

# Analyst's Note on: May MPC Meeting – May 2024

## Inflation Targeting: CBN Maintains Hawkish Stance with Another 150bps Rate Hike.....

On Tuesday, the CBN Monetary Policy Committee (MPC) concluded its two-day policy meeting, maintaining a hawkish policy stance for the third consecutive time this year by raising the monetary policy rate (MPR) by 1.50% to 26.25% from 24.75%. This decision followed a review of current economic and financial developments both locally and globally, and an assessment of the risks to the economic outlook. This rate hike exceeded expectations, which anticipated a more modest increase of 100 basis points, as the committee aims to combat rising inflation and uphold monetary and price stability in the economy.

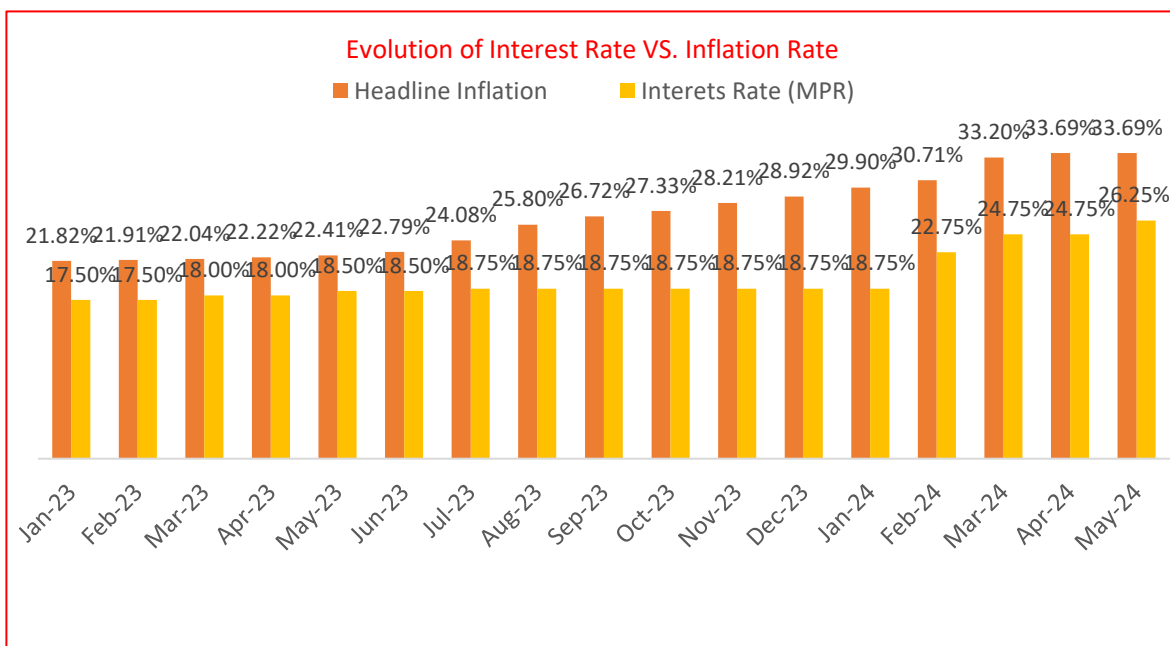
At the meeting, the committee decided to continue its inflation-targeting approach to combat inflation. Consequently, the members voted to:

1. Raise the MPR by 150 basis points to 26.25% from 24.75%.
2. Retain the asymmetric corridor around the MPR at +100/-300 basis points.
3. Retain the Cash Reserve Ratio (CRR) for Deposit Money Banks at 45%.
4. Retain the Liquidity Ratio at 30%.

The committee's primary focus remained on achieving price stability by effectively using the tools available to the monetary authority to curb inflation. The latest inflation data from the National Bureau of Statistics (NBS) showed that the headline inflation rate continued its upward trend in April, rising by 49 basis points to 33.69% year-on-year. This increase was driven by food inflation and core inflation, which rose by 0.52 percentage points and 0.94 percentage points to 40.53% year-on-year and 26.84% year-on-year, respectively.

However, the growth rate of headline inflation moderated for the second consecutive month, rising by a combined 1.99 percentage points between March and April, compared to an acceleration of 2.78 percentage points in January and February. This indicates a positive trend with a moderation in the month-on-month figures. Specifically, the headline index moderated to 2.29% in April from 3.02% in March; the food inflation rate slowed to 2.50% month-on-month, down from 3.62% in March; and core inflation declined by 0.34 percentage points to 2.20% in April.

Committee members expressed concerns over the sustained contractionary stance, which could further shrink the real sector by discouraging investments and adversely affecting employment and growth rates. However, they also noted positively that the recent tight monetary policy stance of the Bank is beginning to yield the desired outcomes.



Cowry Research has noted the 150 basis points increase in the monetary policy rate as an aggressive move aimed at reining in inflation to a single-digit target band and ensuring domestic price stability. This hike, which exceeded market expectations of a 100 basis points increase, reflects the central bank's commitment to tackling inflation decisively. This implies that the fiscal authority is expected to implement policies to balance the monetary side for a concerted result.

Despite the unexpectedly high rate hike to 26.25%, the effects of previous increases this year are already permeating the economy. This trend could encourage investors to further commit funds into Nigeria's economy, aligning with the goal of achieving a \$1 trillion economy by 2030. However, this focus on price stability has come at the expense of economic growth, particularly in the context of a weakening naira and high import costs. Given these circumstances, Cowry Research anticipates a potential pause in the rate hike cycle at the next committee meeting in July. This pause could provide a necessary breather to assess the cumulative impact of the previous hikes on the economy and to strike a balance between curbing inflation and fostering growth.

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