

Analyst's Note on: Outcome of Latest MPC Meeting – November 2024

CBN Applies Less Aggressive Measures by Subtle 25bps Hike to Taming Inflation's Flames.....

The Monetary Policy Committee (MPC) of the Central Bank of Nigeria (CBN) concluded its final meeting of 2024 with a modest yet strategic 25 basis points hike in the Monetary Policy Rate (MPR), bringing it to a historic high of 27.50% leaving all monetary policy parameters unchanged. This measured move reflects a shift to a dovish stance as the MPC seeks to balance inflation control with the economic realities of 2025.

The MPC's decision comes amid unrelenting inflationary pressures. Nigeria's headline inflation surged to a four-month peak of 33.88% in October, up from 32.70% in September. This marked the second consecutive monthly increase since August, driven by escalating food prices, higher energy costs, and persistent supply chain disruptions. Additionally, ongoing volatility in the foreign exchange market exacerbated inflationary trends, despite measures such as zero-duty import policies and aggressive monetary tightening earlier in the year.

Food inflation rose sharply to 39.2% in October from 37.8% in September, reflecting the impact of elevated transportation and production costs. Core inflation, excluding volatile food and energy prices, hit an all-time high of 28.4%, up from 27.4%. Month-on-month, headline inflation climbed by 2.64%, while food and core inflation increased by 2.94% and 2.14%, respectively, underscoring the pervasive nature of price pressures.

The MPC highlighted the multidimensional nature of inflation, recognising its adverse impact on household income and overall welfare. The committee acknowledged that rising energy prices, particularly following the increase in Premium Motor Spirit (PMS) prices, have inflated production and distribution costs, further straining businesses and consumers.

While food prices remain a significant driver, the MPC commended government efforts to improve security in the North-East, which could enhance agricultural production. The committee expressed optimism that full deregulation of the downstream petroleum sector could stabilise energy costs and reduce supply-side pressures in the medium term.

Throughout 2024, the MPC raised the policy rate by a cumulative 875 basis points from 18.75% to 27.50%. This most recent 25 basis points hike signals a shift towards assessing the lagging effects of previous rate hikes as the committee appears keen to gauge the impact of tighter monetary conditions on inflation and economic growth while remaining vigilant to domestic and global economic developments.

We think the decision reflects the MPC's intent to curb aggregate demand without significantly dampening economic output; reinforce its credibility in maintaining price stability, narrow the negative real interest rate gap to encourage domestic savings and restore investor confidence; and taper economic and financial conditions to manage systemic liquidity effectively.

Looking ahead, the MPC is likely to maintain a tightening stance in early 2025, particularly if inflationary pressures persist. However, as inflation shows signs of moderation, the committee may adopt a more accommodative approach to stimulate growth and improve real income levels. Collaborative efforts between fiscal and monetary authorities remain critical to achieving synchronised objectives of economic stability and sustainable development. The current approach signals cautious optimism, as the CBN navigates the complexities of inflation control, economic growth, and monetary transmission in the Nigerian economy.

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