



CBN RAISES MPR BY 25BPS



MPR: 18.75%

Asymmetric Corridor: +100/-300bps

UNINTENDED CONSEQUENCES

Policy Stance



Tight

Monetary Conditions



Loose

Effective Interest Rates



Depressed

Negative effective yield – 16.85%

National Savings



**27% of GDP from
30%**



UNORTHODOX MONETARY POLICY DEEMPHASIZED

Inflation target to
be aggressively
pursued
(6-9%)



Exchange rate
convergence
precondition to
convertibility
(IEFX-parallel gap –
N77)



TREND CONTINUES.....

1st Meeting Under

New President

No Fiscal team yet

New CBN Leadership

Doves - 5

Hawks - 6

Even split

MAJOR CONSIDERATIONS



**Spiraling
Inflation**

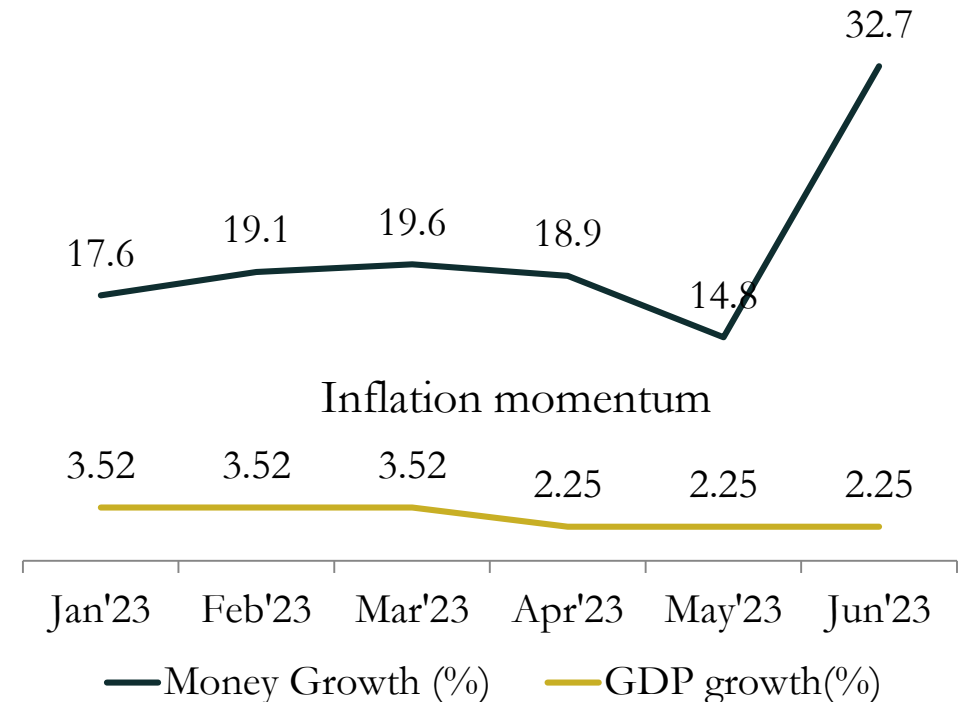
Inflation Here!

Inflation There!!

*Inflation, Inflation
Everywhere!!!*

*Headline Inflation –
22.79% (June 2023)*

Money Supply Growth vs GDP Growth



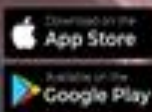


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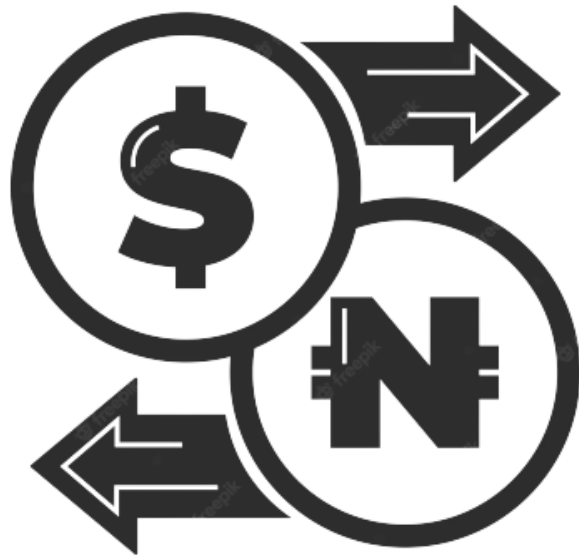


