

## Growth in Money Supply Falls Below Targets

The monetary aggregates (narrow money and broad money) as at July 2017 show that the annualised growth rate in money supply is below the target that the Central Bank of Nigeria (CBN) has set for the year 2017. In Nigeria, narrow money supply (M1) is the sum of demand deposits and currency in circulation less the cash currency held in deposit money banks' vaults. Quasi money supply (QM) is the savings deposits plus time deposits. Broad money supply (M2) is the sum of M1 and QM ( $M2 = M1 + QM$ ). The M2 decreased by 5.08% to N22.20trillion in July 2017 from N23.39trillion in December 2016. This is lower than the CBN's growth target of 10.29% for the year 2017. The major drop in M2 is from M1, which dropped by 6.71% to N10.33trillion in July 2017, from N11.07trillion in December 2016. The QM also dropped by 3.62% to N11.87trillion from N12.32trillion in December 2016. The need to maintain foreign exchange stability and to curb the high inflation rate in the country, which stood at 16.05% as at July 2017, were the main reasons the CBN adopted restrictive monetary policy stance. According to the CBN, the net domestic credit increased marginally by 1.92% to N27.16trillion in July 2017 from N26.65trillion in December 2016. The annualised growth rate in the net domestic credit in July 2017 was 3.29%, below the target growth rate of 17.93% for 2017. The net domestic credit to the Federal Government increased by 6.88% to N4.99trillion in July 2017 from N4.67trillion in December 2016. The net domestic credit to private sector also increased marginally by 0.87% to N22.17trillion in July 2017 from N21.98trillion in December 2016.

In another development, the Nigerian economy recorded a favourable trade balance for the third consecutive quarter in Q2 2017. According to the National Bureau of Statistics (NBS) the trade surplus stood at N506.5billion in Q2 2017. The total trade stood at N5.70trillion in Q2, 2017, an increase of 7.7% from N5.29trillion recorded in Q1 2017. Exports recorded an increase of 3.2% to N3.10trillion in Q2 2017, from N3trillion in Q1 2017. Imports on the other hand, increased by 13.5% to N2.60trillion in Q2, 2017, from N2.29trillion in Q1 2017. A further analysis of total trade by sector in Q2, 2017 shows that Crude Oil trade accounted for 42.57% (N2.42trillion) of total trade during the period. This was followed by the Other Oil sector, accounting for 21.90% (N1.24trillion).

The value of agriculture imports stood at N232.1billion in Q2, 2017, 16.01% higher than N200billion in Q1, 2017 and 61.02% higher than Q2, 2016 figure. Raw Materials imports increased by 17.4% to N298.84billion in Q2, 2017, from N246.35billion in Q1, 2017. Manufactured Goods imports also recorded a growth of 9.5% to N1.1trillion in Q2, 2017, compared with N995billion in Q1, 2017 but 18.33% lower than Q2, 2016 figure. Solid Minerals imports increased by 1,527.4% to

*The CBN maintained restrictive monetary policy stance because of high inflation and weak exchange rate.*

