

POLICY RATE INCREASES BY 200 BPS TO 24.75%



...The Need to Curb Stubbornly High Inflation Continues

March 28, 2024

Economic Report

Citing the need to curb inflation and improve FPI flows, the Monetary Policy Committee (MPC) yet again raised the Monetary Policy Rate (MPR) by 200bps at its 294th meeting and second meeting for the year. Also, the committee decided to adjust the asymmetric corridor to +100/-300 basis points around the MPR, from +100/-700 bps previously, while raising the Cash Reserve Ratio (CRR) of Merchant Banks to 14% from 10%. The committee however retained the liquidity ratio at 30% and the CRR of Deposit Money Banks (DMBs) at 45%.

In Summary:

- > Monetary Policy Rate: 24.75%.
- > Asymmetric Corridor: +100/-300 basis points around the MPR.
- > CRR: 45.00%.
- > Adjust CRR of Merchant Banks from 10% to 14%.
- > Liquidity Ratio: 30.00%.

The committee broadly considered global factors contributing to inflation, such as tightened financial conditions and supply chain disruptions due to regional tensions, which could further increase food and energy prices.

In the domestic scene, they also assessed the prevailing inflationary pressures (exchange rate pass-through, rising cost of energy, high costs of logistics and distribution of food items, high fiscal deficits, and lingering security challenges in major food-producing areas) which poses significant challenges across in the domestic economy.

The committee further emphasized the need to address inflation while reaffirming its commitment to maintaining stability in the foreign exchange market. Moreover, the committee acknowledged the recent stability in the FX market, alluding this to the CBN's resolution of FX backlogs and its recent transparency-focused market reforms.

The committee lauded the federal government's endeavours to alleviate strains in the nation's food sector and called for broader fiscal consolidation and improvements to key fiscal indicators. Additionally, they reviewed recent development in the Country's banking system, affirming its safety and transparency. It emphasized the imperative for banks to adhere diligently to existing regulatory guidelines to ensure financial stability and integrity.



Adjusting the asymmetric corridor

The upper limit of +100 basis points indicates the interest rate at which banks can access funds from the central bank window (in effect MPR+ 100bps, which is 25.75% compared with 23.75% previously) while the lower limit of -300 basis points represents the rate at which excess reserves are remunerated, implying banks can earn 21.75% on excess reserves with CBN compared with 15.75% previously. The change to the asymmetric corridor emphasizes CBN's hawkish stance by encouraging banks to keep deposits while discouraging borrowing.

Expected Impacts

The fixed-income market is gaining appeal as yields are on the rise. Consequently, more investors may shift away from equities towards the more attractive fixed-income options. However, positive corporate actions and disclosures, particularly from major banks will likely support bullish sentiments in the near term. Again, we are beginning to see some improvement in FPI participation, albeit minimal, and we believe this may further support market activities.



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- Buy Rating: estimated fair value is $\geq 20\%$ above current market price.
- Hold Rating: estimated change in price is between -10% and 19% of current market price.
- Sell Rating: estimated change in price is $\leq -10\%$ of current market price.

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