

Monetary Policy: *Helicopter Money or QE? The two set of rules*

Key Macro Indicators

Currency	This Week	Prior Week
External Reserve (\$'bn)	47.33	47.45
USD/NGN (₦/\$)		
NAFEX	361.68	361.6
Parallel	358.5	358.5
Economic Snapshot	Latest (%)	Prior
Inflation YoY (June)		
Headline	11.23	11.61
Core	10.39	10.71
Food	12.98	13.45
GDP (%) - YoY	Q1 18	Q4 17
Real GDP	1.9	2.1
Oil	14.8	11.2
Agriculture	3	4.2
Manufacturing	3.4	0.1
Services	0.5	-0.8
Capital Importation (\$'mn) - Q4 17	Q1 18	Q4 17
Foreign Portfolio Investment - Equities	701.61	989.2
Bonds	335.88	309.5
Treasury Bills	3,527.60	2,178.00
Foreign Direct Investment	246.6	378.4

- The decision of the Monetary Policy Committee (MPC) to hold its policy parameters came as little surprise. However, in a turn of events, the number of committee members supporting an immediate hike, stepped up to three, from one at the last meeting. Seven members voted to retain the MPR, two members voted to increase the MPR by 50bps, and one member voted to increase the MPR by 25bps. In sync with our views, the committee has expressed a budding apprehension about the impending liquidity and sizable capital flight and has preferred to hedge her bets in favor of sustaining current monetary and exchange rate stability (**See report: *Monetary Policy: When will the 'Dove' coo?***). Consequently, we maintain our view that interest rate will remain flat over the near term, with more possibility of raising the MPR in H1 2019.

What's more from the Piece?

- Of most important in the committee decision is its new stimulus measures aimed at increasing the flow of credit to the real economy. In basic tone, the CBN is looking to inject cash into the real sector, by purchasing commercial papers (CPs) of large corporations (excl. banks) and introduce a separate cash reserve requirement (CRR) for banks, channeling credit at 9% to priority sector. First, the CBN is encouraging credit constrained businesses, particularly large corporations, to issue commercial papers (CPs) to meet credit needs, which the CBN may

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buy – indicating its appetite to directly inject money to the private sector. Also, the apex bank guided to the implementation of a separate cash reserve requirements (CRR) for banks, to direct credit at 9%, with a minimum tenor of seven years and two years moratorium, to employment elastic sectors, particularly, manufacturing and agriculture.

- Lastly, the CBN will be introducing a revised and seasonally adjusted money supply aggregate (M3), which the bank believes comprehensively captures the liquidity in and outside the banking system, compared to the existing broad money supply (M2). Though not yet finalized, the impact of M3 on macroeconomic variables would be reviewed at future MPC meetings.

More liquidity to Banks and Large Corporate

- Though details of the framework are still being worked by the CBN, we elect to dig fleetingly into the thinkable impact. As it stands, the CBN's credit to private sector (non-financials) has been insignificant at ₦46.5 billion as at Mar 18, while credit to banks stands at ₦1.86 trillion – credit to the FG and state governments at ₦6.75 trillion and ₦606.5 billion accordingly. Clearly, we expect the central bank's fresh appetite for private sector debt to steer a flux of CP issuances with a reverberating effect on lending rate. Irrespective, in the short term, looking at typical pattern of sucking up liquidity via OMOs and channeling the funds to lend the FG as well as existing interventions, the short-term impact on interest rate environment will hang on the source of funds, either paper printing or from OMO issuance.
 - In terms of the differentiated and dynamic CRR, with details yet to be released, our thoughts are in two scenarios. On one side, we think the CBN will likely set a new CRR for banks that lends to the priority sectors (manufacturing and agriculture) at a rate of 9% and minimum tenor of seven years. In another twist, the CBN may provide credit to the banks, using the standard lending rate of 9% (MPR – 500bps), to on-lend to the priority sectors. On balance, this means more liquidity for the banks chasing the similar borrowers.
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The Devil is in the Framework

- In terms of the impact to the real sector, the framework will determine a lot. Allocation to sectors, maximum lending per borrower, size of funds to CPs, as well as the modalities for the separate CRR for the lending banks will be critical to the impact, or else, we are likely to see similar pattern wherein banks have more liquidity with a large chunk still being channeled to the quality corporate and investment securities (Treasury Bills).

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