Berkshire Finance Company Limited

Research & Insights

BERKSHIRE
LENDING • ADVISORY • INVESTMENTS

July 24, 2024

Berkshire Market Briefs

MPC Raises MPR by 50 bps to 26.75% as Inflationary Pressures Persist

The Monetary Policy Committee ("**MPC**" or "**the Committee**"), during its two-day meeting that concluded on July 23, raised the monetary policy rate (MPR) by 50 basis points to 26.75%. This marks the 4th rate hike in 2024, bringing the total increase to 800 basis points. Additionally, the Committee adjusted the asymmetric corridor around the MPR to +500/-100 from +100/-300.

Author:

Praise Oshiame
+234 813 603 0000
www.berkshirefinancecompany.com

This means the standing lending facility (the rate at which the CBN lends to banks) will rise to 31.75% from 27.25%, while the standing deposit facility (rate at which commercial banks deposit money with the central bank) will increase to 25.75% from 23.25%. Other parameters remained unchanged, with the CRR for commercial banks at 45%, the CRR for merchant banks at 14%, and the liquidity ratio at 30%.

The continued rate hikes demonstrate the CBN's commitment to its primary mandate of price stability. In June, headline inflation continued its upward trend for the 18th consecutive month, reaching 34.19%, MPC attributed this persistent inflation to both food and core price pressures.

Follow us on:

Specifically, rising food inflation was linked to increased food insecurity in food-producing states, higher logistics costs, and the activities of middlemen who sell farm produce across borders. Nonetheless, the Committee remains optimistic that inflation will start to decline in the near term due to tight monetary policy, the harvest season, and recent fiscal measures, including the 150-day suspension of tariffs on certain staples such as wheat, husked brown rice, maize, and cowpeas.

What does this mean for Nigerian consumers, businesses, investors, and the government?

Both the increase in the MPR and the adjustment in the asymmetric corridor have significant implications for all economic agents and segments of the Nigerian economy. Ideally, the MPR is expected to anchor all other interest rates, meaning both deposit and lending rates are expected to rise. The interest rate on savings, which is 30% of the MPR would increase to 8.03% from 7.88%, encouraging a stronger savings culture.

Meanwhile, borrowing costs for the private and public sectors will rise. For the private sector, higher interest rates would discourage borrowing, which would weigh on business expansion plans, or increase operating expenses and lower margins due to the high cost of funds. This high cost of funds could also be passed on to consumers in the form of higher prices. Additionally, constrained output growth, especially with the recent minimum wage increase, could exacerbate inflationary pressures.

For the public sector, interest rates on government securities will rise with the hike in interest rates, increasing debt service costs. In the first quarter of 2024, debt service costs accounted for about 74% of government-retained revenue, further straining the already dwindling revenue and reducing the capacity to invest in capital projects that could enhance productivity and spur long-term growth.

For investors, while returns on money market instruments are expected to increase, the stock market is likely to remain bearish as investors shift their portfolios toward fixed-income instruments to take advantage of higher yields.

The adjustment in the asymmetric corridor will further squeeze liquidity within the banking system. The increase in the standing lending facility will discourage banks from borrowing from the CBN, while the rise in the standing deposit facility will encourage banks to place funds with the CBN instead of lending to the real sector due to high default risks in a challenging macroeconomic environment. This tight liquidity within the banking system will push up short-term interbank interest rates in the near term.