

MPR QUICKENED BY ANOTHER 50 BPS TO 26.75%

...Inflationary Pressure Incite Another Hawkish Stance



July 24, 2024

Economic Report

Yet again, the Monetary Policy Committee (MPC) took decisive steps to address the stubbornly high inflation by implementing another round of measures. One of the significant changes was adjusting the asymmetry corridor to incentivise banks to deposit excess funds (Standard Deposit Facility: 25.75%), while simultaneously discouraging banks from borrowing (Standard Lending Facility: 31.75%). The corridor was modified from +100/-300 to +500/-100 basis points around the Monetary Policy Rate (MPR), which now stands at 26.75%.

In Summary:

- > Monetary Policy Rate: 26.75% from 26.25%.
- > Asymmetric Corridor: +500/-100 basis points around the MPR.
- > CRR: 45.00%.
- > CRR of Merchant Banks: 14%.
- > Liquidity Ratio: 30.00%.

Committee Considerations

The Committee was mindful of the effect of rising prices on households and businesses and expressed its resolve to take necessary measures to bring inflation under control. It was observed that the persistence of food inflation continues to undermine price stability as rising food and energy costs continue to exert upward pressure on price development. The prevailing insecurity in food producing areas and high cost of transportation of farm produce are also contributing to this trend.

Members were, therefore, not oblivious to the urgent benefit of addressing these challenges as it will offer a sustainable solution to the persistent pressure on food prices. It re-emphasized its commitment to its cardinal mandate of price stability, and they remained optimistic that despite the June 2024 uptick in Headline Inflation, prices are expected to moderate in the near term. This also supports our view in our recent [inflation report](#).

In addition, the Committee expressed optimism with the recent stop gap measures by the Federal Government to bridge the food supply deficit. In particular, the 150-day duty free import window for food commodities (maize, husked brown rice, wheat and cowpeas), amongst others, will likely moderate domestic food prices. It is noteworthy that these measures will not lead to direct injection of liquidity into the economy as to cause further inflation.



The Committee noted the narrowing spread between the various foreign exchange segments of the market, an indication of price discovery and improved market efficiency, thus reducing opportunities for arbitrage and speculation. The Committee also noted that the increase in the level of external reserves would further build confidence for a more stable exchange rate and thus urged the Bank to explore available avenues to improve inflows, especially through diaspora remittances.

To consolidate on the gains thus far achieved, the Committee re-emphasized its commitment to stay on course with its tightening cycle in view of the urgent need to address inflationary pressures.

Expected Impacts

The banking sector often serves as the transmission for monetary policy implementation, thereby, they are likely to increase lending rates and reprice loan portfolios to boost earnings. As banks adapt to the elevated borrowing costs from the CBN, we anticipate they will increasingly participate in the fixed income market to seek income from investment securities. Additionally, the impact on consumer and business loans could result in reduced borrowing and spending, which is not positive for economic growth.

Furthermore, while the hike is expected to create more attractive yields in the Nigerian fixed-income instruments, the government's focus on managing its borrowing cost and effective debt sustainability may also influence the direction of yields in the near term.

Conversely, the moderate hike implies there might be mixed sentiments in the equities market as yields in the fixed income market will likely remain attractive in the nearest term. Although, the release of Companies half year results and corporate action which includes interim dividend and right issues might spur activities in the equities market.



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WSTC Securities Limited has its registered office at 2, Maitama Sule Street, South-West Ikoyi, Lagos, Nigeria.

Email: research@wstc.com.ng

Website: www.wstc.com.ng

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