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POST MPC REPORT– CBN INCREASES MPR TO 24.75%

INTRODUCTION

The Monetary Policy Committee (MPC) of the Central Bank of Nigeria (CBN) maintained its hawkish stance in its March 2024 meeting, increasing the benchmark interest rate by 200 basis points (bps) from 22.75% to 24.75%, following an initial 400bps increase in the previous month.

This represents the highest rate on record according to data from the CBN spanning 1981 to date. The decision of the MPC to further increase the MPR was premised on the need to tame the rate of inflation in the county, while it sustains its efforts of stabilizing the exchange rate.

Nigeria's headline inflation rose to an almost 28-year high in February, standing at 31.7%, representing a 180bps increase from 29.9% recorded in the previous month. In the same vein, food inflation rose by 251bps to 37.92% while core inflation increased by 154bps to 25.13%.

HIGHLIGHT

24.75%

MPR
Increased MPR by 200bps to 24.75%

+100/-300

Asymmetric corridor
Adjusted the asymmetric corridor around the MPR to +100/-300bps from +100/-700bps

45%

CRR - DMBS
Maintained Cash Reserve Ratio for Deposit Money Banks at 45%

14%

CRR
Increased Cash Reserve Ratio for Merchant Banks from 10% to 14%

30%

Liquidity Ratio
Retained Liquidity Ratio at 30%

Meanwhile, money supply continues to surge despite hawkish monetary stance by the CBN. Money supply (M3) rose to an all-time high of N95.56 trillion as of the end of February 2024 from N93.69 trillion recorded in the previous month. Net Domestic Assets (NDA) increased to N88.15 trillion in the same month from N85.99 trillion while Net Foreign Assets (NFA) dropped to N7.41 trillion.

It is worth noting that several policies by the CBN is already reflecting on the value of the naira as the exchange rate has gained 13.3% month-to-date against the USD at the official NAFEM following the announcement of all valid FX backlog payments. The same trend has also been witnessed at the parallel market with a 1.4% appreciation in the local currency.

OUTLOOK

Following the increase of the MPR, we expect to see yields across the curve to stay elevated at the fixed income market. Meanwhile, inflation rate is expected to remain high in the first half of the year, with our estimate of 32.3% in March 2024, while we expect FX rate to settle around N1,250/$ and N1,400/$1. The next MPC meeting is scheduled to hold on the 20th and 21st of May 2024, giving the MPC ample time to assess the latest policy decisions.

GLOSSARY

- **MPR:** The monetary policy rate serves as an anchor rate, which determines other rates in the financial system of a country.
- **Asymmetric corridor:** This is a tool used to increase the flexibility of monetary policy and give stakeholders in the market the ability to make timely responses to external finance or risk sentiment shocks. The corridor is of two parts, the lower bound (Standing Lending Facility) and the upper bound (Standing Deposit Facility).
- **Standing Lending Facility (SLF):** This is a lending facility where commercial banks are allowed to borrow from the central bank in a bid to meet immediate short-term withdrawals from their customers.
- **Standing Deposit Facility (SDF):** This is the rate at which commercial banks deposit money with the central bank. This allows banks to deposit their excess liquidity with the CBN and earn interest.
- **Cash Reserve Ratio (CRR):** This is the proportion of banks' deposit that is required to be maintained as a reserve without being allowed to invest or lend it for interest. At 45%, it means that Deposit Money Banks are to keep at least 45% of customer deposits in cash or reserves with the CBN.
- **Liquidity Ratio**: The liquidity ratio basically refer to the percentage of banks' liquid assets to their total deposit liabilities.