After Recession – A Need for Policy Change?

We expect the Monetary Policy Committee (MPC) of the Central Bank of Nigeria (CBN) to hold rates at the current levels, while the fiscal authority continues to implement policy measures to sustain growth. The MPC is scheduled to meet on September 25 and 26, 2017. The current tight monetary policy is justified in order to curb the high inflation rate and maintain stability in the foreign exchange (FX) market. At its July 2017 meeting, the MPC maintained the Monetary Policy Rate (MPR) at 14%, with the asymmetric corridor at +200 and -500 basis points; Cash Reserve Requirement (CRR) and Liquidity Ratio (LR) at 22.50% and 30% respectively.

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In the international scene, the International Monetary Fund (IMF) in its World Economic Outlook, July 2017 edition, forecasts global economic growth at 3.5% in 2017. The IMF indicated that the risks around the global growth forecast are from monetary policy normalisation in some advanced economies, notably the U.S, anti-globalisation stance, and geopolitical tensions. **The Federal Open Market Committee (FOMC) of the United States (U.S) Federal Reserve (The Fed) maintained the Federal Funds Rate (The Fed Fund Rate) at its September 2017 meeting but signalled unwinding of balance sheet as from October 2017.**

At the domestic level, the Q2, 2017 figures from the National Bureau of Statistics (NBS) shows that the GDP in Nigeria recorded a growth rate of 0.55%. The recovery in crude oil production and price and the introduction of the Investors' and Exporters' Foreign Exchange Window (I&E Window), increased the supply of foreign exchange, and helped to pull the economy out of recession. Meanwhile, the accretion to the external reserves continued after the MPC meeting in July 2017. The 30-Day moving average external reserves increased by 3.21% to US$31.83bn as at 31st August 2017, from US$30.84bn as at 31st July 2017. However, the value of the Naira recorded a mixed performance but has shown relative stability since the last MPC meeting in July 2017. The value of the Naira depreciated in the official market, while it closed unchanged in the parallel market. The premium between the inter-bank and parallel markets averaged about N61 between the last MPC meeting in July 2017 and September 15, 2017 from an average of N66 during the period between the MPC Meetings of May and July 2017.

The CBN has maintained tight monetary policy to curb high inflation rate and ensure FX stability.

The monetary aggregates as at July 2017 show that the annualised growth rate in money supply is below the target that the CBN sets for the year 2017. The broad money supply (M2) decreased by 5.08% to N22.20trn in July 2017, from N23.39trn in December 2016. This is lower than the CBN's growth rate target of 10.29% for the year 2017. The CBN has maintained tight monetary policy to curb high inflation rate and ensure FX stability.

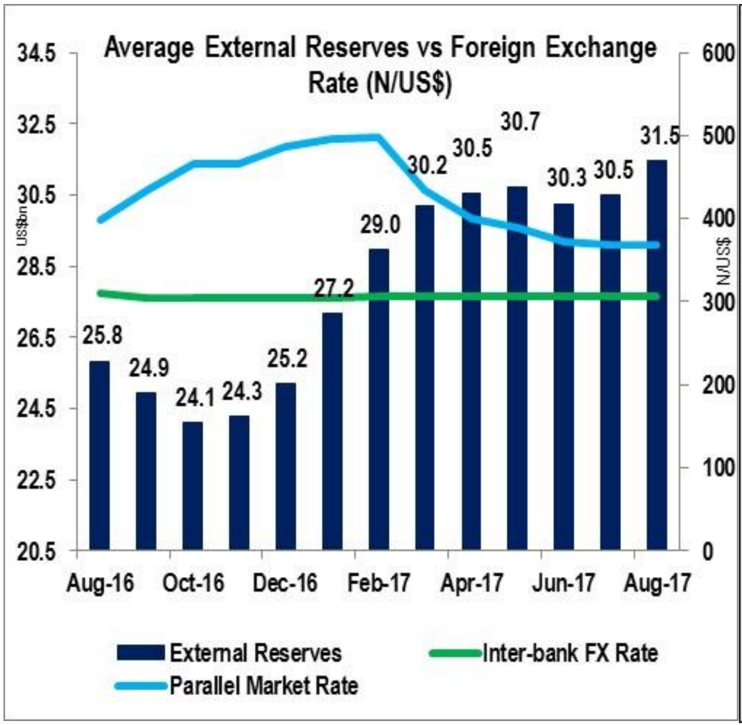
We expect the yields on the fixed income securities to drop.

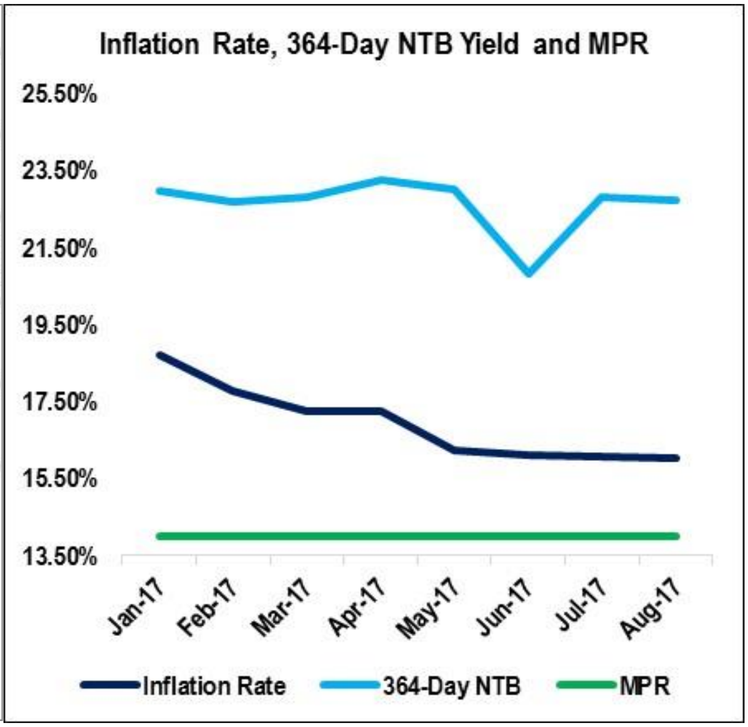
The MPC may adjust the asymmetric corridor around the MPR to signify easing.

Our forecast shows that the inflation rate will remain in the range of 15.55%-16.20% between September 2017 and December 2017. This is based on the assumption that the Federal Government of Nigeria (FGN) does not increase the price of Premium Motor Spirit (PMS) and Electricity Tariff. **The forecast range is higher than the CBN's target of 6%-9% and the growth retarding inflation benchmark of 12.5%.**

The yields on NTBs decreased in August 2017, compared with the yields in July 2017. At the NTBs auction, average yield on the 91-day, 182-day and 364-day NTB dropped. The yields on the FGN Bonds that we monitored closed higher in August 2017 when compared with the yields in the preceding month. We expect the yields on the fixed income securities to drop. This is because of the stability in the FX market, plans of the FGN to refinance part of the local debt with foreign debt and the positive GDP growth rate expected going forward.

Looking at the developments both in the domestic and international markets, a hold in rates at this meeting will be appropriate in order to sustain the current growth rate in the economy. However, the MPC may adjust the asymmetric corridor around the MPR to signify easing. Meanwhile, fiscal measures in the forms of tax relief and tariff adjustments are required to boost economic activities.





Sources: Central Bank of Nigeria, National Bureau of Statistics and FMDQ

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