



Proshare **Confidential**



The Headache Of Missing Targets

January 2018

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Economies are anchored on policy goals regarding price and growth. In more precise terms such goals are spelt out in numeric targets. These numerical targets serve as the needed guide for economic agents who gauge both the wiliness and degree of response of policy makers to their touted goal. In most cases, it is interpreted as been activist or conservative to specific objective, such as maximum employment, economic prosperity and price stability.

Evidently, numerical targets act as an integral part of signalling to economic agent, thus the Nigerian economy is not an exception to such. Targets also serve as a platform to reappraise economic performance periodically. As much as we do agree that targets are threatened by external headwinds, at the same time the gulf between targets and actual performance points out both the resilience of the macro economy and foresight of policy makers. More importantly it provides the ample opportunity to avoid been entrenched in the “let by gone be by gone” syndrome. Thus the danger of growing repeated undershoot to numerical targets affects the reputation of policy makers as a whole.

In the wake of another economic horizon, this edition of Proshare Confidential takes an in-depth study into the projected economic targets over the years. Humbling, it creates the right platform to weigh target against actual performance by so doing

highlighting the performance of policy with regards to targets. Therefore backtracking as far back as 1993, policy makers have been able to hit their inflation targets six (6) times.

The switch in monetary anchor from monetary rediscount rate to monetary policy rate strengthened the grasp on inflation, as it forced inflation to reside within the single digit territory. However, the repeated series of monetary shock combined with supply shock has increased the limitation of monetary policy rate. Thus, in recent times inflation seems to display a stickier attitude downwards, as it reflects supply constraints.

Over the years the inability to carry out reforms ranging from infrastructure, improved private participation, proper land administration, privatization, improved fiscal prudential and deregulation of the oil sector has become a negation on the mid to long, as the markets are less patient and quick at raising the sticks for committing sins of omission - such is responsible for the series of monetary shock.

Apart from committing the crime of omission, the peculiarity of the Nigerian structure feeds inflation, the relatively high chunk of the lower class which depends on cash balances with the food sub-sector as the major component of their consumption basket makes food inflation stubborn.

The money market remain relatively shallow and has an inherent captive, allocation of resources by the upper end of the middle class is difficult.

On the growth story, Nigeria has hit its target seven (7) times, as growth showed earlier reversal compared to inflation. Macro reforms as at the inception of democracy such as exchange rate, debt, fiscal rule, deregulation and elements of pro poor polices such as NEEDS and SEEDS paved the path for growth. Thus, policy was more bullish on targets as they rode on good reforms.

Though Nigeria has not hit growth levels considered to be abnormal or super normal, growth levels began to fall not as a result of diminishing returns but as a result of less predictability, rising uncertainty and gradual derailing from initial reforms. Thus, missing growth levels became evident as policy makers found it harder to hit their target. This certainly points out the cost of political downside risk to targets such as the inability to hold monetary policy committee meeting, which underpins the uncertainty and inability to manage known knows better off.

Moreover the combination of both shrinking capital spending to GDP coupled with stunted financial deepening threatened output. For instance, in 2016 capital spending was paltry as it stood at 0.2% to gross domestic product. Therefore the need to act on the needed reforms that supports more private capital contribution, such as providing the right legislation that protect private

public enterprise have become inevitable.

In addition, the pro-poor policy in recent times has been largely uncoordinated, unfortunately restricted to hand out and anchor borrowing it has done little to address the present skewed income distribution. A more coordinate front is needed to reverse this horrible state. The approach of enforcement that has been that has pivoted fighting corruption seems to ignore the roots. This includes social insecurity and the potent of fast vanishing social economic mobility.

In the scenarios where targets were not met both the fiscal and monetary authorities need to make it a duty to make available to economic agents the reasons why such targets were not met and the actions taken to ensure it can be met. This will further bolster accountability, credibility and trust to policy formulation.

In a cursory review, this edition also captures the global economy as we reflected on the tight labour and deviation from 2% inflation threshold in America. Certainly, supporting interest hike, at the same time improving the wellbeing of the labour force will lead to increase remittances. The surge in animal spirit and a more conservative strategy by shale oil producers has driven oil price to \$70. In all honesty the fiscal capacity of the nation has diminished, thus additional foreign earnings will be appreciated to replenish our armoury and make the needed economic investments.



Growth is determined by opportunities and the choices made to maximise such opportunity. How best such opportunity is maximised tells the quality of growth. Thus in circumstances where growth is far below its population growth, such growth is poor. At the same it is a product of whether policy makers intentionally aim at a low growth or they simply miss their mark.

Nigeria finds herself accustomed with the later, thus growing far below her potential. The fall out is a weak per-capital income due to the quality of growth. On the other hand, the aisle targets made with regards to price stability depicts policy makers concerns over inflation.

Though targets are revised as the year gathers steam, many will argue that policy makers should be more flexible with targets. Especially in an era where global spill overs are more potent than ever before, which makes threats to targets become more livid. As jolt in the external economy spill into the

domestic economy this affects price stability and growth.

Beyond the reality of macro targets been threatened than ever before, the frequency of missing targets coupled with poor growth have become a concern. Thereby "let by gone be by gone" accompanied with missing targets have consistently undercut our national development. Intriguing, the gulf between projections and actual seem to widen putting economic agents in a nervy position

The ripple effect is that our long run path is become more reliant on the short run as macro targets become less dependable. As the nation become more vulnerable to policy off-track, such as been witness in the infrastructural sector.

Those bumps have made economic agent more cautious and less confident on the ability of policy makers to hit targets. If such scenario is not addressed properly and promptly, the potential growth on the long run could be dented. As it been witnessed already.

Statement of the Problem

- The wide disparity between policy targets and eventual outcomes
- Lean capital expenditure to GDP
- The frequency of external shocks
- Lack of synchronization between the fiscal and monetary authorities

- The series of policy derail
- The growing political uncertainty and lack of consensus
- Relatively slow policy response
- Mismanaging the known knows

Objective of the Study

- The study attempts to point out factors responsible for missing targets
- The study highlights the need for more credible policy appraisal
- The study points out the urgency for reforms
- The study re-access pro-poor polices and the need for a more coordinated front
- The study also pointed out the need for improved balancing

Methodology and Data interrogation

In carrying out this study, secondary data from reputable sources such as the Central bank, National Bureau of

Statistics and International monetary Fund were used.

