



# THE AUDACITY OF MONETARY POLICY

MPC INCREASES POLICY RATE BY  
**400BPS TO 22.75%**

Presented by Bismarck Rewane  
February 27, 2024



MPR now 22.75% p.a.



CRR increased from 32.5% to 45.0%



Asymmetric corridor to +100bps/-700bps

# THESE THINGS ARE IN SHORT SUPPLY



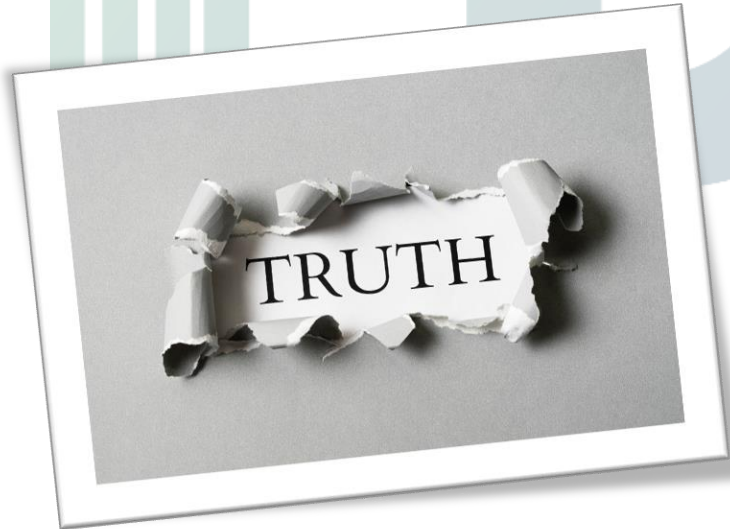
**Dollars**



**Electricity**



**Food**



- **The most important?**

*A healthy cocktail of fiscal and monetary policies are imperative to improve supply of these key factors*



# SOLVING THE SUPPLY PROBLEM

| What needs to be done?                | What has been done?   | What should happen?  | How urgent are these measures?                                     |
|---------------------------------------|---|--|--|
| Improve dollar supply                 | <ul style="list-style-type: none"> <li>• CBN house cleaning</li> <li>• Exchange rate convergence</li> <li>• Reducing capital control (e.g. 43 items list, IMTO etc.)</li> </ul> | <ul style="list-style-type: none"> <li>• Anchored investor sentiments, inflation and exchange rate expectations</li> <li>• but policy directives require careful reforms</li> </ul>        | <p><i>Very urgent</i><br/> <i>Necessary but not sufficient</i></p> |
| Boost electricity generating capacity | <ul style="list-style-type: none"> <li>• Not much</li> <li>• Grid infrastructure remains weak while impeding transmission capacity</li> </ul>                                   | <ul style="list-style-type: none"> <li>• Stifled productivity as operating costs climb</li> <li>• Meaningful government spending to address structural challenges is imperative</li> </ul> | <p><i>Very urgent,</i><br/> <i>Necessary and sufficient</i></p>    |
| Support food production               | <ul style="list-style-type: none"> <li>• Release from grain reserves</li> <li>• Conditional cash transfers, palliatives</li> </ul>  | <ul style="list-style-type: none"> <li>• Food importation must continue until local production is sufficient</li> <li>• Tempering insecurity is the goal</li> </ul>                        | <p><i>Very urgent,</i><br/> <i>Necessary and sufficient</i></p>    |
| Reduce the truth deficit              | <ul style="list-style-type: none"> <li>• Nothing</li> </ul>   | <ul style="list-style-type: none"> <li>• Reduce the cost of governance</li> <li>• Policymakers need to feel the people's pain</li> </ul>   | <p><i>Very urgent,</i><br/> <i>Necessary and sufficient</i></p>    |

# SOLVING THE SUPPLY PROBLEM: THE CBN TIGHTENS

- 12 wise men voted unanimously to hike rates by 400bps. *More important is the CRR increase!*
- Only four meetings in 2023, six meetings expected in 2024

## In the last 20 Meetings



10 Times



9 Times



Once

Cumulative rate hike

**11.25%**

Rise in Inflation

**17.5%**

Exchange rate (NAFEM)  
(July 2023)

**N799.5/\$**

Exchange rate (Parallel)  
(July 2023)

**N870.0/\$**



Exchange rate (NAFEM)  
(Today)

**N1,778.0/\$**



Exchange rate (Parallel)  
(Today)

**N1,530/\$**

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# WHY TIGHTEN SO MUCH?

