



Review of Recent Economic and Financial Developments

Economic Research & Policy Management Division



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Outline of Presentation

- Global Economy
- Oil Price and Production
- Output and Growth
- Prices and Employment
- Money Market
- Stock Market
- Fiscal Position
- External Trade and Finance
- Determining Factors Going Forward

The Global Economy

- ❑ Global economic growth has been sluggish but steady.
- ❑ The IMF (Oct. 2016) reviewed global growth downwards by 0.1% due to
 - Low growth outlook for advanced economies following Brexit
 - Weak growth in the US
- ❑ US Presidential election – future uncertain
 - Mr. Trump's pledge to move the economy sent the US stock market up
 - Trade restrictions – could damage the economy
 - Trigger the rise of nationalism
 - Oil?
- ❑ In UK, the full impact of Brexit is still uncertain
 - It is still not clear whether UK will leave the European single market or negotiate associate membership
 - Awaiting Supreme Court judgment on the role of Parliament in the negotiation

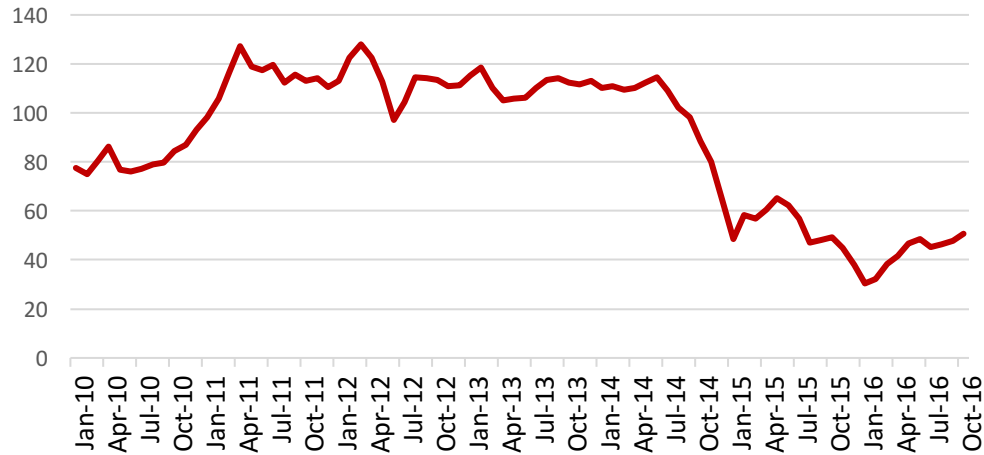
The Global Economy (IMF, WEO-Oct.)

Region/Country	2014	2015	2016	2017
World	3.40	3.20	3.10	3.40
Advanced Economies	1.90	2.10	1.60	1.80
Euro Area	0.90	2.00	1.70	1.50
EMs and Developing	4.60	4.00	4.20	4.60
Sub-Saharan Africa	5.10	3.40	1.40	2.90
United States	2.40	2.60	1.60	2.20
United Kingdom	3.10	2.20	1.80	1.10
China	7.30	6.90	6.60	6.20
India	7.20	7.60	7.60	7.60
Brazil	0.10	-3.80	-3.30	0.50
South Africa	1.60	1.30	0.10	0.08
Nigeria	6.30	2.70	-1.70	0.60

