NIGERIA | MACROECONOMIC UPDATE | MONETARY POLICY | INSIGHTS

FUNDAMENTALS

NIGERIA MPC UPDATE:

SUBTLY HAWKISH, LEANING ON THE FISCUS

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IN BRIEF

- The Monetary Policy Committee (MPC) of Nigeria's Central Bank delivered a marginal hike of 50bps on the Monetary Policy Rate (MPR) to 26.75% at the July 2024 MPC meeting. In addition to the policy rate hike, the Committee adjusted the asymmetric corridor around the policy rate by +400bps on the CBN lending facility and +200bps on the CBN deposit facility.

- On the face of it, the 50bps hike in the policy rate appears less aggressive against the MPC's quest to squeeze Naira liquidity via increased interest rates. Having already delivered a cumulative MPR hike of 750bps since February 2024, we think the hawks are steadily braking mid-air as the MPC appears to be moderating its hawkishness. However, we view the Committee's decision to also increase the asymmetric corridor around the policy rate to 600bps (vs 400bps prior) as indicating continued but subtle hawkishness.

- In recent weeks, we observed intensified depreciation pressure on the Nigerian Naira on account of heightened seasonal demand and importers' need for foreign exchange. This prompted the CBN into spot FX sales to Authorised Dealer Banks and Bureau De Change operators with USD 343.0mn sold as of 19th July 2024. Despite a 6.0% month-to-date rise in gross forex reserves to USD 36.2bn as of 22nd July 2024, we believe sustainability of the spot FX sale is doubtful without curtailing Naira liquidity. In view of this, we believe the marginal MPR hike in addition to increasing the spread around the policy rate indicates the MPC's continued preference for tighter monetary stance to quell the renewed FX pressures.

- A dominant theme in the July 2024 MPC statement was the need for fiscal measures to ease the food price pressures with the MPC committing to collaborate with the fiscal authorities to subdue the food price hikes. We view this complementary monetary support for the recent fiscal interventions as a strong indication that the MPC may be nearing the peak of its policy rate hikes as it leans on fiscal measures to boost domestic output and ease price pressures.

More hawkish than it appears

The Monetary Policy Committee (MPC) of Nigeria's Central Bank delivered a marginal hike of 50bps on the Monetary Policy Rate (MPR) to 26.75% at the July 2024 MPC meeting. In addition to the policy rate hike, the Committee adjusted the asymmetric corridor around the policy rate by +400bps on the CBN lending facility and +200bps on the CBN deposit facility.

In summary, the MPC's decision was as follows:

- Raise the policy rate by 50bps to 26.75%
- Adjust the asymmetric corridor around the policy rate to +500/-100 basis points from +100/-300 basis points
- Retain the Cash Reserve Ratio (CRR) of Deposit Money Banks (DMBs) at 45.0% and Merchant Banks at 14.0%.
- Retain the Liquidity Ratio at 30.0%.

Increasing the asymmetric corridor around the MPR sustains the authorities' hawkishness. While the consensus expectation of a policy rate hike was realised, the MPC announced a smaller-than-expected hike compared to the median expectation of +75bps. On the face of it, the 50bps hike in the policy rate appears less aggressive against the MPC's quest to squeeze Naira liquidity via increased interest rates. Having already delivered a cumulative MPR hike of 750bps since February 2024, we think the hawks are steadily braking mid-air as the MPC appears to be moderating its hawkishness.

However, we view the Committee's decision to also increase the asymmetric corridor around the policy rate to 600bps (vs 400bps prior) as indicating continued but subtle hawkishness. The adjustment to the MPR corridor effectively raises the interest rate on the CBN's Standing Lending Facility (SLF) to 31.75% (vs 27.25% prior) while the Standing Deposit Facility (SDF) rate nudges up to 25.75% (vs 23.25% prior). By the higher SDF rate, we believe the MPC expects to attract more deposits from banks into the Central Bank, which will tighten interbank Naira liquidity, increase money market rates and improve the transmission of monetary policy decisions.

Additionally, we expect the higher rate on the SLF to increase funding cost for commercial banks, raise lending rates, and curtail credit creation to curb aggregate demand.

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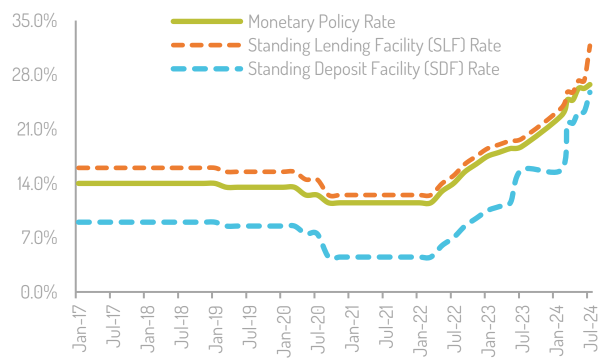
In view of this, we think the marginal MPR hike in addition to increasing the spread around the policy rate indicates the MPC's continued preference for tighter monetary stance to quell the renewed FX pressures. However, the seeming token hike on the policy rate suggests moderating hawkishness.

Leaning on fiscal measures to tame the supply-side drivers of inflation. As observed in the CPI inflation data, the influence of food prices has intensified since 2H2023, compounded by the reforms-induced spike in energy prices. Against this backdrop, a dominant theme in the July 2024 MPC statement was the need for fiscal measures to ease the food price pressures with the MPC committing to collaborate with the fiscal authorities to subdue the food price hikes.

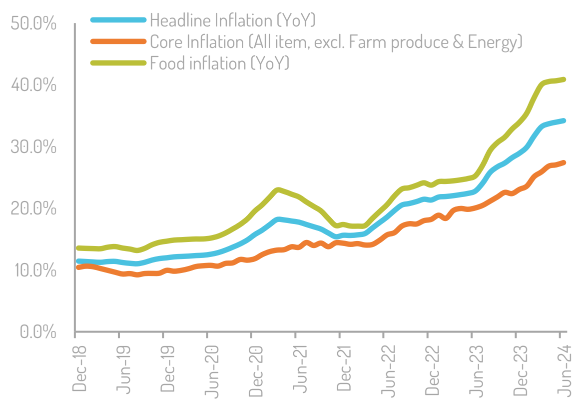
In early July 2024, the Federal Government announced a 150-day duty-free window for the importation of key food items such as maize, rice, cowpea, and wheat. The government expects this intervention to help contain food price pressures over the next 6-months, providing a tailwind for anticipated disinflation in late-2024. While the MPC supports the short-term implementation of this fiscal measure, the CBN announced its ongoing engagement with the Bank of Industry (BOI) to enhance credit flow to SMEs. We view this complementary monetary support for the fiscal measures as a strong indication that the MPC may be nearing the peak of its policy rate hikes as it leans on fiscal interventions to boost domestic output and ease price pressures.

POLICY RATE PATH WITH ASYMMETRIC CORRIDOR



SOURCE: CBN, NBS, IC INSIGHTS,

INFLATION DYNAMICS



SOURCE: NBS, IC INSIGHTS

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