



## Monetary Policy

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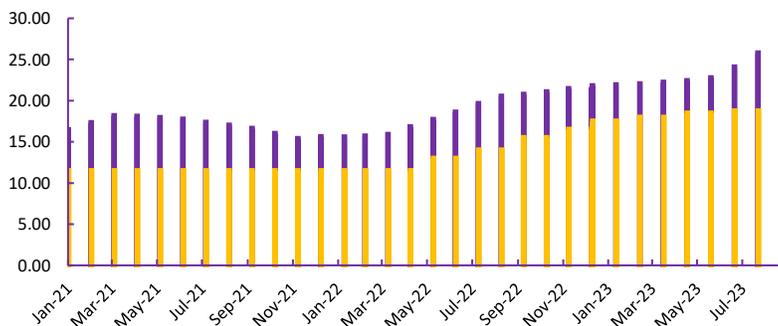
### Rate hikes and economic growth

In response to the nation's rising inflation, the Monetary Policy Committee (MPC) of the Central Bank of Nigeria (CBN) has raised the Monetary Policy Rate (MPR) by a cumulative 225bps in 2023. The MPR has been raised from 16.5% in January 2023 to 18.75% in July 2023. These hikes have been mainly aimed at curbing inflation. The CBN's tightening stance has however had a mixed impact on the Nigerian economy. While it may have moderated the accelerating hike in the Headline inflation which rose to 26.72% y/y in September 2023, it has also restricted economic growth. The resulting high borrowing cost has made it difficult for businesses to invest and expand.

The manufacturing sector grew modestly by 2.4% in 2022, reflecting the negative impact of CBN's hawkish rendition, especially in the second half of the year. In fact, the sector contracted by 1.91% in Q3 2022, the first contraction since covid hit in 2020. Though at a slower pace, the CBN has maintained its hawkish stance and the fortunes of the sector appeared to have worsened with the latest reforms of the new administration such as the fuel subsidy removal and the unification of the exchange rates at the various windows. Though the sector has shown moderate growth of 1.9% in H1 2023, we believe growth rate in the second half of the year will come in lower.

In our view, the prevailing high interest rate environment and the new reforms of the current administration will suppress growth in the non-oil sector while production in the oil sector has not improved as expected. This informed our decision to revise our 2023 real GDP forecast down to 2.8% y/y from 3.1% previously. Price pressures and the need to attract foreign portfolio investors (FPIs) have remained at the front burner for the monetary policy committee, as they have clearly prioritized these concerns over growth. Though inflation is still rising, we do not believe the monetary authorities will be willing to raise the policy rate much higher than current levels given the new administration's perceived bias for low interest rates.

Headline Inflation and Monetary Policy Rate (Last Two Years)



Source: CSL Research, NBS

### MARKET UPDATE

Indicators	1 Year	30-Dec-22	1 Day
NSE-Index	53,086.86	51,251.06	70,773.31
Naira/US \$	415.63	461.50	858.83
Brent US\$/bbl	119.51	85.91	79.53
MPR	13.00	16.50	18.75

Source: NGX Exchange, Central Bank of Nigeria, Bloomberg. \*NGX Exchange All-Share Index

### CONTACT INFORMATION

**Head of Research:** Gloria Fadipe

+234 (1) 448 5436 ext.4516

[gloria.fadipe@fcbm.com](mailto:gloria.fadipe@fcbm.com)

**Banks:** Gloria Fadipe

+234 (1) 448 5436 ext.4516

[gloria.fadipe@fcbm.com](mailto:gloria.fadipe@fcbm.com)

**FMCGs:** Sunmisola Ikoli-Oluwo

+234 (1) 448 5436 ext.4457

[sunmisola.ikoli@fcbm.com](mailto:sunmisola.ikoli@fcbm.com)

**Brewers:** Goke Adetoyinbo

+234 (1) 448 5436 ext.4457

[adegoke.adetoyinbo@fcbm.com](mailto:adegoke.adetoyinbo@fcbm.com)

**Industrials:** Mustapha Umaru

+234 (1) 448 5436 ext.4512

[mustaphamaru@fcbm.com](mailto:mustaphamaru@fcbm.com)

