MPC Update: July 2019

June '19 Annual Inflation: 11.22%
Q1'19 Real GDP Growth Rate: 2.01%

Update on the Monetary Policy Committee Meeting Held on July 22 and 23, 2019

MPC Considerations:

- Soften global output growth outlook for 2019 given the rising debt levels in some advanced economies and trade tension between US and its trading partners such as Canada, China as well as India. The International Monetary Fund (IMF) also downgraded its global growth forecast to 3.3% from 3.6% for 2019. Also, MPC noted that inflation in advanced economies trended downward, thus, most central banks in these economies adopted dovish monetary policies.
- The need to boost Nigeria's output growth through sustained increase in consumer credit, mortgage loans and loans to small medium enterprises (SMEs) as it expected economic growth in 2019 is to remain weak – CBN projected GDP growth of 2.27% in 2019. It also noted the moderation in nonperforming loans ratio of the banking sector, to 9.36% in June 2019 from 10.59% in May 2019, which was still above the prudential benchmark of 5%.
- CBN expected inflation rate to settle at 11.37% by the end of 2019 and to be driven by food inflation although its long-term target for inflation rate ranges between 6% and 9%.
- Also, the MPC expected the fiscal authority to expand the tax base, improve government revenue, stem the growth in public debts and build fiscal buffers in order to complement the efforts of the monetary authority.

MPC Decisions:

- Monetary Policy Rate retained at 13.50%
- Cash Reserve Ratio retained at 22.5%
- Liquidity Ratio retained at 30%
- Asymmetric band retained at +200 bps and – 500 bps around MPR

Analyst's Opinion:

The MPC's decision, which was in line with our expectation (see Cowry Weekly Report dated July 19, 2019), to hold policy rate at 13.50% was engendered by the need to boost production output as it patiently waits to see the effect of its recent policies, such as the mandated minimum loan to deposit ratio of 60% for the deposit money banks (DMBs). Amid the regulatory pressure on the DMBs to increase loans to businesses which is positive for the economy, we feel the declining nonperforming loans ratio might reverse upward.