- Inflation is higher than effective interest rate

INFLATION

INTEREST RATE

RATE OF RETURN ON INVESTMENTS

$$29.9\% - 22.75\% = 7.15\% \text{ (Negative)}$$



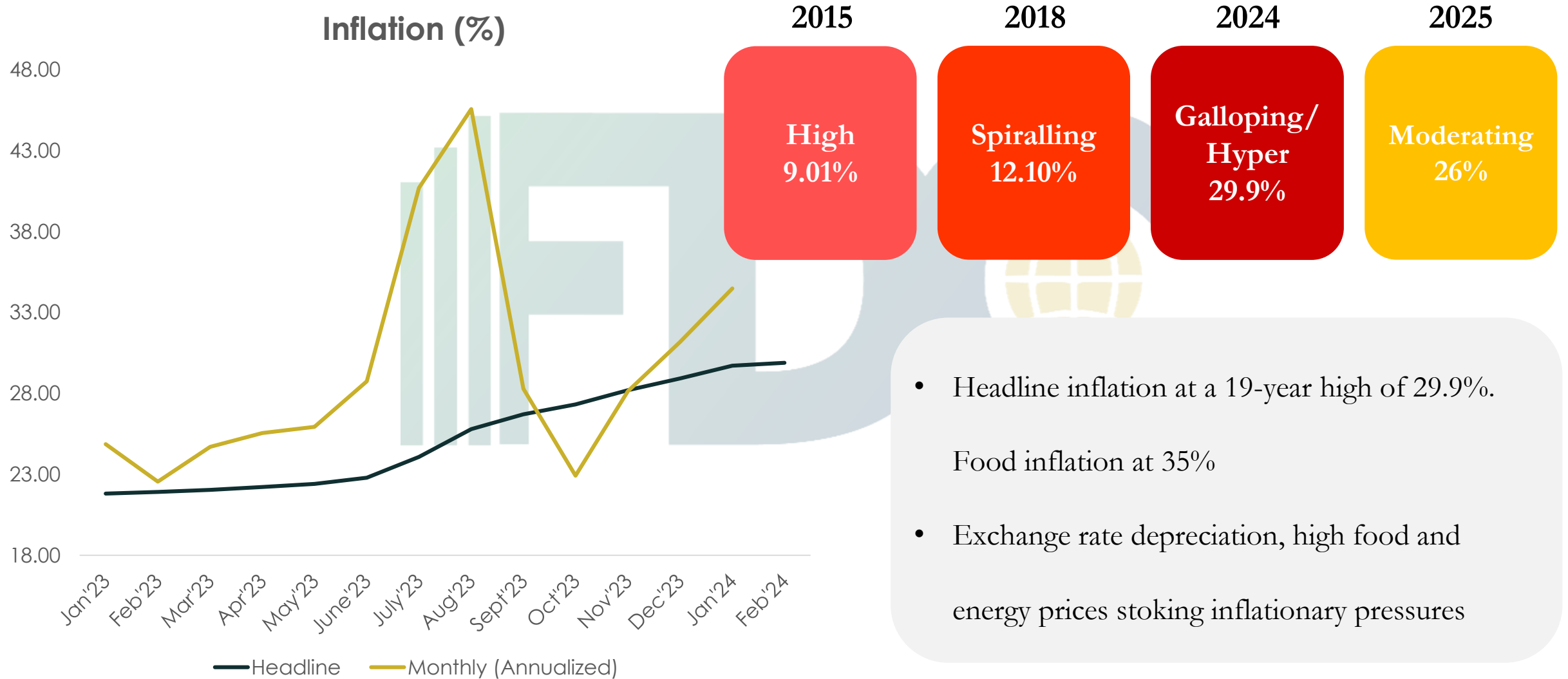
Implication

Marginal propensity to save (MPS) will reduce

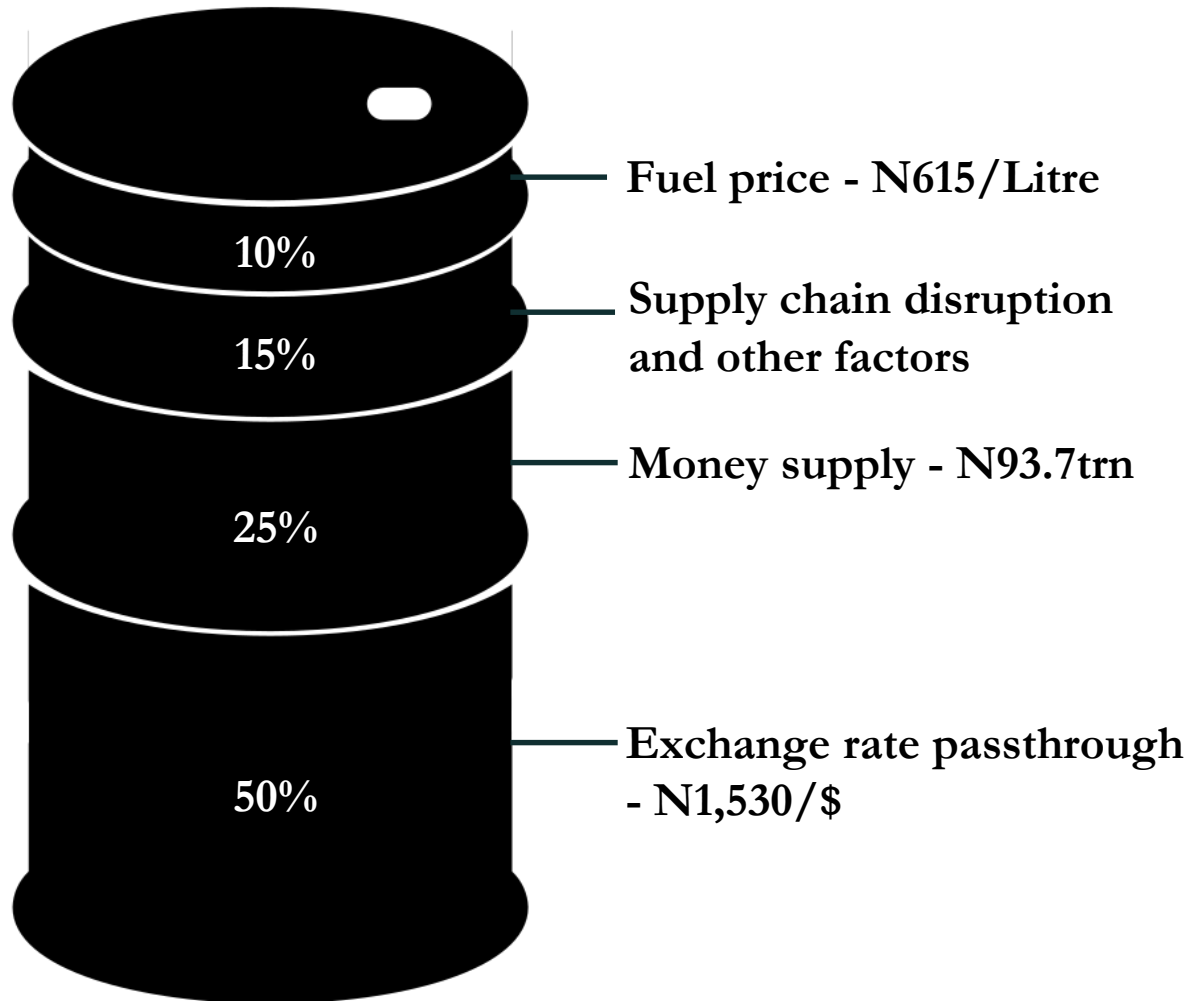


# IT'S ALL ABOUT INFLATION!!!

Inflation (%)