**Research Team:** [cslresearch@fcbm.com](mailto:cslresearch@fcbm.com)

**Retail Team:** [cslcsu@fcbm.com](mailto:cslcsu@fcbm.com)

**Sales Team:** [cslrmt@fcbm.com](mailto:cslrmt@fcbm.com)

<https://cslportal.fcbm.com>



## News headlines:

**Asia snubs Nigerian oil on Russia-Ukraine war, but Europe steps in:** The Nigerian National Petroleum Company (NNPC) Limited has revealed that the lingering conflict between Russia and Ukraine has impacted Nigerian crude oil inflows in the international oil market, leading to a dip in demand from the once-dependable Asian market at the onset of hostilities in the Eastern bloc. Maryamu Idris, the executive director, crude & condensate, NNPC Trading Limited, said in a panel presentation at the Argus European Crude Conference in London, that in addition to the substantial price shocks impacting commodity and energy prices globally, the conflict between Russia and Ukraine has triggered a situation where India, a primary destination for Nigerian grades, increased its appetite for discounted Russian barrels to the detriment of some Nigerian volumes. Source: BusinessDay

<https://businessday.ng/energy/oilandgas/article/asia-snubs-nigerian-oil-on-russia-ukraine-war-but-europe-steps-in/>

**Insurers' premium income rises 76.9% on high motor insurance cost:** Following the 200 percent jerk up in premium rates for motor insurance policies in the beginning of this year, the insurance industry is seeing significant jump in motor insurance premium income. Vanguard investigations show that motor insurance premium went up by 76.9 per cent Year-on-Year, YoY, in the first half of 2023, H1'23, to N57.3 billion from N32.4 billion recorded in H1'22. The insurers had reported a 66.2 per cent increase in motor insurance income to N32.9 billion in the first quarter of 2023, Q1'23, from N19.8 billion recorded in Q1'22. It will be recalled that the National Insurance Commission, NAICOM, in its determination to create more value for motorists, had on January 1, 2023, increased the premium rate for motor insurances in Nigeria. Source: Vanguard

<https://www.vanguardngr.com/2023/11/insurers-premium-income-rises-76-9-on-high-motor-insurance-cost/>

**Oil sector attracted zero foreign investment in Q2 – NBS:** The oil and gas sector in the country failed to attract any foreign investment for the first time in Q2 2021, amid the global push for cleaner energy, according to the National Bureau of Statistics. The NBS in its 'Nigeria Capital Importation Q2' report stated that the Federal Government failed to convince IOCs to invest in the oil and gas sector between January and June. The report showed that the country had no foreign capital importation into the sector in the period under review. The report comes on the heels of various divestment efforts by International Oil Companies into cleaner energies and to neighbouring countries as a result of commitment to the United Nations agenda that seeks to cut emissions from fossil fuels to zero by 2050. Source: Punch.com

<https://punchng.com/oil-sector-attracted-zero-foreign-investment-in-q2-nbs/>

**Petroleum producers fault speedy energy transition in Nigeria, others:** GuarantCo, part of the Private Infrastructure Development Group, has provided N20.23bn counter-guarantee with a twenty-year tenor in support of Lagos Free Zone Company's three guaranteed infrastructure bond issuances totalling N53bn. This transaction is part of a larger guarantee facility fronted by Infrastructure Credit Guarantee Company Limited Nigeria to support the bond programme. Owned and developed by Tolaram, LFZC raised the funds to finance continued development of the Lagos Free Zone (the Zone) which is being developed as the largest integrated port based economic zone in Nigeria and shall serve as the industrial and maritime hub for Nigeria and West Africa. Source: Punch

<https://punchng.com/guarantco-provides-n20bn-counter-guarantee-to-lfz/>

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	Buy	Hold	Sell	Not Rated	Total
Coverage universe	17	10	5	3	35
% distribution	49%	29%	14%	9%	
Investment banking clients	0	1	1	0	2
% distribution	0%	50%	50%	0%	

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CSL Stockbrokers Limited

Member of the Nigerian Stock Exchange

PO Box 9117

Lagos State, NIGERIA

CSL Stockbrokers

A trading name of CSL Capital (UK) Ltd

43-44 New Bond Street

London

W1s 2SA

United Kingdom