



MPC Update: May 2021

April '21 Annual Inflation: 18.12%
Q1 '21 Real GDP Growth Rate: 0.51%

Update on the Monetary Policy Committee (MPC) Meeting Held on May 24 and 25, 2021

MPC Observations:

- Recovery across global economies was amid widespread vaccination, easing of restrictions, reopening of economies and gradual return to international travel. However, Indian and Brazil have continued to battle high levels of infections and fatalities, resulting from mutating strains of COVID-19 virus.
- The International Monetary Fund (IMF) revised global output growth rate for 2021 to 6.5% from earlier projection of 5.5%; although prices are expected to rise globally due to the massive monetary and fiscal injections in several countries to mitigate the impact of COVID-19 pandemic.
- Inflation may breach several medium to long term objectives of most Central Banks across the world as economic activities continue to recover.
- Monetary policy normalisation may commence by most central banks by the fourth quarter of 2021.
- The CBN Purchasing Manager Index rose to 49.0 index points in April 2021 from 48.8 index points in March 2021 which signals economic growth following the easing of restrictions in Nigeria.

MPC Considerations:

- Inflation remained well above the ceiling of the bank's 6% to 9% inflation target corridors as a result of deteriorating public infrastructure and insecurity.
- The Committee was mindful of the impact of exchange rate pressure resulting from capital flow reversal associated with COVID-19 shock as investors sought for safe haven. It was also looking to moderate exchange rate pass-through to inflation.

MPC Decisions:

- Monetary Policy Rate retained at 11.50%
- Asymmetric band retained at +100 bps and – 700 bps around MPR
- Cash Reserve Ratio retained at 27.50%
- Liquidity Ratio retained at 30%

Analyst's Opinion:

We note that the unanimous decision of the Committee members to leave all key parameters unchanged was to allow further economic growth given the fragile GDP growth rate printed in Q1 2021. However, we feel that the harmonization of the exchange rate at the official and Investors & Exporters windows, worsening insecurity, probable subsidy removal and market reflective electricity tariff, may in the medium-term assert pressure on inflation rate and negatively impact economic growth.

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