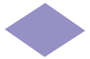

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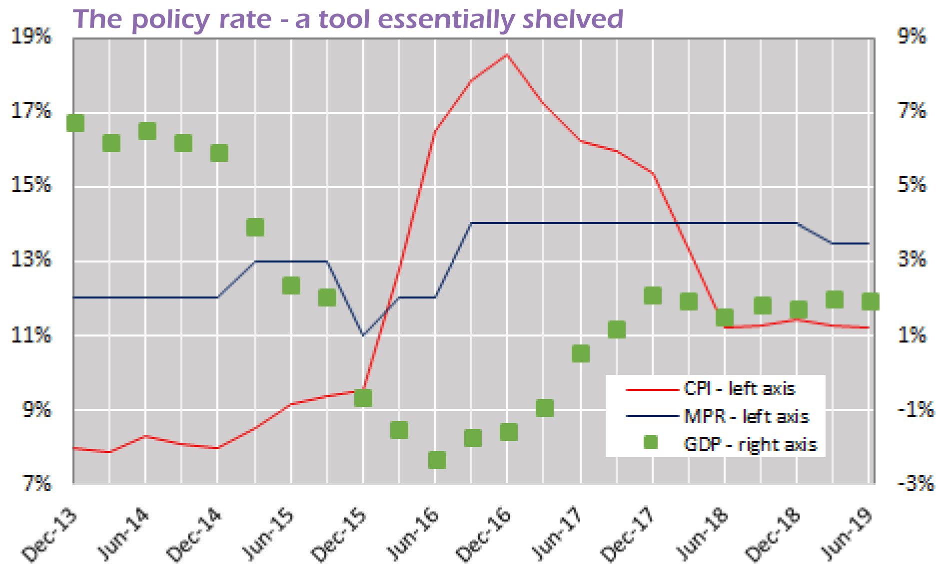
NIGERIA FLASH NOTE [REV]

Monetary Policy - still adrift

*With the economy grinding perilously close to stall speed and inflation running well north of its target corridor, **the monetary policy committee has found itself planted firmly in mid-air** for more than a year. As such, the outcome of its bi-monthly sessions has become almost completely predictable.*

*Although the latest meeting was no exception, **the relevant statement provides fascinating insights into the quandary confronting policy-makers**.*



1) Compelled to acknowledge the pace of growth as "mediocre", **the Committee soon ties itself up in explanatory knots**. First, it is claimed that the Q2 deceleration to a mere 1.94% was *"consistent with global trends of dampening output growth"*. But then we learn, in almost the same breath, that the oil sector grew by **more than three times the rate of expansion in non-oil GDP**, i.e. 5.15% vs. 1.64%.

Another equally implausible explanation proffered is *"the delay in implementation of the 2019 budget"*. But such delays are a recurring issue in Naija, which means that they have zero explanatory value in the current context.

2) Looking ahead, the **Committee sees H2/2019 growth averaging 2.22%**. Although this would actually mark a deceleration from the 2.47% pace projected as recently as July, the "*optimism in growth prospects* (sic)*"* is deemed to warrant an explanation: specifically, "*the new momentum of rising credit to the private sector* (sic)*"*.

Yet a few paragraphs later, it is reported that the **24.36% year-to-date increase in net domestic credit** was **almost entirely attributable to *"a 94.33% jump in credit to Government"***, while lending to the private sector grew by a mere 9.36%.

3) Two months ago, the headwinds curtailing growth were identified as *"low credit to the private sector; high unemployment; delayed intervention of fiscal policy as well as low revenue and fiscal buffers*". These have now been replaced[1] by ***"rising public debt and heightening insecurity across the country"***. This suggests that the MPC has begun to appraise the economy through a wider-angled lens than hitherto – a welcome development.

[1] However, the poor labour participation rate is again cited as an issue, with an emphasis on the linkage between high unemployment and heightened insecurity.

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4) On the subject of consumer prices, the Committee strikes a note of self-congratulation for what it terms *"the continued moderation in headline inflation"*. However, this significantly overstates the actual rate of **disinflation, which has only registered a cumulative 43 b.p. year-to-date**. The manifest issue of 'stickiness'[2] is underscored by August's CPI print of 11.02% (year/year).

5) Turning to matters fiscal, the Committee adopts **a refreshingly forthright position on the recently announced hike in the VAT rate** from 5% to 7.5%. Dismissing this as *"too little to close the gap in Government finances"*, the MPC calls urgently for what it calls "*a big bang approach towards building fiscal buffers"*. What is proposed here is nothing less than a privatization programme to *"free up redundant public assets"*.

Although it is regrettable that no suggestions are offered as to likely candidates[3] for such treatment, **the call for privatizating assets** that the state is ill-equipped to monetize **represents a bold move that deserves commendation**.

6) Adrift between the Scylla of policy-tightening[4] and the Charybdis of accommodation[5], the MPC opts to maintain the status quo[6], as was to be anticipated. However, we are given **a decidedly torturous rationale for the decision**, viz.:

> *"The Committee was of the opinion that **retaining the current position of policy offers pathways to appraising the effects of the suit(e) of heterodox monetary policy** to encourage credit delivery to the real sector."*

QED ...

[2] The challenge was explicitly acknowledged by Emefiele in a TV interview today.
[3] Any serious list would have to include the zombie oil refineries as well as the partial divestiture of the NNPC's mandatory 55% stake in every oil concession. The latter would, of course, presuppose the enactment of the long-stalled Petroleum Industry Bill.
[4] This, *"in the midst of a fragile growth outlook would increase the cost of credit, and further contract investment and constrain output growth."*
[5] This would *"heighten inflationary tendencies in the economy [while failing to produce] a corresponding adjustment in real sector output*."
[6] I.e. Policy rate at 13.5%, with an asymmetric corridor of +200/-500 b.p.; Cash reserves ratio at 22.5% and Liquidity ratio at 30%.

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