BackGround to the Study

External Economy: A tale of Different strokes

1. American Economy

United States: Responding to Price Deviations

Fig 1: PCE



Source: Bureau of economic analysis

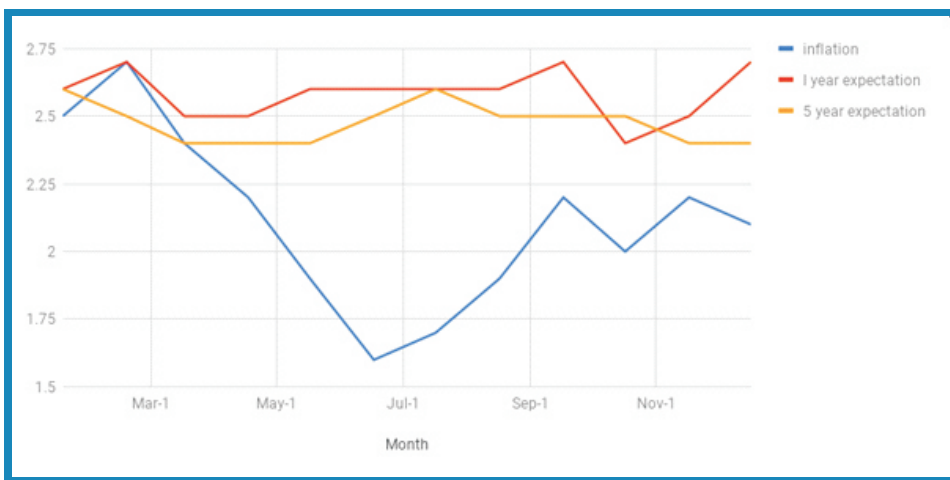
The recent personal consumption expenditure (PCE) made available by the Bureau of Economic Analysis in the United States of America provides an ample room to monitor the consumer behaviour. At the same time it is the Federal Reserve Bank's preferred measure of consumer inflation, as it takes into account household behaviour. Thus personal consumption expenditure rose from 0.3 at the end of Q2, 2017 to 1.5 at the end of Q3, 2017.

Personal consumption expenditure void of volatility also rose from 0.9 to 1.3, as it reflects rising energy prices.

The market's personal consumption expenditure also nudged higher from -0.4% to 1.2%, as it reflects changing gasoline prices and rising out of pocket items.

The United States consumer price index rose from 247.59 in November 2017 to 247.96 in December, thus sustaining six (6) months of southward movement. Inflation fell from 2.2% in the month of November to 2.1% in the month of December. The one year inflation expectation rose from 2.5% to 2.7%, while the five (5) year remain flat at 2.4%

Headwinds:



Source: University of Michigan

Inflation has been on a downward spiral due to recent uplift in gasoline price, tighter labour force and increased consumer spending which was responsible for the inflation recoil in the second half of 2017.

However, inflation expectation across board remains largely numb, spared by the earlier fall. It is expected that the Federal Reserve will sustain its interest hike, thus triggering a reversal to deviations to its price target.

More Feds More Outlooks

Apart from the concerns that inflation could gradually become self-perpetuating and deviation from the

price target is vivid, forecast on the American economy remain positive.

Fig 3: Projected Growth Outlooks for the American Economy in 2018

Fed	Growth projection
Federal Reserve Bank, Philadelphia	2.5%
Federal Reserve Bank, New York	2.75%
Federal Reserve Bank, Atlanta	2.2-2.5%
Federal Reserve Dallas	2.5-2.75
Federal Reserve Bank, Chicago	2.3%

Japan: Looking for the right Inflation

The Japanese economy has been drawn into two decades of deflation and weak growth as a result of series of banking crisis, relatively strong yen and ageing population. Economist will argue that Japan's initial prosperity was on for too long, without breaks: Expectedly, when the cycle spin into a reverse gear the downswing will be long.

The country has a high disguised unemployment, even though then headline figures are low. The real cost to Japan is a potential growth declining by 0.5% over the years (Bank of Japan).

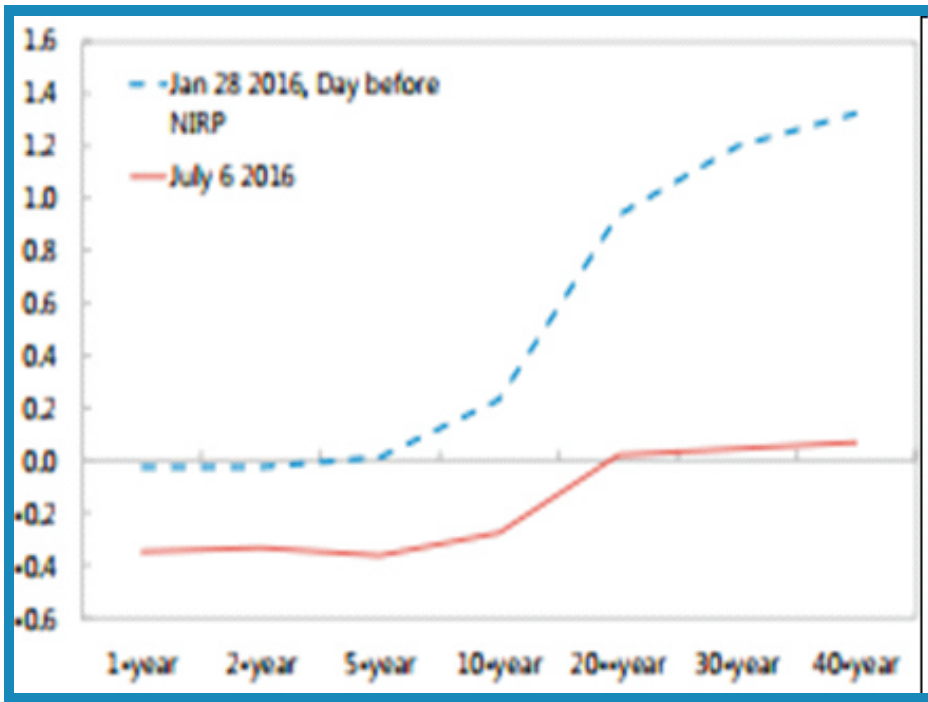
The repeated environmental disasters, labour weakness and rising debt have

only spurred the negative growth. Moreover, the country seems to have lost substantial margin competitiveness to some of its neighbours like China.

In attempt to lift the third biggest economy out of a deflationary cycle, policy response has been shaped in the form of three (3) arrows:

- Substantial monetary easing
- Robust fiscal spending on infrastructure
- Structural reforms such as widening the labour force, increasing sales taxes and encouraging more private capital

Fig 4: Japanese Bond



Source: International monetary Fund

Monetary easing in Japan took a higher flight, as the Bank of Japan moved from tinkering with base money which is popular among central bankers. Rather, the bank of Japan went a step further from keeping rate at zero but stuck at yield control. The band-wagon effect is that the expected short term rate is flat at zero, as it force most part of the short term to a negative convexity position.

