Central Bank of Nigeria

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MONETARY POLICY RATE INCREASED BY 400 BASIS POINTS TO 22.75 PERCENT.

The Monetary Policy Committee (MPC) of the Central Bank of Nigeria (CBN) held its first meeting for the year on the 26th and 27th of February 2024 to decide on the appropriate course of monetary policy going forward. All twelve (12) members of the Committee attended the meeting.

Decisions of the MPC

The Committee decided to further tighten monetary policy as follows:

1. **Raise the MPR by 400 basis points to 22.75 from 18.75 per cent.**
2. **Adjust the asymmetric corridor around the MPR to +100/-700 from +100/-300 basis points.**
3. **Raise the Cash Reserve Ratio from 32.5 per cent to 45.0 per cent.**
4. **Retain the Liquidity Ratio at 30 per cent.**

Considerations

The Committee's decisions were centered on the current inflationary and exchange rate pressures, projected inflation, and rising inflation expectations. Members were concerned about the persistent rise in the level of inflation and emphasized the Committee's commitment to reverse the trend as the balance of risk leaned towards rising inflation. The Committee, however, acknowledged the trade-off between the pursuit of output growth and taming inflation but was convinced that an enduring output expansion is possible only in an environment of low and stable inflation.

Members noted the decision to transit to an inflation targeting framework as essential to addressing the persistence of inflationary pressures in the economy and commended the fiscal authority for their invaluable support.

In the opinion of the Committee, the options available for decision was to either hold or hike the policy rate to offset the persisting inflationary pressure.

Considering the option of a hold policy, the evidence revealed that previous policy rate hikes have slowed the rise in inflationary pressure but not to a desirable extent. Members considered various scenarios of hold and hike, and concluded that, inflation could become more persistent in the medium-term and thus pose more regulatory challenges if not effectively anchored. The balance of the argument thus leaned convincingly in favour of a significant policy rate hike to drive down inflation substantially.

The MPC also deliberated extensively on various distortions in the foreign exchange market including the activities of speculators, putting upward pressure on the exchange rate with high pass-through to inflation. Members were, however, convinced that the ongoing reforms in the foreign exchange market will yield the desired outcome in the short to medium term. Some of these reforms include: the unification of the foreign exchange market; promotion of a willing buyer willing seller market; removal of all limits on margins for IMTO remittances; introduction of a two-way quote system and the broad reforms in the BDC segment of the market to restore stability, enhance transparency, boost supply, and promote price discovery in the Nigeria Autonomous Foreign Exchange Market (NAFEM).

The Committee reviewed the key financial indicators of the banking system and noted that the system remained stable. To further ensure the stability of the banking system, the MPC called on the Bank to increase system buffers by recapitalizing the banks to improve resilience against potential risks. Members further enjoined the Bank to strengthen surveillance and compliance regarding its earlier guidance on the application of foreign exchange revaluation gains.

The Committee identified non-monetary factors driving inflation such as the persisting insecurity and infrastructural deficits and noted the role of fiscal policy in addressing these shortfalls, while reiterating the commitment of monetary policy support. In this regard, the Committee applauded fiscal policy initiatives towards reducing the cost of living for ordinary Nigerians, including the ongoing efforts to improve food supply and provide mass transit CNG buses to ease the cost of transportation; and the civil service reforms to improve the efficiency of government amongst others.

Key Developments in the Domestic and Global Economies

Headline inflation (year-on-year) rose to 29.90 per cent in January 2024 from 28.92 per cent in December 2023. Food inflation increased to 35.41 per cent from 33.93 per cent while core inflation (Headline less farm produce and energy) rose to 23.59 per cent from 23.07 per cent. The major factors driving inflationary pressure remain exchange rate pass-through, rising cost of energy, high fiscal deficits, and lingering security challenges in major food-producing areas. In addition, global factors such as tight financial conditions and trade disruptions from ongoing geopolitical tensions, remain significant upside risks to the outlook for domestic inflation. Staff forecasts therefore indicate that inflation will remain on an upward trajectory in the near term before commencing a descent.

Real GDP growth improved in Q4 2023 to 3.46 per cent, compared with 2.54 per cent in the previous quarter, driven by improvements in both the oil and non-oil sectors. The recent improvement in the oil sector was due to the combined impact of increase in crude oil production and a relatively high price in Q4 2023. Forecasts indicate that the economy will grow in 2024 by 3.38 per cent (CBN), 3.88 per cent (FGN) and 3.00 per cent (IMF).

Gross external reserves stood at US$34.51 billion on February 20, 2024, compared with US$32.23 billion at end-January 2024. The improvement was driven by reforms in the foreign exchange market and an increase in oil production amongst others.

In the global economy, inflation is projected to continue to moderate in 2024, but could remain above the long-term objectives of several advanced economy central banks. Consequently, policy rates among this group of central banks are expected to remain high in the short to medium term. The Committee thus recognized the need to continue to put in place measures to boost investor confidence and to attract capital inflows.

To this end, the Committee will continue to monitor developments in the global and domestic economies to ensure that inflationary and exchange rate pressures moderate in the near term.

The next meeting of the MPC will be held on 25th and 26th of March 2024.

Thank you for listening.

Mr Olayemi Cardoso
Governor,
Central Bank of Nigeria
27th February 2024.