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OTHER CONSIDERATIONS



Exchange Rate Depreciation
& its knock-on effect

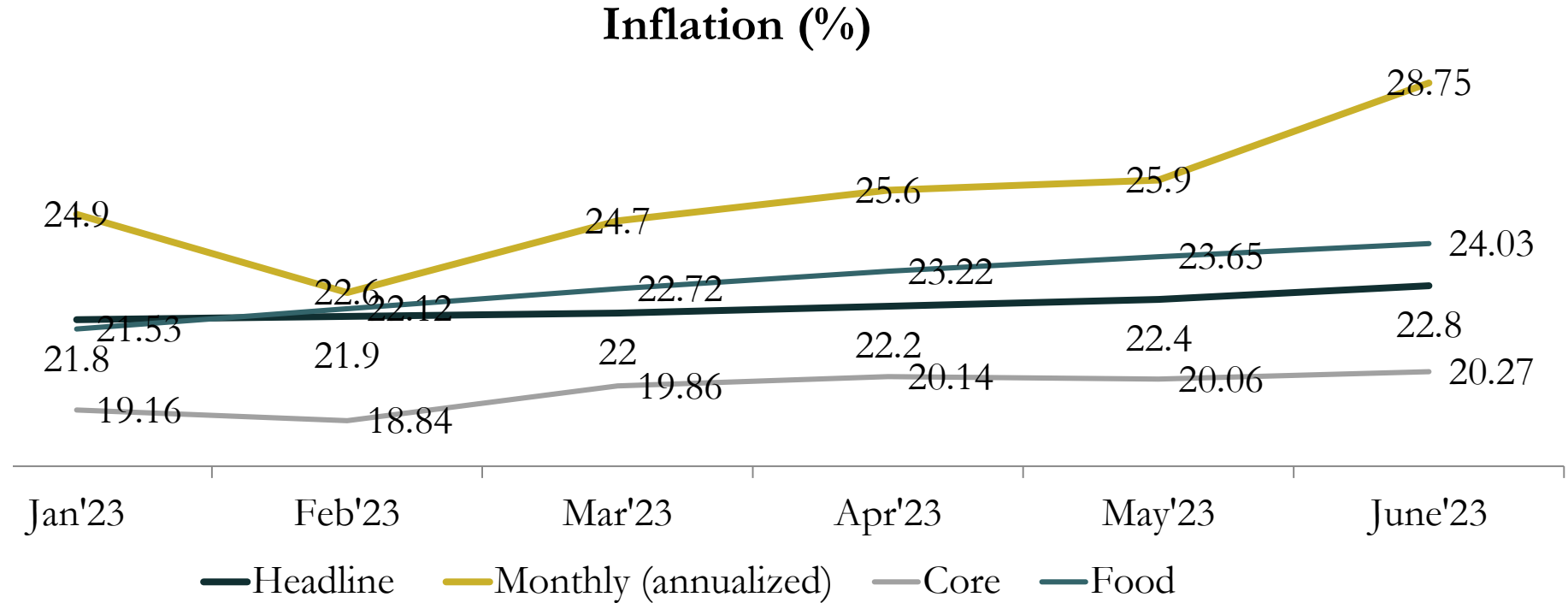
12% depreciation in one month to N870/\$



Money Supply
Saturation

33% to N64trn (y-o-y)

