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PRE-MPC Analysis: Why the MPC might hold rates

Review of the previous MPC meeting

As the 279th Monetary Policy Committee meeting scheduled to hold next week May, 24th and 25th, at the CBN headquarters, Abuja, where the eleven members of the committee expected to review and decide on the monetary policies indicators that will provide economic direction for the next 2-months

Remember that at the previous meeting on March 22nd and 23rd, the MPC decided by a vote of 3 members to increase MPR by 50, 75 and 50 basis points respectively, and 6-members voted to hold all Monetary Policy parameters constant: MPR at 11.5%, Asymmetric Corridor at +100/-700 basis points around the MPR, CRR at 27.5% and the liquidity ratio at 30%.

In which case, it is epoch-making that we discussed development in the economy over the last two-month base on the MPC decision, to predict what the decisions at the next MPC meeting will be, as the economy continues to recover after the exit from the coronavirus-induced recession.

Covid-19 Vaccination

On the 2nd of March 2021, Nigeria received 3.94 million doses of the COVID-19 vaccine, shipped via the COVAX Facility. As of the time of the last MPC meeting in March 15, 8000 doses of the vaccine have been administered, these represent 0.20% of the total doses and 0.01% of the estimated population. However, between March 15, and May 20, 1.89 million doses of the vaccines have been administered across the country, while about 2.05 million doses await usage.

Consequently, according to the Nigeria Centre for Disease Control (NCDC), Nigeria average daily infection rate of the Covid-19 has reduced from 684 between the first MPC in 2021 and the second meeting in March to 69 between March and May 20, 2021. This significant improvement has seen Nigeria be the 80th country with the most cases hit of covid-19.

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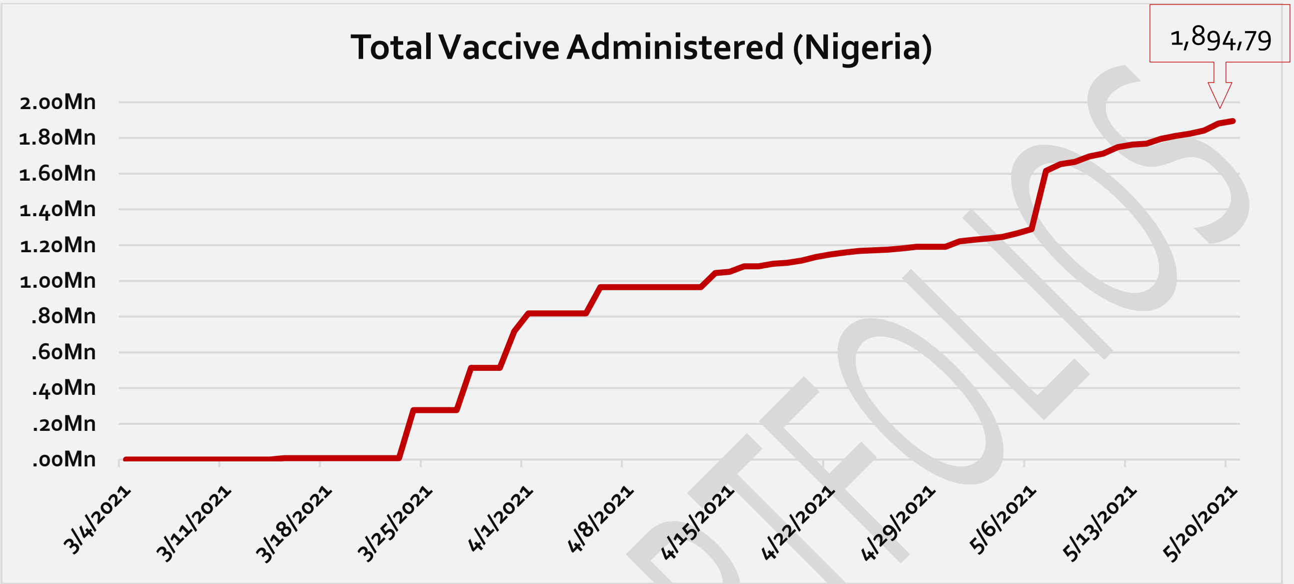

Economic condition of the citizens

Inflation and unemployment rates are major indicators for measuring price stability and economic production and growths. Following the last unemployment data released by the NBS in March 2021, the Unemployment rate increased to 33.3% in Q4 2020 from 27.1% in Q2 2020, the second-highest in the world.

Also, Nigeria's headline inflation halts the 19-months of consecutive increase to stood at 18.12% in April as against 18.17% in March as the Food Inflation was the major influencer of the decline in the Headline inflation. However, the Inflation rate is still very much above the MPC target of the single-digit inflation rate.

These aggregately put the Nigeria Misery Index (the measure of how the average citizen is doing economically) to 51.42% according to Arthur Okun's misery index formula (Unemployment rate plus the Inflation rate).

