MPC Update: November 2022

MPR: 16.50%   Oct Inflation Rate: 21.09 %

Q2 Real GDP Growth Rate: 3.54%

Update on the Monetary Policy Committee (MPC) meeting held on November 21 and 22, 2022

At the end of today's Monetary Policy Committee (MPC) meeting, members voted to: Increase MPR by 100bps to 16.50%. Thus, 9 members opted for a 100bps hike while 2 members voted for a moderate increase by 50bps. This is a 500 basis points increase so far in 2022 in 4 meetings and stands at a historic high.

Also, it retained the Asymmetric Corridor at +100bps / -700bps around the MPR; CRR at 32.50%; and the Liquidity Ratio at 30%

Excerpts from the meeting

In line with market expectations for a hawkish tone at the end of the meeting, the CBN/MPC continued its policy tightening measures as it hiked interest rates by 100 basis points to 16.50% from 15.50% after its November 2022 MPC assembly in its drive to rein in on inflationary pressure which have surpassed the 20% mark and have reached a 17-year high; in line with international trends and the adoption of aggressive policy normalization tool.

Just as we have witnessed so far, most central banks in other climes have raised their benchmark interest rates since the start of the second quarter in a bid to stifle inflationary momentum. Though, the CBN Governor, had before now, asserted that there will be continued hawkish undertone by the committee should the spiraling inflation numbers stay unabated.

The committee's considerations at the meeting include:

The impact of emerging price shocks on the back of supply chain disruptions from the international space such as the Russian-Ukraine crisis, broad shortage of foreign capital flows, aggressive policy normalization by major central banks such as the US and the UK; and the continued tightening of liquidity conditions has had its impact on the local economy.

Domestically, the continued upsurge in money supply; rising insecurity concerns; upward movement in price levels which emanated from the recent flooding reported across 33 states; and the level of elevated global uncertainties which has translated into the dampening investors' sentiment and waning confidence drove committee's considerations.

Furthermore, the committee noted that it was felt that with the gradual acceleration in inflation numbers, a loosening stance will bring about more rise in inflation and could erode the previous milestones achieved in driving down the pressures from inflation. In the same vein, the earlier increase by 150bps was yet to permeate the economy enough; hence, further tightening will help improve market sentiments, boost investor confidence; in an attempt to close the negative real interest rate gap and to signal its commitment to fighting inflation. Underpinning the decision was the impact of the widening gap between the current policy rate of 15.50% and the inflation rate of 21.09% which led to its position that loosening would be gravely detrimental to reining-in inflation.

In our opinion, Nigeria's Central Bank's aggressive monetary policy tightening measures will see more liquidity crunch in the system as an additional regulatory requirement. In September's MPC communique with members' personal statements, a study done by the CBN shows that there is a 4-month lag in the transmission mechanism between changes in the policy rate and headline inflation. Given the time lag in the monetary policy transmission mechanism, there is likely to be a further delay in evaluating the full impact of its consecutive rate hikes this year. We think the 100bps increase in the MPR is an attempt by the bank to close the negative real interest rate gap and to signal its commitment to fighting inflation.