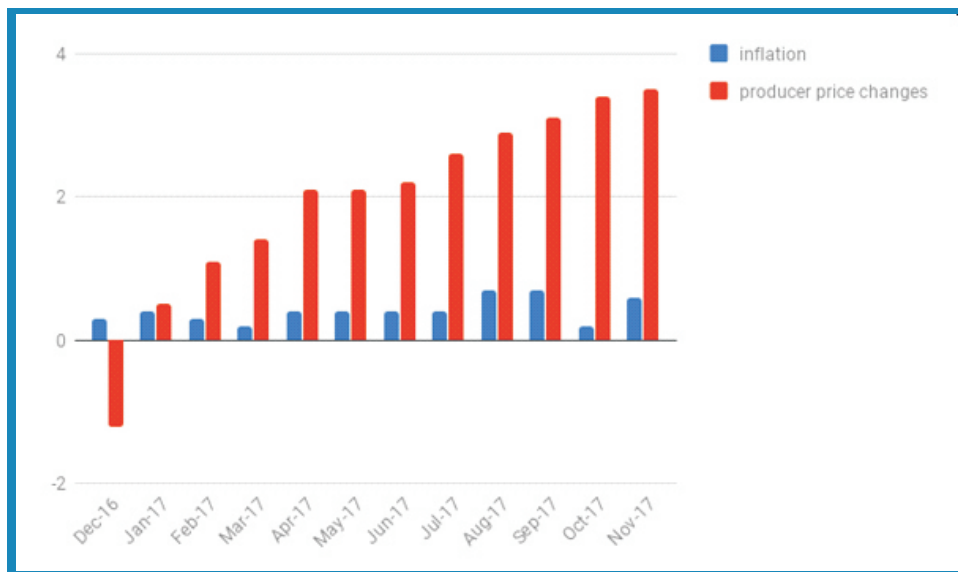
Although the rising yield curve is intact, regardless the bank of Japan artificially tamper down the rate on

the short to 10 year, as it exert pressure on the yield curve. By so doing, the bank reinforces its position to achieve a high pressured economy, with an inflation target of 2%.

Obviously, the Bank of Japan in attempt to stoke the flame of a high pressured economy chose interest rate after quantity seems to have fallen short to stir anticipatory inflation adequately. Four years later, after employing the three arrows how much as the macro scenario changed in Japan?

INFLATION

Fig 5: Inflation and Producer Price Changes in Japan



Source: Trading economics

Inflation in Japan stood at 0.6% as at November 2016, thus making the 2% inflation target elusive. Underlining the reality of substantial negative inflation shocks such as low oil prices, lack of base pay increase and the slump output gap. Changes in producer prices have been on an uptick as oil price pick up softly at the tail end of 2017.

Certainly flattening in the yield curve has led to a negative real interest rate,

however the inability to improve out-gaps and kill off the deflationary mind set completely has made the target unattainable in 2017.

Thus the goal seems largely visible but the numerical target of 2% remains' elusive. Japan reflects the limitation of financial engineering to drive inflation especially with the current tepid base pay.

Germany: Riding well on the known unknown

In the face of political headwinds, the German economy seems to have managed its known unknowns well in 2017. The German economy grew by 1.5% in both the second and third quarter of 2017 largely due to the

presence of a more buoyant global economy, which led to more exports demand else-where.

Intriguing the German economy grew faster than its potential output as

demand kept soaring. As business sentiments in 2017 remained positive, the economy is expected to eke strong

growth at the end of fourth quarter of 2017

Fig 6: Business expectation and situation in Germany



Source: Deutschebank

On the back of projected global growth, the German economy is expected to maintain the existing growth momentum. Thus, a 1.7%

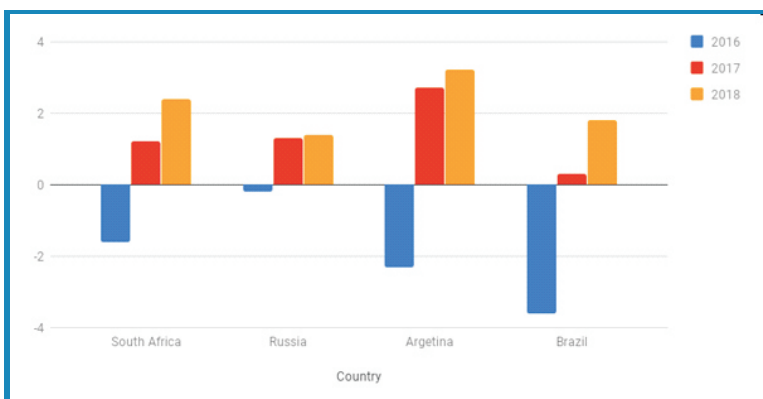
growth is projected for the German economy in 2018; obviously a positive output gap will remain in tad in 2018.

Emerging Economies: How much of a turning point?

At the end of 2017, emerging economies such as Brazil, Russia and South Africa came out of a recession cycle, due to improve commodity

prices. Thereby turning point in the cycle seems to have taken place in the third quarter of 2017.

Fig 7: Growth trajectory in emerging countries

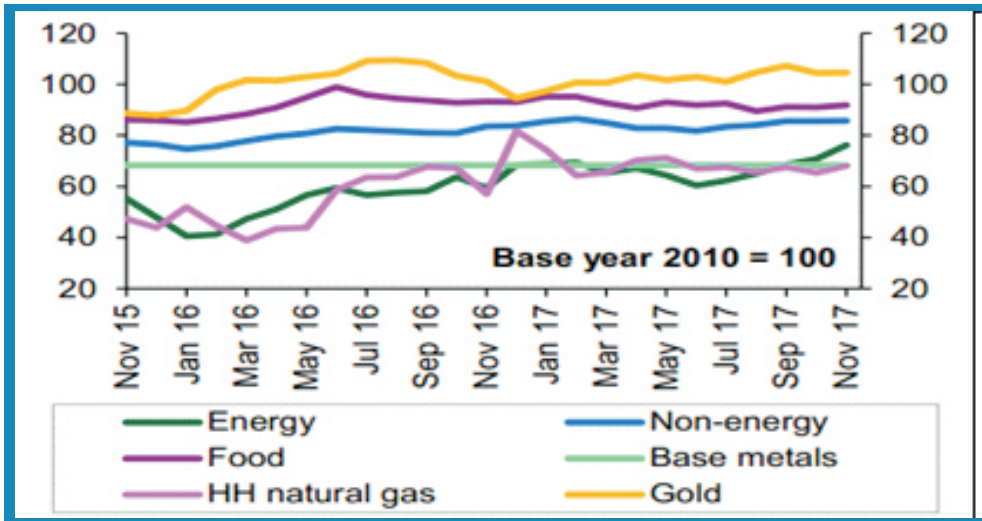


Sources: World Bank

Uplift in commodity prices fused with reforms, especially reduction in government size provides the break out. Although there have been an

improvement in the fiscal capacity of those countries, thus leading to a reduction on risk premium.

