



# MPC Update: January 2020

December '19 Annual Inflation: 11.98%  
Q3'19 Real GDP Growth Rate: 2.28%

Update on the Monetary Policy Committee (MPC) Meeting Held on January 23 and 24, 2020

## MPC Observations:

- Slowdown in advanced economies amid weakness in manufacturing activities as well as existing trade tensions.
- Global growth supported by emerging economies such as Brazil, India and Russia.
- In the domestic economy, enhanced flow of credit to the private sector enhanced economic outlook – credit to the private sector rose by N2 trillion from May 2019 to December 2019.
- Non-Performing Loans of banks continued to decline amid lower interest rates
- Exclusion of nonbank financial institutions and HNIs from OMO activities led to lower interest rates, but improved equities market performance
- However, high unemployment, increased debt levels, rising insecurity and inflationary pressures remain a threat to economy growth.

## MPC Considerations:

- The need to address the glut in financial system liquidity by increasing the Cash Reserve Ratio (CRR) in order to tame demand-pull inflationary pressure and aid foreign exchange stability.
- The need for the fiscal authority to support monetary policy objective of foreign exchange rate stability by reducing monthly FAAC distributions and diversifying its revenue sources.

## MPC Decisions:

- Cash Reserve Ratio raised from 22.50% to 27.50%
- Monetary Policy Rate retained at 13.50%
- Liquidity Ratio retained at 30%
- Asymmetric band retained at +200 bps and – 500 bps around MPR

## Analyst's Opinion:

*We welcome the decision of the MPC to increase the CRR by 500bps as this creates an outlet to ease built up pressure of increased financial system liquidity which was created by its restrictive OMO policies. In doing so, and by not reviewing the MPC upwards, we feel the monetary authority remains in alignment with the fiscal authority's goal to boost output growth, in part, by making credit available at affordable cost to real sector players.*

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