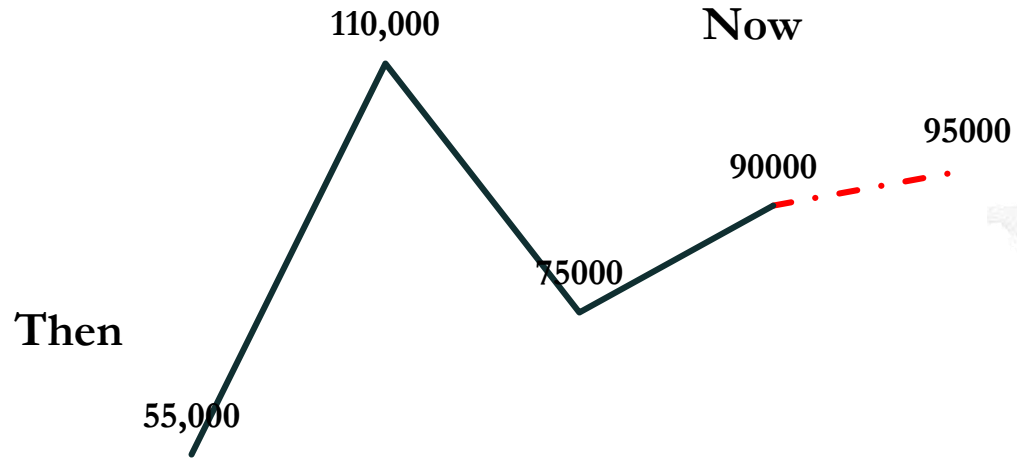
INFLATION AT AN 18-YEAR HIGH



- Headline inflation soars to 22.79% in June from 22.41% in May
- Impact of policy changes not fully reflected in June inflation numbers
 - Consumer resistance & inventory build-up before policy changes