Fig 8: Prices of Commodity Goods



Source: World Bank, commodity prices

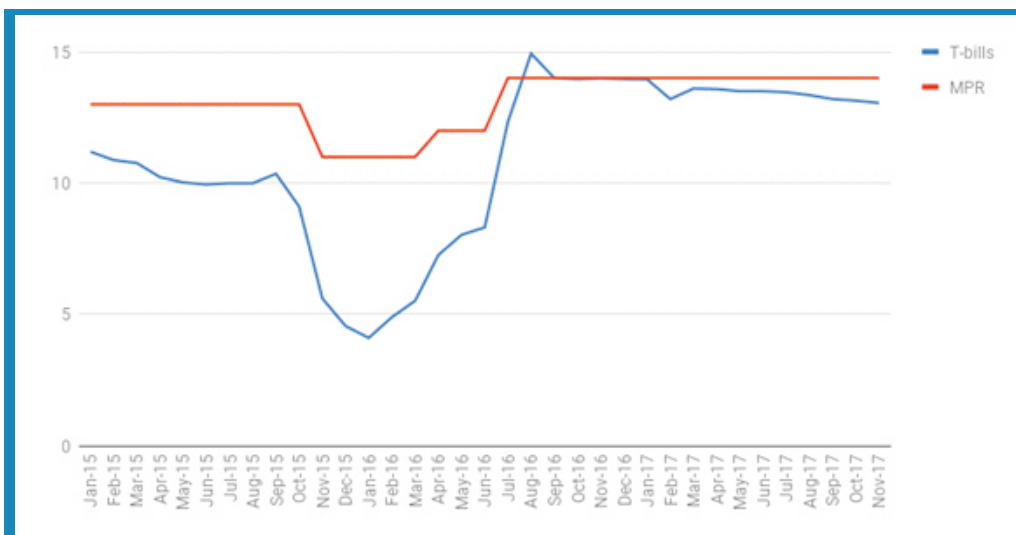
However, shrinking the debt to GDP ratio has become a necessity to avoid

been caught up in a debt hang.

Domestic Economy

Money Market: falling off convexity high

Fig 9: MPR and Short term bill



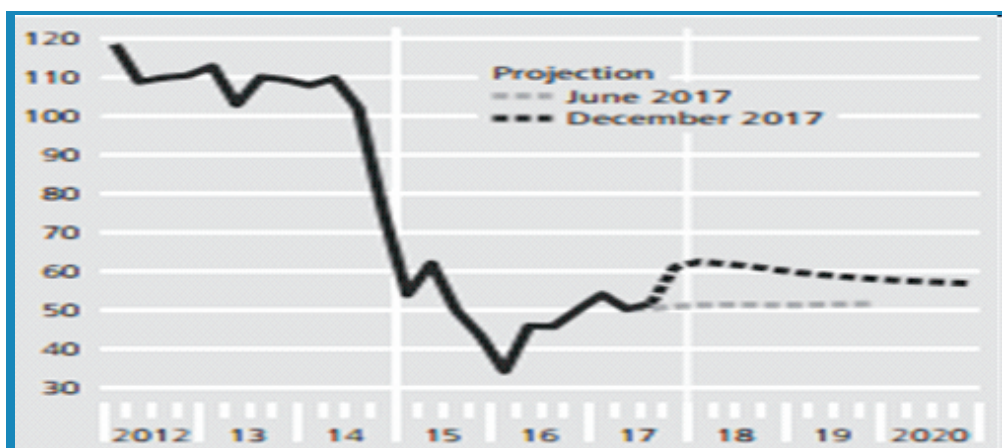
Source: CBN

The downswing effect on fixed instrument coupled with successive intrusion in the market by government in the money market, led to a ripple effect which saw short term instruments hitting convexity in 2016.

However the yield curve on the short end began a gradual steep slide, falling of convexity. Underlying an improvement in the macro end coupled with relatively lean demand for short term instrument.

Oil Price: the second wind

Fig 10: Oil price trajectory from 2012 to 2020



Source: Bloomberg and Dutchebank

In 2014, oil began to experience a deep fall in trajectory as certain factors were responsible for such:

- The global demand was weighed down by combination of more fuel conservative vehicles and weakness in the health of household
- Clean energy was enjoying more attention, thus contributing to the plunge
- Shale oil was on the rise, thereby shifting United States position from a net importer to net exporter. In reality withdrawing 10million barrels per day.

- There was an increase in oil exporters, reducing the stake of the organization of producing and exporting countries.
- Cool off experienced in China, as the nation began a rebalancing to avoid overheating.

Thus, the market was forced to an excess supply position further denting price to a low of \$28. Cutting supply through caps was the only reasonable remedy to the excess demand.

Earlier measures such as flooding the market with the intent of driving oil shale producers under have failed. The cap supported price uplift also

providing respite for shale producers. In recent times the surge in demand, resulted to a bullish run on oil prices,

referred to as the second wind; **so, why celebrate oil prices at \$70/ barrel?**

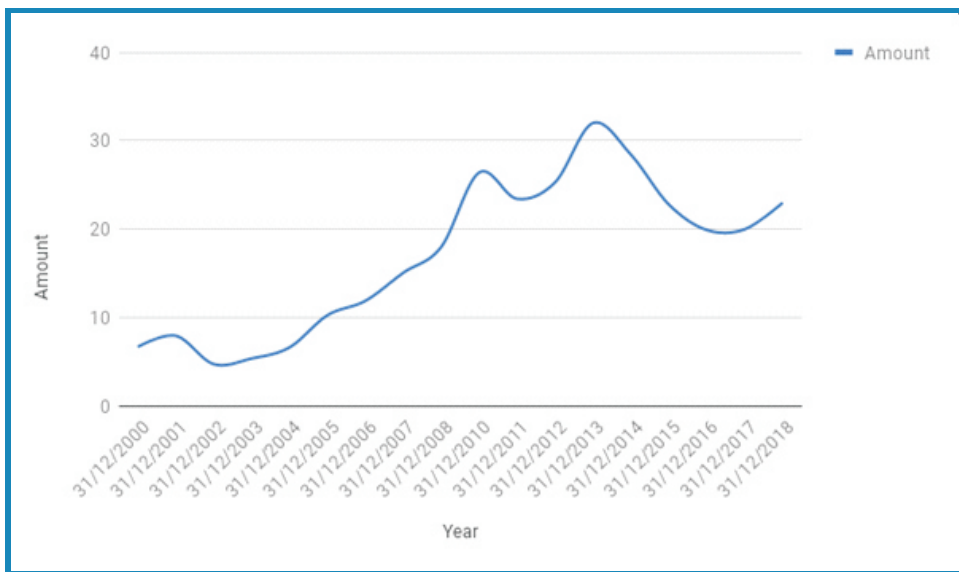
Why celebrate oil prices at \$70/ barrel?

Short run

On the short run, Nigeria's fiscal capacity has diminished. The 2018 federal government budget has fallen by 14% when compared to 2014, whereby population has risen by 13% compared to the same period.

Inevitably an increase in government foreign earning is important, inclusive of an increase in petro-dollar. Such increase rub positively on the per capital income of the nation.

Fig 11: Government Budget from 2000 to 2018



Source: OAFN

Oil prices has a direct impact on the balance sheet of banks, thereby a dip in oil price dents the asset quality; eventually leading to a rise in Non performing loans, and prolonged period of low oil prices which could trigger cash mismatch.

pressure on the overnight rate and the standing lending facility (SLF). Thereby the rise in oil price improves asset quality of banks and reduces the pressure on the overnight rate; eventually providing some relief to banks.

