Money Supply in Nigeria Drops Further

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The growth rate in money supply (narrow money and broad money) as at August 2017 dropped below the target that the Central Bank of Nigeria (CBN) sets for the year 2017. In Nigeria, narrow money (M1) is the sum of demand deposits and currency in circulation less the cash currency held in deposit money banks' vault. Quasi money (QM) is the savings deposits plus time deposits. Broad money (M2) is the sum of M1 and QM (M2 = M1 + QM). According to the data from the CBN the M2 contracted by 6.57% to N21.85trn in August 2017 from N23.39trn in December 2016. The CBN's growth target is 10.29% for the year 2017. The major drop in M2 is from M1, which dropped by 10.64% to N9.89trn in August 2017, from N11.07trn in December 2016. The QM also dropped by 2.92% to N11.96trn from N12.32trn in December 2016. **The contraction in the money supply was as a result of the tight monetary policy stance of the CBN. The CBN has maintained a tight monetary policy to achieve its twin objectives of domestic (inflation rate) and external (foreign exchange rate) price stability.**

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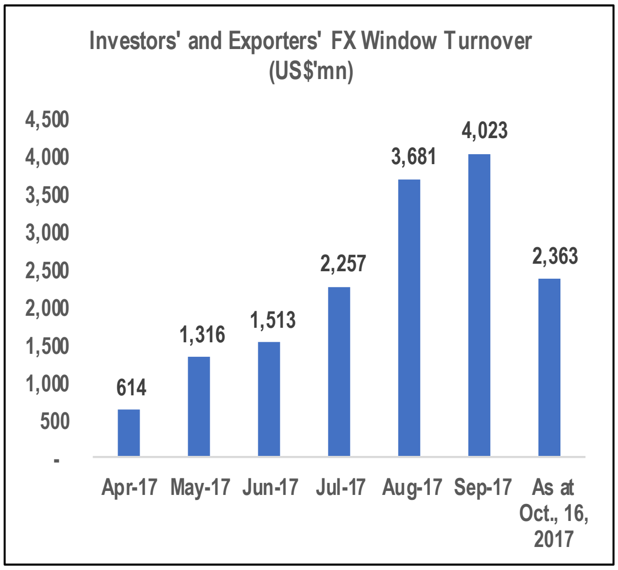
The inflation rate in Nigeria dropped further in September 2017 in line with the forecast of FSDH Research. The inflation rate dropped marginally to 15.98% in September 2017 from 16.01% in August 2017. FSDH Research released earlier an inflation rate forecast of 15.96%. Although the inflation rate has dropped consistently from 18.72% in January 2017 to 15.98% in September 2017, it is still higher than the CBN's target of 6%-9%. Thus, the justification for a tight monetary policy stance. The increase in foreign exchange supply from the adoption of a flexible exchange rate policy and the creation of the Investors' and Exporters' Foreign Exchange (FX) Window (I&E Window) also helped to ease the pass through effect of imported inflation on domestic prices. The I&E Window has recorded a total turnover of US$15.77bn as at 16 October 2017 from its opening turnover of US$614mn in April 2017. The favourable average price of crude oil and oil production have also led to stability in the foreign exchange market. **The favourable global liquidity condition, the adoption of a flexible exchange rate policy by the CBN, and the improving domestic macroeconomic conditions, spurred foreign capital inflows into the Nigerian economy.**



Source: FMDQ

Favourable macroeconomic developments spurred foreign capital inflows into the Nigerian economy.