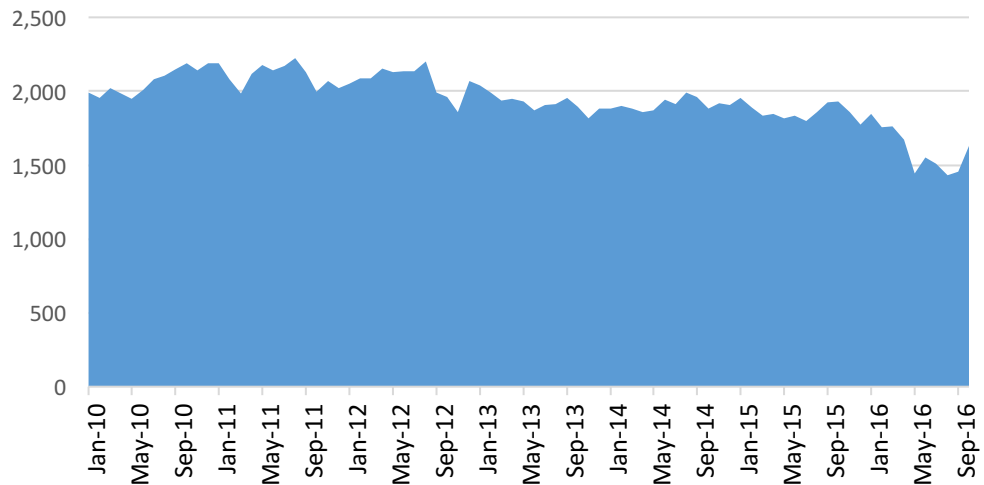
- ❑ US rates will likely be increased in December - expected due to improved growth prospects.
- ❑ China growth relatively stable due to policies implemented to support growth
- ❑ Brazil still in recession but with expectations of less economic, political and policy uncertainty
- ❑ India continues a strong recovery largely due to effective policy actions
- ❑ Lower growth for SSA due to the sharp slowdown in some of the largest economies in the region
- ❑ In Nigeria, the challenges remain:
 - foreign currency shortages due to lower oil receipts,
 - low power generation
 - weak investor confidence

Oil Price and Production

Trend of Bonny Light Price



Nigeria Oil Production



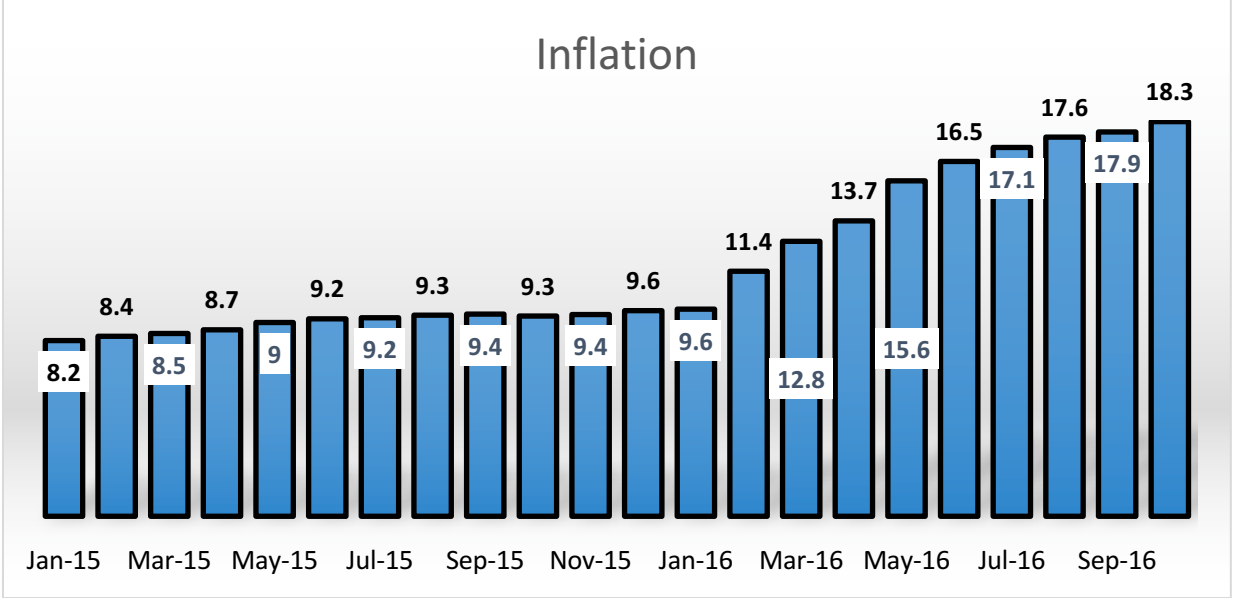
- Price of Bonny Light averaged \$50.83 in Oct. 2016
 - An increase of 67.2% this year
 - Average price still gives room to support budget (\$38pb)
 - But for lowered production
- Weak global demand and excess supply have dampened growth
- Nigeria production averaged 1,628bpd in October, 2016 (OPEC)
 - 11.9% lower than 1,848bpd in January 2016
 - Other sources put production as lower
 - Lower production due to pipeline vandalism and lack of new investment in sector
 - Nigeria exiting JV cash call arrangement likely to be beneficial
 - Nigeria exempted from production cuts agreed by OPEC
 - But, there is still uncertainty about the possibility of the OPEC production cut working