In such circumstances there is a

The 2018 budget has a N2.33trillion

deficit, whereby N1.75 trillion will be sourced externally. Therefore the ability of government to improve its foreign exchange revenue triggers a reduction in risk premium on external

On-the long run

Trends so far have shown that oil revenue has not been ploughed to the right investment nor saved appropriately. The inability to drive oil revenue to either sectorial investments such as refineries or the wider productive asset such as energy and infrastructure has cost the nation dearly. The end product makes a strong oil prices a threat on the long run.

This inability is tagged as a sin of omission, while the market can be patient with the sin of commission.

MPC: Placing a Price Tag on not holding

In accordance with the Central bank's calendar for 2018, Monetary Policy Committee (MPC) meeting is scheduled to hold on the 22nd and 23rd of January 2018 – being the first of such in 2018. However, the meeting did not hold due to the inability of the Senate to confirm nine new members; indirectly forcing policy instruments to remain at status-quo.

Apart from the premium attached to the MPC meeting, as the first of such in

debt to pay: Thus supporting its position to reshuffle its debts composition from 86: 14 to 60: 40. Certainly an increase in oil is positive for the short run.

With the understanding that long term investment coupled with reforms will provide resilience and bear fruit on the long run. The market is quick to punish sins of omission knowing deeply that there are no protective guards nor are there long term bearing fruits.

Evidently oil prices can serve as enablers to strong macro but can't substitute strong macro, thereby making the right investment to drive capital formation should be the end game.

the every year. Traditionally, it provides an avenue for monetary policy to give its wrap on the 2017 economic year, thus signalling its objective for 2018. In addition, it provides the needed guidance to economic agents, as monetary policy delve further inwards from just objectives alone to possible numerical targets.

More than ever before, the importance of this particular meeting cannot be

whisked off because monetary policy find itself at a cross road between price stability and growth. Obviously, the ability of the MPC to state clearly which of the two birds are more self-perpetuating at this point, will have doused policy concerns in the market.

In addition, the recent nomination of nine members to the committee in order to fill up spaces left by outgoing members could cause a policy slack. Certainly, new members will need time to settle down, thereby slowing down policy response. However, the up-end of the next meeting provides the market an avenue to gauge in bits the ideological tenets that the new members are drawn from.

No doubt, the actions of the Senate have further stirred policy inertia, thus fostering implementation lags. The ripple effect is a further delay in policy effect on the real economy. Obviously, this action has left the market with no real guidance, thus increasing the existing risk pool. At the same time holding comprehensive monetary policy decision back by political gladiators will affect economic freedom negatively. On the long run this action if not handled carefully could affect the reputation of the Central bank negatively; thereby, portraying the nation in bad light before international investors.

Given today's reality of high unemployment coupled with rising misery indexes, we have no room to

slow down economic policy. We cannot afford to keep mismanaging the "known knows" any longer. The cost is becoming more and more unbearable, the dented human indexes is a product of this mismanagement.

Thus moving forward, it is important that politics become less tangled with economics. The growing intrusion of politics in economics is not only unhealthy for the economy; more importantly it is leaving the populace worse off. Confirming the new members as soon as possible should be done by the senate in order to sustain the growth trajectory.

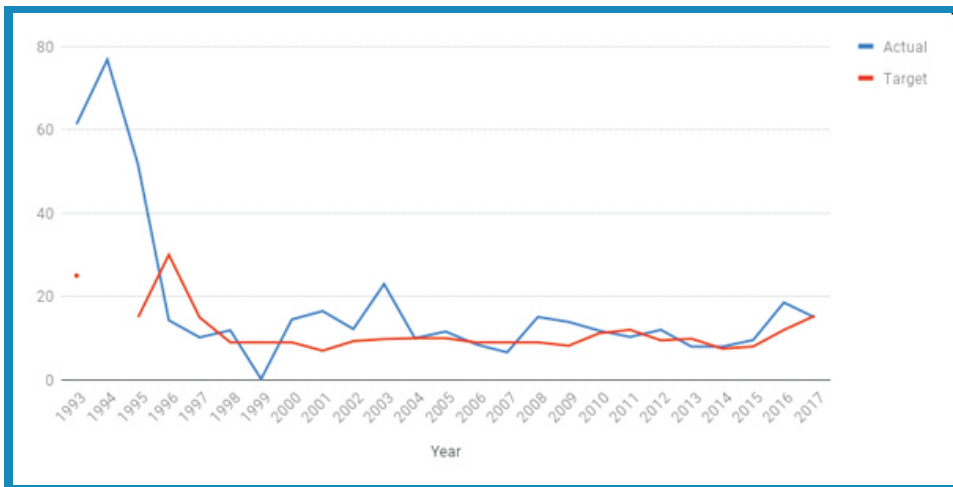
Essentially, we observe that:

- Buoyant global economy does support increase oil demand
- Deviation from price target in the United States reinforces the position for interest hikes.
- High interest rate remain a risk to banks, especially does with huge foreign debt.
- The tight labour force in the United States support increase diaspora remittance to Nigeria.
- Increased oil price strengthens foreign exchange revenue, thus reducing risk premium on future external loan
- Yield curve control have retained goal target in Japan but remains elusive to price target.
- Increase oil price provide respite for banks with regards to asset quality

Missing Targets

Inflation: The life and time of inflation so far, since 1993

Fig 11: Actual and Targeted Inflation



Source; CBN

Findings on Nigeria's Inflation

- Between 1993 till date Nigeria have only hit inflation target six (6) times out of twenty four (24) sample spaces.
- Nigeria's highest inflation was 76.8% in 1994 in the sample space
- Nigeria has hit dis-inflation once, precisely 0.2% in 1999
- Nigeria has only hit its target one out of four pre-election year
- The introduction of Monetary policy rate to replace the monetary rediscount rate has reduced the gap between the actual inflation and targeted inflation thus allowing the monetary authorities to have stronger grip on inflation
- From 2006 till date, Nigeria has only been able to hit target five (5) out of the eleven sample space between 2006 and 2017
- Even though the central bank has a better grip on inflation compare to pre-MPR era where inflation averaged 44.3%, there are still evident lags to inflation.

Factors largely responsible for missing targets

- Targets are largely threatened given the structure of the economy as one which is highly dependent on oil receipts. Thus, a decline in oil price put the target under pressure, underlining the limitation of a rate anchor in the face of external swings.

