

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 easing may be in the form of an adjustment to the Monetary Policy Rate (MPR) or an adjustment to the Cash Reserve Requirement (CRR). The Central Bank of Nigeria (CBN) has scheduled the first meeting of the Monetary Policy Committee (MPC) in the year 2018 for Tuesday 03 and Wednesday 04 April, 2018. 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.

Looking at the developments in the international market; the economic outlook in the major advanced countries is strong in the short-term to medium-term, necessitating monetary policy normalisation. The outlook of the Gross Domestic Product (GDP) growth rate remains strong, the unemployment rate is low in most regions and should remain low in the short-term, while inflation rate is trending up. The Federal Open Market Committee (FOMC) of the United States (U.S) Federal Reserve (The Fed) increased the Federal Funds Rate (Fed Rate) at its March 2018 meeting. The Fed increased the Fed Rate to 1.50% - 1.75% from 1.25%-1.50%. FSDH Research expects that the FOMC will increase the Fed Rate to 2.25% - 2.50% by year end. The increase in the interest rate should lead to increase in the yields on the fixed income securities in the advanced markets, with the attendant possible increase in capital flights from the emerging markets.

Although the 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. They were the two sectors out of the six largest sectors of the Nigerian economy that recorded growth in 2017. Other leading sectors which are Trade, Information and Communication, Manufacturing, and Real Estate all contracted. Thus, the need for monetary policy easing.

The increase in the crude oil price and favourable crude oil production in Nigeria have increased capital inflows and also led to favourable trade balance. Consequently, the country's external reserves (30-Day Moving Average) increased substantially in the last five months, growing to US\$46.04bn as at 26 March, 2018. This provides additional short-term stability for the value of Naira. FSDH Research however recognises the vulnerabilities of the Nigerian economy to the adverse movements in the crude oil prices. Thus the need to stimulate other non-oil sectors to reduce these vulnerabilities.

FSDH Research expects the MPC to signal monetary policy easing when it meets in April 2018

The economic outlook in the major advanced countries is strong

FSDH Research expects that the FOMC will increase the Fed Rate to 2.25% - 2.50% by year end

Additional monetary policies are required to stimulate a broad-based growth in Nigeria

The Nigerian economy is vulnerable to the adverse movements in crude oil price.

Despite the drop in the yields in Q4 2017, Nigeria recorded the highest FPIs in 2017 during the quarter

FSDH Research notes that the current strategies of the Debt Management Office (DMO) to reduce the interest expense on the debt of the Federal Government of Nigeria (FGN) is working. The latest debt figures show that the interest expense on the local debt have dropped in the last few months. FSDH Research observed a relative increase in the revenue accrued to the FGN from the Federation Account Allocation Committee (FAAC). These two factors have led to a drop in the ratio of the interest expense to the FGN FAAC revenue which stood at 20% in December 2017. Thus the yields on the fixed income securities in the market have dropped substantially in the last six months. **Although FSDH Research believes the yields on the NTBs may drop further, we are of the view that the yields on the FGN Bonds may move up gradually from the current level as the FGN starts to borrow to fund the 2018 budget. 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.**

The growth in money supply as at December 2017 was lower than the CBN's target for the year

The growth in money supply as at December 2017 was lower than the CBN's target for the year. The broad money (M2) grew by 2.62%, lower than the target of 10.29%. The net domestic credit contracted by 2.95% as against the target of 17.93%. The net credit to the private sector grew marginally by 1.40%, lower than the target of 14.88%. 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. **Therefore, there is a need for monetary policy easing to boost credit creation and stimulate economic growth. Looking at the short-term outlook of the Nigerian economy, FSDH Research believes the MPC should begin monetary policy easing to signal the end of its monetary policy tightening cycle.**

Table 1: Monetary Aggregates (Money Supply) – N'mn

Month	Narrow Money	Quasi Money	Broad Money	Ratio of M1 to M2	Net Domestic Credits	Net Credits to Government	Net Credits to Private Sector	Ratio of Private Sector Credits to Domestic Credits
	M1	QM	M2		-	-	-	
Dec-16	11,068,107	12,320,226	23,388,333	47%	26,649,023	4,666,874	21,982,149	82%
Jan-17	10,866,032	12,113,228	22,979,260	47%	26,385,468	4,509,807	21,875,662	83%
Feb-17	9,994,995	12,153,000	22,147,995	45%	27,141,090	5,082,024	22,059,065	81%
Mar-17	9,954,591	12,069,736	22,024,327	45%	27,390,140	5,270,499	22,119,642	81%
Apr-17	9,757,108	11,952,562	21,709,669	45%	27,450,334	5,507,893	21,942,441	80%
May-17	10,184,904	11,790,439	21,975,343	46%	26,145,051	4,214,341	21,930,710	84%
Jun-17	9,883,821	11,790,391	21,674,213	46%	26,404,355	4,425,788	21,978,567	83%
Jul-17	10,325,981	11,874,338	22,200,319	47%	27,160,163	4,987,790	22,172,373	82%
Aug-17	9,890,813	11,960,641	21,851,454	45%	26,821,447	4,824,226	21,997,221	82%
Sep-17	10,064,248	11,889,746	21,953,994	46%	26,985,305	4,963,406	22,021,899	82%
Oct-17	10,393,062	12,107,556	22,500,618	46%	27,174,806	5,245,889	21,928,917	81%
Nov-17	10,115,050	12,196,068	22,311,118	45%	26,349,069	4,392,408	21,956,660	83%
Dec-17	11,036,352	12,965,060	24,001,412	46%	25,863,281	3,574,029	22,289,252	86%
Growth : Dec16-Dec-17	(0.29%)	5.23%	2.62%		(2.95%)	(23.42%)	1.40%	

Source: Central Bank of Nigeria

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