Analyst's Note on: Outcome of Latest MPC Meeting – September 2024

Another Hawkish Tone to Quell Inflation with 50bps Hike......

On Tuesday, the CBN Monetary Policy Committee (MPC) concluded its two-day meeting, maintaining a hawkish policy stance of continued policy tightening, reflecting its determination to stabilize the economy. Members voted for a modest 50 basis point increase in the interest rate, raising it to 27.25%, despite a second consecutive monthly drop in headline inflation to 32.15% in August.

At the meeting, the Committee unanimously decided to further tighten policy, implementing the following measures:

1. Raise the MPR by 50 basis points to 27.25% from 26.75%.

2. Retain the asymmetric corridor around the MPR at +500/-100 basis points.

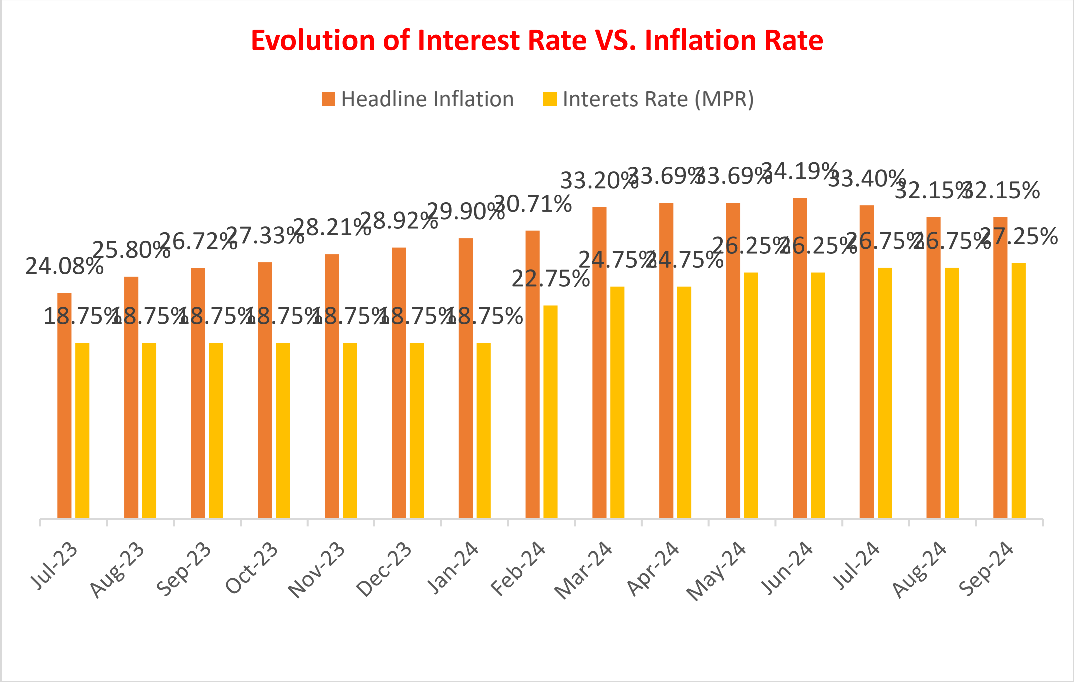
3. Raise the Cash Reserve Ratio of Deposit Money Banks by 500 basis points to 50.00 per cent from 45.00 per cent and Merchant Banks by 200 basis points to 16 per cent from 14 per cent.

4. Retain the Liquidity Ratio at 30.00%.

The Committee noted the moderation in headline inflation for July and August 2024 and relative exchange rate stability, which was attributed to the Bank's tight monetary policy stance. However, the Committee stressed that additional efforts are needed to achieve price stability, especially as core inflation remains elevated due to rising energy prices. They emphasized closer collaboration with fiscal authorities to tackle energy cost pressures, manage excess liquidity, and address foreign exchange demand.

The National Bureau of Statistics (NBS) reported a second consecutive decline in headline inflation to 32.15% in August 2024, primarily driven by a drop in food inflation, which eased to 37.52% in August from 39.53% in July. The continued moderation reflects the effectiveness of the CBN's inflation-targeting measures through policy tightening. Fiscal measures have also played a role in mitigating inflationary pressures, particularly those stemming from food price surges, the removal of petrol subsidies, and the depreciation of the naira.

Despite this progress, core inflation, excluding volatile items like agricultural produce and energy, increased slightly to 27.58% year-on-year, up from 27.47% in July 2024. This was driven by higher prices for housing, transportation, accommodation, and medical services. On a month-on-month basis, core inflation also rose, reaching 2.27% in August, compared to 2.16% in July.



The Committee acknowledged the risks to food inflation, including flooding, energy price increases, and insecurity, while commending government efforts to support food supply through duty-free imports. The Committee expressed optimism that the commencement of refined petroleum production at Dangote Refinery will help reduce transportation costs and ease food price pressures in the short to medium term. This development is also expected to lessen foreign exchange demand for petroleum imports, positively affecting external reserves and improving the balance of payments.

To maintain inflation control and support economic growth, the Committee opted for further policy tightening to safeguard the progress made in reducing inflationary pressures. This is aimed at ensuring positive real interest rates and attracting international investments.

Our view on the September rate hike to 27.25% was somewhat unexpected, given two consecutive months of declining inflation. However, the decision remains prudent, as inflationary pressures persist despite the recent disinflation trend. The CBN's hawkish stance highlights its commitment to containing inflation, particularly as core inflation continues to rise. While the 50bps increase reinforces monetary tightening, it may add strain to businesses in the real sector, intensifying the challenges posed by rising interest expenses, currency volatility, and high energy costs.

Looking ahead, Cowry Research anticipates a potential pause in the rate hike cycle at the next committee meeting in November. This could provide a necessary breather to assess the cumulative effects of prior hikes and to balance the goals of curbing inflation with fostering economic growth.