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CORPORATE DIGEST

How the MPR hike might affect Nigerian businesses

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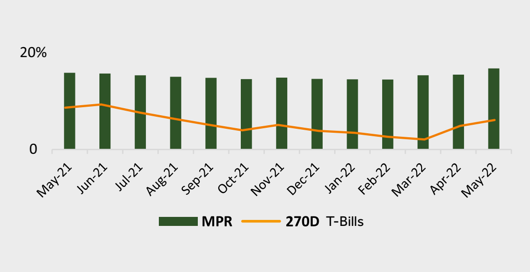
Macroeconomic Update

- Data from the National Bureau of Statistics (NBS) revealed that Nigeria's GDP advanced at a slower pace by 3.11% year-on-year in Q1 2022 from 3.98% in Q4 2021, reflecting the sixth consecutive quarter of economic expansion amidst the Russia-Ukraine war. The expansion continued to be driven by the non-oil sector.

- Nigeria recorded a trade surplus of ₦1.2 trillion as the value of exports in Q1 2022 outweighed the value of imports. Data from NBS revealed that relative to the preceding quarter, exports grew by 23.05% to reach ₦7.1 trillion while imports declined by 0.67% to settle at ₦5.9 trillion in Q1 2022. Altogether, total trade volume grew by 11.01% to stand at ₦13.0 trillion relative to ₦11.71 trillion posted in the preceding quarter.

- Capital imported into Nigeria declined by 28.09% to $1.57 billion in Q1 2022, compared to $2.19 billion recorded in Q4 2021, according to NBS data. Foreign Portfolio Investment (FPI) accounted for 60.87% of total capital imported followed by Other Investments (29.28%) and Foreign Direct Investment (FDI) (9.85%). The United Kingdom and Lagos were the top source of and destination for capital import, respectively.

Lending & Investment Rates(%)

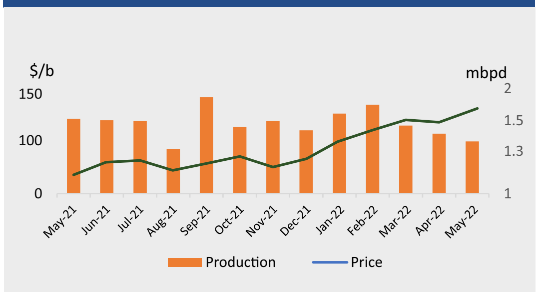


- The MPC of the CBN in its 3 rd meeting of 2022, held in May, raised the monetary policy rate by 150 basis points (bps) to sit at 13% after 19 months of maintaining a hold stance.

- The hawkish decision is targeted at curbing soaring inflation rate amidst the impact of the Russia-Ukraine war.

- The 270-Day Treasury Bills (T-Bills) rose further in May 2022 to 5.49% from 4.99% posted in the previous.

Bonny Light Crude Oil



- Oil prices continued to soar as the economic sanctions levelled against Russia, for invading Ukraine, bites global oil supply hard.

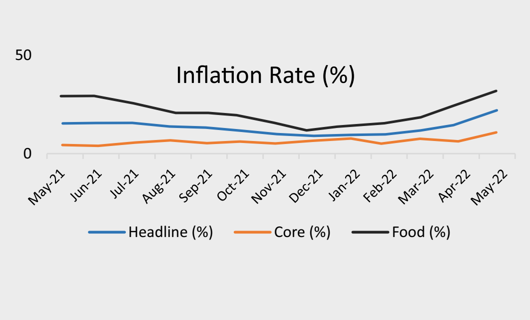
- Oil price closed the month of May 2022 at $133.73/b relative to $110.11/b posted in the previous month.

- Nigeria pumped 1.26 million barrel per day (mbpd) in May 2022, lower than 1.32mbpd pumped in the previous month.

Sources: CBN, NBS, FMDQ

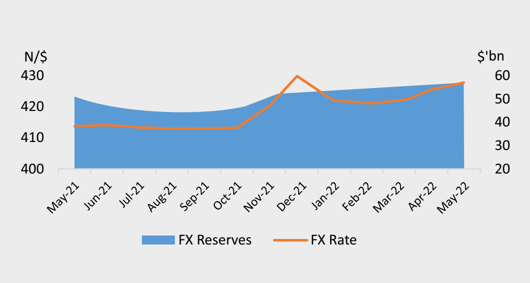
Macroeconomic Update

Inflation Rate (%)



- The ongoing Russia-Ukraine war has driven global inflation high as many economies grappled with rising commodity prices especially food and energy prices.
- Headline inflation rate rose to 17.71% in May 2022 from 16.82% posted in the preceding month.
- Food and core inflation rate exhibited similar trend rising to 19.5% and 14.9% in May from 18.37% and 14.18% posted in the preceding month.

FX Reserves, FX Rate



- External reserves declined by 2.78% to settle at $38.48 billion at the end of May 2022 from $39.58 billion posted in the previous month.
- Despite the rising oil prices, accretion to the reserves remained low as subsidy payment dwarfed its benefits.
- NAFEX depreciated by N2.83 to close the month of May 2022 at N419.38/$ from N416.55/$ posted in previous month.

