

# MPC Raises MPR to 13%p.a.



**First Time in 70 months**

# Nigeria - Have the Wheels Come Off?



**Not Yet - Wobbling**

# Playing Ostrich Ends



**Better Late Than Never!**

# All Members Voted In Favour of a Rate Hike



6 members



4 members



1 member



150bps



100bps



50bps

# Price Stability is Priority



## Spiralling inflation

- *Rein in inflation before it gets to galloping*
  - *Restore investor confidence*
  - *Moderate the speed of capital flights*
- MPC decision critical to macroeconomic stability

## Other considerations



## Currency weakness



## Fragile GDP growth

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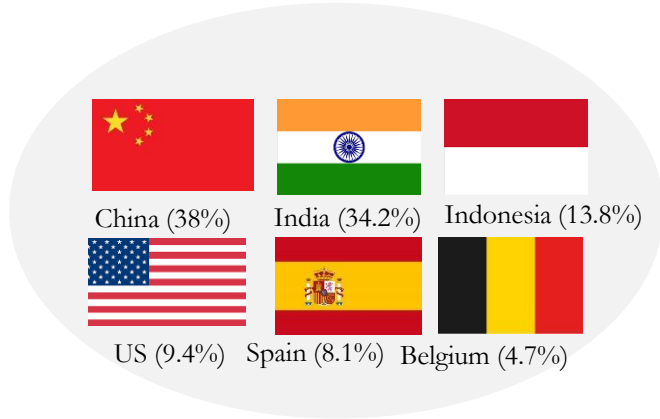
# Nigeria – Not A Robinson Crusoe Economy

|              | GDP growth (%) |   | Interest rate (%)p.a |   |
|--------------|----------------|---|----------------------|---|
| US           | -1.4           | ↓ | 1.0                  | ↑ |
| UK           | 0.8            | ↓ | 1.0                  | ↑ |
| India        | 5.4            | ↓ | 4.4                  | ↑ |
| Brazil       | 1.6 (Q4'21)    | ↓ | 12.75                | ↑ |
| South Africa | 1.7 (Q4'21)    | ↓ | 4.75                 | ↑ |
| Nigeria      | 3.11           | ↓ | 13.0                 | ↑ |

- Central banks on a monetary tightening spree despite slowing GDP growth
- 32 out of 41 countries have raised interest rates so far in May
- Only 9 countries maintained status quo

# Impact of Russian-Ukraine War Not Nigeria Specific

- Nigeria's trading partners recording high inflation rates
- Due to lingering supply chain disruptions and cost pressures



Vs



**Average increase in inflation  
= 0.1%**

**Average increase in interest rate  
= 15bps**

**Average increase in inflation  
= 0.9%**

**Increase in interest rate  
= 150bps**



# Nigeria: Official Inflation Vs Market Reality



**Official inflation**

=

**16.82%**



**Synthetic basket**

=

**66.71%**

# Commodity Prices Rising



Flour



61.33%

**N24,200**



Diesel



165.31%

**N650/litre**



Aviation fuel



268.42%

**N700/litre**



Domestic flights



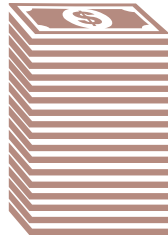
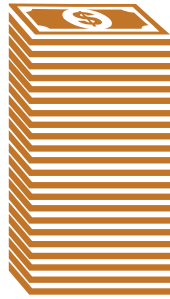
100%

**N50,000**

# Why the Sharp Rise?

*Parallel market rate crosses N600/\$  
psychological resistance level  
Naira depreciation to reduce MPI*

*Planting season  
effect*



**Global supply shocks**

**Diesel and aviation fuel**

**Exchange rate pass-through**

**Liquidity induced**

**Seasonality**

**Demand pull**

*Diesel price is 209.5% higher at N650/litre  
Aviation fuel up 268.42% to N700/litre*

*MPI = 0.18*

*Every % increase in GDP leads to 18% increase in imports*

*Ways & means advances is approx. 40% (N18trn) of money supply  
Increased political spending  
High powered money  
Election spending*

