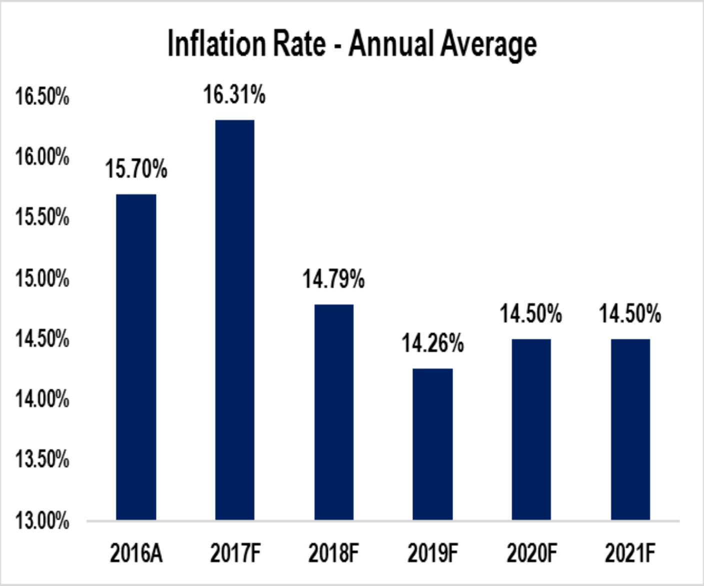
CBN May Change Monetary Policy Stance

The IMF projects a growth in Gross Domestic Product (GDP) of 0.8% and 1.9% in Nigeria in 2017 and 2018 respectively.

The Central Bank of Nigeria (CBN) may soon change its monetary policy stance if it follows the opinion of the International Monetary Fund (IMF). In its World Economic Outlook (WEO) October 2017 edition, the IMF expects the inflation rate in Nigeria in 2017 and 2018 to remain elevated at double-digit levels. This is based on its assumption of the persistent effects of past inflationary shocks coming from sharp currency depreciations (including the parallel market exchange rate), higher electricity and fuel prices, and an accommodative monetary policy going forward. The Fund expects an average inflation rate of 16.3% in 2017 and 14.8% in 2018. At the moment, the CBN adopts a restrictive monetary policy in order to curb the high inflation rate and maintain stability in the foreign exchange market. The inflation rate in Nigeria declined for seven consecutive months to stand at 16.01% in August 2017. FSDH Research forecasts that it will drop marginally to 15.96% in September 2017. The IMF projects a growth in Gross Domestic Product (GDP) of 0.8% and 1.9% in Nigeria in 2017 and 2018 respectively. The growth is based on improved oil production and a strengthened agricultural sector. The IMF expects an average Real GDP growth of 1.6% between 2017 and 2021 while it expects an average population growth of 2.75% between the periods. The GDP growth will not be sufficient to improve the wellbeing of the populace.

The burden of the interest payments on the expected growth in public debt may retard Nigeria's growth potential except there are concentrated efforts to grow revenue.

According to the IMF, the medium term risks to growth in Nigeria include concerns about policy implementation, market segmentation in the foreign exchange (FX) market and banking system fragilities. The Fund also predicts a 42% increase in public debt from N18.06trn in 2016 to N25.59trn in 2017 and a further increase to N54.96trn in 2021. The faster growth in public debt than the growth in GDP (at current prices) will result in a consistent increase in the public debt-to-GDP ratio between 2017 and 2021. According to the IMF, the public debt-to-GDP ratio will increase to 25% in 2021 from 18% in 2016. Although this is below the target of 40% the Federal Government of Nigeria (FGN) sets for Nigeria, the burden of the interest payments on the loan may retard Nigeria's growth potential except there are concentrated efforts to grow revenue.

