Rhombus Advisors LLC

Omotunde A.J. Mahoney
+1-862 444 0746

May 24, 2018

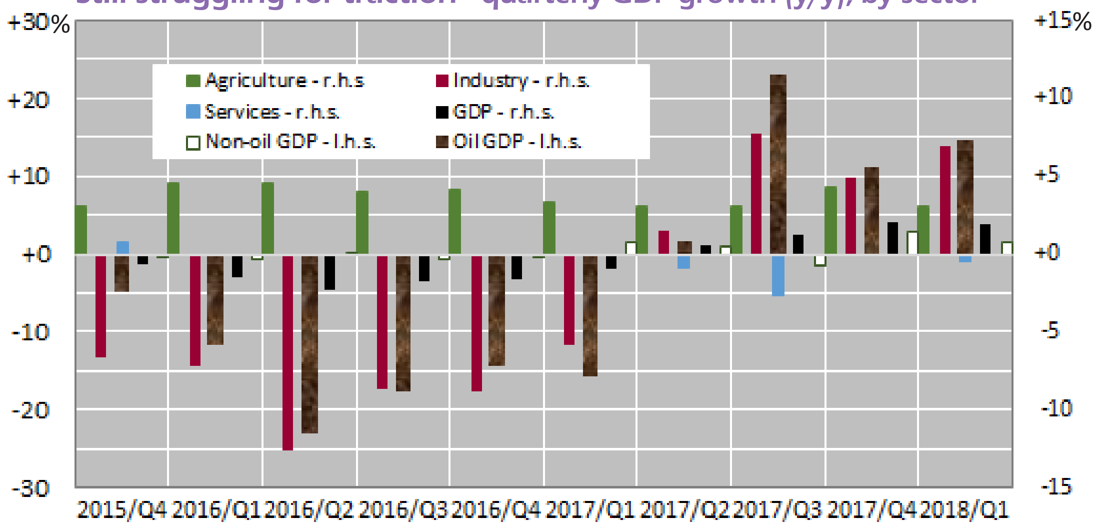
NIGERIA RESEARCH NOTE

The recovery falters, but monetary policy remains boxed in

Presiding over a ceremony in Kano, last week, to mark the commissioning of the new Force Technical Intelligence Unit, the Inspector-General of Police was called upon to deliver a short speech. Regrettably, he proved no match for the prepared text, a calamity that the [accompanying clip](#) captures in toe-curling detail.

In retrospect, his halting delivery can be seen as ***a metaphor*[1] *for the Ŝŏ2y2Yèųă ŦI-űŜǈăyƎ recovery*** - a performance that made the **outcome of this week's MPC meeting a foregone conclusion**.

Still struggling for traction - quarterly GDP growth (y/y), by sector



1) Three months ago, officials at the Villa held up the 1.92% print[2] for Q4/2017 as evidence that the recovery was gaining traction, putting the economy on track to hit the Authorities' 3.5% GDP growth target for 2018. We were left unimpressed, noting in particular that the **non-oil sector**, accounting for almost 90% of total economic activity, **had contributed a mere 0.47%** of the full year's 0.82% output growth[3].

2) Marking the first quarterly deterioration since 2016/Q3, Monday's 1.95% y/y print for Q1/2018 appears to have validated this scepticism. Yet again, **the non-oil sector sticks out the principal laggard**, eking out a mere **0.76% in y/y growth, versus the oil sector's 14.77%**[4].

3) Responsible for 52% of total output, the **Services sector contracted by 0.47%**, its second consecutive decline[5]. Meanwhile, growth in the **Agriculture** sector – responsible for 25% of all economic activity - **decelerated to 3.00%, its weakest print since H1/2013**.

---

[1] As if to underscore the point, it was the word 'transmission' that the IGP seemed to find most challenging.
[2] The figure has since been revised to 2.11%, based on higher estimates for oil output in the third and fourth quarters.
[3] See research note, "*Still Muddling Along*", Mar. 6, 2018.
[4] This means there is much riding on the prompt re-entry into service of the Nembe Creek trunk line. The export pipeline has been out of commission for more than 11 days, resulting in the shut-in of as much as 200,000 bbd – i.e. 10% of Nigeria's Q1/2018 crude exports - triggering Shell's *force majeure* declaration last Friday.
[5] More alarming still, the Q1 print marked the series' 8th consecutive reading had failed to breach the +0.10% 'ceiling'.

4) Against this backdrop, **this week's MPC's decision to "hold" should have come as no surprise**, even though a number of local players had been publicly calling for a rate cut[6].
Furthermore, the relevant Communique was unusually explicit about the **policy dilemma created by Nigeria's low-growth, high-inflation[7] environment**, viz.:

- *The Committee … believes that growth remains largely fragile and could benefit from further reforms and stimulus.*
- *The MPC … noted the potential effects of the expansionary fiscal budget of 2018 … as well as the build-up in election related spending.*
- *The Committee noted the need to maintain remunerative domestic rates to stem the trend towards huge capital outflow.*

5) One additional feature of the statement was its implicit acknowledgment of the **unintended consequences** flowing from the current policy stance, most notably the **phenomenon of crowding-out**, viz.:

- *Net credit to government … grew by 46.13% (annualised to 138.39%) … in contrast to a provisional growth benchmark of 10.48% for 2018. Credit to the private sector, however, contracted by 0.16% (annualised to -0.47%), against the provisional benchmark of 54.97% …*

6) Our expectation is that the current scenario - **an over-heated economy, laboring perilously close to stall speed** - will remain in place over the near term. This means that, **when the Committee reconvenes in July[8], its most likely course of action will be to leave monetary policy unchanged**, yet again[9].

[6] Yet a number of local players had been publicly calling for a rate cut. Bismarck Rewane of Financial Derivatives had greeted the GDP print for Q1/2018, with the admonition that, *"The reality is that if they don't bring down those interest rates […], they are just going to strangulate this economy."*

[7] We were left perplexed by the Communique's observation that, "*disruptions to the supply chains in major food producing states … remains a concern as food prices remained sticky downwards* (sic)". What this unusual phraseology obscures is the fact that April marked the 34th consecutive month that the Food sub-index had recorded a double digit year-on-year increase.

[8] When the 2019 elections will be only seven months away.

[9] The date will mark the second anniversary of the Committtte's last policy move.