Fig 12: Oil Prices and inflation



Source; CBN

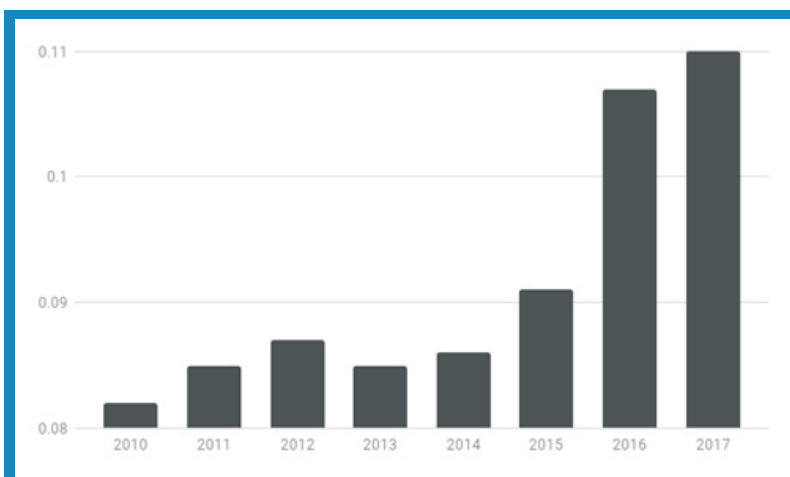
Thus, the pass through inflation that erupted is rooted in low oil price, as the later triggered devaluation

- Although Government established the excess crude account as a measure of increasing fiscal buffer, the manner at which the excess crude account began to play out appears as a self-induced mechanism for inflation.
- Over the years fiscal policy has

been domineering, creating friction with monetary policy.

- Nigeria has a relatively shallow money market, especially when compared to gross domestic product coupled with its captive nature which have been negative for policy objective.

Fig 13; Money Market to GDP ratio



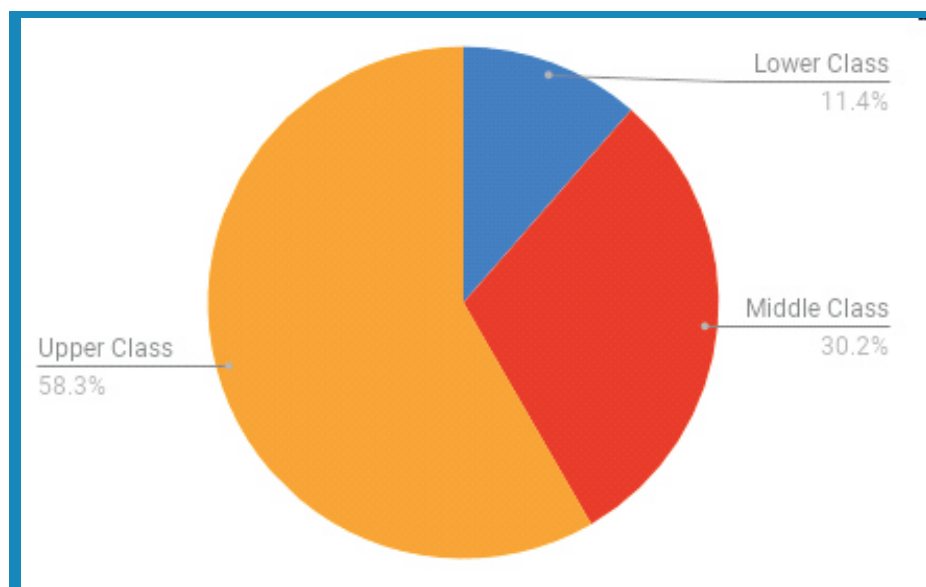
Source; CBN

Though money market to GDP ratio has been on an upscale from 0.082 to 0.11, the uplift has been driven by government borrowing. The multipliers sourced from the money market end up funding the deficits, more recently turning out as financial repression. Given the nature of the shallow market, it supports more of active demand than speculation, since there is limited room to shift purchasing power from high earning periods to low earning periods. The

inherent structural delinquency remains a barrier to how best to allocate resources between current consumption and holding financial asset, indirectly festering inflation.

- Moreover, structural factors such as unstable tax collection, weak tax collection and a relatively skewed income distribution do support inflation.

Fig 14: Inequality in Nigeria



Source: NBS

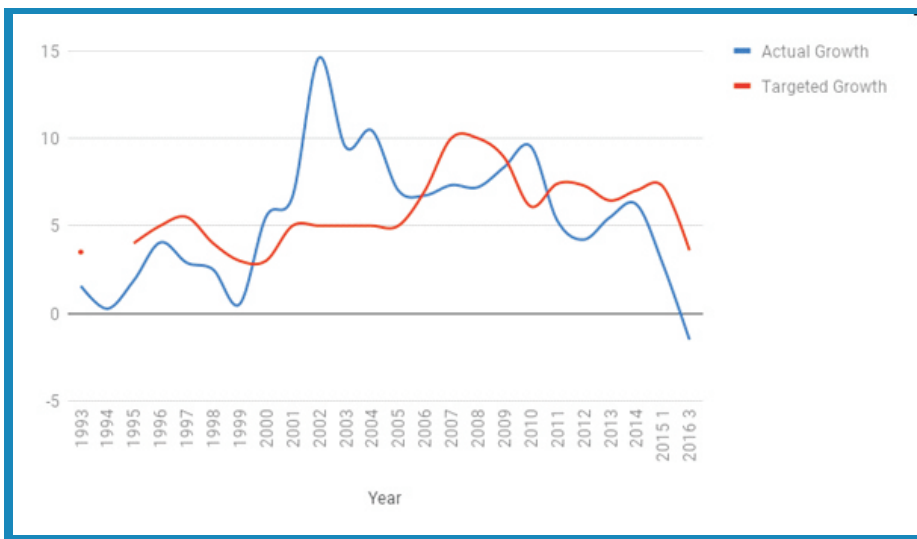
In a country where the lower and middle class only accrue 11.4% and 30.2% of income: the dampening effect of relatively lower income vis-a-vis a large chunk of their consumption basket comprises of the food sub-sector, eventually contributing to making inflation sticky

downwards, due to high food inflation.

Moreover the rigid income structure in Nigeria forces a larger population, who are heavily dependent on their cash balance sheet. Their negotiation power is weak, thus driving inflation (Albanesi).

Growth: The era of missing growth

Fig 15: Growth from 1993 to 2017



Source: CBN

Findings on growth trajector

- Nigeria has hit growth target seven (7) times out of the twenty four (24) sample space
- Nigeria's highest growth rate so far has been 14% in 2002
- Nigeria seems to have outperformed its target from 2000 to 2005, highlighting strong return on reform.
- Growth began to diminish even as oil price sustained upswing, as the economy became less predictable.
- A relative short spell of high growth returned in 2007 to 2009, but the economy returns to below par territory.
- Relatively periods after 2005, growth targets became more elusive to reach as growth seemed to diminish.

Fig 16: Reforms that provided Strong Growth levers between 2000 and 2005

Reform	Purpose
Fiscal Rule	The introduction of the appropriate fiscal rule, which de-linked public expenditure from oil earnings. The budget was supported on oil benchmark, providing room for savings and reducing vulnerability to external shocks
Exchange Rate	Introduction of Wholesale Dutch Auction, which eliminated black market premium. Gradually provided market rate convergence within the exchange corridor.
Debt	The ability to renegotiate, restructure and write off its debt further improved the nation's credit standing. At the same time it provided room for fiscal policy to address social necessity and public goods.
Pro-poor policies	A bit of Keynesian doesn't kill, but too much does. In attempt to enhance income distribution we saw the introduction of NEEDS, SEEDS and local content policies to improve income distribution.
Banking	The consolidation reforms carried out by banks strengthened their capital base, bolstered the securities market and deepened the financial deepening ratio. Thus addressing the financial repression suffered by banks during the structural adjustment era.
Privatization	The process of shedding of public companies considered as dead wood improved business freedoms coupled with the deregulation of the telecommunication sector.

