

CBN Hikes Rate - Going with the Flow



MPR  150bps

CRR  500bps

Decision

MPR –
15.5%pa



CRR –
32.5%



All Other
Parameters
Unchanged

- Cumulative increase of 400bps in the last 3 meetings
- Equivalent to the cumulative increase in the last 10 years (400bps)

Major Consideration - Macroeconomic Stability



Inflation



Currency weakness

Expectations – Higher interest rates will

- *Rein in inflation*
- *Moderate the speed of capital flight*
- *Increase in forex inflows*

Nigeria Not Alone...

- Nigerian interest rate hike is in tandem with global and regional trends

Global



US ↑ 75bps



UK ↑ 50bps



EU ↑ 75bps



Canada ↑ 75bps



Nigeria ↑ 150bps

Regional



S/Africa ↑ 75bps



Uganda ↑ 50bps

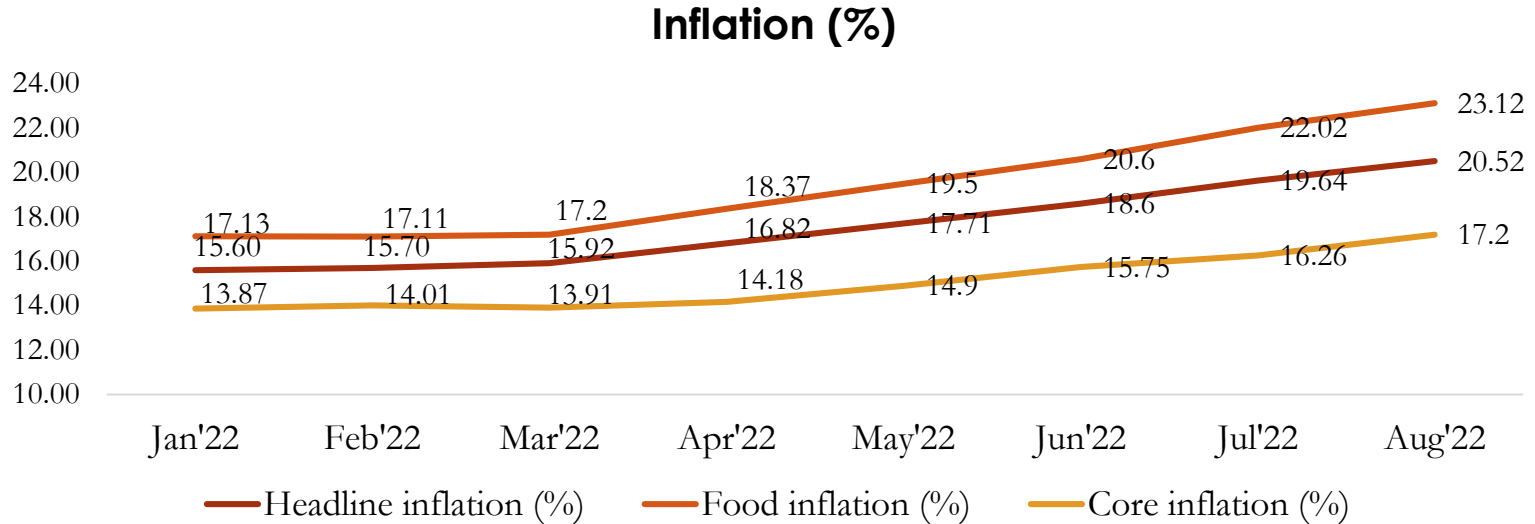


Togo ↑ 25bps



Senegal ↑ 25bps

Inflation at a 17-year High



- Official headline inflation at a 17-year high (20.52%)
- Nigerian inflation increasing despite slowing global food prices

Out in the lurch?

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Why is Inflation Increasing?

