



MPC Update: September 2020

August '20 Annual Inflation: 13.22%
Q2'20 Real GDP Growth Rate: -6.10%

Monetary Policy Committee Pursues Output Growth, Cuts MPR by 100bps to 11.50%

The Monetary Policy Committee (MPC) at the end of its meeting on Tuesday, September 22, 2020, voted to reduce the Monetary Policy Rate (MPR) by 100bps to 11.50% despite the rising inflation rate which rose to 13.22% in August 2020. Also, it adjusted the asymmetric corridor from +200 bps and -500 bps to +100 bps and -700 bps around the MPR. According to the Committee, the lingering uncertainty associated with COVID-19 pandemic weakened aggregate demand. It also noted that investors are still cautious given the possibility of a second-round of lockdown. The MPC, in line with our thought which we expressed in our *Cowry Weekly Report* dated Friday, September 18, 2020, stated that the recent uptick in inflation was chiefly due to structural factors, such as inadequate state of critical infrastructure and broad-based insecurity challenges across the country, as well as the exchange rate adjustment.

In addition to the above conditions currently driving inflation northwards, the Committee expects that the recent increase in energy cost would further impact domestic price level in the short-term.

The Monetary authority, in the wake of COVID-19 pandemic had disbursed funds worth N3.5 trillion, particularly to the manufacturing, health care, agriculture and power sectors, in order to reflate the economy.

Hence, amid the need to continue to support the fiscal authority to stimulate growth, increase aggregate demand and dampen prices in the immediate future, the Monetary Policy Committee decided to:

- Reduced Monetary Policy Rate to 11.50% from 12.50%
- Adjust asymmetric band from +200 bps and – 500 bps to +100 bps and -700 bps around MPR.
- Retained Cash Reserve Ratio at 27.50%
- Retained Liquidity Ratio at 30%

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