MPC Update: November 2019

October '19 Annual Inflation: 11.61%
Q3'19 Real GDP Growth Rate: 2.28%

Update on the Monetary Policy Committee (MPC) Meeting Held on November 25 and 26, 2019

MPC Observations:

- Downward revision of IMF's global growth forecast to 3.0% for 2019 from 3.2% for 2019 amid weakened global aggregate demand
- Significant outflows of foreign investors from developing and emerging economies as they seek for more opportunities in more developed economies
- Global output subdued amid US-China trade squabbles, US-Iran tensions, Middle Eastern tensions and Brexit
- Nigeria's faster Q3 2019 growth expected to be sustained as border closure stimulates local production and employment.

MPC Considerations:

- Purchasing Managers Index (PMI) expansion was sustained on account of the cut in MPR
- Stronger growth in Q4 2019 amid improved lending to real sector of the economy
- Portfolio shift from government securities to equities market led to higher market capitalisation
- The increasing inflation rate seen as seasonal and temporary; MPC noted that the higher rate was accentuated by border closure
- Improvement in major macroeconomic ratios such as non-performing loans, growth rate and declining rates, amongst other things, suggested improvement in monetary stance

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 decision by the MPC to retain its policy rates – in line with our expectation – suggests that despite the monetary authority's alignment with the fiscal authority's goal to boost output growth, it was also cautious of the rising inflation rate as shown by its reluctance to cut rates. Going forward, we expect the current single-digit interest rates on T-Bills to reverse upward as investors demand higher rates amid negative real returns.