# WHAT IS CAUSING THIS STRATOSPHERIC INFLATION?



## Food Basket



Q4'24

**35.41%**

## Non-Food Basket



Q4'24

**23.59%**



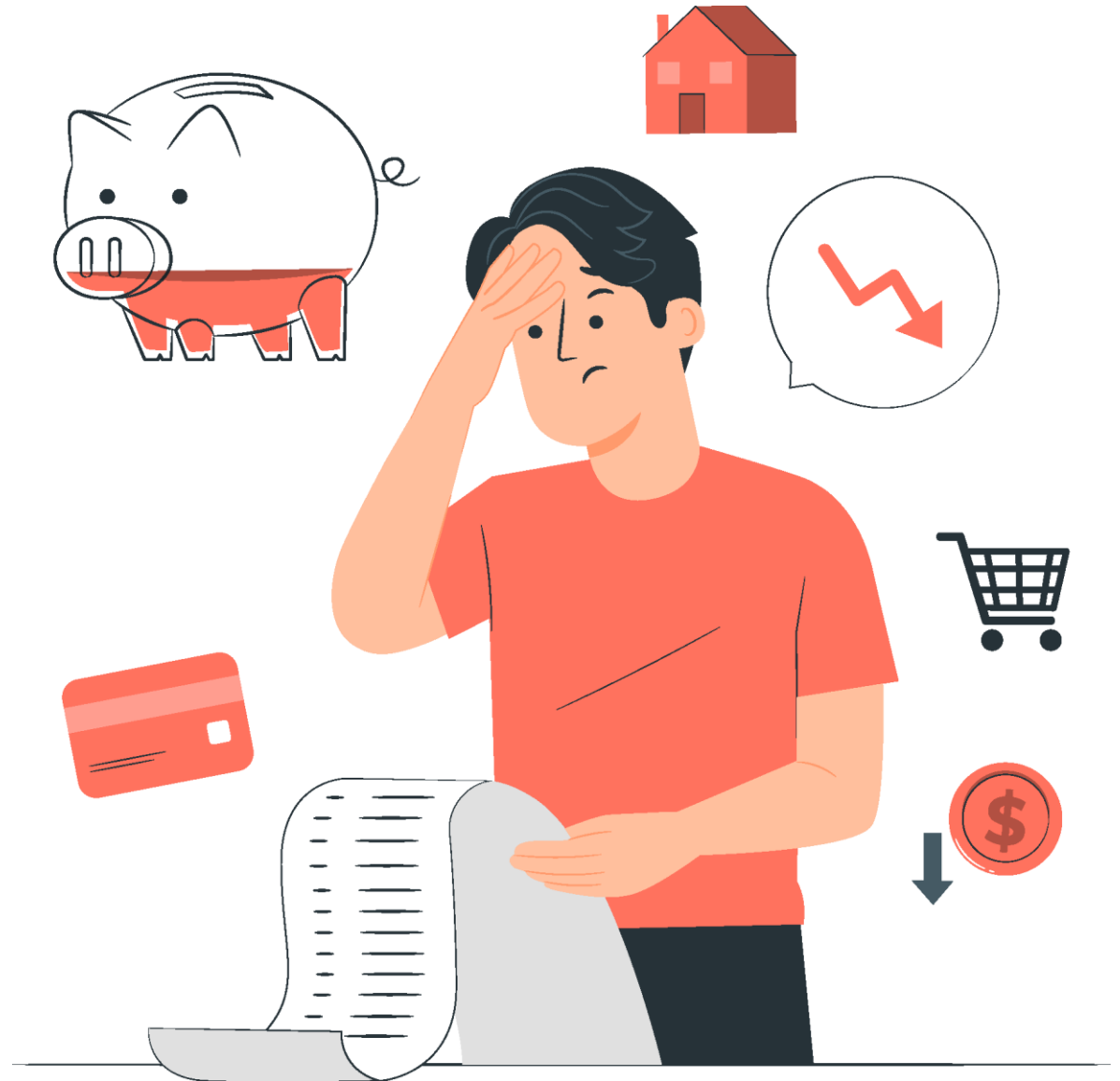
# WILL THIS MOVE OF INTEREST RATE REDUCE INFLATION?

