

22 March 2017

# X-Raying the Communiqué of March 2017 MPC Meeting.

## Tightening and Loosening on the Table

In its customary practice, the Central Bank of Nigeria (CBN), yesterday, published the communiqué (no. 112 of its type) of its Monetary Policy Committee (MPC) March meeting – concluded yesterday – on its website. The communiqué is a 17-page document. We present, in this note, the salient points contained therein.

Recall that at the end of yesterday’s meeting, the MPC voted to maintain status quo by retaining the:

1. Monetary Policy Rate (MPR) at 14.0%;
2. Asymmetric corridor around the MPR at +200/-500bps;
3. Cash Reserves Ratio (CRR) at 22.5%; and
4. Liquidity Ratio (LR) at 30.0%.

The decision would have been unanimous, save for a member (out of the total 10 present) who “surprisingly” voted for a rate hike.

The Committee’s decision was again predicated on the need to remain committed to its primary mandate of price stability. Specifically, the MPC reiterated that its direct input into achieving growth is hinged on achieving the level of price stability that is conducive to growth while noting that fiscal policy remains primarily fundamental to resolving the current economic underperformance.

Quite interesting is the fact that unlike the January meeting where the dovish undertone unanimously expressed by members of the Committee faced no hawkish counter positions, the case for a rate hike found a place on the table at yesterday’s meeting. Clearly expressed, the MPC noted strong and persuasive arguments for tightening policy, including negative real policy rate, inflation substantially ahead of the apex bank’s upper reference band, and heightened demand pressure in the forex market. On inflation, the Committee recognized that the moderation in February figure was basically base-effect driven, as the jump in month-on-month CPI suggests that the causal structural factors (such as high energy, power cost, and transport cost; and rising prices of imports) mounting pressure on consumer prices remain unabated.

Figure 1: MPR vs. Headline Inflation

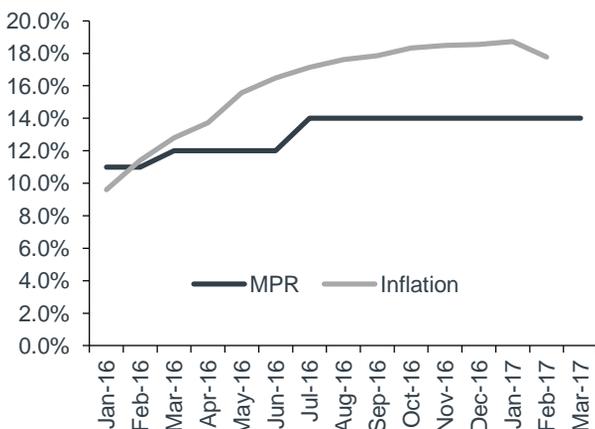
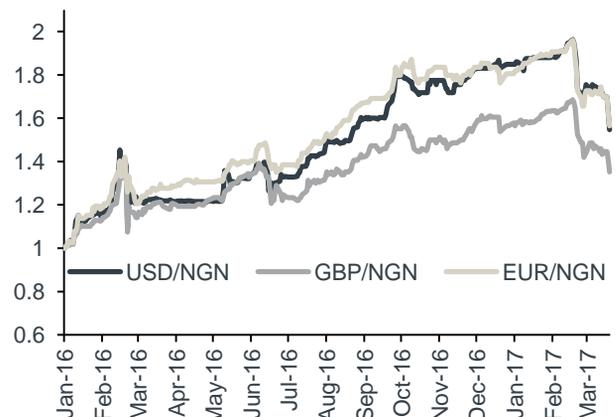


Figure 2: Parallel Market Exchange Rate (Index of 1)



Source: CBN, NBS, AbokiFX, Cordros Research

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Exiting the lane to tightening, the following risks were highlighted (1) tightening, at this time, would portray the Committee as being insensitive to growth and (2) DMBs may find an easy way to re-price their assets, undermining financial stability. On loosening, the strongest argument was its desirability in stimulating aggregate demand, and consequently overall output, particularly if credit increases with lower interest rates, with the potential of lowering non-performing loans in the banking system. On the other hand, however, the MPC guided that loosening at this time would exacerbate inflationary pressures, undermine the outlook for exchange rate stability, and further drag the real interest rate into negative territory.

**What is in Sight?**

All said, scrutinizing the MPC's identified transparent risks to a rate cut, we retain our prognosis that the Committee will be more compelled to lower rate upon realization of substantial moderation of the headline inflation towards 12% by July, progressive GDP growth by the first half, and a much stronger Naira. In addition, we think the CBN will maintain its zero tolerance for liquidity surfeit via continuous OMO auctions.

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