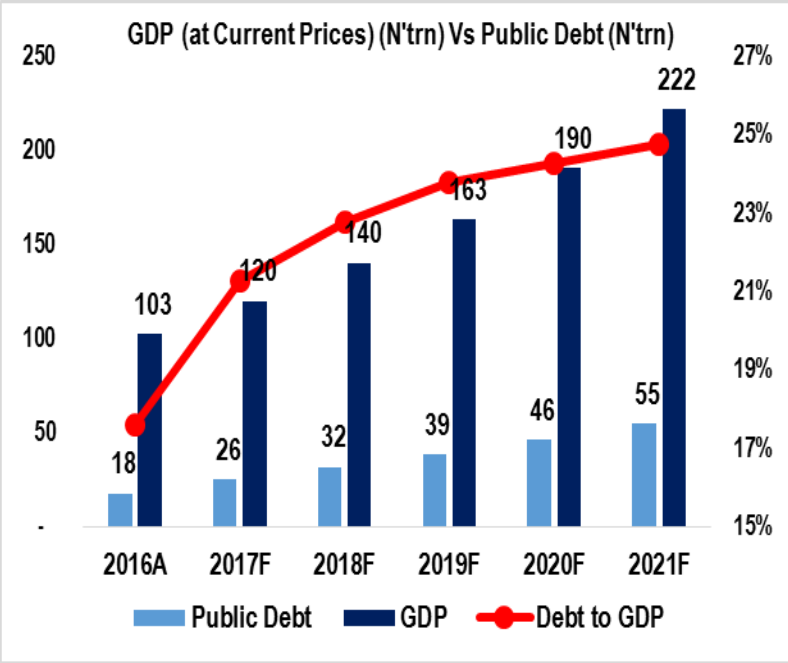


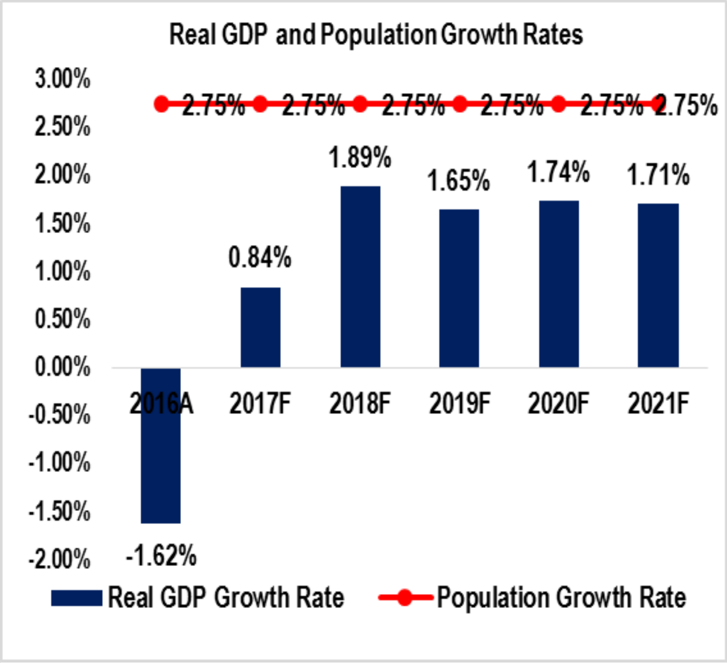
Source: IMF World Economic Outlook, October 2017

On the global scene, the global upswing in economic activities that started in the second half of 2016 continues to strengthen. The IMF forecasts global economic growth of 3.6% in 2017 and 3.7% in 2018. Notable increases in investments, trade and industrial production, as well as strengthening business and consumers' confidence should support the global growth. The IMF identified the medium term risks to global growth to include a more rapid and sizeable tightening of global financial conditions; financial turmoil in emerging market economies; and geopolitical tensions. The IMF expects oil prices (a simple average of prices of UK Brent, Dubai Fateh, and West Texas Intermediate crude oil) to average US$50.3 per barrel in 2017, an increase from the US$43 per barrel in 2016. The expected increases in global activity and higher oil prices will have a positive effect on the Nigerian economy going forward.

The IMF forecasts global economic growth of 3.6% in 2017 and 3.7% in 2018.

Although FSDH Research believes the IMF growth forecast for the Nigerian economy is conservative, the FGN must intensify efforts to implement policies that will stimulate investments in the Nigerian economy. This is necessary to accelerate inclusive growth. Friendly policies in agro-allied industries, agriculture, telecommunications, power, solid minerals, real estate and manufacturing are important to jumpstart the economy.





Source: IMF World Economic Outlook, October 2017

For enquiries please contact us at our offices:

Lagos Office: 5th-8th floors UAC House, 1/5 Odunlami Street, Lagos. Tel: 234-1-2702880-2; 234-1-2702887

Port Harcourt Office: 2nd Floor, Skye Bank Building (Former Mainstreet Bank Building) 5 Trans Amadi Road, Port Harcourt. Tel: 234-8024081331

Abuja Office: Leadway House (First Floor), Plot 1061 Herbert Macaulay way, Central Business District, Abuja-Nigeria. Tel.: 234-9-2918821

Website: www.fsdhgroup.com **email: research@fsdhgroup.com**

Our Reports and Prices are also Available on Bloomberg {FSDH<GO>}

Disclaimer Policy