FDC Economic Bulletin

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MPC Maintains Status Quo, Optimistic about the Future

In a widely anticipated move, the MPC maintained the status quo on all monetary policy parameters. The MPC expressed concerns about the changing global imperatives and the probability of higher volatility in markets. Its decision to be more cautious about making changes was influenced by underlying weaknesses in inflation fundamentals. There was a clear suggestion that the committee believes strongly that domestic inflation was a victim of import dependence and that the weak naira was feeding into the price equation. The MPC for the first time in many meetings acknowledged that money supply growth both in its narrow and broad form are catalysts of price inflation.

The apex bank also hinted at the possibility of a more accommodative policy in 2017. The potential of positive growth in Q4 GDP and the increase in external reserves will enhance the CBN's capacity to reduce interest rates. The new growth and recovery plan and the external borrowing plan are expected to serve as catalysts to reflate the economy. Global oil prices have also increased at a 100% mark up to $55pb from this time last year. Efforts by the government with the recent visit of Vice President Osinbajo to the Niger Delta and the compliance of militants reinforce expectations of improvements in oil production levels.

Recent events may have prompted the apex bank to be more consistent in its policy decision. The IMF Article IV team is currently visiting Nigeria and an endorsement from the IMF will go a long way in nurturing investor confidence in the country and encouraging capital inflows. On the global front, oil price volatility and the rise of neo-nationalist and protectionist sentiments have introduced a sense of uncertainty that the MPC has identified as possible catalysts for economic headwinds.

The MPC was also forthcoming in its guidance especially in three particular areas, which will have wide implications on the economic recovery. These areas of interest include a more accommodative monetary policy stance as the year progresses, increased monitoring of M1 movement and dynamics, and a closer level of scrutiny to ensure soundness in the financial system.

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Regional country comparison

Angola

The national bank of Angola maintained its benchmark interest rate of 16%pa in its final meeting in December last year given its high inflationary environment. Angola has sustained a persistent and rising increase in the level of prices as a result of reasons parallel to that of Nigeria. These include inadequate and delayed policies, fragile oil market, weakening Kwanza and declining market confidence to mention a few.

Ghana

The central bank of Ghana also kept its benchmark rate of 25.5%pa unchanged since cutting in November 2016. This however perplexed some market analysts who were of the opinion that a further cut in the benchmark rate was feasible. The Bank of Ghana has stressed its agenda to support the cedi and therefore is treading with caution on monetary policy in order not to startle the markets and reintroduce speculative behavior. Inflation is also a hot topic as it still deviates from the bank's target of 6-10% at 15.4% year-end, although inflationary pressures in the country have begun to taper down.

The road ahead

Monetary policy is the effective tool for stabilizing overheated economies and complements fiscal policy in times of cyclical downturns. There had been both tacit and open divergence in ideologies and policy direction between both policy camps in Nigeria. However, it is now becoming increasingly obvious that the ideological gap between these camps is closing. With this anticipated synergy between monetary and fiscal policy, a slow and painful economic recovery is underway.