



Analysts Monthly Review

Issue 04-02

June, 2022

Likely Impacts of Nigeria's Recent MPR Hike

The Monetary Policy Committee (MPC) in its recent meeting on the 23rd and 24th of May, 2022 raised the Monetary Policy Rate (MPR) by 150 basis points (bps) to 13% from 11.5%. The decision to raise the rate was unanimously agreed upon by all the eleven members of the Committee. While six members voted for an increase by 150bps, four voted for an increase by 100bps and one voted for an increase by 50bps. This hike in MPR was expected following the trend of raising rates in major economies across the world. Most central banks are taking a tightening position on the Policy Rates to curb rising inflation caused by the rise in global prices of commodities and consumer spending.

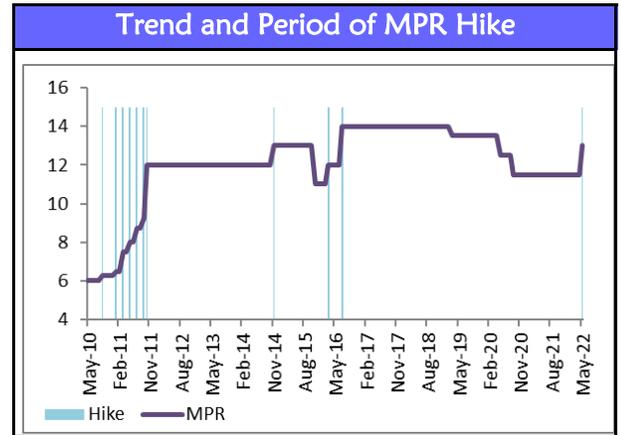
This hike in MPR comes 5 years and 10 months after the last one in July 2016 when it was raised by 200bps from 12% to 14%. Since the 2016 increase, the committee has retained the rate in 30 out of 33 times and only adjusted it downward 3 times.

The MPR is an interest rate used by the central bank as an instrument of monetary policy to influence the behaviour of the main monetary variables in the economy. This rate is very key in managing major economic indicators, especially inflation and others, such as economic growth, unemployment, savings and investment as well as capital flows and exchange rate.

Figure shows the trend of Nigeria's MPR in the last 12 years, indicating the period when upward changes were made.

For investment, policy and general planning purposes, it is crucial to examine the likely impact of the MPR hike on selected economic variables, drawing lessons from what has happened in the past. This is the purpose of this piece. We look at the behaviour of selected economic variables in the period around hike in MPR from 2010 till date.

Inflation rate: The MPR was raised eleven times from 2010 till date. Between September 2010 and September 2011, the MPR was raised six times and subsequently the hikes were less frequent. It is observed that inflation rate took a downward trend in the immediate period following successive hikes. The rate hike in 2014 and the first hike in 2016 did not tame the inflation rate as it continued on an upward spree till the second hike was done in 2016. These suggest that hike in



Source: CBN, ADSR Research

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MPR does not necessarily lower inflation rate except when multiple rate hikes are introduced in succession.

Maximum lending rate: The maximum lending rate spirals upwards after each hike in MPR. During the period of successive hikes, this upward movement occurs almost immediately after the hike is introduced, as banks quickly transfer such increase to their creditors. Therefore, increase in the MPR often leads to increase in the cost of borrowing.

