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Economic Research

## Economic Commentary

## MPR Reduction Signals More Deliberate Measures Imminent

The Monetary Policy Committee at the end of its meeting today signaled an accommodative posture with a reduction of the Monetary Policy Rate (MPR) by 100bps to 12.5%, citing the need to rapidly stimulate aggregate demand in a bid to accentuate a fast recovery of the economy and possibly avoid prolonged contraction in economic activity as measured by GDP. The committee voted to maintain the Cash Reserve Ratio (CRR) at 27.5%, Liquidity Ratio at 30% and asymmetric corridor around the MPR at +200/-500bps. The reduction in the MPR is largely a signaling factor, as the MPC at its meeting in March stated that a reduction in the MPR will not encourage DMBs to reduce lending rates, but an increase will be taken by the DMBs as invitation to increase rates.

As mentioned in our Pre-MPC note (See report: [Economic Stability Regains Priority But Policy Options Still Limited](#)), a downward adjustment of the MPR will do nothing to moderate the current interbank rates and by extension the lending rate. Also, while the MPC statement largely focused on the impact the reduction would have in stimulating credit creation to consumption driven sectors, we see this having limited impact especially in the short run. For context, despite the potency of the LDR policy in driving credit creation and moderating lending rates, the distribution of loans continues to largely favour the prime sectors and lenders, with limited transmission to the CBN's preferred sectors of SMEs, retail, mortgage, and consumer lending. While the decision automatically results in an adjustment of the standard lending facility (SLF) rate by 100bps to 14.5%, the CBN sterilization of deposits (through unusual debits and LDR punitive measures) already indicates minimal interest from banks to resort to the SLF window, even as prime lending rates currently overs around 14.8%. However, we see possible transmission of the 100bps cut to CBN development programs and intervention initiatives.

Categorically, with the CBN signaling a fast approach to restoring aggregate demand, we expect a more deliberate attempt to soften interbank rates and by extension the lending rate. As we have mentioned, given that the reduction of MPR will do little to stimulate credit creation and aggregate demand at this time, we expect the CBN to focus on reflating the banking system through refunds of excess CRR and to adopt more efficient measures around the LDR to further support credit creation, especially to consumption stimulating sectors.