INFLATION UNPACKED – THEN & NOW ANALYSIS

Tomatoes

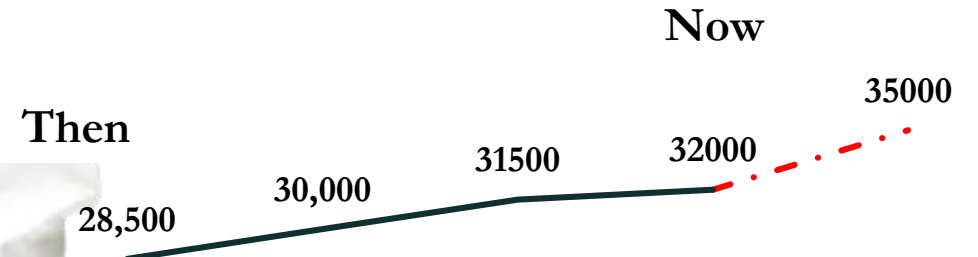


- Perishable
- Storage
- Seasonality

April May June July August

One Tomato = N200

Flour

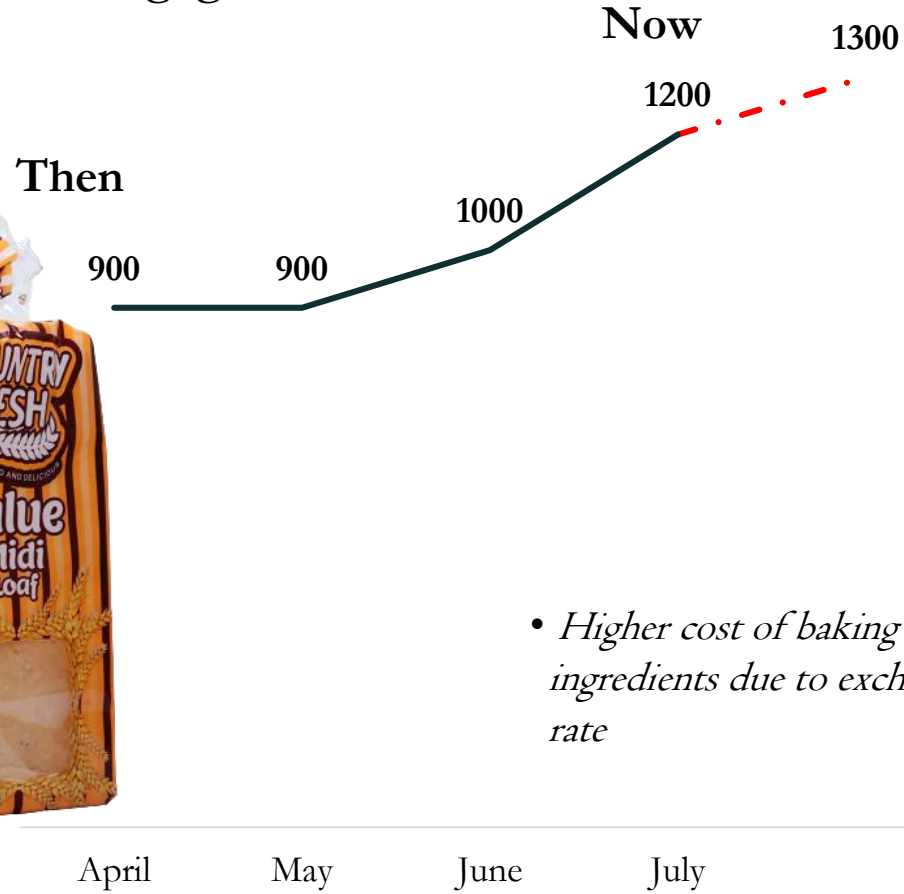


- Exchange rate for Import duty – N770/\$
- Higher global wheat prices

April May June July August

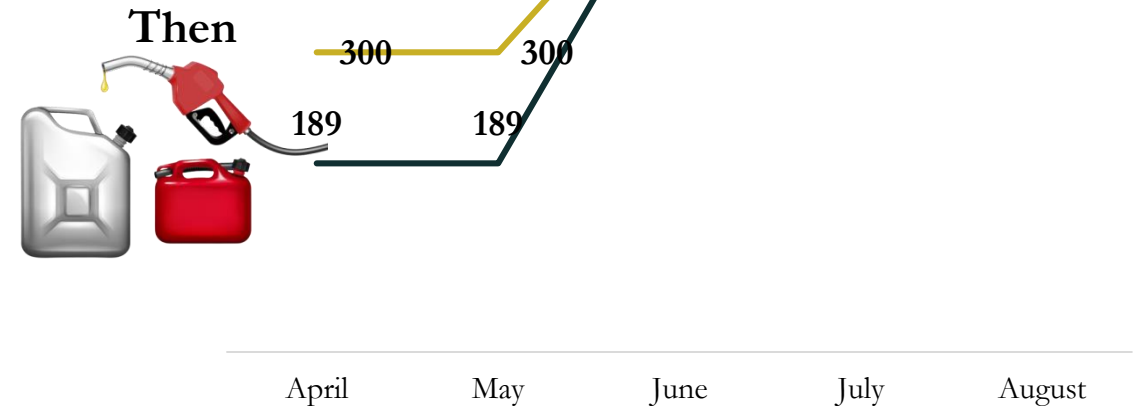
INFLATION UNPACKED - THEN & NOW ANALYSIS