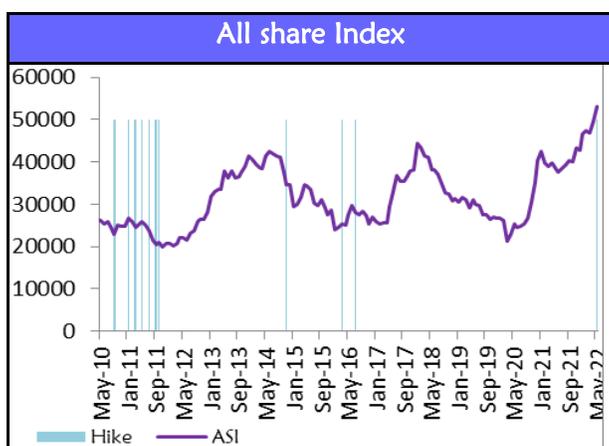
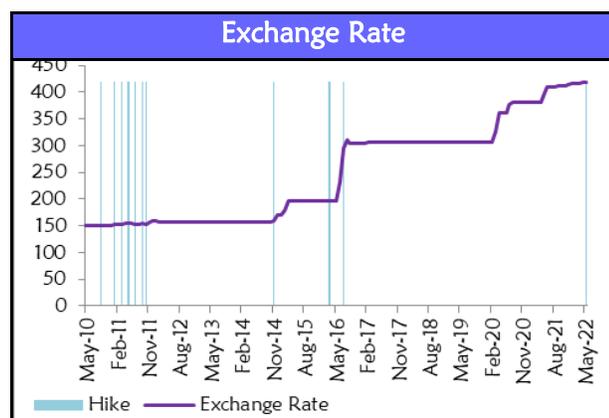
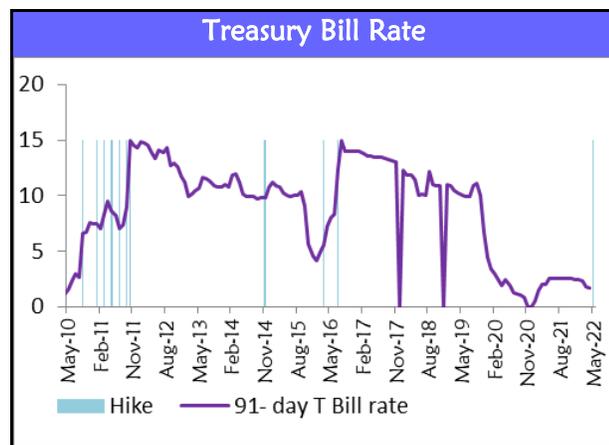
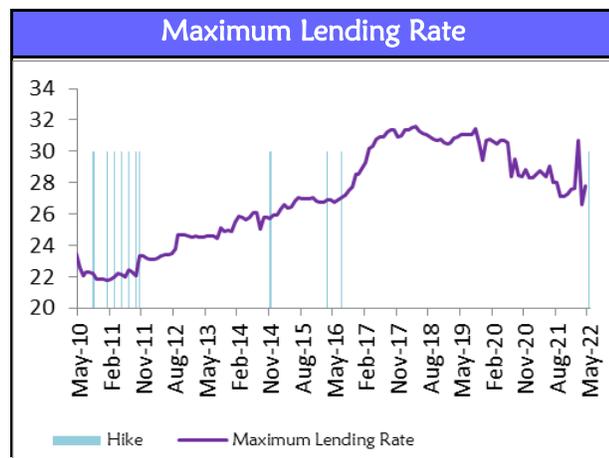
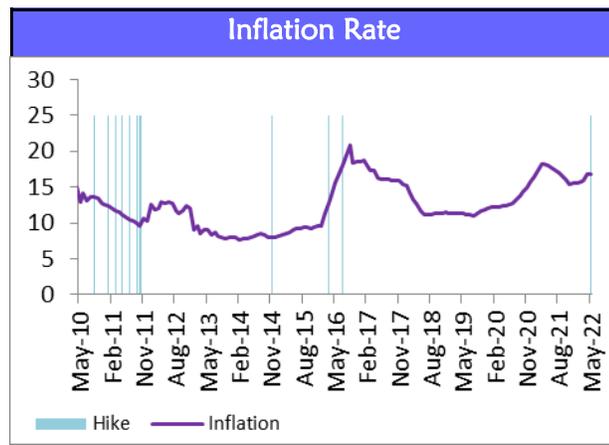
Treasury bill rate: Using the 91-day Treasury bill rate as an example, a jump is often observed following an increase in the MPR. However, such jumps are seen to reverse subsequently, but not back to the level at which they were before the MPR hike.

Exchange rate: Multiple MPR hikes in the 2010 and 2011 period coexisted with relatively stable official exchange rate. But in other periods when MPR hikes were not done in succession, it appears they served as a prelude to exchange rate adjustment (devaluation).

Stock market index: The All-Share Index is observed to fall immediately the MPR is raised; but the market would subsequently bounce back after a period of about a quarter, provided no other macroeconomic shocks or market-specific negative event occur.