*Squeezed purchasing power*





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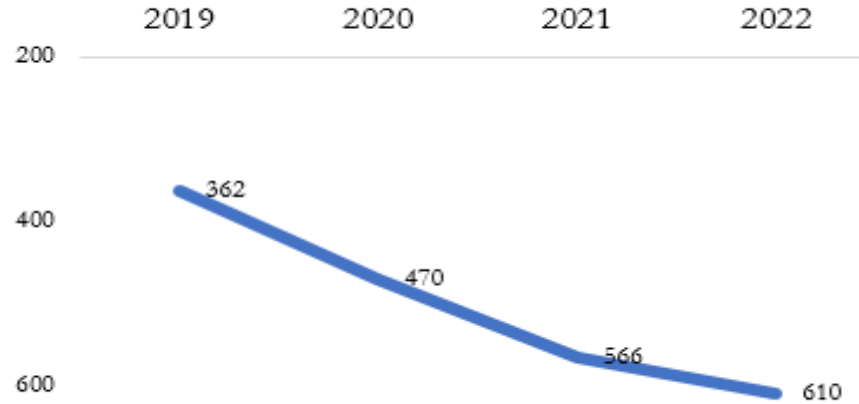
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# **Inflation is Not the Only Concern!!!**



# Naira Down 25.31% in 2022

Exchange rate (N/\$)



- Naira plunged 25.31% in 12 months (N609/\$)
- In the midst of the delegate procurement program
- After the primaries, delegates will sell their booty

# Exchange Rate Adjustment May Be Inevitable



Higher oil prices but  
lower revenue



Fall in Diaspora  
remittances



Decline in foreign  
portfolio inflow

- Multiple exchange rate structure is an economic destroyer
- Weak Naira is a fallout of inflation and low interest rate
- The time to make policy adjustments is now...

# Return of Orthodox Monetary Policy



**What it Means**





**Overdose Not A Therapy For  
Underdose**

**\*770#** 

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# Return of Orthodox Monetary Policy

## Indicators



## Implications

- General level of interest rates to increase – up by a minimum of 2-3%p.a
- Increase in government debt service burden – 95% of revenue
- Private sector borrowing costs will also rise
- Default rate on debts to increase
- Higher impairment charges

# Return of Orthodox Monetary Policy

## Indicators



## Implications

- Investors to rotate portfolio in favour of fixed income securities
- Stock prices to decline
- Reduction in capital flights
- Possible increase in forex inflows
- Naira will strengthen
- Interest rate hike will further slowdown the pace of economic recovery

# Impact on You

## WORKER



Domestic Food Prices



*Higher*



Unemployment



*Remain High*



House rent



*Increase*

## MIDDLE CLASS



Flight Ticket



*Higher*



School Fees



*High*



House rent



*Increase*

## ELITE/ AFFLUENT



Flight Ticket



*Higher*



Intl School Fees



*Higher*



House rent



*Increase*

# Raising Rate in the Middle of a Political Campaign



# Next Steps



*Aggressive mop up of liquidity*



## What-If Analysis



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# Scenario Analysis – Russia & Ukraine War Ends

## Implications

- Energy and other commodity prices will decline
- Oil price could fall below \$100pb
- Ease in supply chain disruptions and a possible decline in inflation pressures



## What Does it Mean for Nigeria?



Oil revenues



Subsidy payments



Imported inflation



# Scenario Analysis – Russia & Ukraine War Further Escalates

## Implications

- Energy and other commodity prices will remain elevated
- Oil price could to remain above \$100pb
- Persistent supply chain disruptions and mounting inflationary pressures



## What Does it Mean for Nigeria?



Oil revenues

??



Subsidy payments



Imported inflation



# Key Events to Watch in the Next 8 Weeks



- Q1 capital importation – May 31
- Q1 banking sector credit – May 31
- Q1 foreign trade statistics – June 1
- May CPI report – June 15
- June CPI data- Jul 15

# Before the Next MPC Meeting...

- Party primaries would have been concluded
- 2023 presidential candidates will be known
- Official inflation to spike above 18% before declining
- Consumers will be embattled
- Naira will appreciate after delegate procurement program

*Thank you!*