Agege Bread



- Higher cost of baking ingredients due to exchange rate

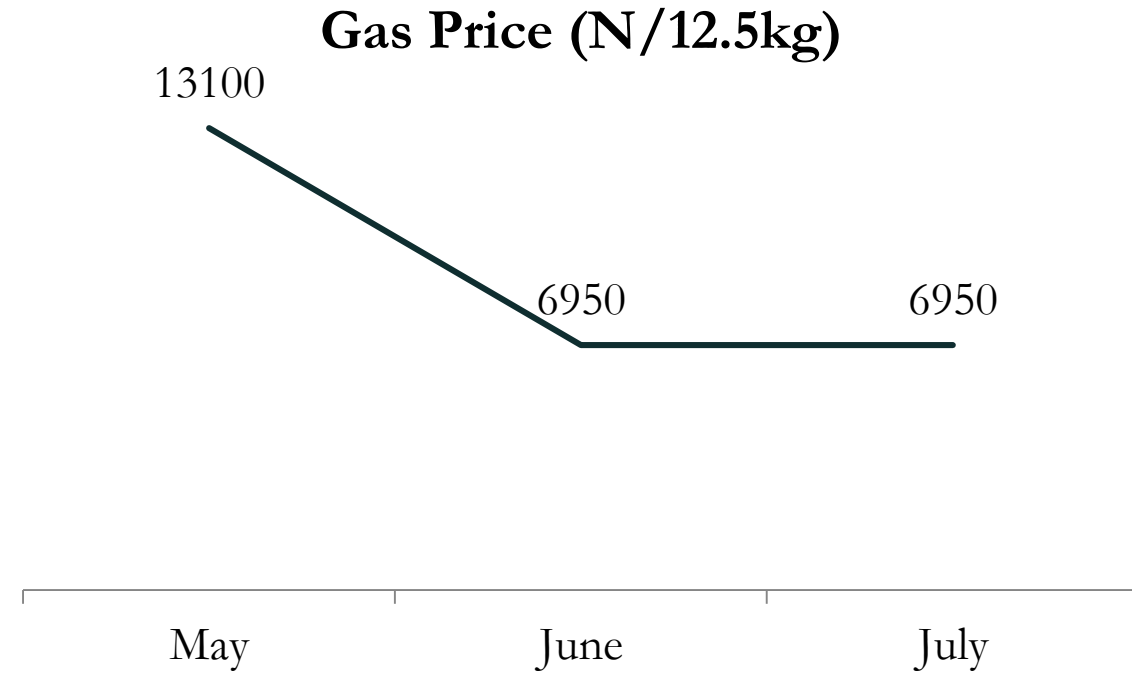
Transport/ PMS



— PMS

— Tf fare (Oworonshoki to Obalende) from N300 to N500

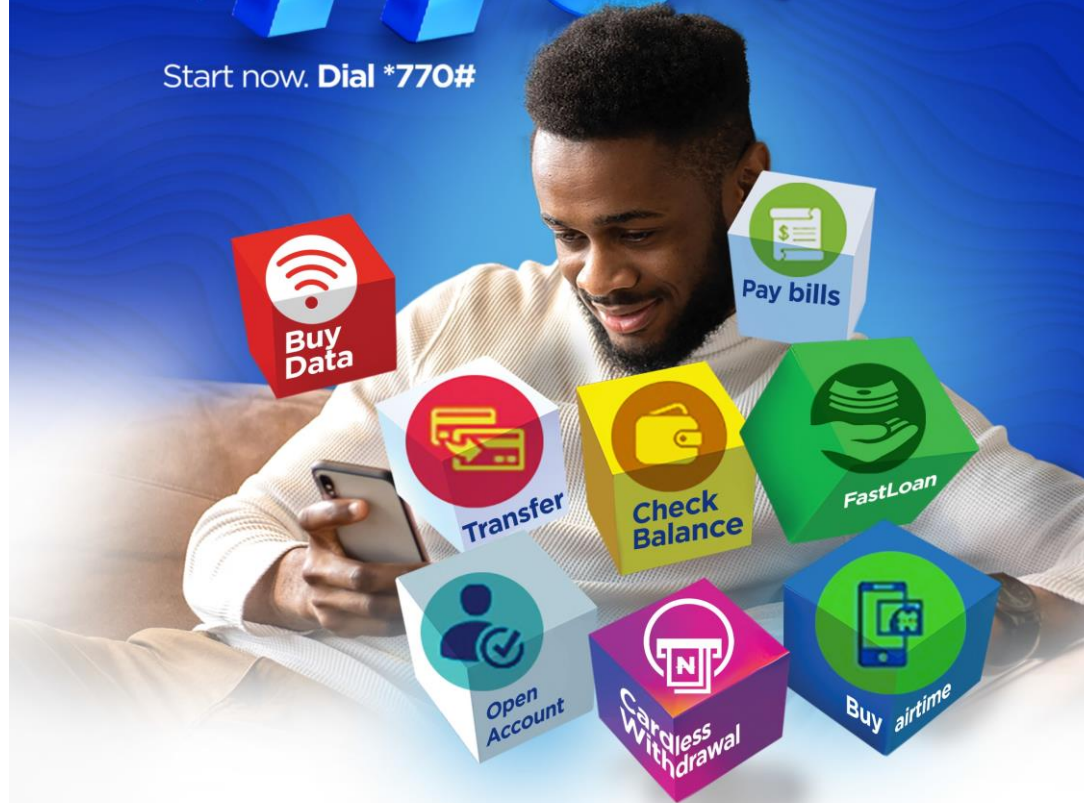
GAS PRICE DOWN, FOOD PRICES UP – NOTHING TO COOK



- Price of 12.5kg cooking gas has declined by 47% to N6950
- While food prices has increased by an average of 25%

*770

Start now. Dial *770#



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INFLATION STOKING FACTORS



Money Supply Growth

↑ 33% to N65trn (y-o-y)



Rising logistics & transportation costs

↑ 50%



Planting & Harvest



High energy prices (PMS)

