NIGERIA | MACROECONOMIC UPDATE | MONETARY POLICY | INSIGHTS

FUNDAMENTALS

NIGERIA MPC UPDATE:
HAWKS HOLD THE LINE

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IN BRIEF

- The Monetary Policy Committee (MPC) of Nigeria's Central Bank unanimously delivered a 25bps increase in the Monetary Policy Rate (MPR) to 27.5% as the authorities expressed particular concerns about persistence of price pressures. The MPC however retained the other parameters of monetary policy at their previous levels, leaning on the transmission lag from previous hikes to sustain the tightening path.

- The MPC's commitment to orthodox monetary policy regime underscores our expectation for local interest rates to stay higher for longer until the policy stance becomes restrictive. We believe the aggressive start to the rate hiking cycle, complemented by upward adjustments in the other tools of monetary policy, has enabled the MPC to slow its pace of rate hikes in recent MPC meetings. However, we expect the hawkish posture to persist into 1H2025 as Nigeria's negative ex-post real policy rate (-6.6%) compares unfavourably with peer countries such as Egypt (+1.3%) and Ghana (+4.9%) whose nominal policy rates also screen around the 27.0% area.

- The MPC expressed optimism that the Government's commendable measures which have tightened security in the agrarian zones will likely improve food production and ease food price pressures. We note that the recent scarcity-induced spike in petrol prices has undermined the benefit of the Government's 150-day duty-free import window for food commodities, reviving the upward pressure on food inflation.

- Our checks on the gross forex reserve showed an inter-meeting growth of 6.6% to USD 40.3bn as of 25 November 2024, sufficient to finance 17-months of imports. Given the impressive pace of reserves accumulation, partly aided by the CBN's less frequent market intervention sales, we view the MPC's proposal for increased market liquidity as a potential trigger for enhanced FX sale to the market in the coming weeks. Additionally, the introduction of Bloomberg BMATCH System for all FX trading will enhance market efficiency, transparency and price discovery for medium-term Naira stability.

Stressing commitment to orthodoxy

The Monetary Policy Committee (MPC) of Nigeria's Central Bank unanimously delivered a 25bps increase in the Monetary Policy Rate (MPR) to 27.5% as the authorities expressed particular concerns about persistence of price pressures. The MPC however retained the other parameters of monetary policy at their previous levels, leaning on the transmission lag from previous hikes to sustain the tightening path.

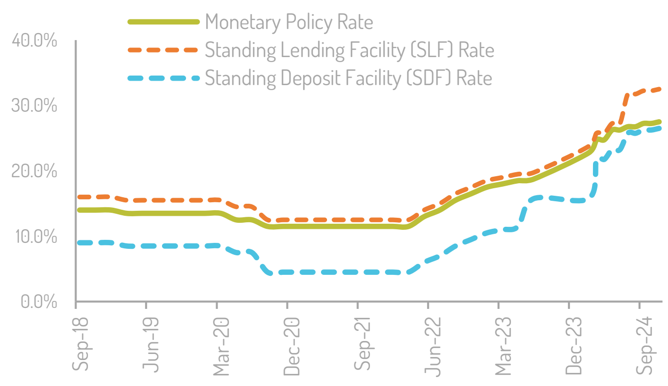
The summarized decision at the November 2024 MPC include:

- Raise the policy rate by 25bps to 27.5%
- Retain the asymmetric corridor around the policy rate at +500/-100 basis points
- Retain the Cash Reserve Ratio (CRR) of DMBs at 50.0% and Merchant Banks at 16.0%.
- Retain the Liquidity Ratio at 30.0%.

The hawks remain in full flight despite the seemingly modest hike. Although the magnitude of rate hike came in less than the market expectation of 50bps, the MPC reiterated its unwavering commitment to the new regime of orthodox monetary policy. We view the Governor's definite tone on persisting with the rulebook as a reflection of the general hawkish posture of the authorities. The MPC's commitment to orthodox monetary policy regime underscores our expectation for local interest rates to stay higher for longer until the policy stance becomes restrictive.

We note that the renewed emphasis on policy credibility with the adoption of monetary orthodoxy has resulted in a cumulative hike of 875bps in the policy rate in 2024, outpacing the monthly rise in annual inflation. We believe the aggressive start to the rate hiking cycle, complemented by upward adjustments in the other tools of monetary policy, has enabled the MPC to slow its pace of rate hikes in recent MPC meetings. However, we expect the hawkish posture to persist into 1H2025 as Nigeria's negative ex-post real policy rate (-6.6%) compares unfavourably with peer countries such as Egypt (+1.3%) and Ghana (+4.9%) whose nominal policy rates also screen around the 27.0% area.

POLICY RATE PATH WITH ASYMMETRIC CORRIDOR



SOURCE: CBN, NBS, IC INSIGHTS,

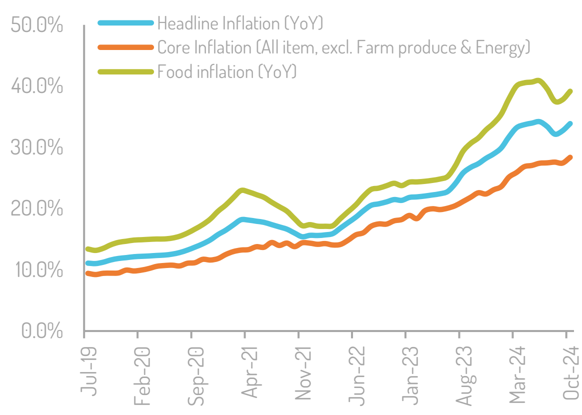
Improving security in food production zone is reassuring. The MPC expressed optimism that the Government's commendable measures which have tightened security in the agrarian zones will likely improve food production. Given the persistently high share of food inflation in the overall inflation (51.8% in October 2024), the continued supply of agrarian produce remains fundamental to mitigating the upside risk to inflation. Against this backdrop, we view the improving security situation in North-Eastern Nigeria as positive but remains cautious on its sustainability.

In July 2024, the Government announced a 150-day duty-free import window for food commodities to tame the rising food inflation. While the measures appeared to exert a calming effect on price pressures in July and August, the benefits were short-lived on account of the scarcity-induced spike in petrol prices which raised the cost of food distribution. In view of this, the MPC reiterated the need to deepen the collaboration between fiscal and monetary authorities to ensure the achievement of the synchronized objectives of price stability and sustainable growth.

External buffers are improving but FX pressures remain a concern. Our checks on the gross forex reserve showed an inter-meeting growth of 6.6% to USD 40.3bn as of 25 November 2024, sufficient to finance 17-months of imports. The authorities attribute the growth in international reserves to improved inward remittances and capital inflows, reflecting the effectiveness of fiscal and monetary policy reforms implemented since 2023. However, the MPC expressed concerns about persistent FX pressures driven by elevated demand for forex and consequently urged the Central Bank to explore measures to boost FX liquidity. Given the impressive pace of reserves accumulation, partly aided by the CBN's less frequent market intervention sales, we view the MPC's recommendation as a potential trigger for increased FX sale to the market in the coming weeks.

Additionally, the CBN has directed the use of Bloomberg BMATCH system for all FX trading by authorised FX Dealers with effect from 02 December 2024. The authorities expect this additional layer of market reforms to enhance forex market efficiency, transparency, and price discovery. We expect this structural improvement to Nigeria's FX market to support Naira stability in the medium-term as investor confidence deepens.

INFLATION DYNAMICS



SOURCE: NBS, IC INSIGHTS

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