The foregoing suggests that the recent MPR hike by the Monetary Policy Committee of the CBN will likely have some immediate effects on the Nigerian economy; with some policy implications. For instance, lessons from over a decade impacts of such hikes suggest that it may require more than a single-period MPR hike to tame inflation as the latter appear to be more influenced by supply and cost factors, which are relatively more responsive to monetary policy.

Factors that may discourage the CBN from considering another hike around this time will include whether the Apex Bank has an existing plan to adjust the currency upward and/or the extent to which increased return on fixed income investment is able to attract foreign capital inflows. All these will have impacts on the performance of the country's stock market, since it is easier for the market to recover from a single than multiple hikes.



Source: CBN, NBS & ADSR Research

What Chances Do Fresh Graduates have in the Nigerian Job Market?

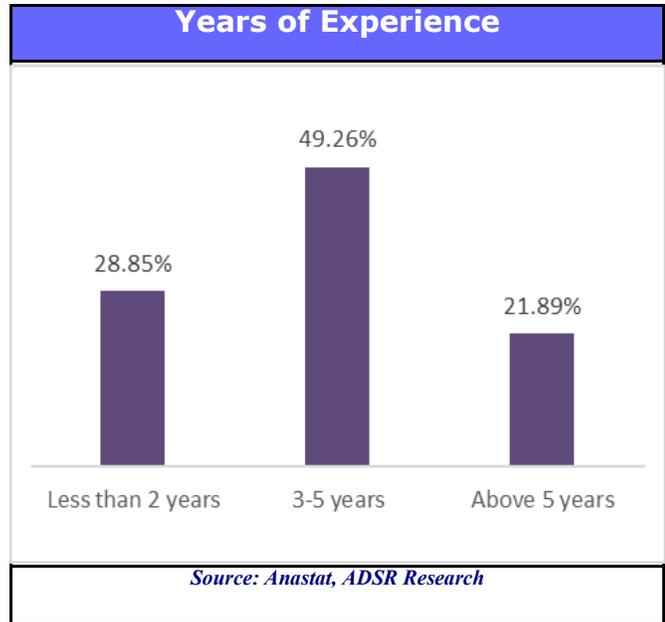
Every year, tertiary institutions in Nigeria turn out large number of graduates. While some attempt to establish small businesses and become self-employed, several others search for jobs in the corporate world. The decision to search for white collar jobs has been adding to the rate of unemployment in the country as there is limited number of jobs available and some graduates also lack the basic skills and experience to get good-paying jobs.

To explain this further, analysis of online job vacancies for the first five months of 2022 was conducted to show the required years of experience for the jobs advertised in Nigeria. Jobs tagged as entry level or graduate trainee jobs requiring at most two years of experience account for only 28.85% of the total jobs advertised while others requiring 3 years of experience and above account for the remaining share.

The fresh graduates of Nigerian universities will ordinarily belong to the little or no experience category. Going by this, chances of graduates with less than two years of experience getting a job is low as hundreds of thousands of them jostle for approximately 29% of the available advertised jobs while experienced workers can more easily change jobs,

Making matter worse, many experienced workers in Nigeria are also looking for better opportunities, thus competing with the graduate and further narrowing the chances of the latter group.

Based on this, it is advised that university students take on internship opportunities and upskill themselves in relevant areas of their career pursuit so as to gain competitive edge in the labour market. Universities should also design their programmes in a manner that affords students the opportunities to acquire industry experience and encourage students to create jobs rather than seek one.



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Assessing Companies Compliance with CAMA's Requirement on Membership of Audit Committee

The Nigerian corporate law (Companies and Allied Matters Act, CAMA) provided that every public company should have an audit committee to be elected annually. The audit committee is saddled with the responsibility of examining the reports of the auditors as well as making adequate recommendations to the annual general meeting.

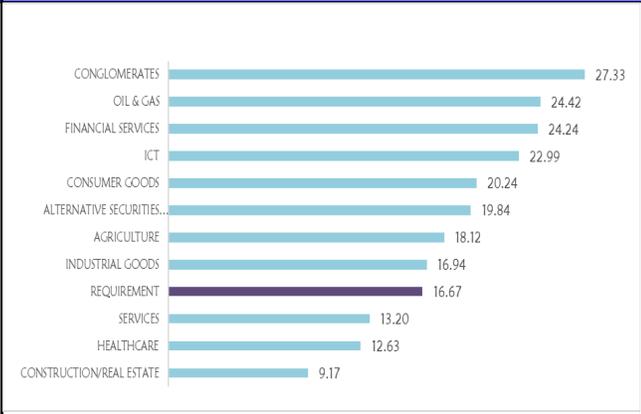
The audit committee should consist of six members (now 5 in CAMA 2020) with equal number of shareholders and non-executive directors (now three and two respectively in CAMA 2020) with all members having financial knowledge and at least one member who is a member of a professional accounting body recognized by the law of the land.