↑ 220%



Exchange rate pass-through

↓ Terms of Trade – 100.88%

|| POLICY RATE HIKE NOT A SILVER BULLET

MPR

11.5% Σ 725bps \uparrow 18.75%p.a

VS

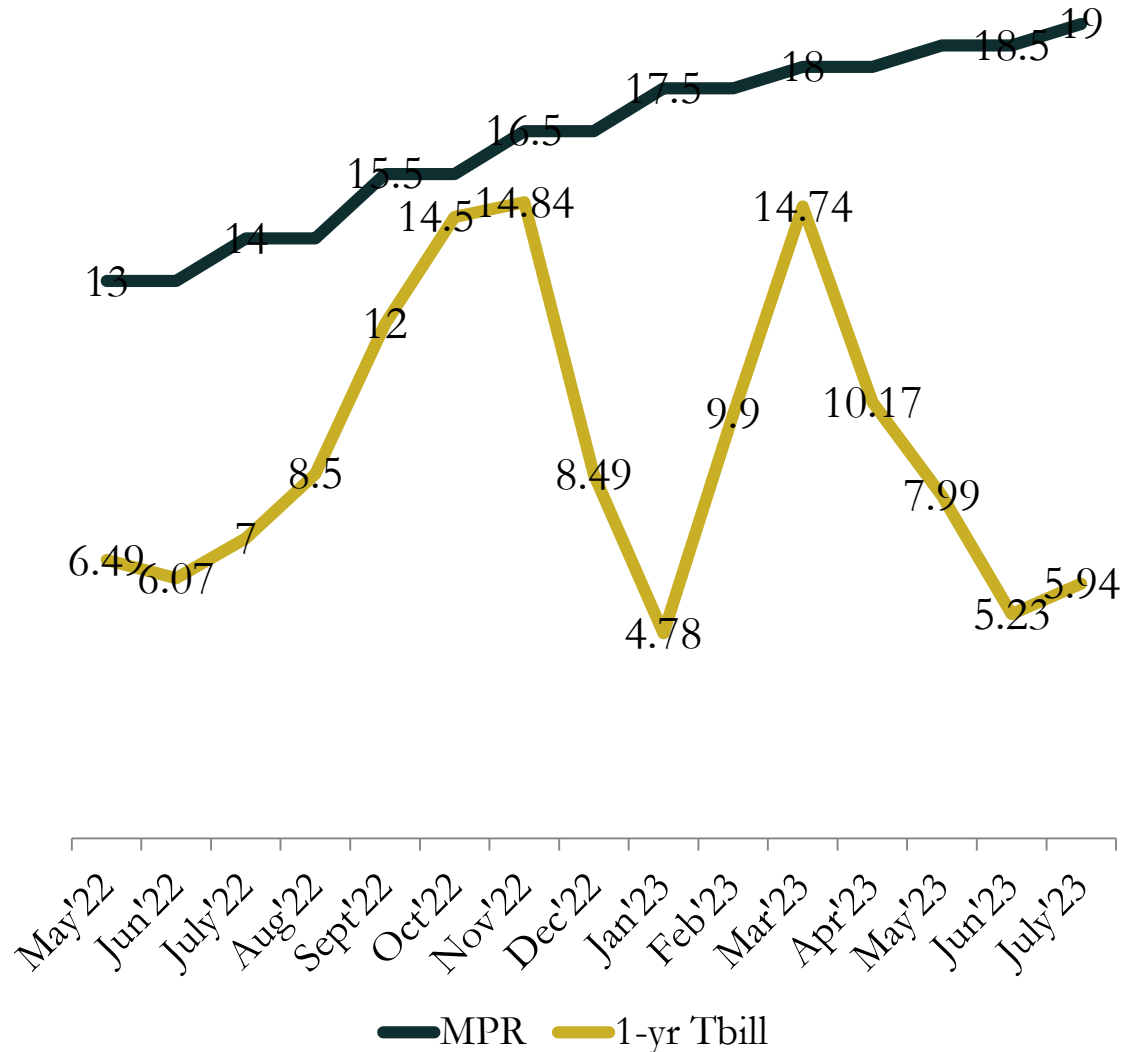
INFLATION

17.71% Σ 5.08% \uparrow 22.79%



MPR – AN ANCHORLESS SHIP

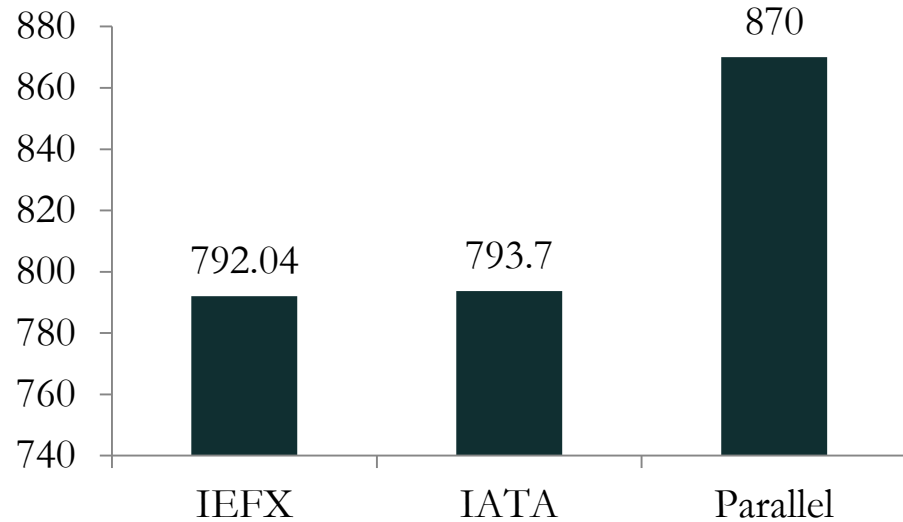
MPR vs 1-year T-bill



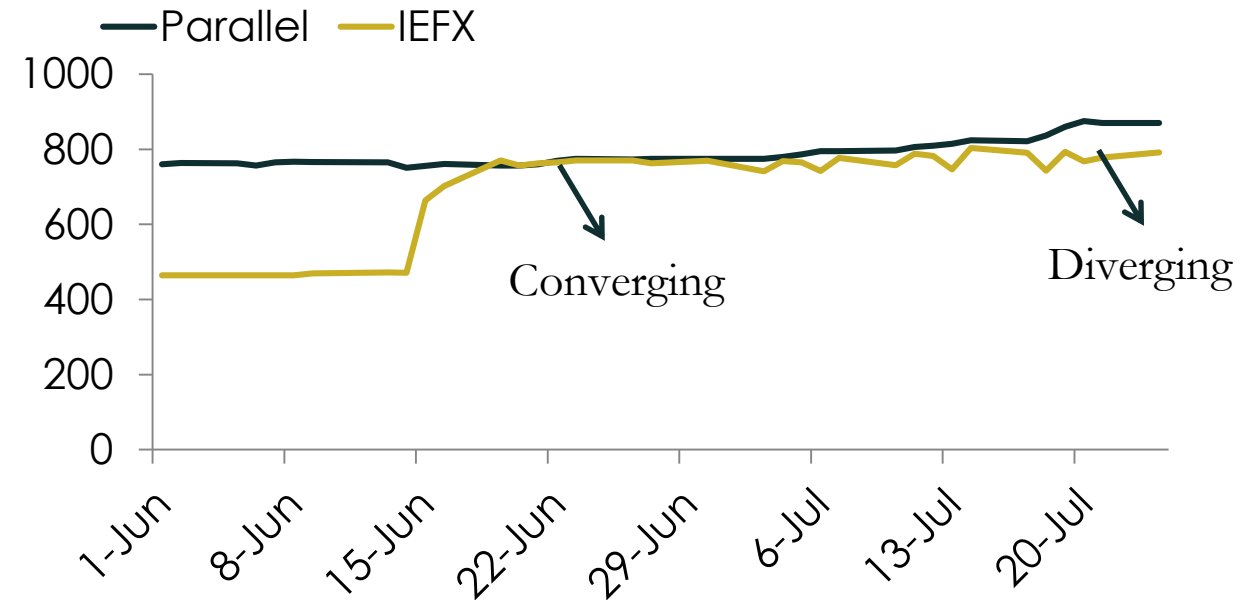
- MPR has become an anchorless ship
- Despite the increase in MPR
- Effective interest rates have declined significantly
- 1-year T-bill rate at 5.94% is 1700bps below the level of inflation

EXCHANGE RATE CONVERGENCE IS NOT UNIFICATION

Exchange Rate (N/\$) as at July 24



Exchange rate (N/\$)



- Exchange rate converging as CBN moves towards a floating exchange rate regime
 - IEFX – parallel gap down by 74% from N293 to N77.5