Sources: CBN, NBS, FMDQ

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An Overview

Many countries across the globe are currently grappling with rising cost of commodities especially cost of food and energy fuelled by the ongoing Russia-Ukraine crisis, given the contribution of both countries to global supply of oil, gas, copper, wheat, corn, sunflower oil and fertilizers. Economic sanctions imposed on Russia, due to the invasion of Ukraine, has worsened the supply disruption caused by the COVID-19 pandemic and spurred shortages. To protect consumers' purchasing ability, central banks across the globe are raising the key policy rate.

The Monetary Policy Committee (MPC) of the Central Bank of Nigeria (CBN), in its third meeting of 2022 held in May, made a unanimous decision to raise the Monetary Policy Rate (MPR) by 150 basis points (bps), pushing the anchor rate to 13% from 11.5% after 19 months of maintaining a hold stance. The decision to adopt a contractionary monetary stance was hinged on the rising inflation rate which threatened the fragile growth recovery from the COVID-19 pandemic.

Recall that the CBN adopted an expansionary monetary stance in response to the devastating impact of the COVID-19 pandemic on the Nigerian economy, reducing the MPR to 11.5% from 12.5% in the September 2020. One of the main goals of the CBN was to make bank funding cheaper for businesses coupled with the several existing government intervention funds at lower interest rate as they gradually recovered from the pangs of the pandemic. This was expected to boost employment, improve bottomline for businesses, curb inflation and pull the economy out from recession. This goal was achieved as real GDP growth rate for the last quarter of 2020 was printed at 0.11% from -3.65% posted in Q3 2020 and subsequent positive quarterly real GDP growth rates.

Monetary Policy Rate is a tool used by the monetary authorities to control an economy's monetary variables such as money supply, investment, etc. with the ultimate goal of improving economic growth. Increase in MPR, which connotes a contractionary stance, would mop up excess liquidity, which will curb rising inflation, while reducing the return on investment. On the other hand, a decrease in MPR, which connotes an expansionary stance will boost liquidity within the economy and increase the return on investment.

MPR Comparism in Africa

Due to the rising risk of global food supply shortages fuelled by the ongoing Russia-Ukraine crisis, many countries are experiencing soaring inflation rate. African countries are most vulnerable given low food security and dependence on imported food. Many central banks across the continent have hiked key policy rates to curb the rising inflation rate, protecting their fragile economic recovery from tail effects of the COVID-19 pandemic and ongoing war in Ukraine. The grid below highlights the MPR increase in some of Africa's key economies.

Gambia	Ghana	Kenya	Mozambique	South Africa
The Central Bank of Gambia increased its MPR to 11% in May 2022 after a 24 months hold stance at 10%. The 100bps increase is targeted at tackling inflation rate in Gambia which soared to 11.69% in April 2022 from 8.3% posted in the preceeding month.	The Bank of Ghana pushed its policy rate by 200bps to 19% in May 2022 from 17% recorded in March. This reflects the second consecutive hike in 2022 as inflation rate bites the economy hard. Inflation rate reached 27.6% in May 2022 from 23.6% posted in the preceding month	The Central Bank of Kenya raised its benchmark rate to 7.5% in May 2022 after over 80 months of holding rate at 7%. The increase in rate stemmed from the elevated risks of rising global commodity prices. Inflation jumped to 7.1% in May 2022 from 6.47% posted in April.	The Bank of Mozambique pushed its key interest rate to 15.25% in March 2022 from 13.25%, indicating a 200bps increase. The increase could also be attributed to the effects of tropical cyclones. Inflation rate rose to 9.3% in May from 7.9% posted in April.	The South African Reserve Bank moved its anchor rate by 50bps to 4.75% in May 2022. This was the 3rd consecutive hike in 2022 owing to increased inflationary risks brewing from geopolitical tensions. However, the inflation rate remained unchanged at 5.9% in April 2022

Business Insights and Implications

The latest increase in MPR comes with varying business implications, both positive and negative. On the positive side, increase in the MPR will impact businesses in the following ways.

- **Potential increase in sales:** Rising inflation rate erodes consumers' purchasing ability. The increase in MPR is targeted at tackling high inflation, thus protecting consumers' purchasing ability in the long run. This eventually will provide sufficient income for consumers to patronize businesses.

- **Potential decline in the cost-push inflation:** The actualization of declining inflation will reduce the cost of inventories which is a win for businesses.

- **Potential boost in external reserves:** The increase in MPR will attract Foreign Portfolio Investments (FPIs) which will boost the growth of external reserves. This will provide forex for businesses with legitimate business with potential to strengthen the Naira.

- **Increase in investment rate:** The increase in MPR will translate to increase in investment rates especially fixed-income investments. Yields on government securities such as treasury bills and bonds are expected to increase. Firms can take advantage of rising yields to improve overall businesses profitability.

However, the negative impact on business include:

Increase in cost of borrowing: Rates on loanable funds available for businesses will increase as banks reposition lending rates in line with the new MPR. It is worthy of note that the increase in MPR does not affect intervention funds, with single digit interest rate, available to critical sectors of the economy.

Potential hurt on customer's credit worthiness: Increase in MPR will translate to raising rate on existing credit facilities. This might increase the credit risk for the consumer and will negatively impact the customer's credit worthiness.

Potential increase in the cost-push inflation: On the flip side, leveraged businesses will incorporate the extra cost from increased interest rate to the cost of inventories. This could defeat the goal to curbing rising inflation rate.

Potential decrease in share prices: Businesses who are listed on the Nigerian Stock Exchange might witness a decline in the price of their share as fixed income securities become more attractive to hold due to the yield increase.