Output and Growth

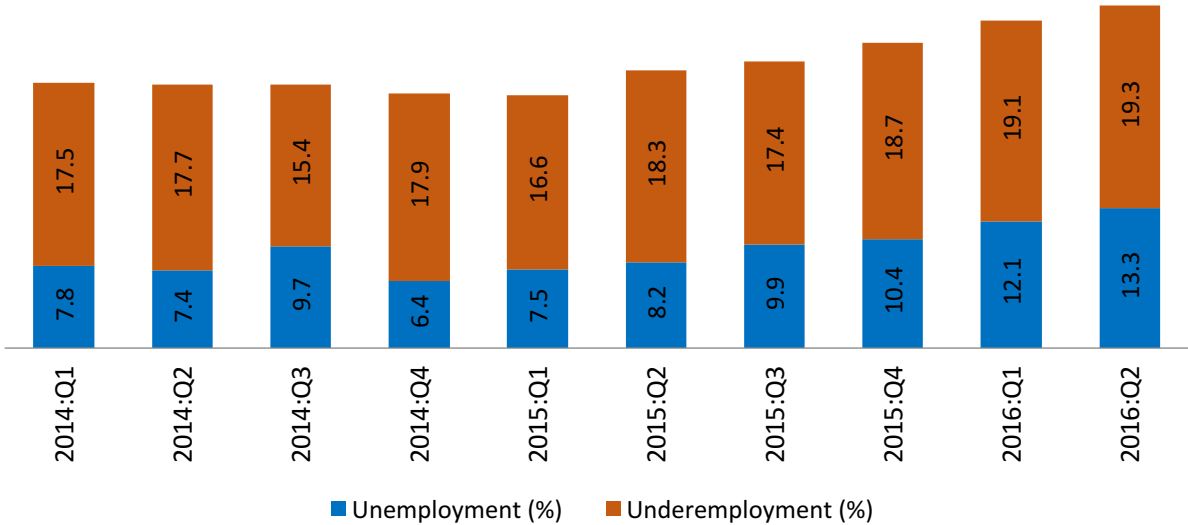
- ❑ Nigeria moved into a deeper recession with growth in Q3'16 at -2.24
- ❑ The industrial sector contracted the most (-12.21%)
 - Largely due to contraction in Crude Petroleum and Natural Gas sub-sector (-22.01%)
 - Cement (-6.26%), Food, Beverage and Tobacco (-5.75%) and many other manufacturing activities also contributed
- ❑ The service sector, which contributes 50.24% of the country's GDP, also contracted by -1.17%.
- ❑ Agriculture sector however grew by 4.54%
 - Only the Fishing component contracted by -5.59%
 - Back to the farms!

