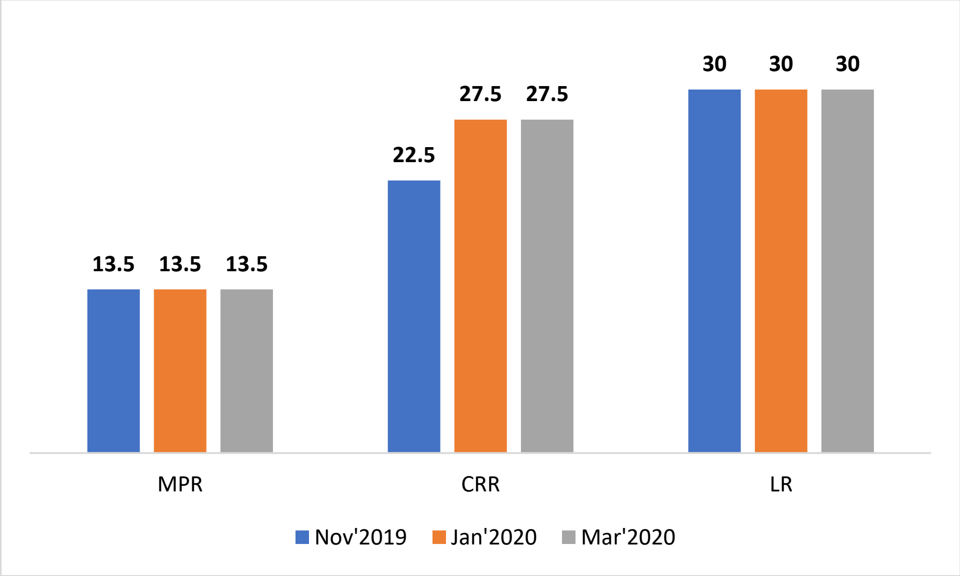
NESG MPC Alert

March 2020

Monetary Policy Committee (MPC) maintains status quo on fears of looming recession over COVID-19 pandemic

The Central Bank of Nigeria (CBN) Monetary Policy Committee held its second meeting of the year 2020 on March 23-24. At the meeting, MPC members unanimously agreed to retain the Monetary Policy Rate (MPR) at 13.5%. They also voted to keep other monetary policy parameters unchanged as follows: Cash Reserve Ratio (CRR) at 27.5%, liquidity ratio at 30% and an asymmetric corridor of +200/-500 basis points around the MPR. This marks a return to "maintaining the status quo syndrome" since the MPC meeting in November 2019 (see **Figure 1**).

Figure 1: Trend of monetary policy parameters (%)



Source: CBN, NESG Research

The rationale behind the decision was to avert a looming recession that is likely to transcend global, regional and national economies due to the socio-economic impact of coronavirus. The outbreak of the deadly coronavirus has metamorphosed from a mere health crisis into a global economic crisis with the attendant adverse impact on world economies. The transmission channels are clear:

- disruptions to global supply chain;
- inflationary pressures in emerging markets due to panic buying and lower inventories arising from multiple business closures;
- crash in crude oil prices (currently below $30per barrel); and
- weak global trade volumes and foreign investments.

In response to heightening recession fears, economies around the world have adopted multiplicity of palliative fiscal and monetary policy measures. Notably, the CBN has earmarked ₦50 billion to mitigate the adverse impact of COVID-19 on households and SMEs across the country.

Moreover, the decision to leave all monetary policy parameters constant was premised on the need to evaluate the effectiveness of the subsisting CBN's policy measures which include the Loan-to-Deposit Ratio (LDR) of 65%, the hike in CRR from 22.5% to 27.5%, the honorarium of 1-year extension in loan repayment and the reduction in the cost of borrowing intervention funds from 9% to 5%.

Faced with the continued depletion in external reserves (currently below $36 billion), the CBN adjusted the interbank exchange rate to N360/$ from N306/$ to serve as succour for existing and prospective portfolio investors who could otherwise adopt a "flight to safety approach" in their investment positions. The MPC, however, recognized the likely adverse impact of the devaluation policy on the Nigerian economy.

Concluding Remarks

The shutdown of operations in the private and public sectors across the country coupled with lower crude oil receipts would worsen the fiscal account position of the government. In response to oil price crash, the federal government has slashed the 2020 approved budget estimates from ₦10.6 trillion to ₦9.1 trillion and has revised the oil price benchmark downwards to $30pb from $57pb. Conversely, the MPC has adopted a wait-and-see approach to observe the impact of the previously announced stimulus package on the economy. Nonetheless, the level of pervasiveness of COVID-19 pandemic would also be instrumental to the direction of monetary policy stance in the rest of 2020.

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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