- But now diverging as parallel market rate overshoots on demand pressure
- Convergence is good but unification is ideal

NIGERIA NEEDS.....

01

Debt
Rescheduling

02

New
Money

03

Lower
Inflation

04

Higher
Output



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INFLATION & CURRENCY DEPRECIATION - SSA

- Inflation declining in other SSA countries, but currencies remain weak

	Cumulative Policy rate hikes (bps)	Inflation			Currency		%Change
		Jan (%)	June (%)		Jan	July	
 South Africa	500 	6.9	5.4 	USD/ZAR	17.01	17.80 	4.6
 Ghana	1600 	53.6	42.5 	USD/GHS	9.96	11.50 	15.5
 Kenya	350 	9	7.9 	USD/KES	123.25	141.90 	15.1
 Nigeria	750 	21.8	22.8 	USD/NGN	462	855 	46

POLICY & IMPACT

Policy

T/Bill
Interbank
Lending Rates to
increase by 400-
500 basis points

Impact

- Marginal propensity to save 
- Borrowing cost 

Supply of forex –
Cash call from oil
exports

Stability of the naira
below N900/\$

Restructuring of
Nigeria's external
debt without
defaulting

New money from IMF

BEFORE THE NEXT MPC MEETING IN SEPTEMBER 2023

- President will announce cabinet members
- Supplementary budget to be announced in August/ September
- Headline inflation to spike towards 24% in July
- Q2'23 GDP growth to decline further to 2.22% from 2.31% in Q1'23
- 1-year t-bill stop rate to increase from 5% to 10%
- Stock market prices to ease slightly as interest rates rise
- Naira will trade at N890/\$ - N910/\$ before appreciating towards N820/\$
- Airlines will sell discount fares after clearing the backlog





**THANK
YOU**