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NIGERIA MONETARY POLICY COMMITTEE

Economic Research
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Growth-price dynamics signpost a hold position

At the final meeting of the year, all ten members present at the Monetary Policy Committee voted unanimously to maintain all monetary policy parameters. As a result, the Monetary Policy Rate (MPR) was maintained at 11.5%, the Cash Reserve Ratio (CRR) at 27.5%, and the Liquidity Ratio at 30.0%.

Current Monetary Policy Variables

Instrument	Current Rate	Since	Previous Rate
Monetary Policy Rate	11.50%	22-Sep-20	12.50%
Cash Reserve Ratio	27.50%	24-Jan-20	22.50%
Liquidity Ratio	30.00%	08-Sep-08	40.00%
Asymmetric Corridor	1% - 7%	22-Sep-20	2% - 5%

Source: CBN, Vetiva Research

CBN maintains status quo amid impending external risks

Concerning the global economy, the committee acknowledged the steady recovery of economies as the influence of COVID fades, but also underlined the uneven vaccination progress and the emergence of more contagious strains of the virus as imminent threats to recovery. Meanwhile, inflation continues to climb, as a result of supply chain disruptions and legacy structural problems, giving room to premature rate hikes which dampens the recovery process in several emerging economies.

Furthermore, given the inception of the U.S. Federal Reserve's bond-buying tapering program, other developed economies are likely to follow suit, culminating in sharp reversal in external flows in emerging economies. However, the CBN Governor noted that such pressures would be higher on economies with buoyant foreign exchange inflows in recent times. Given the current aversion towards Naira assets as a result of capital controls, wide official-parallel market premiums, and a weaker yield environment; this assertion presumes external pressure on the economy may not be as severe as other economies, thus dousing expectation of rate hikes in the near term. However, the committee flagged the need to insulate the economy from the property debt challenges in China, a leading trade partner.

Barring any significant passthrough of external shocks in the current year, the Committee expressed enthusiasm about the post-lockdown growth trajectory following the 4.03% y/y rebound in Q3'21. The CBN raised its growth expectation for the Nigerian economy to 3.1% (Vetiva: 3.15%), expressing confidence over a bumper harvest in Q4’21, alongside monetary and fiscal interventions in the real sector. Domestic credit continues to grow amid adequate macroprudential ratios. Sustained intervention in the agricultural sector continues to drive moderation in inflation, giving the Bank leeway to remain accommodative. While keeping a lid on rates, the Bank stepped up interventions in the economy.

Near term outlook remains neutral

Among our coverage countries, Nigeria is the sole country to leave its policy rates unchanged throughout the year. While Kenya's rate decision is pending, Ghana has neutralized its earlier rate cut with a recent 100bps rate hike on account of external pressures, stemming from surging inflation and huge debt profile. Meanwhile, Angola and South Africa, have raised interest rates to curb inflationary pressures.

As long as inflation continues to trend downwards and growth strengthens, the policy dilemma facing the MPC would prevent the apex bank from altering policy rate. While tightening could address inflationary concerns, higher financing costs could constrain output growth. On the other hand, while loosening could ease liquidity concerns, it could also expand the negative real rate of return.

In the near term, we expect sustained growth in the economy and further moderation in inflation, as base effects continue to drive expansion in output growth and deceleration in food inflation. We do not see scope for any change in policy stance until at least H2'22 when policy dynamics may change such as the possible floatation of the naira and removal of fuel subsidies.

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