

**PREAMBLE**

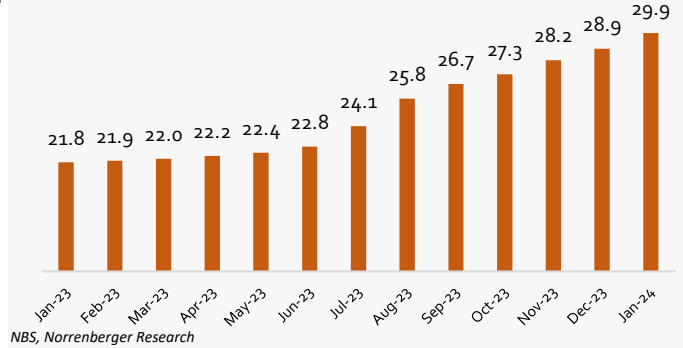
The Monetary Policy Committee (MPC) is set to hold its first meeting under the new administration of Governor Yemi Cardoso. The Committee is faced with the daunting task of reining in inflation, stabilizing the exchange rate amidst slow economic growth. The last time the MPC held its regular meeting was in July 2023, when it voted to raise the MPR by 25 basis points (bps) to 18.75% and adjusted the asymmetric corridor to +100/-300bps around the MPR.

Since the last time the CBN held its MPC meeting, several indicators of interest which often influence the decision of the Committee such as inflation rate, FX, money supply, NPL ratio, amongst others have changed drastically. The MPC will look to address some of these vital areas while keeping an eye on the impact of the broad economy.

**CONSIDERATIONS**

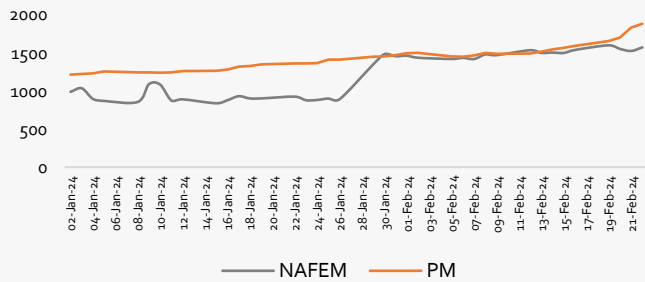
- **Rising Inflation:** High cost of goods and services has been a major bane bedeviling businesses and individuals in the country. According to the NBS, Nigeria's inflation surged to 29.9% in January 2024, hitting an almost 28-year high, driven by both the food and core components of the inflation basket.
- **FX fluctuations and illiquidity:** The naira has grown significantly weaker against other currencies in recent times, on the back of the floating of the exchange rate at the official market last year and dwindling FX inflows. Year-to-date, the Naira has depreciated by 42% at the official NAFEM and 35% on the parallel market, trading as high as N1,571.3/\$ and N1,880/\$ respectively. The volatility in the FX market has been largely driven by low liquidity in the market as indicated in low FDIs, FPIs, and FX turnover.

Nigeria's Headline Inflation

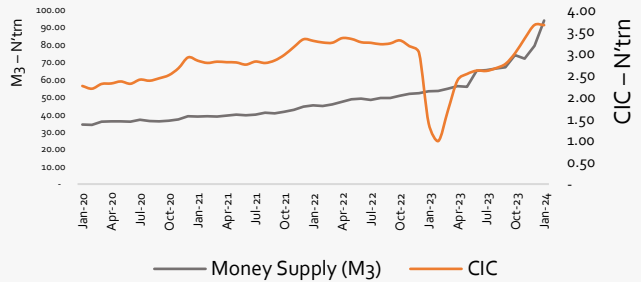


- **Persistent rise in money supply:** Nigeria's money supply and currency in circulation continues to trend upward despite tight monetary policies by the CBN. Money supply (M3) surged to its highest level on record in January 2024, standing at N93.72 trillion, while currency in circulation dropped marginally from its all-time high to stand at N3.65 trillion.

Official vs Parallel market rate (N/\$)



Nigeria's Money supply and Currency in circulation



**OUTLOOK FOR THE MEETING**

Despite multiple rate hikes in the last two years, which include raising the MPR from 11.5% in April 2022 to 18.75% as of July 2023, a rate which has been maintained till date, inflation rate has remained unabated, FPIs have dwindled, and Naira has persistently weakened. The CBN will likely consider only a tightening stance in a bid to compliment some of its initial policies in order to bridge the gap between inflation and interest rate. This is aimed at attracting foreign investors, who would which to tap into high yielding instruments, hereby providing the needed liquidity to stabilize the market. However, it is worth noting that a cocktail of policies will be required by the monetary and fiscal regulators to tackle high inflation and FX instability.

We anticipate an MPR increase around the region of 200 to 300bps at this February MPC meeting. This would reduce the gap between the current inflation rate (29.9%) and returns. A higher interest rate will also increase the cost of credit, thereby limiting the amount of naira liquidity in the system, which is believed to partly contribute to the rising inflation.

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