Source: Broking Institute

The diminishing growth cycle

Early reforms ranging from trade to banking paid off as it paved the right path for growth. However, such robust growth was ruptured too early. First of all, Nigeria had not reached the point of abnormal growth nor did it achieve economic agglomeration, thereby diminishing marginal return to growth levels was considered premature. Moreover the relatively underutilized industrial capacity

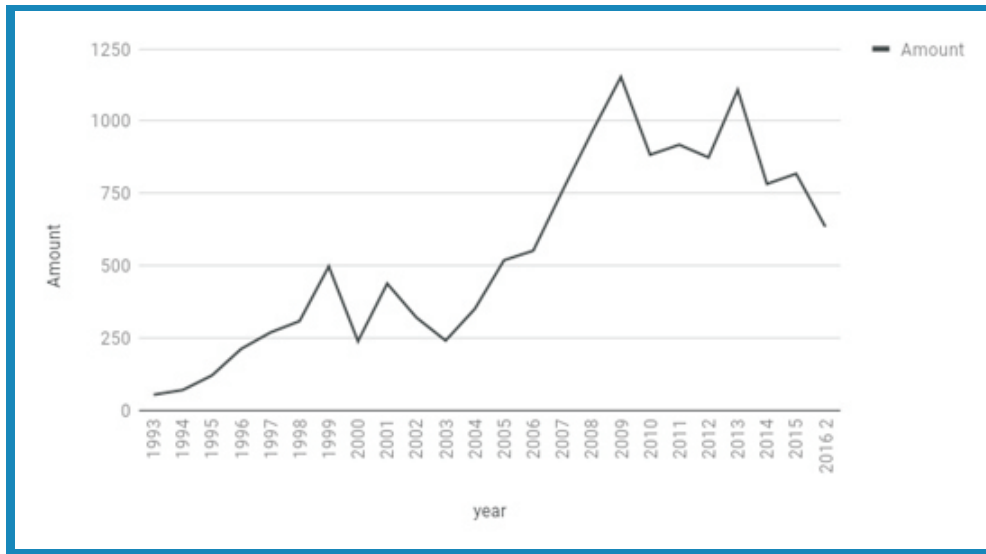
reinforced such position.

The economy became less predictable; as a pediment of uncertainty began to grow, restiveness in the Niger Delta and persistent policy summerraults affected the macro negatively. The growing lack of political consensus further strengthened uncertainty.

Apart from policy uncertainty what was responsible?

- Lagging Capital Expenditure

Fig 17: Capital expenditure from 1993 to 2016

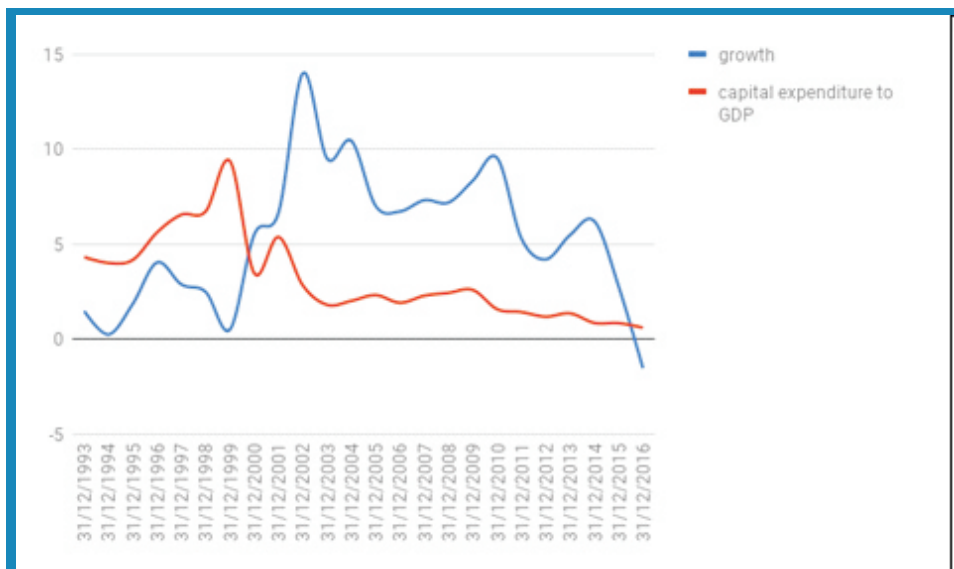


Source: CBN

In nominal terms, capital expenditure has been on the up- rise after 1999, however from 2008 till present day capital expenditure has been irregular. Suggesting that government spending

as a fiscal multiplier has weaned considerably. At the same time implying both a derail in reforms and diminished fiscal capacity on the side of government.

Fig 18: Capital expenditure to GDP from 1993 to 2016



Source: CBN

Capital expenditure is an anchor for strong growth levels in emerging economies, thus as the economy grows, the burden to sustain high government spending to GDP becomes a concern because relatively higher spending levels to GDP is needed to drive productivity from it's previous. In most circumstances it encourages supply following finance to take over, so as to allow more private contribution to capital formation.

Nigeria is not an exception, in the earlier periods high spending to GDP anchored the economy to double digit growth. Thereby as spending gradually fell, growth nose-dived. Moreover, the private contribution has remained stunted.

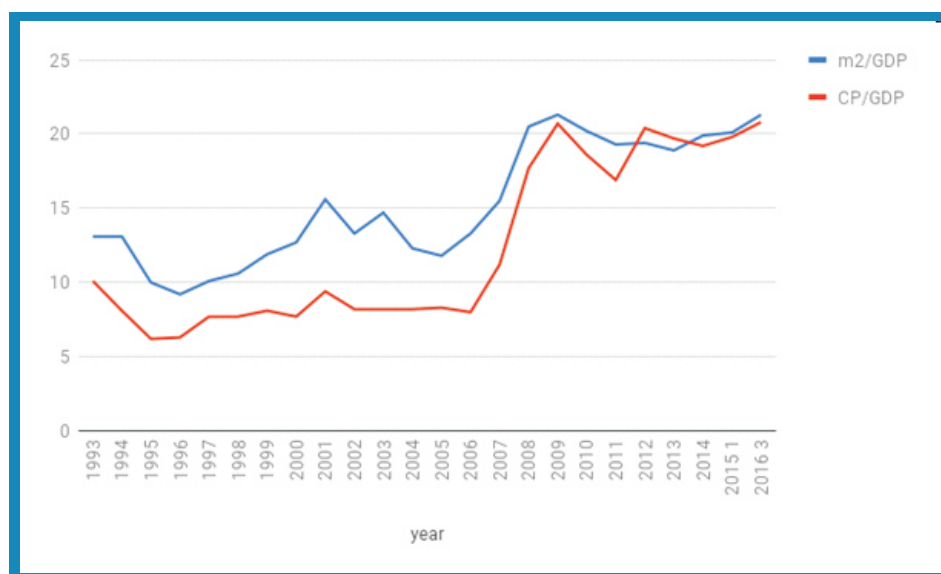
More apparently capital spending to GDP over the last six (6) years is lower than 2%. The ripple effect is that Gross domestic product has been growing far below its potential.