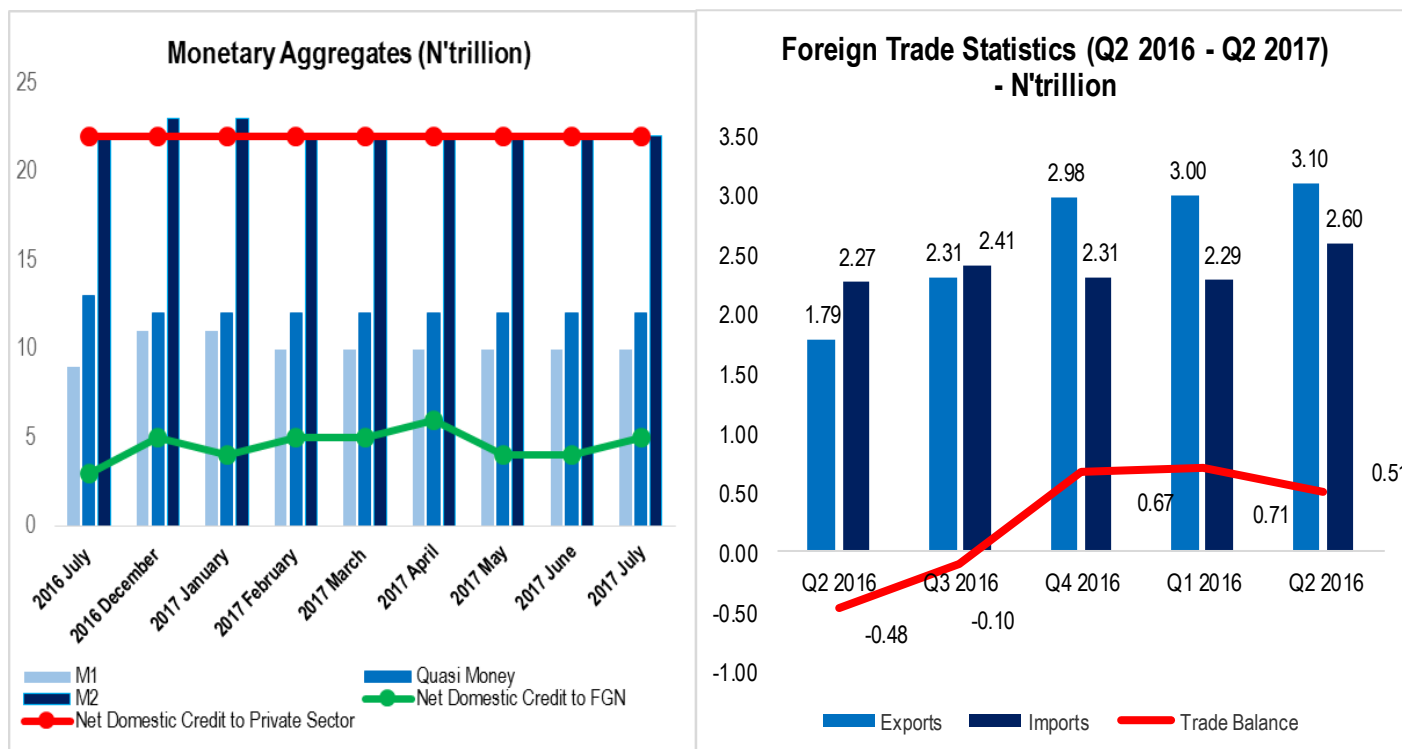
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N191.5billion in Q2, 2017, from N11.7billion in Q1, 2017, and 1,947.5% higher than Q2, 2016 figure. On the exports side; Agriculture exports stood at N29.71billion in Q2, 2017, a marginal decrease of 1.03% from N30.02billion in Q1, 2017 but 94.05% higher than Q2, 2016 figure. Raw Materials exports increased by 31.76% to N21.76billion in Q2, 2017, from N14.85billion in Q1, 2017. Manufactured Goods exports decreased by 16.98% to N81.5billion in Q2, 2017, from N95billion in Q1, 2017. Solid Minerals exports decreased by 27.58% to N3.06billion in Q2, 2017, from N4.24billion in Q1, 2017 but 122.01% higher than Q2, 2016 figure. We expect foreign trade to remain favourable for Nigeria for the rest of 2017.

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The CBN may maintain the current tight monetary policy stance until there is sustainable stability in the foreign exchange market. There are opportunities for revenue and exports diversification from the developments of solid minerals and agriculture sectors to meet the consumers' and industrial sectors' in Nigeria. **Agriculture can supply the raw material requirements of the manufacturing sector if there are appropriate policies to increase production and quality of yields. More job opportunities and additional revenue will also be generated through the linkage between agriculture and manufacturing sectors.**



Sources: Source: CBN and NBS

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