NIGERIA | MACROECONOMIC UPDATE | MONETARY POLICY | INSIGHTS

FUNDAMENTALS

NIGERIA MPC UPDATE:
ECHOES OF THE FINAL RATE HIKE

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IN BRIEF

- The Monetary Policy Committee (MPC) of the Central Bank of Nigeria (CBN) expectedly hiked the policy rate by 200bps to 24.75% at the March 2024 MPC meeting, in addition to raising the lower bound of the policy rate corridor by 400bps.

- In our February 2024 MPC Note – A New Sheriff in Town – we opined that the authorities would seek to sustain higher domestic interest rates as a bait for foreign portfolio inflows. Consequently, we anticipated additional policy rate hike of between 150bps – 250bps at future meetings. The latest decision to hike the policy rate by 200bps broadly aligns with our expectation and evokes a feeling of the final call on rate hikes, barring unforeseen elevation in inflation and FX risks.

- In our view, the option for a "pause" on rate hikes at the March 2024 meeting suggests that the MPC may have observed near-satisfactory levels of liquidity squeeze after the February 2024 tightening. This consideration in addition to the latest tightening suggests that the authorities likely perceive the post-March MPC policy stance to be sufficiently restrictive. Our views were further deepened by the MPC's expected moderation in price pressures from May 2024 onwards with a forecast "significant" disinflation by year end.

- In our update note on the February 2024 MPC decision, we argued that the 400bps widening of the lower bound around the policy rate will mute the impact of the policy rate hike as the resultant stagnation of the Standing Deposit Rate (SDR) will restrain overnight deposit at the Central Bank. However, the MPC's latest decision to reverse the previous adjustment restores the lower bound to -300bps in addition to the 200bps hike in the policy rate. Consequently, we argue that the 400bps lift to the lower bound of the policy rate corridor translates into a cumulative rate tightening of 600bps at the March 2024 MPC meeting and likely pushes towards a sufficiently restrictive territory, for now.

Staying the tightening course

The Monetary Policy Committee (MPC) of the Central Bank of Nigeria (CBN) expectedly raised the policy rate by 200bps to 24.75% at the March 2024 MPC meeting. The latest policy rate increase underscores the authorities' renewed commitment to restore price stability as it continued from the 400bps hike implemented on 27th February 2024.

In addition to the policy rate increase, the Committee announced further measures to tighten the grip on Naira liquidity to deepen the emerging FX stability and reverse the upturn in CPI inflation. Specifically, the broad policy decisions include:

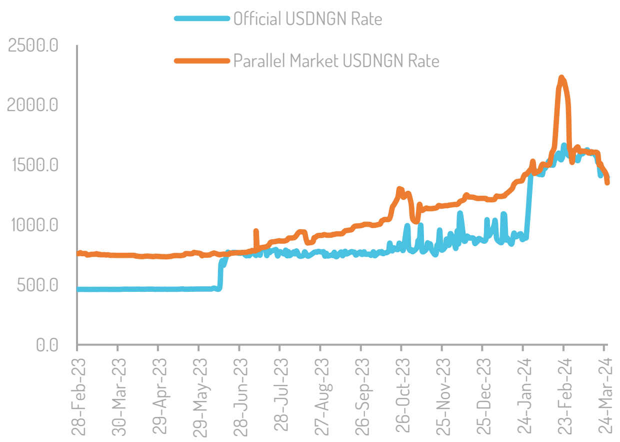
- Raise the policy rate by 200bps to 24.75%
- Adjust the asymmetric corridor around the policy rate to +100/-300 basis points (from +100/-700bps prior)
- Retain the Cash Reserve Ratio (CRR) of Deposit Money Banks at 45.0%
- Raise the CRR of Merchant Banks by 400bps to 14.0%
- Retain the Liquidity Ratio at 30.0%.

In our February 2024 MPC Note – A New Sheriff in Town – we opined that the authorities would seek to sustain higher domestic interest rates as a bait for foreign portfolio inflows. Consequently, we anticipated additional policy rate hike of between 150bps – 250bps at future meetings. The latest decision to hike the policy rate by 200bps broadly aligns with our expectation and evokes a feeling of the final call on rate hikes, barring unforeseen elevation in inflation and FX risks.

The Committee's perception of the inflation outlook and considerations at the March 2024 meeting also gives us the feeling that the MPC may hit the pause on rate hikes.

On the MPC's considerations, the authorities pondered the option of either continuing the tightening cycle or pause to observe the impact of the previous rate hikes and upward adjustments in the CRR at the previous meeting.

USDNGN EXCHANGE RATE DYNAMICS



SOURCE: CBN, NBS, IC INSIGHTS,

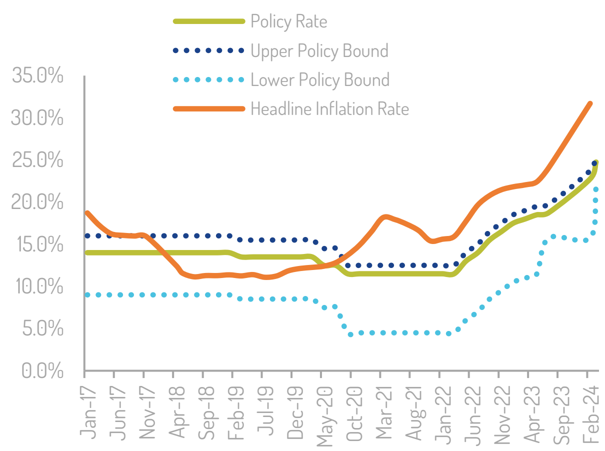
On the projected outlook for inflation, the Governor noted that the Committee expects inflation to start moderating from "May 2024 onwards" with a "significant" reduction in headline inflation by end-2024 (Feb-2024: 31.7%).

In our view, the option for a pause on rate hikes at the March 2024 meeting suggests that the MPC may have observed near-satisfactory levels of liquidity squeeze after the February 2024 tightening. This consideration in addition to the latest tightening suggests that the authorities likely perceive the post-March MPC policy stance to be sufficiently restrictive, echoing sounds of the final rate hike, for now. Our views were further deepened by the MPC's expected moderation in price pressures from May 2024 onwards with a forecast "significant" disinflation by year end.

Narrowing the interest rate corridor adds further screw to tighten Naira liquidity. At the previous meeting in February 2024, the MPC unexpectedly widened the lower bound of the policy rate corridor to -700bps (vs -300bps prior). In our update note, we argued that the 400bps widening of the lower bound will mute the impact of the policy rate hike as the resultant stagnation in the Standing Deposit Rate (SDR) will restrain overnight deposit at the Central Bank.

However, we cheer the MPC's decision to reverse the previous adjustment, restoring the lower bound to -300bps in addition to the 200bps hike in the policy rate. Effectively, this raises the lower bound around the policy rate to 21.75% and potentially attracts overnight deposit from banks to mop-up excess Naira liquidity. We also argue that the 400bps lift to the lower bound of the policy rate translates into a cumulative rate tightening of 600bps at the March 2024 MPC meeting and likely pushes towards a sufficiently restrictive territory.

INFLATION AND POLICY RATE PATH



SOURCE: CBN, NBS, IC INSIGHTS

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