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On the international scene, the International Monetary Fund (IMF) stated that the global financial system continues to strengthen in response to extraordinary policy supports, regulatory enhancements, and the cyclical upturn in growth. This view is contained in the IMF's Global Financial Stability Report (GFSR), October 2017 edition. The IMF added that the key challenge confronting policymakers is to ensure that the build-up of financial vulnerabilities is contained, while monetary policy remains supportive of the global recovery. This it said is to avoid rising debt levels and overstretched asset valuations that could put global growth at risk. **It added that the economic impact of a tightening of the global financial conditions would be significant (about one-third as severe as the global financial crisis) and more broad-based (global output could fall by 1.7% relative to the IMF's World Economic Outlook baseline with varying cross-country effects**). The IMF notes that, emerging market economies would be disproportionately affected, resulting in an estimated US$100bn reduction in portfolio flows over four quarters. Bank capital would take the biggest hit where leverage is highest. In addition, the report stated that the normalisation of monetary policies should be gradual, because if the pace of normalization becomes too fast, it would remove needed support for sustained recovery. It is also of the view that an abrupt or ill-timed shifts in monetary policies could cause unwanted turbulence in financial markets and reverberate across borders and markets.

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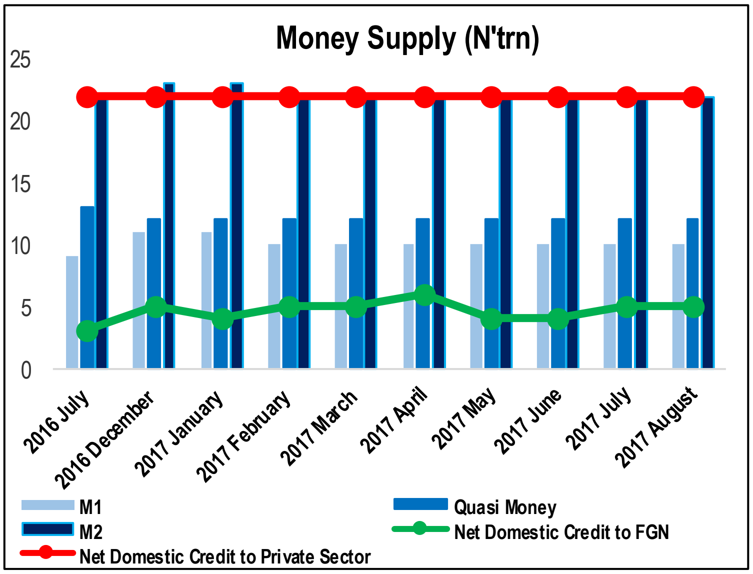
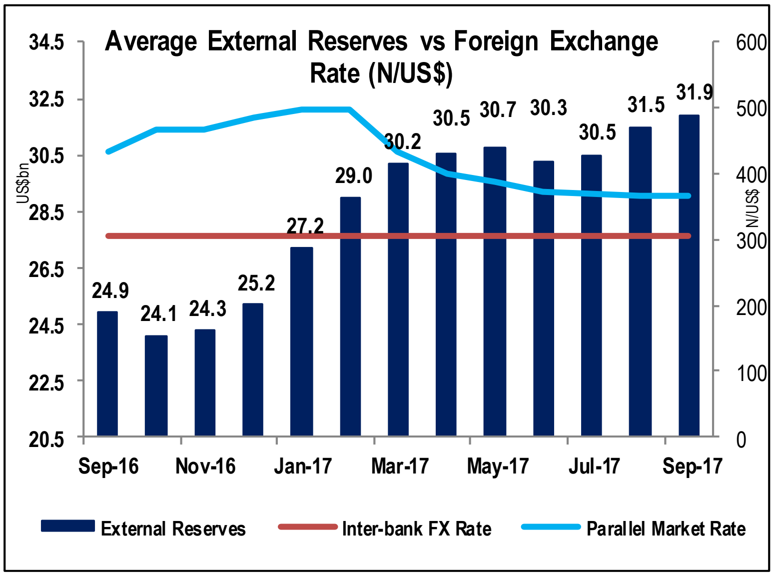
FSDH Research expects that the monetary policy stance of the CBN to become expansionary, as the improvement in the macroeconomic environment strengthens. FSDH Research also expects the attractiveness of the yields on the Nigerian government securities and the positive outlook for the Nigerian economy to neutralise the external shocks from the normalisation of the monetary policy in the advanced economies.





Source: Central Bank of Nigeria and FMDQ

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