

When Has Money Printing Become An Issue?

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The admittance by the CBN that it actually printed the N420 billion deployed as loan to ease the liquidity conditions of the 5 troubled banks has been a hard pill for some economists and analysts to swallow. Ways and means have become increasingly unpopular until recently when many developed countries of the world namely the United States and United Kingdom massively utilized the approach under another nomenclature called 'quantitative easing'. Aside the concerns associated with the inflationary consequences of bailing these banks out by monetizing (*ex nihilo*) their bad loan assets – a good percentage of which is irrecoverable - many questions demand answers: does it mean that the central bank does not have enough physical currency of up to that amount which it could have utilized in the scheme? Does it mean that the central bank always prints new monies each time that it has to monetize dollar receipts? Taken from another angle, does the admittance of using 'ways and means' automatically gives the Bank an exit route from critics who argue that it has no constitutional right to lend such size of bailout without resort to the national assembly? Is money printing really very harmful to the economy in any significant way? We can actually go on with the questions.

Printing new monies by the central bank is actually a normal part of its functions as defined by law as the almighty institution for the economy's monetary policy design and management. Through its obviously imperfect but understandable reading of the actual and potential volumes of economic activities in the economy it determines how much more money to create or withdraw from the financial system. Now, when it has to grow the stock of money in an economy such as ours that is highly cash-based it is difficult to see how it would not seek recourse to the minting press. It is also important to note that most times sizeable part of such growth in new stock of money originate completely out of nothing aside the statutory authority of the central bank to call it money. Such approximates the typical ways and means that some are trying to condemn. Under such scenarios analysts particularly those who support bailout and insist that the government needs to stimulate the economy hardly raise eyebrows.

A good case in hand is the open market operations: the tool for effecting the manipulation of the available size of money stock. Under this arrangement, the central bank buys securities from the banks with freshly created checking deposits, or money which increases the reserves commercial banks hold, thus allowing these banks to expand credit to businesses and consumers. Although no new currency notes have been issued yet new money has been created. However, the effects are exactly same as if new notes are created. As a matter of fact, depending on the level of anticipated activity arising from the newly created monies as customers ask for notes in exchange for deposits, or if the banks need the notes, the central bank eventually prints the newly created monies in real physical notes. Technically speaking the difference between the OMO and the 'quantitative easing' that Sanusi used is blurred once you remove the mask provided by the term 'open market operations'.

If that is the case, what then is wrong with Sanusi's recent adoption of money printing in a system that (a) scarcely asks questions regarding the possible harmful consequences posed by the size, the quality of underlying securities as well as the frequency of open market operations (b) federal government's bond issuance for deficit financing or fiscal deficits for over 40 years of its existence; and (c) stridently calls for serious economic stimulation. As a matter of fact, in some instances, the central bank can actually create instruments for permanent open market operations in which it simply pumps new money

into the system and put away the underlying government securities for ever. My argument here is that the central bank has not necessarily done something alien to its culture over the years particularly in accommodating fiscal excess of government. Yet the Bank's actions here demand some attention for many reasons.

The first reason is premised on the potential trigger of inflationary expectations and by implication actual inflation by reason of the governor's announcement of the use of 'ways and means' financing. Inflation is primarily a consequence of money. Yet there is a secondary factor which is psychological and follows from historical experiences of previous inflation or just the basic knowledge of economics. This is the knowledge that makes economic agents to expect future inflation. When economic agents are less aware of the fact that money has been printed, they are less likely to expect associated inflationary consequences. For many who do not fully understand that many of the central bank's expansionary monetary management activities end in the money minting press, but who knows that printing money is inflationary, their expectation of inflation following Sanusi's revelation that he relied - and will continue to rely - on money printing will be higher. Based on theory this expectation will most likely lead to actual inflation. Thus without the knowledge of money printing, the inflationary effects of new injections of money in excess of the volumes that are consistent with the levels of economic activity may be narrow only to the pressure from actual spending of the new monies.

Secondly, the inflationary consequence argument can be pushed slightly when viewed against the severe drop in activity levels among enterprises. The banks are not lending; manufacturing which depends largely on imports of raw materials appears to be stagnant at least for now. Many of these banks are still trying to fix their balance sheets; finding viable borrowers has equally become increasingly difficult following the non-performing loan experience which consequently demands higher thresholds for lending risk evaluation. Furthermore with the coerced refund of borrowed funds, new borrowings in non-financial sector may be halted in the interim while new orders or expansion activities are slowed down. Previously acquired assets (particularly the near-liquid ones) are being converted into cash in order to repay debts which may further affect the rebound of a market such as for stocks or real estate. Oil receipts have equally not been favourable with the activities of militants. The summary therefore is that wealth creating activities are slowed down. New monies under this situation will not necessarily activate idle capacities as under a normal situation because of unresolved factor considerations. But will that make the newly minted monies less inflationary? Not at all.

Thirdly, since (a) the central bank governor has explained that the Bank has the prerogative to print money and extend such as facility to its banks and (b) that the Bank will rely on money printing going forward to support its various bailout arrangements the argument of whether Sanusi merely claimed to have printed money just to avoid the possible darts of the if he admits that he gave out the central bank's money as loan to the tune of N420 billion without approval holds no water. However, whether that indeed is the case or not, what is important here is that Sanusi needs to start checking how much information that he has to disclose and how he eventually does so or else he will self-destroy himself and impose lots of harm on the economy. The fact that he has prepared the minds of economic agents for massive flooding of the system with newly minted notes *ex nihilo* can in turn heighten actual inflation even if that does not turn out to be the case eventually.

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