FDC Economic Bulletin

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MPC maintains MPR at 14%pa amidst improving macroeconomic indicators

The MPC once again maintained status quo on all monetary policy parameters. While rolling out its decision, the MPC also mentioned the uncertainty in the global economy. The apex bank's wait and see approach came as no surprise and is based on the need to monitor the inflationary expectations as well as assess the impact of the current forex intervention. The recent confirmation of a stable outlook by S&P seems reassuring especially in a period when Nigeria tries to restore investor confidence. Furthermore, a gradual improvement in GDP growth rate, increasing external reserves and improved oil production also factored in the MPC's decision.

The CBN's capacity to reduce interest rates in the near future will hinge on several factors including the Q1 2017 GDP growth numbers, headline inflation in March and April), crude oil production and the exchange rate. The implementation of the Economic Recovery and Growth Plan (ERGP), alongside increased borrowing, will likely stimulate economic activity and be complemented by an accommodative stance. Intervention policies implemented in lagging sectors such as power, aviation, agriculture and petroleum could increase liquidity in the system, potentially spurring inflationary pressures in the short term.

Macroeconomic conditions have improved in light of higher oil prices and production. Oil price has traded above $50pb so far this year but the recent decline in price could pose a threat to Nigeria's fiscal and external balances. Oil production is currently estimated at 1.6 to 2 million barrels per day due to decreased attacks from Niger Delta militants. The higher foreign revenue, approximately $2bn a month up from the meager $700mn, accruing from increase oil price and production has enabled the CBN implement the current forex policy. This has resulted in an adjustment of the real effective exchange rate and also bridged the gap between demand and supply of forex. Finally, a huge factor that may have influenced the MPC decision is the increasing need for the CBN to show a consistent policy direction as Nigeria engages the international community in several borrowing rounds.

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Country Comparison

Central banks in other African countries that have also faced inflationary pressures in recent times have maintained the status quo on their policy stance.

Angola

The national bank of Angola maintained its benchmark interest rate of 16%pa in its first meeting in January amidst a high inflationary environment. Angola has experienced a persistent increase in the level of prices due to commodity crisis and a weakened currency.

Ghana

The central bank of Ghana also kept its benchmark rate of 25.5%pa since a reduction in November 2016 due to inflationary pressures. However, given the decline in inflation rate in the past two months, the country's monetary policy authorities may consider a downward adjustment of benchmark interest rates.

Outlook

Following the impact of base year effects and a more favorable forex policy, we expect the slowdown in the rate of inflation to continue in the next few months. Hence, there may be increasing pressure for the CBN to adopt an accommodative policy stance. In addition, the Economic Recovery and Growth Plan (ERGP) underscores the government's drive towards pursuing a robust fiscal policy to steer the economy towards growth. In order to enhance the possible impact of the ERGP, a synergy between monetary and fiscal policy is required, thereby prompting the need for an accommodative monetary policy stance in the near future.