LAGOS CHAMBER OF COMMERCE AND INDUSTRY

COMMENTS ON THE OUTCOME OF THE MPC DECISIONS

The Lagos Chamber of Commerce e and Industry [LCCI] notes the decisions of the Monetary Policy Committee [MPC] of the Central Bank of Nigeria [CBN] at its meeting of July 23rd and 24th 2015. The CBN maintained status quo on its major policy stance. The LCCI has reviewed the decisions of the MPC and responds as follows:

- We share the concern of the CBN that there are no easy choices given the dwindling crude oil price, dwindling accretion to reserves, the weak fiscal position of government and the pressure on foreign reserves. We also share the submission of the apex bank that the federal government needs to unfold its economic agenda to boost investor's confidence and reduce uncertainty in the economy.
- We support the CBN's position that monetary policy instruments needs to be complemented with fiscal policies to achieve the desired economic outcomes as monetary policy has severe limitations in the present circumstances.

The LCCI however expresses the following concerns about the decisions of the MPC:

- The decision by the CBN to retain the current demand management model in the foreign exchange market reflects an ominous indifference of the CBN to the plight of various stakeholders [including manufacturers] over its foreign exchange management strategy. We submit that the present model [which is essentially an administrative allocation mechanism] has profound collateral consequences for the economy - the opaqueness of the foreign exchange management, vulnerability to corrupt practices and distortions in the economy.

- Submissions by stakeholders in the economy to the CBN to review its list of items not valid for foreign exchange were completely ignored by the MPC. The matter was not even mentioned in the communique. The LCCI is gravely disturbed by this disposition.
- Stakeholders had raised issues of classification of items for proper identification of the products and to make implementation less disruptive of the economy. There are many items on the list which are critical inputs of many production firms. Sustainability of many manufacturing activities is currently at risk, especially with the apparent unwillingness of the CBN to shift ground.
- Meanwhile, in the spirit of transparency and in line with the values of the present administration, we call for the publication of the list of beneficiaries of the foreign exchange allocations in the past one month. This will allow for a more robust discussion and engagement on the way forward.
- The LCCI is worried about the apparent trivialization by the CBN of developments in the parallel market segment of the foreign exchange market. It is curious that the unprecedented disparity in the rates did

not seem to bother the CBN. We affirm that the widening disparity in rates has profound implications for the economy. It is an incentive for round tripping, it would create distortions in the economy, it compromises the principle of level playing field in the economy, it would make the management of the foreign exchange market vulnerable to all manner of sharp practices and corruption. The large informal sector of the economy is fed largely from this segment of the market. These are issues the CBN cannot afford to ignore.

- Importation of petroleum products exerts the highest pressure on the foreign exchange market and the country's reserves. The LCCI expects this matter to be highlighted in the MPC communique. The same is true of the implications of fuel subsidy on the fiscal stability of the governments at all levels. These are major fiscal issues posing challenges for monetary policy and the management of the foreign exchange market. We call on the President Buhari to do something urgently about these critical issues.
- The LCCI posits that the protracted problem of excess liquidity should be addressed in a manner that would not persistently cause disruptions and dislocations in the economy. The therapy of interminable monetary tightening has really not worked. The focus has been on tackling the symptoms, not the cause.
- We submit that the phenomenon of excess liquidity is driven principally by the monetization of crude oil receipts and the high and increasing banking system credit to the federal government. Fixing the problem through a root cause analysis will be more helpful to the

economy. It is critical to curb the incidence of high powered money in the financial system. We note for instance that while the benchmark for Net Credit to the economy was 29.3% for 2015, credit to federal government grew by 40% as at June 2015. These are issues to worry about.

- The money supply impact of monetization of oil revenue receipts, banking system credit to government and the various intervention funds of the CBN need to be critically examined at this time. The crisis of excess liquidity has done incalculable damage to the economy for many years. There is a strong nexus between the crisis of liquidity, rising inflation; exchange rate depreciation, weakening purchasing power and worsening poverty of citizens over the years. It is in fact the principal reason for the paradox of ***poverty in the midst of plenty.***
- We do not agree that the factors driving inflation at this time are transient as suggested by the MPC. The continued depreciation of the currency and the structural issues are major factors putting pressures on prices and these are not transient. They need to be tackled urgently.
- The LCCI believes the economy at this time needs to be stimulated, not further constricted. The stock market has been on bearish trend for the past couple of months; output growth in the economy decelerated to 3.9% in the first quarter from 5.9% in the previous quarter; profit margins are on the decline across sectors; purchasing

power remains weak as unemployment continues to rise. This is not the time to keep the economy in a tightening mode.

REMI BELLO, FCA

PRESIDENT

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26TH JULY 2015