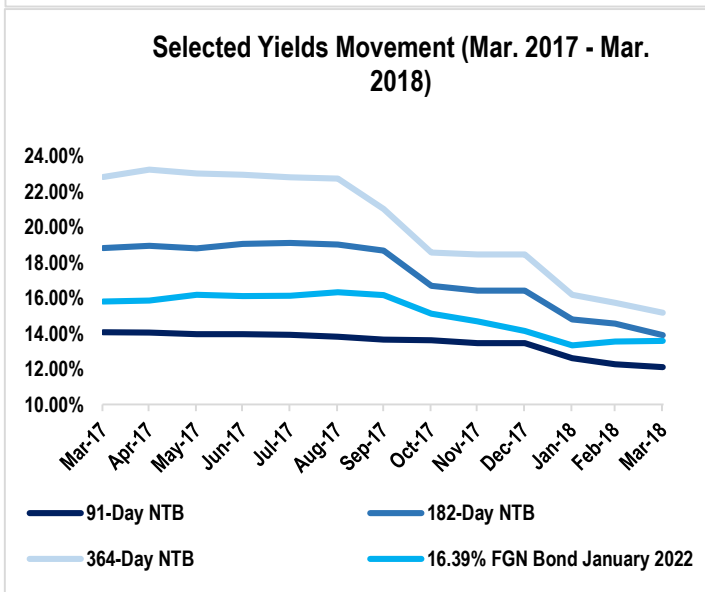
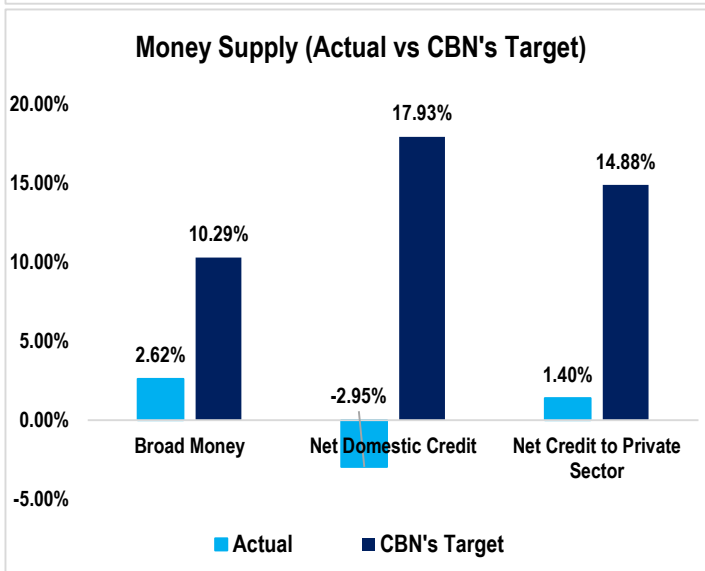
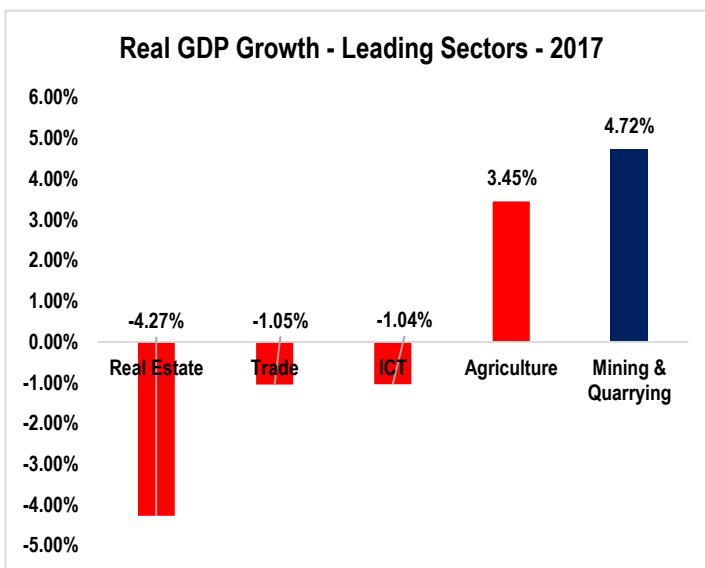


## Monetary Policy Easing Required to Stimulate Growth

The short-term outlook of the Nigerian economy favours monetary policy easing in order to stimulate credit creation and economic growth. The monetary policy easing may be in the form of an adjustment to the Monetary Policy Rate (MPR) or an adjustment to the Cash Reserve Requirement (CRR). At its November 2017 meeting, the MPC maintained the MPR at 14%, with the asymmetric corridor at +200 and -500 basis points around the MPR; retained the CRR and Liquidity Ratio (LR) at 22.50% and 30% respectively.

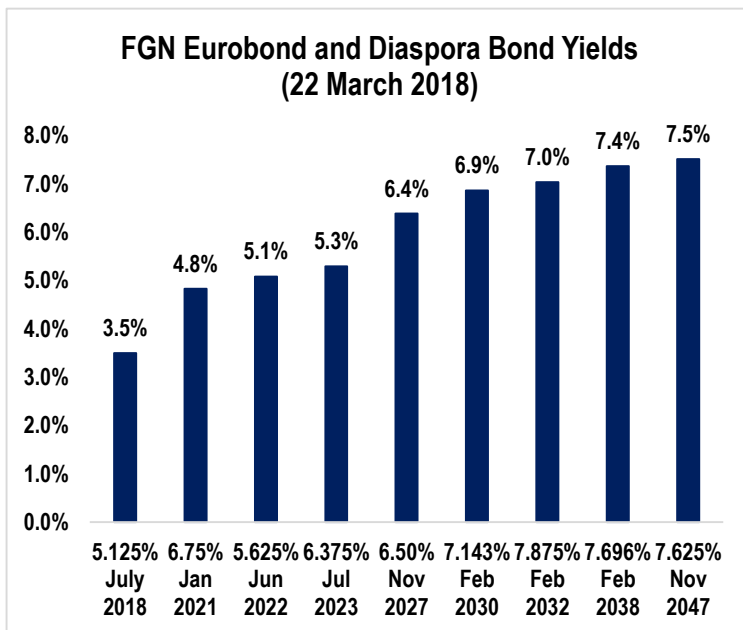
Although the Gross Domestic Product (GDP) growth rate in Nigeria improved further in Q4 2017 at 1.92% from 1.40% in Q3 2017, the recovery is still very fragile. Thus additional monetary policies are required to stimulate a broad-based growth. FSDH Research's analysis of the growth pattern in 2017 shows that two sectors, Agriculture and, Mining and Quarrying were the major drivers of growth.

FSDH Research believes the yields on the NTBs may drop further as a result of the strategy of the Debt Management Office (DMO). Nevertheless, we expect the yields on the FGN Bonds to move up gradually from the current level as FGN starts to borrow to fund the 2018 budget. It should drop marginally around mid-year as the inflation rate approaches single digit. Despite the drop in the yields on fixed income securities in Q4 2017, Nigeria recorded the highest Foreign Portfolio Investments (FPIs) inflows in 2017 during the last quarter. This



implies improving confidence on the short-term outlook of the Nigeria economy. Thus the risk of foreign capital reversal is minimal.

The growth in money supply as at December 2017 was lower than the CBN's target for the year. The need to curb high inflation rate and maintain stability in the foreign exchange market were the main reasons for the contractionary monetary policy. FSDH Research believes the inflation rate may drop to single digit mid-year, while the exchange rate should remain stable in the short-term.



Sources: NBS, FMDQ, CBN and FSDH Research

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