NESG MPC Alert

July 2020

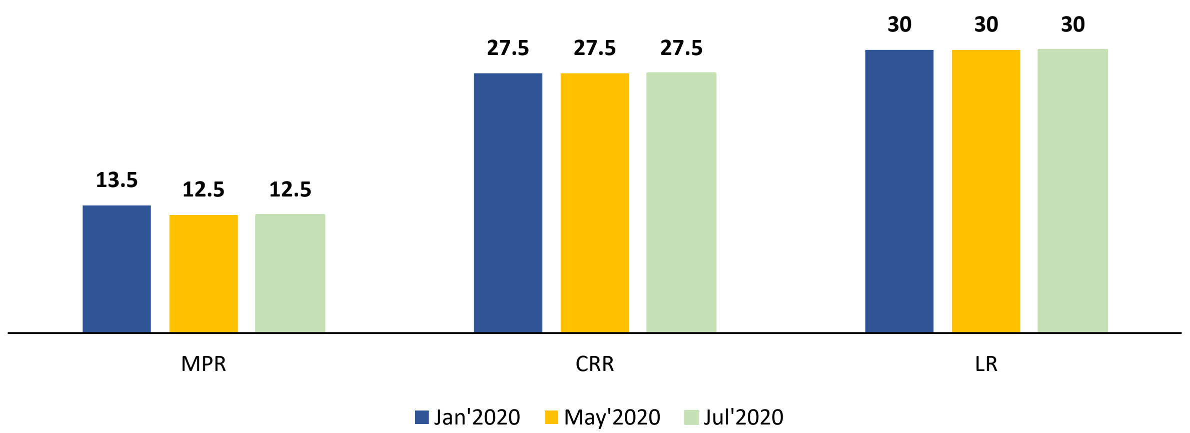
MPC maintained status quo amidst global uncertainties around COVID-19

The Central Bank of Nigeria (CBN) Monetary Policy Committee held its fourth meeting of the year 2020 on July 20. At the meeting, 8 out of 10 committee members voted for the retention of all monetary parameters as follows:

- Monetary Policy Rate at 12.5%
- Cash Reserve Ratio (CRR) at 27.5%
- Liquidity ratio at 30% and an asymmetric corridor of +200/-500 basis points around the MPR.

This is the second time in the year 2020 that the MPC has maintained status quo on all monetary policy parameters (see **Figure 1**). The MPC members met at a time when most countries are suffering from the second wave of the Coronavirus outbreak following the gradual re-opening of their economies since June 2020. Consequently, the IMF has reviewed its growth forecasts downwards for 2020, expecting the global economy to contract sharply by -4.9%. The Fund also downgraded its projections for most advanced countries and emerging markets including Nigeria.

Figure 1: Trend of monetary policy parameters (%)



Source: Data: CBN; Chart: NESG Research

The MPC's decision to hold MPR was premised on the need for the CBN to allow more time to assess the full impact of recent policy measures aimed at moderating the adverse impact of Coronavirus on the Nigerian economy. The monetary and fiscal stimulus packages include a cut in MPR in May 2020, as well, as intervention funds comprising N100 billion Intervention Fund set aside for the Healthcare Sector; N1 trillion intervention to boost productive activities in key sectors, such as, agriculture and manufacturing; and N50 billion credit facility targeted at vulnerable households and SMEs.

In addition, the MPC acknowledged the effectiveness of the CBN's mandatory Loan-to-Deposit (LDR) of 65% as reflected in a 21.5% spike in aggregate domestic credit to N18.9 trillion as at June 2020 relative to its level as at May 2019 (N15.6 trillion). While also noting a decline in average non-performing loan (NPL) ratio to 6.4% as at June 2020 from 9.4% in the corresponding period of 2019, the MPC considered the current monetary policy stance as appropriate for credit expansion without undermining the quality of banking assets. This ultimately informed the committee's decision to keep other monetary policy parameters constant at the current level.

Concluding Remarks

Against the backdrop of inflationary pressures, the room for the MPC to ease monetary policy further was highly constrained. Inflation rate rose for the tenth consecutive month to 12.6% in June 2020 from 11.2% in September 2019. The MPC reiterated the fact that reducing the MPR would not lead to movements in other money market rates. The large disparity between MPR at 12.5% and other rates including Tbill rate (1yr) at 3%, OMO rate at 6%, bond yield (5yrs) at 6% and maximum lending rate at over 20% casts doubt about the potency of the monetary policy rate as an anchor/benchmark interest rate.

The task to revive the Nigerian economy will require coordination between monetary and fiscal authorities. This prompted the call for a complementary fiscal policy to salvage an economy already ravaged by twin crises of the COVID-19 pandemic and crude oil price decline. Accordingly, the Nigerian government recently revised its budgetary estimates upwards to N10.8 trillion ($28.6 billion)[1] from N10.6 trillion. The revised 2020 budget incorporates a N500 billion emergency fund to mitigate the impact of COVID-19 crisis. Efforts to strengthen implementation, transparency and accountability must therefore be intensified to ensure that individuals and businesses get the necessary support going forward.

On exchange rate, while efforts to harmonise exchange rates across forex windows are acknowledged and welcomed, there is need for more clarity on the country's foreign exchange management policy and this will require constant engagement of both fiscal and monetary authorities. Unless there is clear-cut diversification of forex sources, Nigeria will continue to hope for an increase in crude oil prices or continue to struggle with a declining reserve and intense pressure on the Naira.

[1]The official exchange rate of N360/$ was utilized for currency conversion.

About NESG

The NESG is an independent, non-partisan, non-sectarian organization, committed to fostering open and continuous dialogue on Nigeria's economic development. The NESG strives to forge a mutual understanding between leaders of thought so as to explore, discover and support initiatives directed at improving Nigeria's economic policies, institutions, and management.

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