



CBN MPC Raises MPR to 26.25%: Hawkishness Persists as Inflation Fears Wax Stronger.



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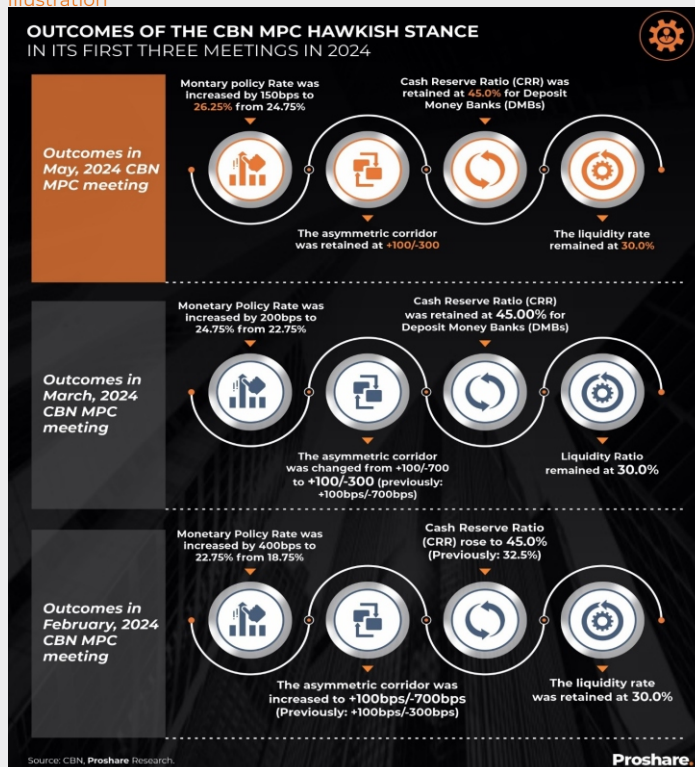
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In its most recent meeting on May 21, 2024, the Central Bank of Nigeria (CBN) Monetary Policy Committee (MPC) continued a hawkish stance by raising the monetary policy rate by 150 basis points to 26.25% from 24.75%. The decision follows recently released inflation data, which revealed that Nigeria's inflation rose to 33.65% in April 2024 from 33.20% reported in March 2024 (see illustration).

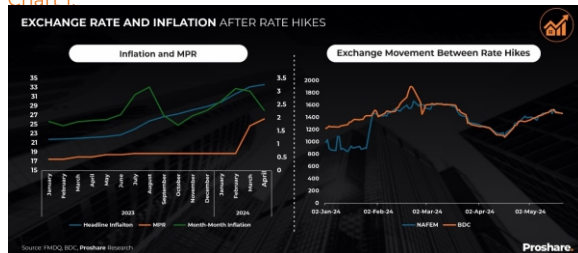
Illustration



Reactions from the **Previous Rate Hike.**

- P** Proshare analysts projected that the naira would appreciate after the rate hike in March 2024. The analysts also noted in the Proshare March 2024 Inflation commentary that even though the naira would appreciate, the appreciation would not be enough to curb inflation while households would continue to face sticky prices in the coming months. The actual outcomes and reactions in the preceding months aligned with our projections.
- P** The market witnessed heightened activity in the fixed-income market as the monetary and fiscal measures aimed to mop up liquidity. Bond auctions supported the government's clearance of about N4.83trn ways and means advances of the federal government.
- P** Businesses faced high borrowing costs as real interest rates remained negative at -8.94% in April 2024 from -8.45% in March 2024.
- P** Proshare analysts observed that the real value of household minimum wages declined by over 60% (see chart 1).

Chart 1:



Reactions.

Generally, the previous policy rate hikes remained ineffective in curbing inflation growth. In the coming months, we believe inflation will remain elevated through the rest of Q2, 2024, a period we believe also holds a gloomy growth outlook due to constrained investment activities by businesses. The real value of household wages will decline further as high borrowing and production costs will increase prices of goods and services. Investors' appetite for fixed-income assets will increase as they seek higher gains on investments in the asset market (see chart 2).

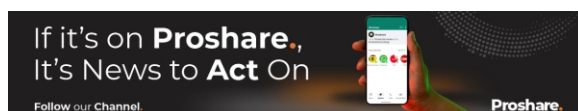
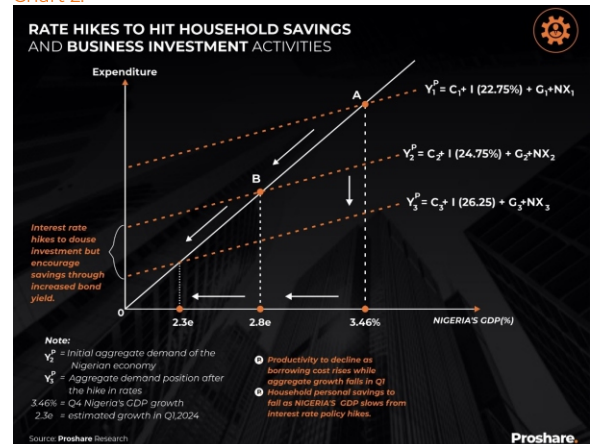


Chart 2:



Closing thoughts: **Was a Hike Necessary?**

The current 150 bps hike has come on the heels of marginal gains from the last rate hike. Notably, it complemented the month-on-month (M-o-M) inflation growth, which declined for the third consecutive time in the past three months, falling to 2.29% in March 2024 from 3.02% in April 2024. This resulted in inflows that saw over 20% appreciation of the naira in April 2024 to complement the marginal gains witnessed in March 2024. A period in which the naira became the best-performing currency in Africa only to return to the path of becoming the worst-performing currency in Africa going into May 2024. Notably, inflation has remained uncontrolled since the last rate hike.

