



CBN's 5-year Monetary Policy Blueprint













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Neo-orthodox Economics of Monetary Policy





- ✓ Economic policy Σ (Monetary policy + Fiscal policy)
- ✓ Monetary conditions are different from Monetary policy
- ✓ Monetary policy runs counter to monetary conditions
 - ✓ Tight monetary conditions call for loose monetary policy
- ✓ Monetary conditions - the patient
 - ✓ Monetary policy - the therapy
- ✓ Recent attempts of monetary policy trespass in U.S & S.A led to market backlash and pushback



Macroeconomic Scorecard – Setting the Records Straight

Economic Indicators	Slowing Growth	Recession	Recovery	2014/2019	Relapse or Take off
	2014	2016	2019		2021
GDP (\$'bn)	568.5	405.4	482.3		576.5
 GDP growth rate (%)	6.22	-1.60	2.01		3.4
 External Reserves(\$'bn)	34.47	25.84	45.11		54
 External Debt(\$'bn)	9.71	11.41	25.27		31.2
External buffers (\$'bn)	24.76	14.43	19.08		22.8
 Exchange Rate N/\$	191	490	362		400
 Trade balance (\$'bn)	-6.4	-0.5	23.5		29.6

Macroeconomic Scorecard - Setting the Records Straight

Economic Indicators	Growth 2014	Recession 2016	Recovery 2019	2014/2019	Relapse or Take off 2021
 Inflation rate (%)	8.00	18.55	11.40		9.2
FGN Overdraft (N'trn)	0.92	-	8.12		782.61
CBN balance sheet as a % of GDP	15.25	16.25 (2015)	17*		17 - 18

Source – EIU, CBN, *forecast



2014 – 2016 : Rough time for CBN



2016 till date : CBN scores high

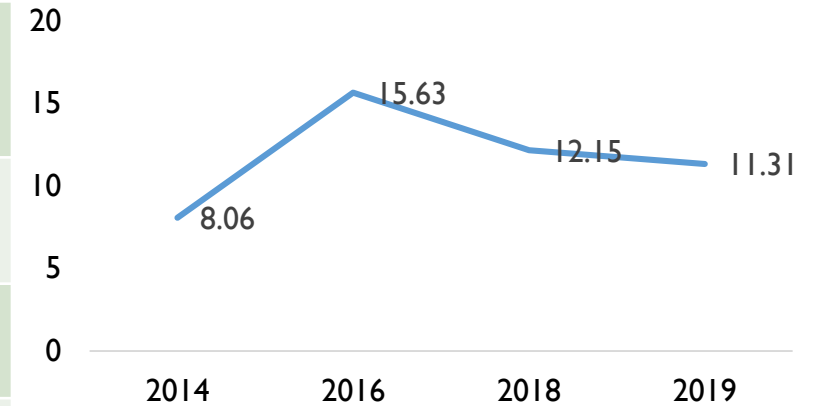
Citizens Scorecard – Suffering but Smiling



Commodities	2014	2016	June'19	% Change (2014/2019)	
Garri (50kg) yellow	13,500	13,500	6,500	52	↓
Rice (50kg)	9,500	19,000	15,000	59	↑
Beans (50kg)	14,000	18,000	19,000	36	↑
Gala	100	100	100	-	↔
Palm Oil (25L)	9,000	15,000	9,000	-	↔
Tomatoes (50kg)	4,300	10,000	18,000	319	↑
PMS (N/ltr)	97	146.7	145	49	↑

Source: FDC Think Tank

Average inflation (%)



Source: NBS, FDC Think Tank

✓ Headline inflation now at 11.40% (May)

✓ Expected to increase to 11.50% in Q3

Promises Made in the Blueprint

Bold statements but no specifics

- ✓ **Macroeconomic & financial stability** – single digit inflation rate & double digit growth rate
- ✓ **Boost financial inclusion** – through investment in payment system infrastructure (95% of Nigerians to have access to finance by 2024)
- ✓ **Mortgage facilities** – reduce high cost of obtaining mortgage loans
- ✓ **Boost external reserves** – currently at \$45.09bn
- ✓ **Recapitalisation of banks** – NPLs down to 9% in 2019



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Differentiating Between Fiscal and Monetary Objectives

Fiscal Goals

- ✓ GDP growth
- ✓ Budget
- ✓ Fiscal deficit
- ✓ Revenue
- ✓ Unemployment
- ✓ Investment in infrastructure

Monetary Goals

- ✓ Price stability
- ✓ Managing external imbalance
(exchange rate, external buffers)
- ✓ Safety of the banking sector
- ✓ *Framework* – inflation targeting
- ✓ *Anchor* - Monetary Policy Rate (MPR)

Monetary Policy Rules

- ✓ **Discretionary rule:** CBN acts as it sees fit
- ✓ **Fixed rule:** do nothing irrespective of events; too simple to respond to complex events
- ✓ **Feedback rule:** policy responding to specific events; dependent on how quickly the adopted policies can take effect
 - ✓ Nigeria adopts feedback rule but is at times late to respond
 - ✓ E.g Forex crisis in 2016
 - ✓ CBN likely to shift to discretionary rule



What Next?

- ✓ New capital guidelines to keep ahead of
 - ✓ Ghana: \$81.9mn
 - ✓ Nigeria: \$69.4mn
- ✓ Monetary policy is positive and likely to remain positive in the near term
 - ✓ Policy continuity
 - ✓ Interaction with international financial community
- ✓ Structural changes necessary – fiscal mandate for fiscal team **ONLY**
- ✓ Forex market structure to remain a managed float regime
- ✓ Improved access to finance for farmers and the creative industry



Unintended Consequences

- ✓ Tight monetary policy will choke growth
- ✓ Intervention emergency funding is becoming a permanent feature
- ✓ Unemployment data for Q4'18 will show sharply higher figure (estimated at 28%)
- ✓ Nigerian banks to become larger and dominate West & Central Africa



*Thank
you*