Against this background, using companies' data on Anostat, an analysis of the composition of the companies' audit committee was conducted to verify the percentage of members of the audit committee of each sector with professional accounting qualifications. The analysis shows that companies in the Conglomerate sector have higher percentage (27%) of members on their audit committee with professional accounting qualification. This is followed by oil and gas, financial services, ICT, and the consumer goods sector while construction/real estate, healthcare and the services sector have the least percentage of audit committee members with relevant professional qualifications.

On the average, companies in the services, health care and the real estate sector fall below the requirement, which translates to 16.67% (at least one out of the six audit committee members). Conversely, companies in other sectors fulfill the requirement.

It is therefore important for the companies in the affected sectors to confirm their level of compliance with this provision of the law and also ensure that adequate disclosures are made in their annual reports and other relevant publicly available documents to adequately gauge their level of compliance.

Percentage of Audit Members with Professional Qualification



Source: Anostat, ADSR Research

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NB: Non-disclosure of information relating to composition of audit committee in some companies' annual report may affect our computation.

Only One Earth: Assessing Environment-Related CSR Spending of Nigerian Firms

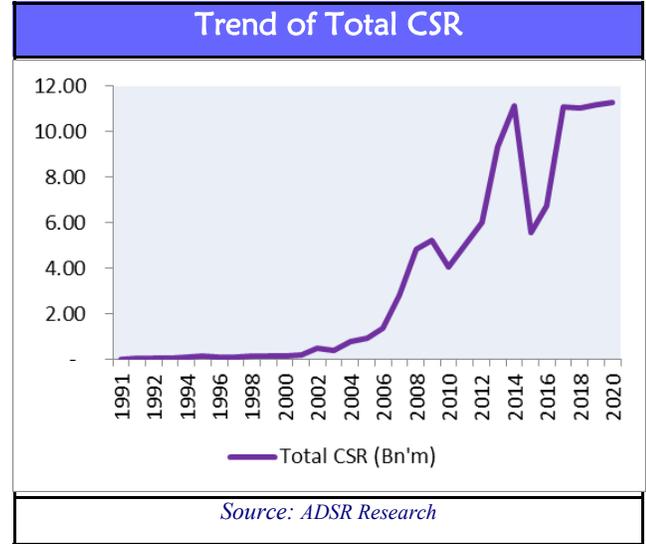
Earlier in the month, the World Environment Day, hosted in Sweden, was celebrated with the campaign tag #OnlyOneEarth. The celebration is targeted towards a global collective action and focus to protect and restore the planet from environmental degradation of all kinds. It is hosted by the United Nations Environment Programme (UNEP) and held annually every 5th of June since 1973.

It has been established that this is the only Earth we have and we must collectively protect it for our own good. On their own part, companies in Nigeria engage in many environment-related Corporate Social Responsibility (CSR) spending. These include their CSR activities in the areas of environment, conservation, waste management, physical planning and beautification.

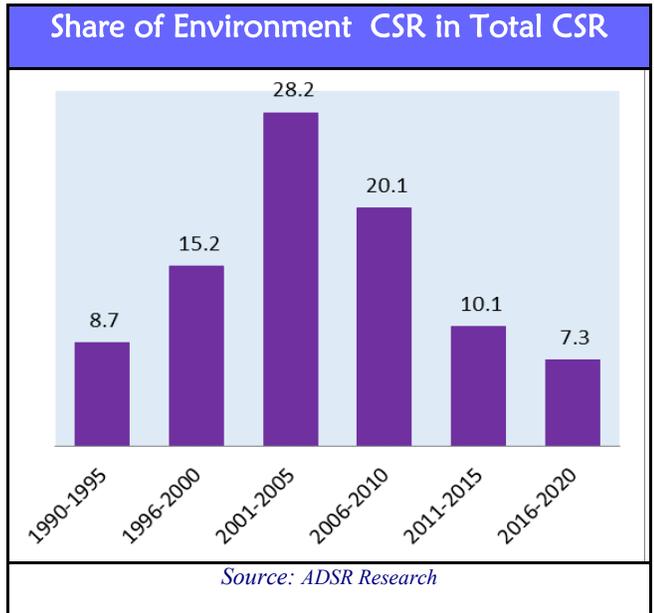
In this section, we look at the contribution of Nigerian listed companies to the environment by examining the share of their CSR spending allocated to environment-related activities. The first figure shows the trend of total amount of money Nigerian listed companies have committed to CSR activities from 1990 to 2020. It is observed that total CSR spending of these companies increased dramatically from N8.75m in 1990 to N11.3bn in 2020.

