MPC Update: September 2019

August '19 Annual Inflation: 11.02%
Q2'19 Real GDP Growth Rate: 1.94%

Update on the Monetary Policy Committee Meeting Held on September 19 and 20, 2019

Observations:

- Build up in vulnerabilities in developed economies and its spill over effect on emerging and developing economies
- Global output subdued amid US-China trade squabbles, US-Iran tensions, Middle Eastern tensions and Brexit
- Downward revision of IMF's global growth forecast to 3.2% for 2019 from 3.6% for 2019 amid weakened global aggregate demand
- Nigeria's slower Q2 2019 growth consistent with global growth slowdown

MPC Considerations:

- Slowdown in key global economies that have seen lower prices levels
- Delayed implementation of 2019 budget resulted in slower Q2 2019 output growth
- Unstable global crude oil prices resulting in slower growth in Nigeria's external reserves
- Improvement in financial soundness indicators in Nigeria even as loans to domestic industries from 15.4% in May to 16.23% in August although increased credit growth to private sector remained desirable as credit to private sector remained relatively low.

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:

We welcome the decision by the MPC to retain its policy rates even as we expect that the decision – not to adjust monetary policy rate downwards – would be complementary to the ongoing efforts to increase credit to the private sector up to at least 60% of banks' customer deposits which we feel could spur output growth without jeopardizing the slowing inflationary trend. In addition, we expect the current interest environment to remain attractive to foreign portfolio investors – in light of accommodative monetary policies in developed markets – as their dollar inflows should help strengthen the local currency.