant pass-through effects on core components of Nigeria's inflation basket.

Additionally, the committee emphasized that addressing concerns regarding food security would be pivotal in curbing inflation levels. Measures such as providing palliatives to farmers, releasing grains from grain reserves, distributing fertilizers ahead of the planting season, and supplying farming implements to farmers were highlighted as strategies to ensure food security and mitigate rising food inflation,

Movement in Interest Rates versus Inflation Rates



Source: CBN, NBS, Cowry Research

which is a major driver of the headline inflation index.

In February 2024, the National Bureau of Statistics reported that Nigeria's headline inflation continued its upward trajectory to 31.70% year-on-year from 29.90% in the previous month. This increase was driven by upticks in both food and core inflation readings to 37.92% year-on-year and 25.13% year-on-year, respectively. Notably, the month-on-month growth rate for two of the three inflation measures accelerated, with the headline reading increasing by 3.12% month-on-month from 2.64% in January, and food inflation expanding by 3.79% month-on-month from 3.21% in January.

The decision made by the committee was primarily influenced by the escalating inflationary pressures and the anticipation of continued tight global financial conditions throughout 2024. This decision to increase the benchmark rate by 200 basis points was not only in accordance with Cowry and Market expectations but also deemed necessary to address the sustained growth in monetary aggregates, which has been a contributing factor to the rising inflation levels. Additionally, recent foreign exchange (FX) reforms implemented by the Central Bank of Nigeria (CBN) aimed at improving FX liquidity and bolstering the local currency have yielded positive outcomes, thus fostering increased investor confidence. Leveraging on this momentum in the FX market, it is anticipated that the central bank will strive to sustain an attractive yield environment to retain the interest of foreign investors, particularly in fixed income securities, thus further supporting the economy.

The decision to raise the benchmark rate to 24.75% underscores the Monetary Policy Committee's (MPC) commitment to addressing the prevailing economic challenges, particularly in curbing inflationary pressures. By doing so, the MPC seeks to curb the expansion of the broad money supply (M3) and consequently mitigate inflation levels, thereby narrowing the existing negative real-interest rate gap.

Looking ahead, Cowry Research expects that the MPC will maintain a vigilant stance, closely monitoring inflationary trends as we move into the second quarter of 2024. As part of this proactive approach, it is anticipated that further interest rate hikes ranging between 100 and 150 basis points may be implemented between May and July. Such measures aim to ensure a soft landing for the economy, effectively managing potential inflection points in inflation while promoting sustainable economic growth.