CSEA
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CBN raises MPR to 18.75 percent

In its 149th meeting, which was held on 24th and 25th July 2023, the Monetary Policy Committee (MPC) of the Central Bank of Nigeria (CBN) voted to increase the Monetary Policy Rate (MPR) by 25 basis points to 18.75 percent. According to the bank, this is in line with its continued efforts to moderate price changes and rising inflation in the country. But it is also the seventh successive increase in the benchmark interest rate since April 2022. And although the average price changes have moderated during this period, the moderation is arguably due to the change from sharp to moderate hikes on the MPR. The inflation rate has continued to increase (22.2% in April, 22.4% in May, and 22.8% in June 2023). According to the CBN, the moderate MPR hike could help anchor inflation expectations as it plans liquidity injections into the economy to narrow the negative real interest gap and boost investors' confidence. While these are expected to improve economic output, high interest rates can also be unhealthy for business growth as it implies a higher cost of capital acquisition, which can impede expansion and limit production. Furthermore, the recent increase in fuel prices and the Naira's devaluation in the forex market has already increased the cost of production for firms, the majority of which are small and medium-sized and do not have a significant capital expenditure for operation. These have resulted in higher commodity prices, which could worsen if the MPR is raised further. As a result, it is strongly advised that the apex bank, while boosting interest rates, also employ an alternative technique to controlling inflation, as Nigeria's inflation is caused by more than just an ample money supply. This will entail acting in the forex market to stabilise the currency rate, particularly by monitoring and limiting speculative purchases. The government must also address infrastructure bottlenecks and growing transportation costs to control the country's inflation.

FDI falls by over 43 percent in Q1 2023

In the first quarter (Q1) of 2023, Nigeria's total capital importation grew 6.78 percent to $1.133 billion from $1.061 billion in Q4 2022. However, the Foreign Direct Investments (FDI) component stood at $47.6 million, indicating a 43.48 percent decline compared to the $84.23 million recorded in Q4 2022. This also represents the fourth decline in five successive quarters, and a year-on-year decline of over 69 percent compared to $154.97 million in Q1 2022. The FDI which is the amount of assets commitments of foreigners is an essential factor to growth and development of the economy, as it contributes to employment creation and expansion in output. This decline, therefore, suggests a persistent drop in foreign investors' confidence in the economy and could be attributed to some infrastructural gaps in the economy and unstable exchange rates, but more significantly, the political uncertainties in the build-up to the country's 2023 general elections. This has implications for overall economic performance and may continue to fall or stay at a low level until the election petitions are over. Therefore, the government should provide an enabling business environment for foreign investors to come in and retain those available by addressing infrastructural deficits that increase the cost of business operations and eliminating unhealthy regulations that prevent easy repatriation. It is also essential to address insecurity challenges and to develop a consistent long-term master plan that will direct investment promotion strategies in the country. There is a need for the government to create an enabling environment for foreign investments, as this contributes a significant proportion of the revenue inflow for the country. Ultimately, there is a need to improve subnational investment agencies and assist them in enacting business-friendly policies necessary to attract international investments.

Money supply increases by 15% in June 2023 to reach N64 trillion

In June 2023, Nigeria's money supply (M2) reached a record high of N64.3 trillion, increasing significantly by 15 percent (N8.8 trillion) from N55.5 trillion recorded in May, according to the Money and Credit Statistics of the Central Bank of Nigeria (CBN). The money supply represents the total amount of money available in the economy at a specific time, which includes physical currency and various deposits held by individuals, businesses, and institutions in banks and financial institutions. The increase can be attributed to the supreme court's judgement on the Naira redesign, which permitted the simultaneous use of old and new notes until the end of the year, and a re-evaluation of some dollar-based investments following the liberalisation of the forex market earlier in June. This significant increase in the money supply comes with several implications. Firstly, it can be an essential indicator for assessing interest rates and the potential for inflation during a given period. With Nigeria already facing challenges such as rising inflation, pressure on the exchange rate, and negative real interest rates gap, the expansion of the money supply may exacerbate these issues. As the money supply expands, inflation is more likely to rise, reducing consumer purchasing power. Moreover, increased money supply has the potential to cut interest rates, thus making Nigerian assets less enticing to international investors. This is an issue because the country relies on foreign currency imports. As a result, extensive monitoring and policy considerations are required to manage inflation and stabilize the economy, drastically reducing the money in circulation through the progressive withdrawal of new currency notes. Furthermore, the combination of the adoption of open market operations and quantitative easing, which involves buying and selling of governments bond and securities, can help the CBN prevent the adverse effects of an increment in the money supply from spiraling out of control.

ECONOMIC SNAPSHOT		
Quarterly Indicators	'22Q4	'23Q1
GDP Growth Rate (%)	3.52	2.31
Oil GDP Growth Rate (%)	–13.38	–4.21
Non-oil GDP Growth Rate (%)	4.44	2.77
Unemployment Rate (%)	NA	NA
Foreign Direct Investment (US $ Million)	84.23	NA
Portfolio Investment (US $Millions)	285.26	NA
Other Investment (US $Million)	691.23	NA
External Debt (FGN & States- N'Trillion)	18.70	19.64
Domestic Debt (FGN + States & FCT N'Trillion)	27.55	30.21
Manufacturing Capacity utilization (%)	NA	NA
Monthly Indicators	May '22	May '23
Headline Inflation (%)	17.71	22.41
Food Sub-Index (%)	19.50	24.82
Core Sub-Index (%)	14.21	19.83
External Reserves (End Period) (US$ Billion)	38.48	34.09
Official Rate Approx. (N/US$)	415.15	461.26
BDC Rate Approx. (N/US$)	NA	NA
Manufacturing PMI	48.9	NA
Non-Manufacturing PMI	49.9	NA
Average Crude Oil Price (US$/Barrel)	117.17	76.91
Petrol (PMS-N/litre)	173.08	238.11
Diesel (AGO -N/Litre)	238.82	844.28
Kerosene (HHK -N/Litre)	679.54	1,206.05
Liquefied Petroleum Gas (Cooking Gas) (N/5Kg)	3,921.35	4,360.69
MPR (%)	13.0	18.50
CRR (%)	27.5	32.5
T-Bill Rate (%)	2.47	2.98
Savings Deposit Rate (%)	1.37	5.13
Prime Lending (%)	11.96	14.07
Maximum Lending (%)	27.37	28.31
Narrow Money (N'Trillion)	20.56	22.27
Broad Money (N'Trillion)	48.51	55.50
Net Domestic Credit (N'Trillion)	56.51	74.91
Credit to the Government (Net) (N'Trillion)	18.05	30.69
Credit to the Private Sector (N'Trillion)	38.46	44.21
Currency in Circulation (N'Trillion)	3.331	2.527
FAAC (N'Billion)	833.86	NA

NA: Not Available

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