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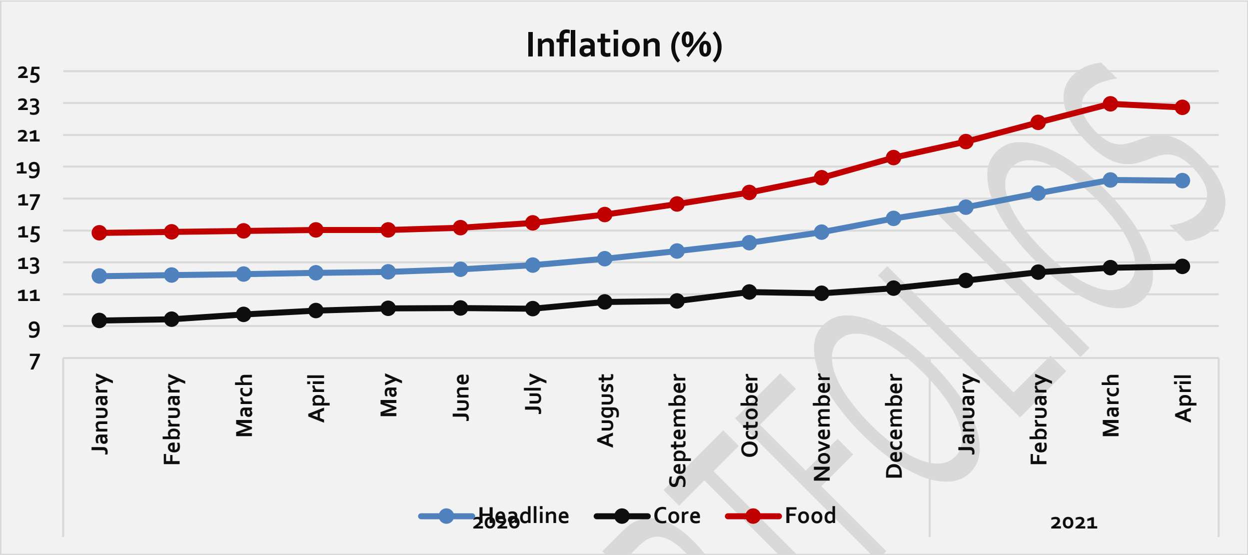
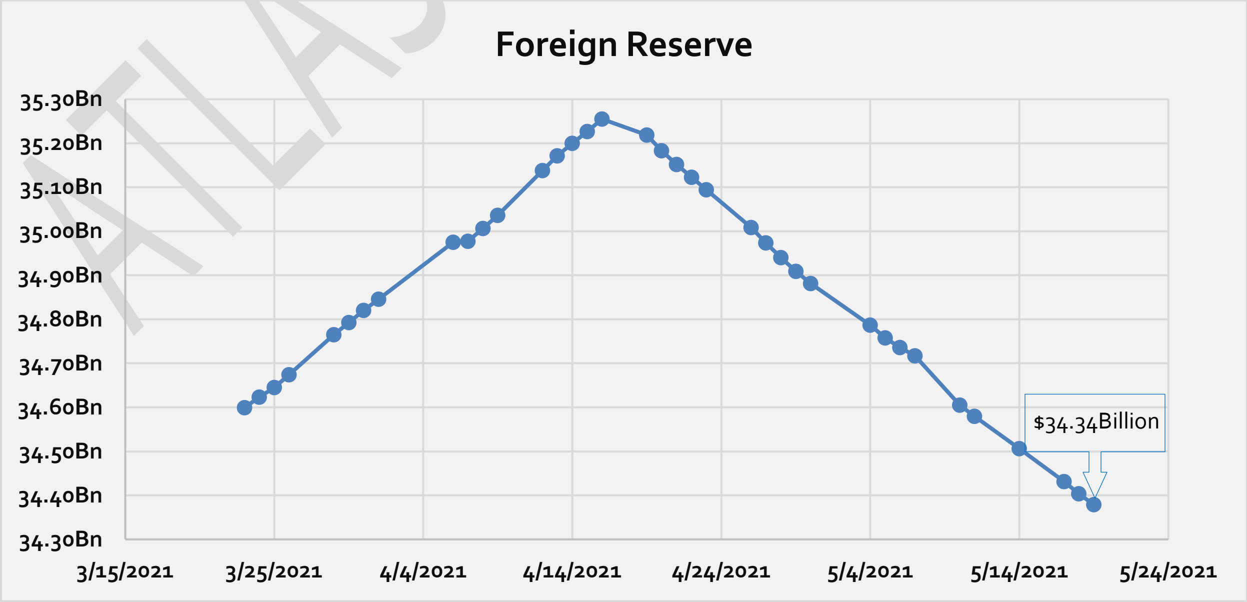


Declining foreign reserve despite the increase in oil price and CBN Scheme:

Despite the CBN initiation of the Naira for Dollar Scheme, increase in the average crude oil daily production, and the increase in the crude oil price from $62.58pb on March 24th and $65.03 (as of 21st of May), the Nigeria Foreign Reserve has weakened by $230 million between the last MPC meeting in March to $34.34 billion (as of May 17th 2021).as against $34.57 billion



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Our Position:

From the above analysis, the members of the MPC have few hitches to worry about. However, given the options available to the CBN, we are of the view that the MPC may likely vote in favor of holding the MPR during next week's meeting, our position is informed by a decline in the rising inflation rate and economic recovery amidst growing number of Covid-19 vaccination

A reduction in the MPR will lead to a further decrease in the cost of borrowing, positively drive expansion programmes, create new employments in the real sector, and also increase liquidity in the economy, which will consequently further worsen the rate of inflation, put more pressure on foreign exchange and loss in investors' confidence.

On the other hand, an increase in the MPR will help curtail the rising inflationary pressure, attract foreign investment inflows, and reduced demand-pull inflation, especially for imported goods. However, an increase in the MPR will further drive the cost of capital to the real sector players high, thereby limiting their potential to creating new jobs that are needed to increase aggregate demand and stimulate GDP.

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