

The Monetary Policy Committee at the conclusion of its 4th meeting for the year decided to :

- Increase MPR by 200bps to 14.00percent
- retain the CRR at 22.50 per cent
- retain the Liquidity Ratio at 30.00 per cent
- retain the asymmetric windows at +200 and -500 basis points around the MPR.

In line with our expectation of a rate hike (100bps) though more aggressive than we expected, the CBN moved the benchmark policy rate by 200bps to 14 percent. Yet again, the CBN has chosen a knee-Jerk reaction to perceived shocks to the system seeing that inflation rate for June rose to 16.5 percent from 15.6 percent in May. We note that the rate hike was premised on the need to address the "galloping inflation" which has weakened consumers purchasing power and brought about a negative real rate of return on fixed income instruments, dampening investment prospects for Africa's largest economy. In a bid to attract foreign flows to tackle the FX supply side constraints, the hike in MPR became inevitable.

We think the CBN's move was very aggressive given that the current inflationary trend is more "cost-push" and cannot be addressed solely by monetary tools. Despite anticipating the hike in interest rate by the CBN (knowing how the present MPC reacts), we do not agree that a 200bps hike was necessary. Why? we believe the economy is in a recession and raising rates is contractionary in that it will increase borrowing costs and businesses are likely to feel the weight which aggregated, will reduce output levels.

The issue of attracting foreign flows is valid but at this time, foreign investors are concerned not only about inflation rate but also other macro-economic indicators which have made investing in Nigeria's economy very risky at this time. We are clear on the fact that the delay in monetary response to external shocks and foreign exchange restrictions have been the bane of the recent crisis bedeviling the economy. Delay in budget implementation by the fiscal authorities also has its consequences which is reflected in our GDP numbers. Monetary and fiscal authorities are yet to adjust to the reality of the impact of sustained lower oil prices; a clear medium to long term economic strategy is yet to be put in place.



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