MPC Update: March 2020

February '20 Annual Inflation: 12.20%
Q4'19 Real GDP Growth Rate: 2.55%

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

MPC Observations:

- The prevailing adverse conditions in the global economy such as the COVID-19 pandemic and the oil price shock as well as the likelihood of continued oil supply glut into the near future.
- That not only will the COVID-19 pandemic result in health crises, it will also result in massive economic crises that will force many countries into recession, including the leading industrialised countries.
- The likely impact of the exchange rate adjustment on the economy, although applauded the Management of the Bank for its prompt response with the adjustment of the exchange rate to uniform market rates and the removal of distortions

MPC Considerations:

- The impact of the decline in oil prices on accretion to external reserves and the emergence of exchange rate pressures.
- The success of the Bank's loan-to-deposit ratio policy and its potential to alleviate production shortfalls, reduce unemployment and boost aggregate demand.

MPC Decisions:

- Cash Reserve Ratio retained at 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:

The unanimous vote of all members of the MPC to leave all key rates unchanged, which was in line with our expectation, became necessary as the impact of the expansionary policies previously announced CBN to save the economy from the COVID-19 pressure is yet to be felt. Hence, we expect MPC to continue to align itself with the fiscal authority in stimulating economic growth. The current reality supports our prediction on interest rates remaining at single digit, especially treasury bills, for the first half of the year; given that reversal by CBN on its decision of restricting local corporates and individuals from participating in OMO transactions could distort its objective of stimulating economic growth.