

Monetary Policy review

A move to an accommodative stance

- Yesterday, the MPC voted to cut the benchmark lending rate by 100 bps to 12.5% while leaving other policy parameters unchanged. The decision centered on the need to stimulate growth in the economy amidst the corona virus pandemic. Reported figures for Q1 GDP showed a slow down to 1.87% YoY from 2.6% YoY in Q4 19. Furthermore, we expect the economy to contract by 1.95% YoY over Q2 20 hinged on the adverse impact of the pandemic (**See report: Q1 2020 GDP - A pre-pandemic glimpse into Nigeria's economy**). Elsewhere, the MPC alluded the gradual increase in inflation largely to disruptions in supply chain and reduced supply of FX; but expect it to improve as gradual ease of lockdown continues and economic activities return.
- We reiterate our view on the symbolic nature of the MPR given its ineffectiveness of transmission to other key rates. As a matter of fact, the MPC at earlier meetings have also alluded to this. Instead, we have seen growth in credit (increase of ₦3.1 trillion since introduction of LDR) via the use of unorthodox policy such as the minimum loan to funding requirement. Hence, the cut makes us to believe a stronger signal to stimulating growth.
- On FX, flows at the IEW in the month of May has maintained same trend with the previous month. While inflows (-18% MoM) have remained low, outflows (-15% MoM) have been surprisingly low despite CBN resuming FX sales for school fees and SMEs. Similarly, CBN has recorded almost no sale at the IEW over the month. With the recent disbursement of IMF's loan facility (\$3.4 billion) and expected approval of facilities from the World Bank and AfDB, we believe there is no immediate concern to the reserves in the interim. Hence, this should give the CBN more headroom in supporting economy growth.
- That said, we expect the CBN to seek more effective ways of reducing lending rate in order to stimulate growth. Particularly, we can't rule out refund of excess CRR debit to banks. However, banks would have to submit a lending plan before getting the refund. This way, the CRR refund is given as credit and customers could benefit from lower lending rate due to competition across the banks. Elsewhere, we expect further implementation of credit growth mechanisms via loan to funding requirement and stimulus packages.

Analyst

Emmanuel Adeleke

Emmanuel.adeleke@arm.com.ng

Copyright © 2020 ARM Securities Limited (“ARMS”).

All rights reserved. Unauthorised use, reproduction, distribution, or disclosure of this document is strictly prohibited.

This material has been issued by ARM Securities Limited, a member of the Asset and Resource Management (“ARM”) Group, and a Company regulated by the Nigerian Securities & Exchange Commission. The analyst(s) primarily responsible for preparing this research report, in whole or in part, certifies that with respect to each security or issuer covered; all of the views expressed accurately reflect his/her personal views about the subject securities and issuers and no part of his/her compensation was, is, or will be, directly or indirectly, related to the inclusion of specific recommendations or views in the report.

This research report is based on information from sources that ARMS and its analysts believe to be reliable. Neither ARMS nor any of its research analysts, nor any member of the ARM Group, gives any representation or warranty, express or implied, or undertaking of any kind or assumes responsibility or liability of any kind with respect to the accuracy or completeness of the information set out in this report or any third party’s use (or the results of such use) of such information. This report is provided solely for informational purposes and is not to be construed as providing advice, recommendations, or endorsements of any kind whatsoever. The investments and strategies discussed here may not be suitable for all investors; counsel of investment advisor should be obtained with regard to such investments and or strategies. This research report is not a replacement for advice from an accountant, lawyer, personal finance advisor or other category of investment advisor. The investments discussed in this report may oscillate in price or value. Opinions and information provided are made as of the date of the report issue and are subject to change without notice. This research report is not intended as an offer or solicitation for the purchase or sale of any financial instrument. Reference herein to any specific security or financial instrument does not necessarily constitute or imply its endorsement or recommendation by ARMS, its directors, officers, employees or designated agents. Members of ARM may act as broker, advisor or lender, or make a market in any investments or issuers referenced in this report. Further information on any of the securities discussed herein may be obtained upon request to ARMS. By accepting this document, you agree to be bound by the foregoing limitations.