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Partly!

## IS IT ENOUGH?

No, but it is necessary!



# SHORT-TERM IMPLICATIONS OF THE INTEREST RATE HIKE

- Sharp correction of the stock market.
- Lending rates increase across the country.
- Borrower default rate increases.
- Currency will appreciate.
- Level of national savings will increase sharply.
- Reduction in propensity to consume.



# \*770#

Start now. Dial \*770#



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# INFLATION IN THE SHORT TERM?

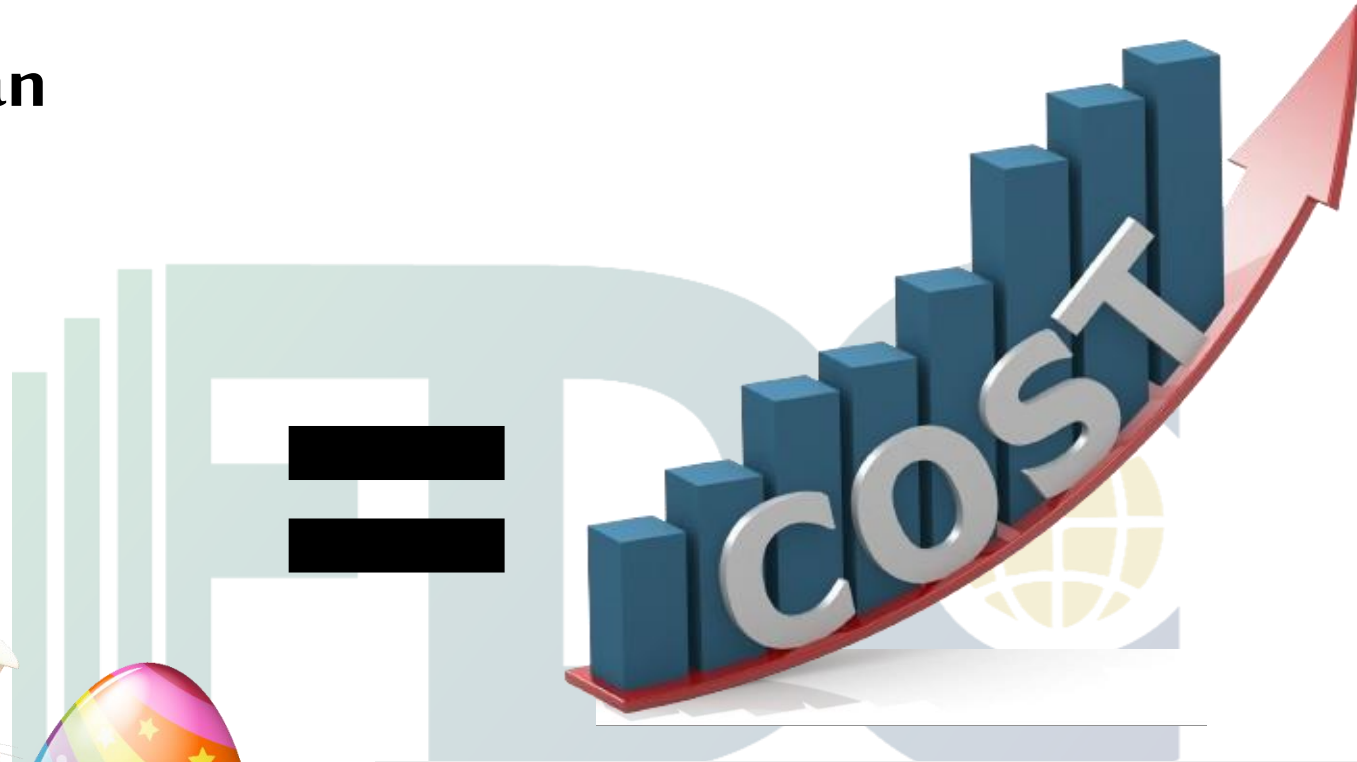
Ramadan



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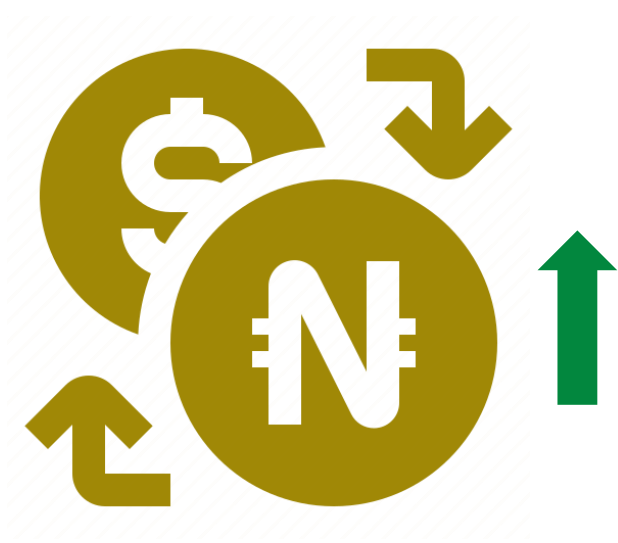


Easter

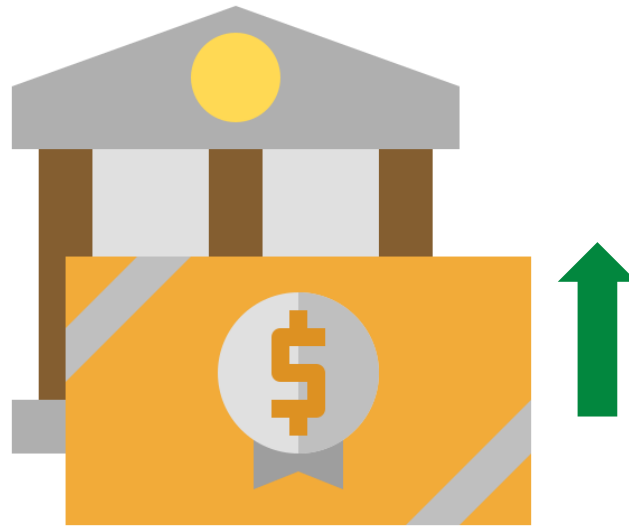


- Inflation to keep rising but at a slower pace on higher interest rates
- Festive seasons amid low harvest to fuel inflation
- Imported inflation to stay elevated on currency fluctuations
- Higher transport and logistics costs to nudge prices as petrol and diesel costs climb

# WHAT HAPPENS WHEN INFLATION FALLS?



**Naira strengthens**



**Markets move closer to equilibrium**



**Increased purchasing power**

# IMPACT ON YOU: FOOD BASKET



**1 Bag** ↑

Dec. 2023: N70,000  
Current Price: N78,000  
Apr. 2024: N80,000



**1 Loaf** ↑

Dec. 2023: N1,200  
Current Price: N1,300  
Apr. 2024: N1,500



**1 Tuber** ↑

Dec. 2023: N2,500  
Current Price: 3,000  
Apr. 2024: 3,300



**1 Bag** ↑

Dec. 2023: N50,000  
Current Price: N68,000  
Apr. 2024: N70,000



**1 Bag** ↑

Dec. 2023: N30,000  
Current Price: N60,000  
Apr. 2024: N62,000



**1 Crate** ↑

Dec. 2023: N2,800  
Current Price: 3,800  
Apr. 2024: 5,000

# IMPACT ON YOU (CONT'D)

- School fees



- Medical tourism



- Transport fare



- Air fares



- House rent

# BEFORE THE NEXT MPC MEETING (MARCH 25)

- Commodity prices will remain elevated on festive demand and seasonality effects
- Effective interest rates to edge higher on a stronger transmission mechanism
- Consumer disposable income to remain squeezed, crunching consumption levels
- GDP growth to remain sluggish on tepid output levels
- Naira to maintain positive trajectory but at a slow pace as market sentiments stay choppy







**THANK  
YOU**