Diesel & aviation fuel



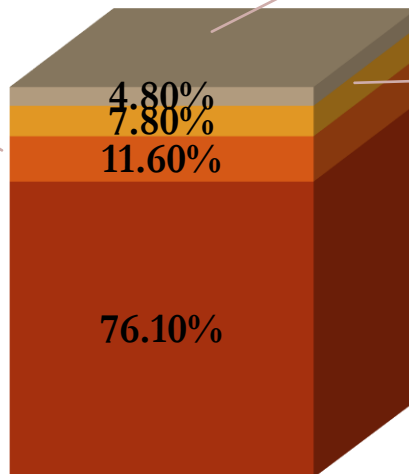
*Diesel price is 215% higher at
N800/litre (y-o-y)
Aviation fuel up 268.42% to
N700/litre*

Money supply growth

*Ways & means advances is approx.
40% (N18trn) of money supply
Election spending*

Exogenous shocks

Exchange rate pass-through

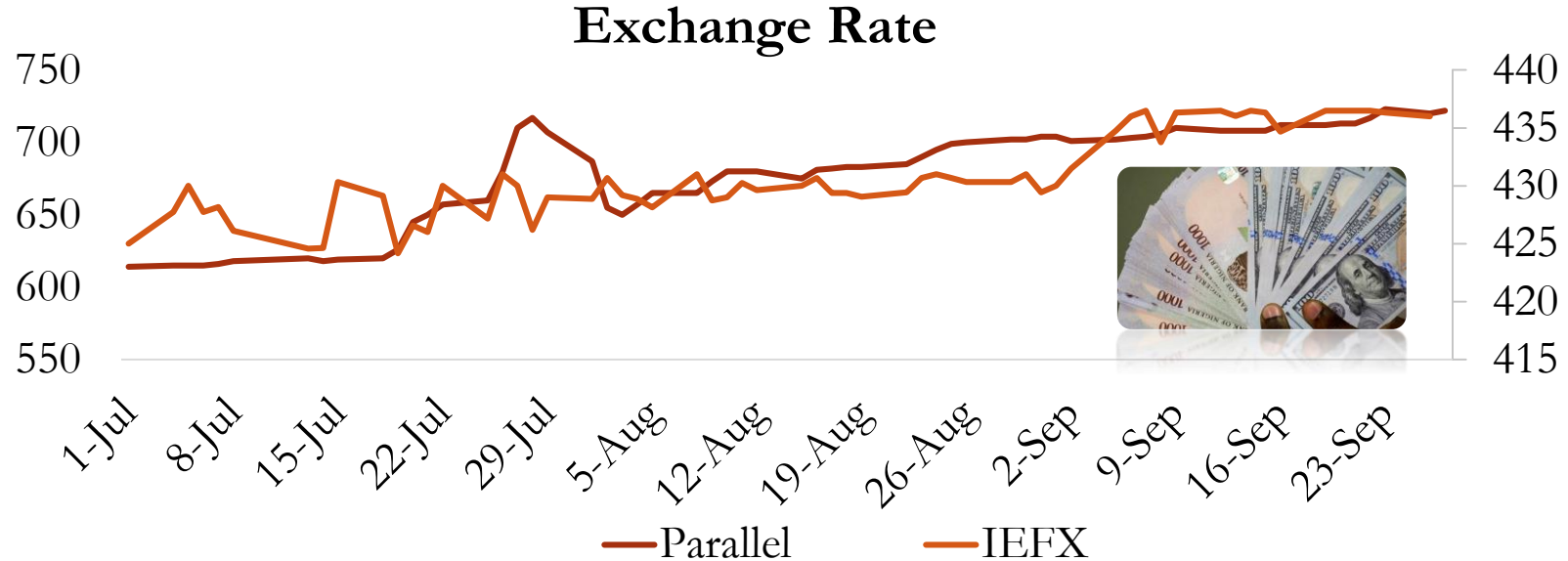


*Parallel market rate touched a
peak of N722/\$*

MPI = 0.18

*Every % increase in GDP leads to
18% increase in imports*

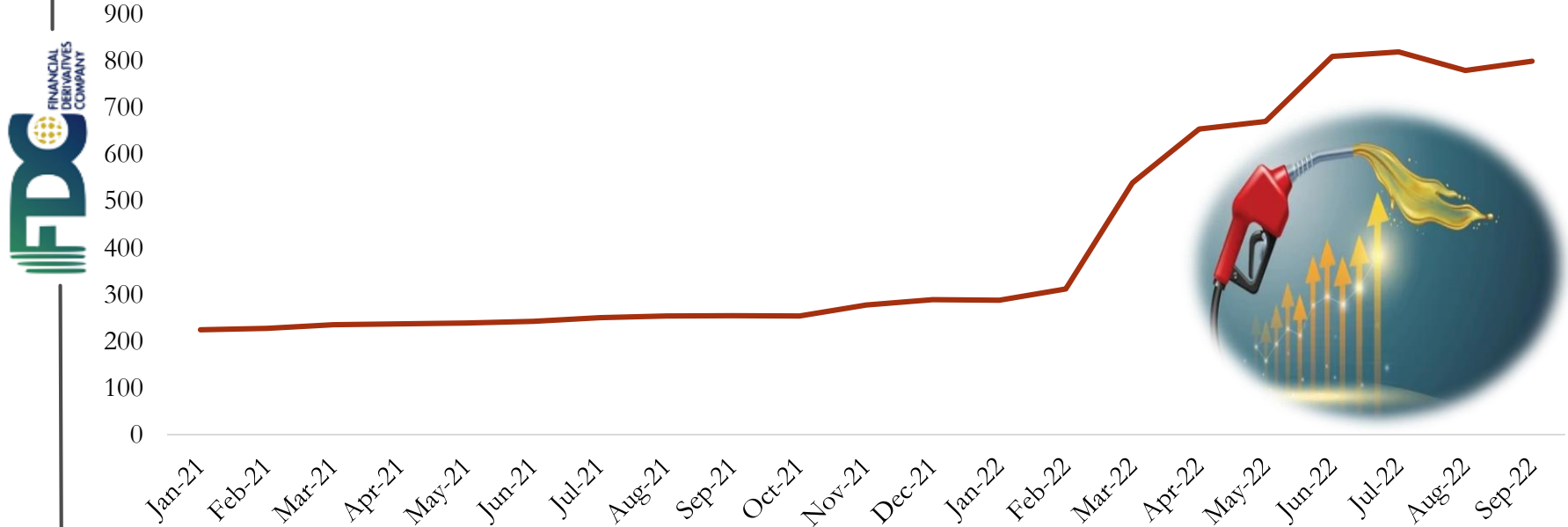
Falling Naira in an Election Season



- Naira down 25% to N722/\$
- Spread between IEFX and parallel market rate now N286/\$