On the average, about 14.5% of this amount has been committed to environment-related CSR activities. The second figure shows that this percentage varies over the period. Specifically, 8.7% of the total CSR expenditure in the period 1990-1995 was spent on environment-related CSR activities and this proportion increased to 15.2% in the 1996-2000 period and to 28.2% in the 2001-2005 period. However, this percentage declined to 7.3% in the 2016-2020 period.

Given that total CSR spending has been on the increase, spending on CSR related activities has also been rising; however, its share in the total has been on the decline. Going forward, these companies should be more conscious of the pressing needs to reduce their impact on the environment, and also to allocate a significant portion of their resources to improve the environment.



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Nigeria's Headline Inflation to Rise to 17.52% in the Month of May

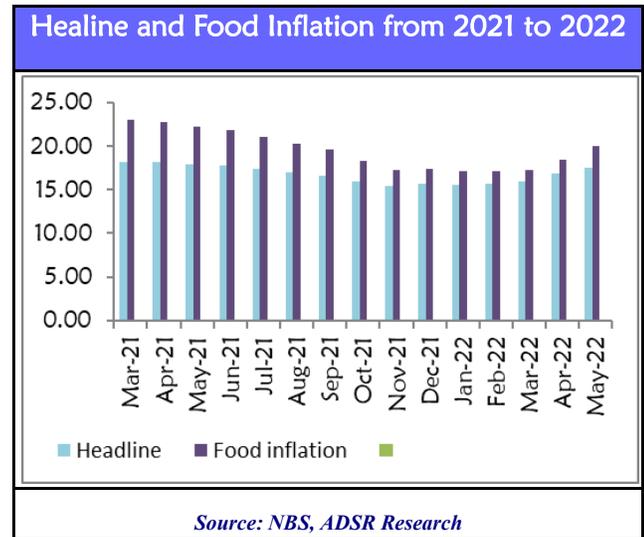
Nigeria's inflation for the month of April, 2022 increased to 16.82% from 15.92% recorded in March. The NBS will publish its CPI report for the month of May in the coming week and projections from our research show that headline inflation will rise further by 0.7% to 17.52% in the month of May, but fall slightly back to 16.75% when the June figure is released much later.

This upward trend is not unexpected given that global inflation rate levels are on the rise with food and energy prices reaching global record high. US Inflation rate reached a 40-year high at 8.3% while the UK recorded a rate of 9% which is the highest since 1982. High levels of inflation rates across the globe can be linked to the post-effect of the pandemic, exacerbated by the Ukraine-Russia conflict. Blockage of major export routes leading to supply chain disruptions and export ban on key consumables among major exporters has intensified the rapid rise in food prices, especially agricultural commodities across the globe.

At home, one can point at some developments that fostered the rise in the inflation rate. The average price of diesel now touching N800/litre with about 250% increase, aviation fuel has recorded a 262.42% increase and cooking gas has risen by about 25%. Nigeria's Naira has been weakening over the past months as the parallel market rate currently stands at over N600 /\$. Global supply shocks in addition to reduced purchasing power also fueled the rise in the inflation rate. Several food items including tubers, bread, cereals, potatoes, dairy products, meat, and oils have doubled their price in the last one year.

The level of insecurity in the country coupled with the food supply shortages and seasonality effects may not only keep the inflation rate spiraling upwards but may also plunge the economy into a major food crisis if unchecked.