Proshare analysts note that the 150bps rate hike can best be seen as a necessary monetary policy measure to curb inflation; however, it will not be sufficient if stability is to return. Analysts believe the rate hikes are as ineffective as a dog chasing its wagging tail. Higher rates cause higher inflation, which will prompt higher rates, resulting in a self-fulfilling prophecy of higher inflation. According to a Proshare analyst, 'running around in circles is a good cardiovascular exercise, but it may not seem useful in getting from one point to another on a distant journey' (see table 1).

Chart 1:

TRACKING KEY INDICES SINCE THE LAST HIKE			
	MPC Meeting and Rate Hike as at March 26, 2024	MPC Meeting and Rate Hike as at May 21, 2024	
Inflation rate (Y-o-Y)	33.20%	33.69%	
Inflation rate (M-o-M)	3.02%	2.29%	
Food Inflation	40.01%	40.53%	
Foreign exchange	N1383/\$	N1465.63/\$	
Misery Index	37.4	38.69	
Real Interest Rate	-8.45%	-8.94%	
Money Supply	N92.33trn	--	
Credit to Government	N19.59trn	--	
Credit to Private sector	N71.21trn	--	

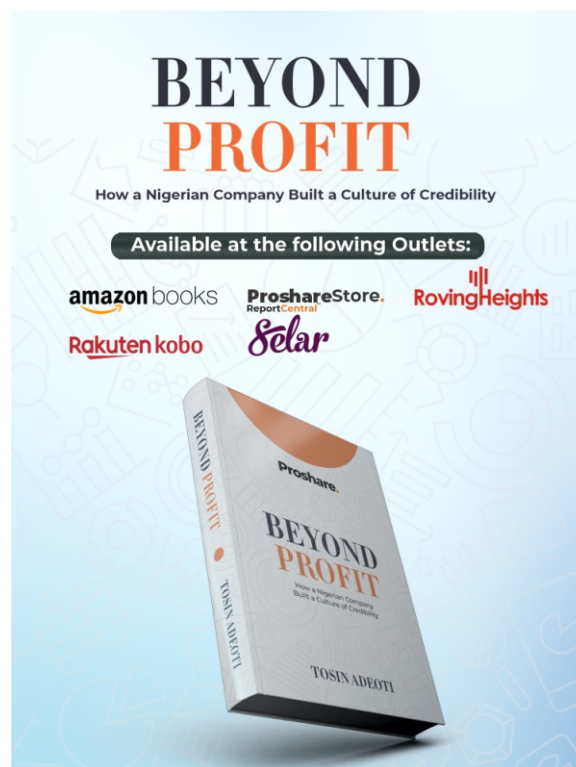
Note: -- Not available at the time of compilation.
Source: NBS, CBN, Proshare Research

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Related Items.

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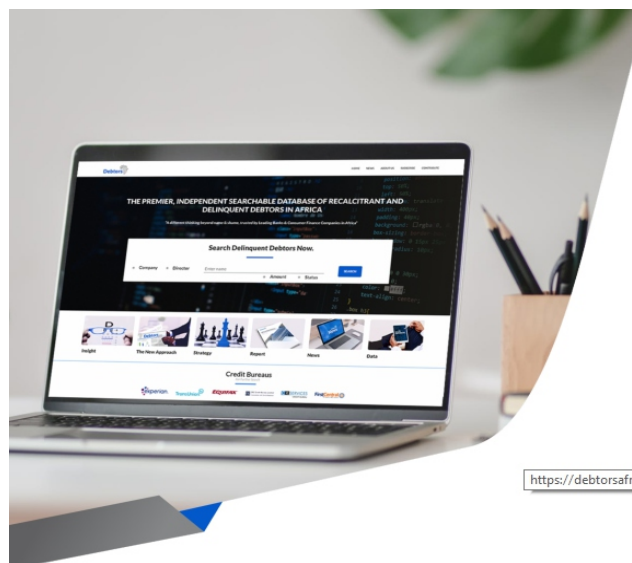
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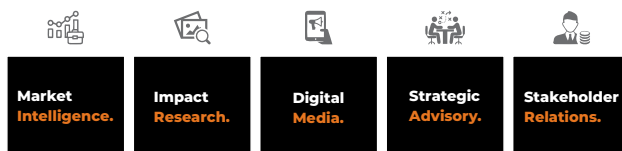


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