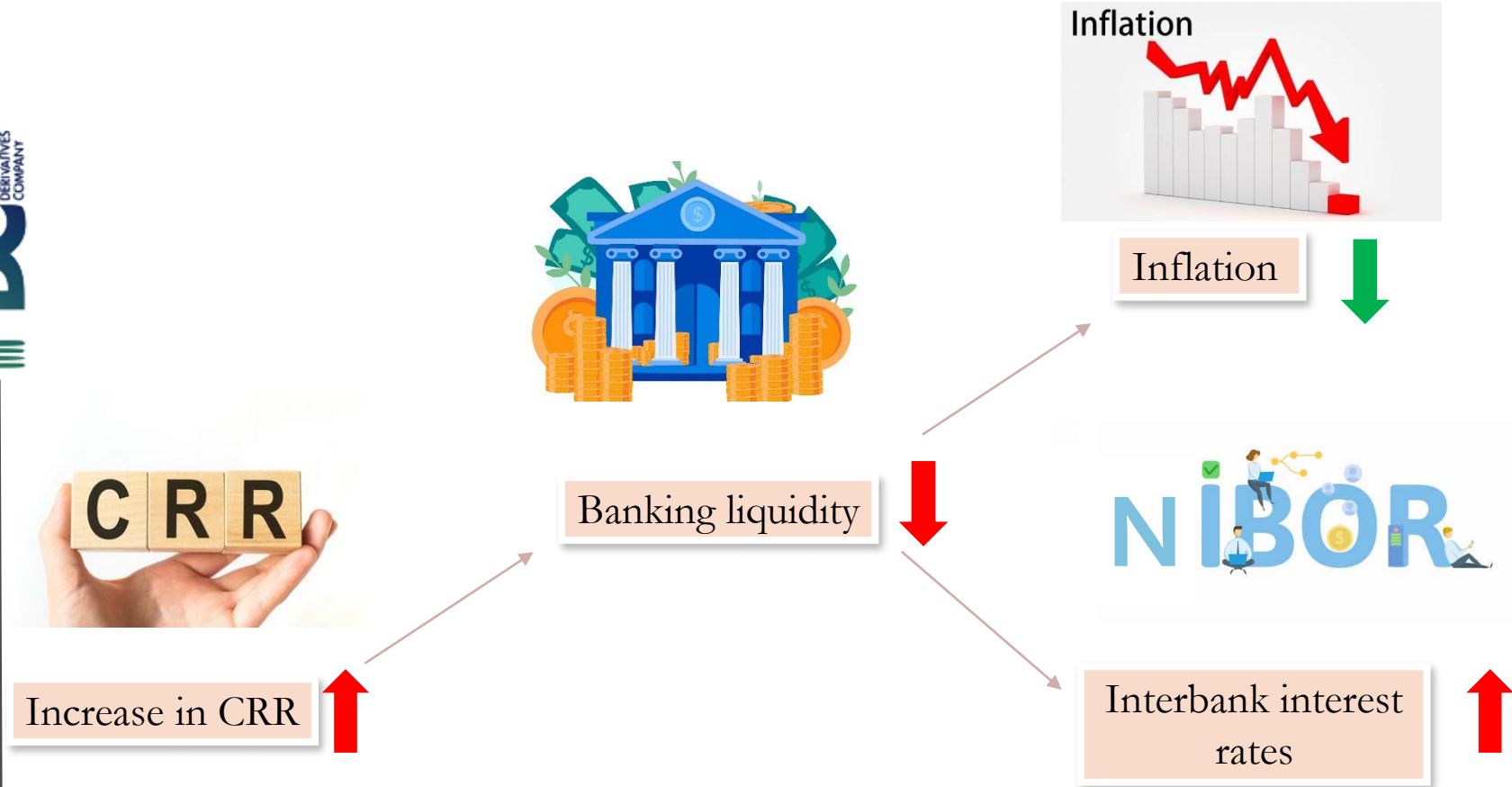
Diesel Price Up Again to N800/litre

Diesel prices (N/litre)



- Diesel is the major fuel for haulage

Increase in CRR – Impact Analysis



Higher Interest Rates – Impact Analysis

Pros

- Reduced capital flights
- Possible increase in dollar inflows
- Decline in inflationary pressures
- Marginal propensity to save will increase

Cons

- Increased cost of borrowing – private and public sector
- Slowdown in GDP growth
- Reduced marginal propensity to consume
- Stock market performance will remain bearish



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“An increase in nominal interest rate without a corresponding increase in general interest rates will be less effective”



The Way Forward

**INTEREST
RATES**



Change the structure of
interest rates



Increase forex supply
into the market

**FAIR
VALUE**

Naira must be
fairly valued

Before the Next MPC Meeting...

- Q3 GDP growth could slow to 2.3% due to lingering supply chain disruptions
- September inflation to increase at a slower pace (20.7%)
 - Higher logistics costs limiting the impact of the harvest
- Higher CRR will squeeze banking liquidity – *could taper inflation in subsequent months*
- External reserves depletion will most likely continue (\$36bn-\$37bn) as Brent crude price remains below \$100pb
- Higher interest rates likely to stem capital flights and taper currency pressures
- Stock market performance to remain bearish

Thank you!