Nigeria will have to deal with multiple challenges in this area; rise in price of agricultural commodities and shortage in the supply as well as the challenges in transportation of the same commodities which would further raise prices. Agricultural output can be increased when farmers confidently return to their farms without fears of being kidnapped or killed, as well as effectively implementing measures to boost the sector's productivity level.



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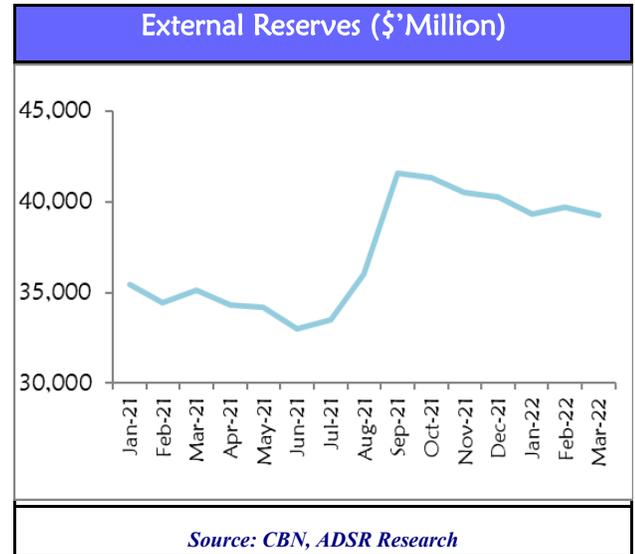
Nigeria’s External Reserves on a Downward Trend Amid Demand Pressure

Nigeria’s foreign reserves fell by about \$1bn in the month of May, 2022 to a seven-month low value of \$38.48, on the back of demand pressure and other supply constraints to the foreign exchange (FX). Banks are now seen to further tighten access to FX by their customers; which further aggravates the problem. Shortage in FX supply has been a recurrent problem in Nigeria alongside other exchange rate issues. Despite all efforts by the Apex bank to alleviate the FX problem, for instance by stopping the supply of FX to Bureau de Change operators, the shortage of FX has been on an upward trend resulting in the decline in external reserves.

The problems arising with FX can be looked at from the demand and supply sides. The demand for FX has continued to rise based on the increase in the country’s imports bill. The global crude oil price has increased which has also raised the cost of importing refined petroleum products into the country without the ability to ramp up crude oil production. Thus, more FX is spent on imports generally, especially in a high inflationary environment. Besides, the country has also been spending a huge sum of its reserves to service its external debts which are on the increase. These funds are pulled out of the FX reserve causing it to bleed further. The summer months are around the corner and so FX would be in high demand for travel, and school fees payment. All these create additional pressure on the FX reserve.

The supply of FX to the country is very low when compared to the demand as Nigeria spends more FX than it earns. The fall in the amount of crude oil produced from an average of 2 million barrels/day to about 1.4 million barrels/day in recent times, the low level of productivity and the crude nature of Nigeria’s exports, particularly being primary products, make FX inflow very inadequate.

To address the foreign exchange problems, Nigeria needs to increase its level of productivity in sectors that increase or save foreign exchange earnings and improve on the security situation as the imminent devaluation of the naira can only be a short-term measure at solving the problem.



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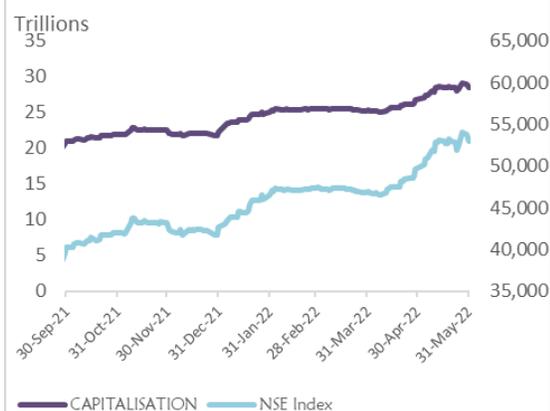
Capital Market Performance Improves by 6.75% in May

The Nigerian capital market performance improved by 6.75% over the performance recorded in April as the All-Share Index and the Market capitalization both grew from 49,639 and N26.76 trillion in May to 52,990 and N28.57 trillion respectively in April. Compared with the same month last year, the ASI and market capitalization have increased by 37.86% and 42.64% respectively.