- Weakened Financial Deepening

The dampening in oil prices led to an inflammation in Non-performing loans of deposit money banks, thus underlining fragility in the banking system.

Moreover deposit money banks have a narrow shoot, which is reflective in safe banking they operated. The Micro Prudential's of banks have been dented limiting their deepening.

Fig 19: Financial deepening ratio from 1993 to 2016



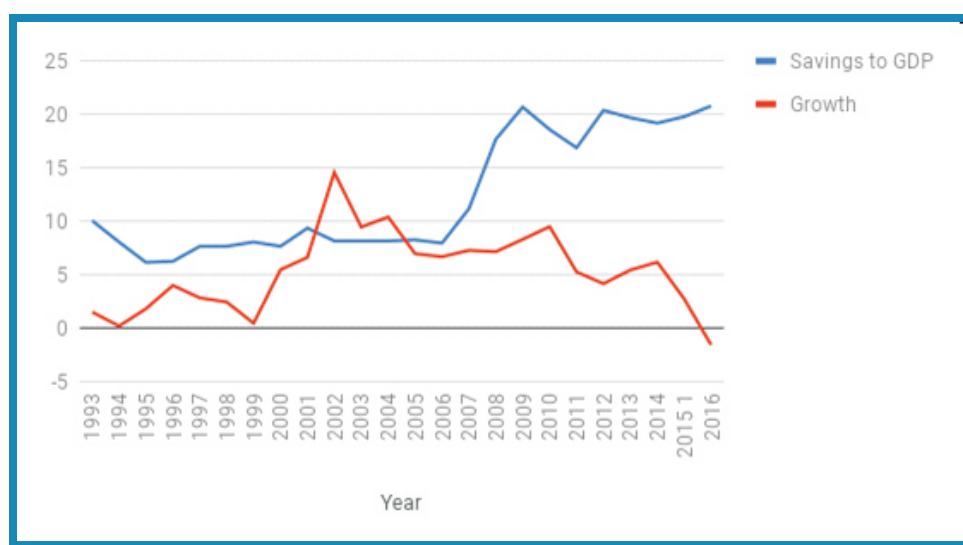
Source: CBN

Shocks experienced in the banking sector have led to erosion in financial deepening, evidently the financial deepening ratio remain far off from 2008 levels. Moreover higher interest rates have consistently been a friction to financial deepening ratio.

Thus, the economy has experienced relatively lower capital expenditure and thinner financial penetration. In such circumstances growth is gradually reduced to numbers rather than impact. As the economy is suffering from both lean private investment and capital expenditure.

- **High horse trading**

Fig 20: Savings to GDP ratio and growth



Source: CBN

Years of recompensing savings by tilting towards high interest rate has ended up penalizing investment heavily. Thereby shaking off inflation by interest rate has weighed on growth, as the correlation stands at -

0.02. Certainly in our attempt to decelerate inflation to single digit has become dis-appropriately affected, at the same time less accommodating of money supply.

Key-Findings

External Findings

- There is a rise in global demand due to emerging and developing economies growing in sync-
- Tight labour force in the United States encourages further deviation from the 2% threshold
- Improved global economy is an up potential for improved remittances
- Prices of oil and metal had experienced an accretion
- Rising inflation in the United States further supports a rate hike
- Yield curve control has sustained the goal objective but still falls off numerical target
- Rising commodity prices will reduce the risk premium in emerging countries
- There have been an improvement in the fiscal capacity of emerging countries but fiscal sustainability is a concern

Fig 20: Savings to GDP ratio and growth

- Increase in oil price strengthens the asset quality of banks
- The growing mismanagement of the “known knows” is becoming more and more unbearable
- Inflation targets have only been achieved six times out of the last twenty four times
- Inflation target have been largely threatened by external shocks such as oil prices and a domineering fiscal policy
- The MPR is better suited at grappling inflation
- Although government established the excess crude account, the manner at which it is been used has threatened targets
- The combination of a shallow money market fused with huge inequality have made inflation stick downwards
- Growth have been hampered by rising uncertainty
- The presence of leaner capital expenditure to GDP has rubbed negatively on growth
- Thinner financial deepening has also limited the financial penetration affecting private investment

Measures Needed

Reform package: A holistic reform is overdue and the inability to push forward with a number of such reforms will make growth and inflation target hard to hit on.

- Government needs to press with urgency the reform of the petroleum sector, especially with regards to the petroleum industrial bill.
- The nation is in need of serious land reforms in order to improve its land administration. Harnessing full productivity is impossible without improved land administration.
- Drawing up a legislation that states operation of private public partnership is needed at the same time protecting the sanctity to contracts
- More pragmatic approach to solving industrial short falls is essential.
- Addressing infrastructural deficit should be done in collaboration with the private sector
- The measures used in fighting corruption have hinged largely on enforcement, it has ignored the root; such as social economic insecurity and over centralization of resources.
- The level of misery index do call for a more forward looking pro-poor policy that go beyond handing out hand outs or anchor borrowing. Thus a more robust pro-poor approach that involves both monetary and fiscal policies is needed. Obviously policy makers must improve on their pro- poor microeconomics.
- Finally in scenarios where targets are not met both the fiscal and monetary should make available to economic agents the reasons why those targets were not met and actions that are taken to ensure they are met. By such it further bolster accountability, credibility and trust to policy formulation

Conclusion



Certainly there is a need to hit targets, as it reassures economic agents about the precision of policy makers. At the same time, hitting targets are based on making the right reforms and also understanding deeply that the markets punishes for sin of omission. In the wake of such, policy makers must come to terms that a multi targeted approach is needed to achieve precision.

In reality there is a need for a

balancing between targets but such must be done with a deep understanding of cost. Thus, if the Nigerian economy returns to hitting targets it must take the right policy reform prescription and do it timely. It must also learn to balance better between growth and inflation, with the understanding that the former could be more self-perpetuating than the latter. Obviously you can't have it all, all the time.

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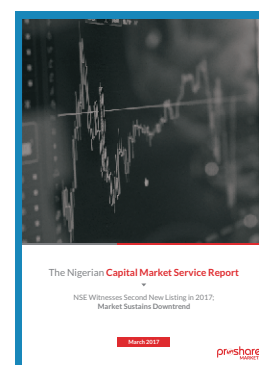
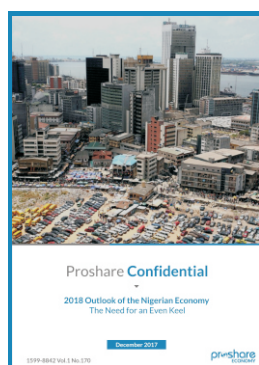
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