MPR INCREASED AGAIN BY 25 BPS TO 27.50%

...A Hawkish Farewell in the Year's Final Meeting.

November 28, 2024 *Economic Report*

In its last meeting for the year, the Monetary Policy Committee (MPC) maintained its aggressive monetary stance, by raising the Monetary Policy Rate (MPR) by 25 basis points to 27.50%, and leaving all other parameters unchanged. This increase- the least aggressive hike for the year - brings the cumulative rate hike for 2024 to 875 basis points.

In Summary:

---> Monetary Policy Rate: 27.50% from 27.25%.

---> Asymmetric Corridor: +500/-100 basis points around the MPR.

---> CRR of Deposit Money Banks: 50.00%.

---> CRR of Merchant Banks: 16.00%.

---> Liquidity Ratio: 30.00%.

Committee Considerations

The Committee voiced concerns about the renewed inflationary pressures, as the headline, food and core measures rose both on a year-on-year basis and on a month-on-month basis in October 2024.

Highlighting the elevated food prices, and the impact of the recent increase in PMS on costs of production and distribution of food items and manufactured goods, the Committee members reiterated the need to strongly forge ahead with deepening collaboration between the monetary and fiscal authorities to ensure the achievement of the synchronised objectives of price stability and sustainable growth.

Another point of consideration for the Committee was the persistent exchange rate pressure. The committee noted that while improvements in the external sector - reflected by the increase in the current account surplus, enhanced remittance and capital inflows- have positively impacted the external reserves, the continued high demand in the foreign exchange market has sustained the pressure. Hence, the committee urged the Bank to explore measures to boost market liquidity.

Outlook

We remain cautious about the short-term effectiveness of the rate hikes, as structural factors driving high input costs, along with insecurity and climate-related risks affecting food supplies, are likely to weaken their intended impact. Additionally, demand-side pressures are expected to increase as the festive season approaches, potentially exacerbating inflation. The Committee also noted the delayed impact of rate hikes but anticipates that their effects will start to be felt in Q1 2025.

However, the impact of the hike remains evident on the real sector of the economy, with businesses continuously grappling with high cost of capital.

So far in Q4 2024, the capital market has exhibited a divergent trend, with equities market performance trending negatively, while yields on fixed-income instruments have steadily increased as monetary authorities persist in their effort to narrow the negative real returns. With the recent rate hike, we expect the market's current rhythm to persist.

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