Although the market witnessed a decline with the market capitalization falling by N518.55 billion following the increase in the MPR by the CBN, the impact of the decision was however short-lived as the market's average daily growth performance remains 0.33% throughout the month. So far after two weeks of activities in the month of June, the market has gained 0.40% on a month-to-date basis as the ASI closed on Friday 10th June, 2022 at 53,201.38. The positive performance came as result of fairly strong corporate outcomes in 2021, low-yield in the fixed income securities market, global increase in the oil price as well as increased investors' confidence in equities.

From the foregoing, it is evident that trading activities has increased and it is expected that the market's bullish trend will help improve corporate performance throughout the year. However, the market should prepare for a decline in activities which may be for a short period as the recent rise in MPR from 11.5% to 13% is likely to lead investors to diversify into fixed income securities to take advantage of the rise in rate.

Market capitalization & NGX Index



Source: NGX, ADSR Research

THIS MONTH'S ANALYTICS TIPS: Treating Missing Values in Datasets

It is not uncommon to encounter a situation where some data points will be missing in datasets. Missing values are data points that are omitted, or not stored for some reason and failure to treat them appropriately can affect the accuracy of any data analytics exercise.

Missing values are represented differently in different software packages. For instance, while SPSS represents it with a dot (.) in a cell, Python (Pandas) and Microsoft Excel represent it with NaN (Not a Number) and either empty cell or NA (Not Available) respectively.

Missing data are generally categorized into three types, which can be missing completely at random, missing at random, and not missing at random. Each of these has a procedure for treatment.

While there are several methods to handle missing values, they have been generally categorized into two namely; deleting the missing value and inputting the missing values.

The first method, deleting the missing value(s) is quick but not recommended, as it is not a good way to handle missing values in a data set since deleting involves eliminating either the row or column where the missing value(s) is(are) found.

The second method, inputting the values is the best alternative solution. However, there are many ways in which the missing values can be replaced. Among other methods, we can treat missing values by doing any of the following;

- Replacing with an arbitrary value, but needs to be justified.
- Replacing with the average, median, or mode of the column (for numeric column)
- Forward fill (replacing with value before) and backward fill (replacing with value after)
- Interpolation: filling missing points with estimates of existing values.

Wise Quotes

Reality is created by the mind, we can change our reality by changing our mind.

Plato

I am the wisest man alive, for I know one thing, and that is that I know nothing.

Plato

The one who learns and learns and doesn't practice is like the one who plows and plows and never plants.

Plato

"When it is obvious that the goals cannot be reached, don't adjust the goals; adjust the action steps."

Confucius

"Before you embark on a journey of revenge, dig two graves."

Confucius

"We need to figure out how to have the things we love, and not destroy the world."

Elon Musk

Awareness of ignorance is the beginning of wisdom.

Socrates

We are what we repeatedly do. Excellence then is a habit.

Socrates



Jokes

A boy crosses the border on a bicycle. A custom officer stops him and inspects him

Custom Officer: *What do you have?*

Boy: *Just Rice sir*

After thorough inspection, the officer finds nothing but rice and releases the boy.

The same situation happens the next day.

Custom Officer: *What do you have?*

Boy: *Just Rice sir.*

The thorough inspection again shows that the boy is carrying only rice.

The situation occurs again the next day.

Custom Officer: *Just tell me, what are you smuggling? I will not tell anybody.*

Boy: *Bicycles, Officer*

Analysts

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- Economic Research
- Financial Modelling
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- Analysts' Quarterly Review (AQR)
- Analysts' Yearly Review (AYR)
- Analysts' Rapid Response (ARR)
- Analysts' Presentations and Speeches (APS)
- Analysts' Policy Brief (APB)
- Analysts' Working Paper (AWP)
- Analysts' Journal (AJ)

Contributors:

Thelma Achidi

Idris Tijani

Research & Capacity Development

Peace D. Olubere

Database & Archival Services

Pelumi Ojelade

Data Entry & Management

Contacts:



**Analysts' House, Opp. University of Ibadan 2nd Gate,
Ibadan, Nigeria**



www.facebook.com/ADSRLtd



+234 7037470047



<https://twitter.com/ADSRLtd>



mail.adsr@gmail.com, info@adsrng.com



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