# **Berkshire Finance Company Limited**

## Research & Insights





March 27, 2024

### **Berkshire Market Briefs**

### **CBN Maintains its Hawkish Stance**

## Author:

#### Michael Ajayi

+234 813 603 0000

www.berkshirefinancecompany.com

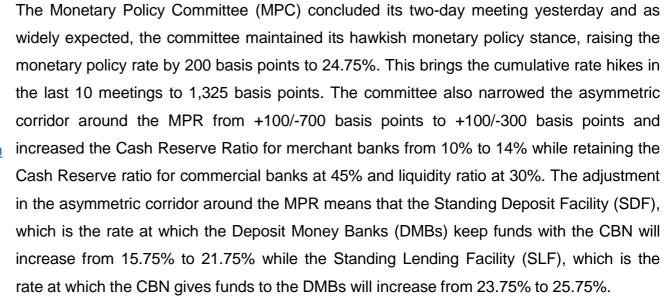
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#### What is the Rationale for the Rate Hike?

At the meeting, the CBN reiterated its commitment to prioritizing its core mandate of price and exchange rate stability. Therefore, the decision to raise interest rates was driven by the current inflation spiral (with headline inflation hitting a 28-year high of 31.7%) and the necessity to anchor inflation expectations while ensuring sustained exchange rate stability. Remarkably, the currency has appreciated by more than 30% in the past five weeks at the parallel market, following the CBN's foreign exchange (FX) reforms. These reforms have bolstered foreign portfolio investment and increased Diaspora remittances through the official channels. Diaspora remittances surged to \$1.3 billion in February from \$300 million in January and over 70% of participants in Open Market Operations (OMO) and Treasury bills were foreign investors.

#### How will the Rate Hike Impact You?

The CBN's hawkish monetary policy stance has significant implications for different players in the economy.

<b>Economic Agents</b>	Positive impact	Negative impact
Economy	<ul> <li>The hike in interest rates is expected to reduce forex demand (due to reduced Naira liquidity) and increase dollar inflows</li> <li>Leading to an appreciation in the value of the currency and a reduction in imported inflation</li> </ul>	<ul> <li>Higher cost of borrowing</li> <li>Possible crowding-out effect of the private sector</li> </ul>

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<b>Economic Agents</b>	Positive impact	Negative impact
	<ul> <li>Higher interest rates will also increase the marginal propensity to save, reducing liquidity and leading to a moderation in inflation in the near term</li> </ul>	
Government	<ul> <li>Service cost of external debts to reduce</li> <li>Cost of importing equipment for infrastructural development to reduce</li> </ul>	<ul> <li>Effective interest rates         <ul> <li>(t/bills, etc.) are expected to move in tandem with the MPR</li> </ul> </li> <li>Pushing up the cost of domestic debt for the government</li> </ul>
Businesses/ Corporates	<ul> <li>Cost of imports and dollar obligations to reduce as the exchange rate appreciates</li> <li>Possible increase in corporate and business margins</li> </ul>	<ul> <li>Lending rates to increase, pushing up borrowing costs</li> <li>Possible crowd out of private investment</li> </ul>
Investors	<ul> <li>Higher interest rates to push up the yield on fixed-income securities</li> </ul>	<ul> <li>Stock market performance likely to be bearish as interest rates remain elevated</li> </ul>
Consumers	<ul> <li>Commodity prices likely to fall as imported inflation reduces</li> </ul>	<ul> <li>Increased lending rate to reduce retail borrowing</li> <li>Could reduce consumption expenditure</li> </ul>

#### What is the Policy Outlook?

The MPC will convene again on May 20/21, and its decision will largely depend on economic indicators and prevailing market conditions. The NBS will release the Inflation figures for March and April before the meeting. We expect inflation to maintain its upward trend but increase at a slower pace as the exchange rate appreciates in the near term.

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