	2015					2016		
Sector Growth rates (%)	Q1	Q2	Q3	Q4	Total	Q1	Q2	Q3
Agriculture	4.7	3.49	3.46	3.48	3.72	3.09	4.53	4.54
Industry	-2.53	-3.31	-0.13	-3.04	-2.24	-5.49	-9.53	-12.2
Services	7.04	4.67	3.97	3.69	4.78	0.8	-1.25	-1.17
Real Growth Rate	3.96	2.35	2.84	2.11	2.79	-0.36	-2.06	-2.24
Real Non-Oil Growth Rate	5.59	3.46	3.05	3.14	3.75	-0.18	-0.38	0.03

Prices and Employment



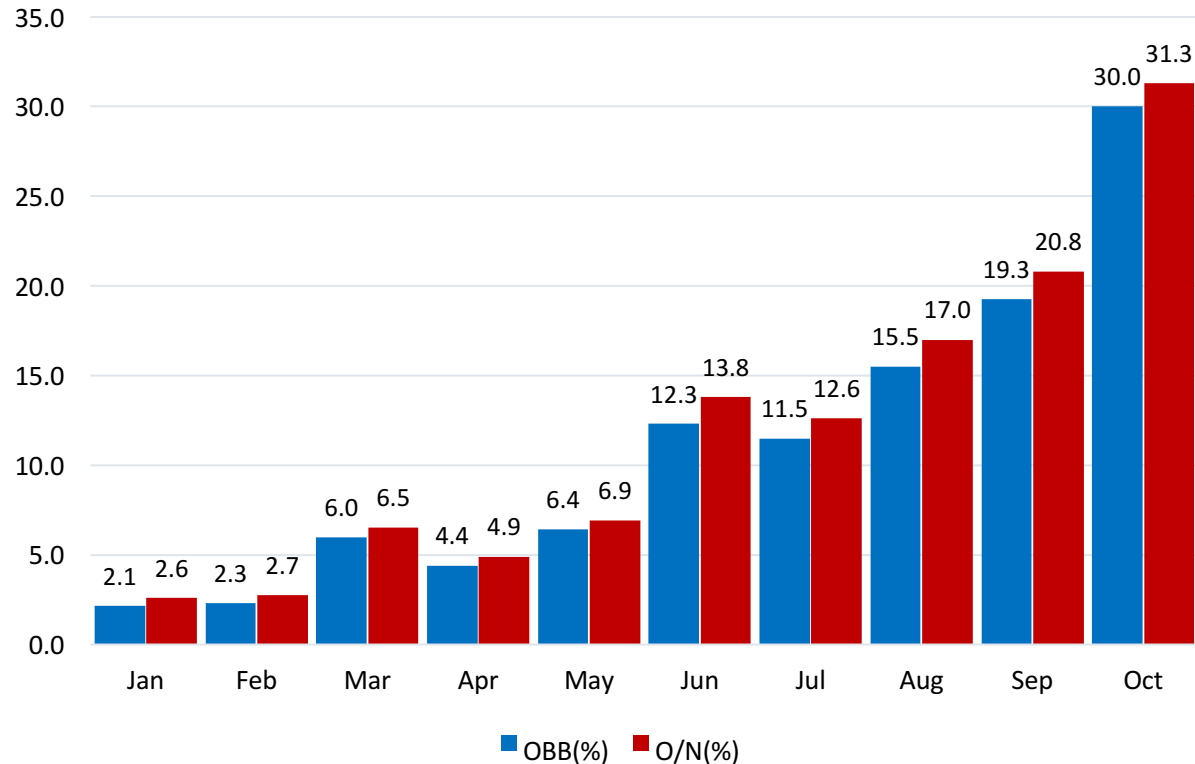
- ❑ Nigeria inflation increased to 18.3% in October, recording the 9th consecutive month of rise in prices
 - Increases were recorded in most of the key divisions that make up the CPI
 - Major increase recorded in the food and core sub-indices
 - High energy prices and imported inflation
- ❑ The rise highlights the macroeconomic uncertainty and high cost of living in the country



- ❑ Unemployment, underemployment have also risen to 13.3% and 19.3% respectively.
 - Thus, proportion of Nigeria’s labour force working for less than 20hrs a week is 32.6%

Money Market

Monthly Average rates- FMDQ



☐ Short-term interest rates are on the rise

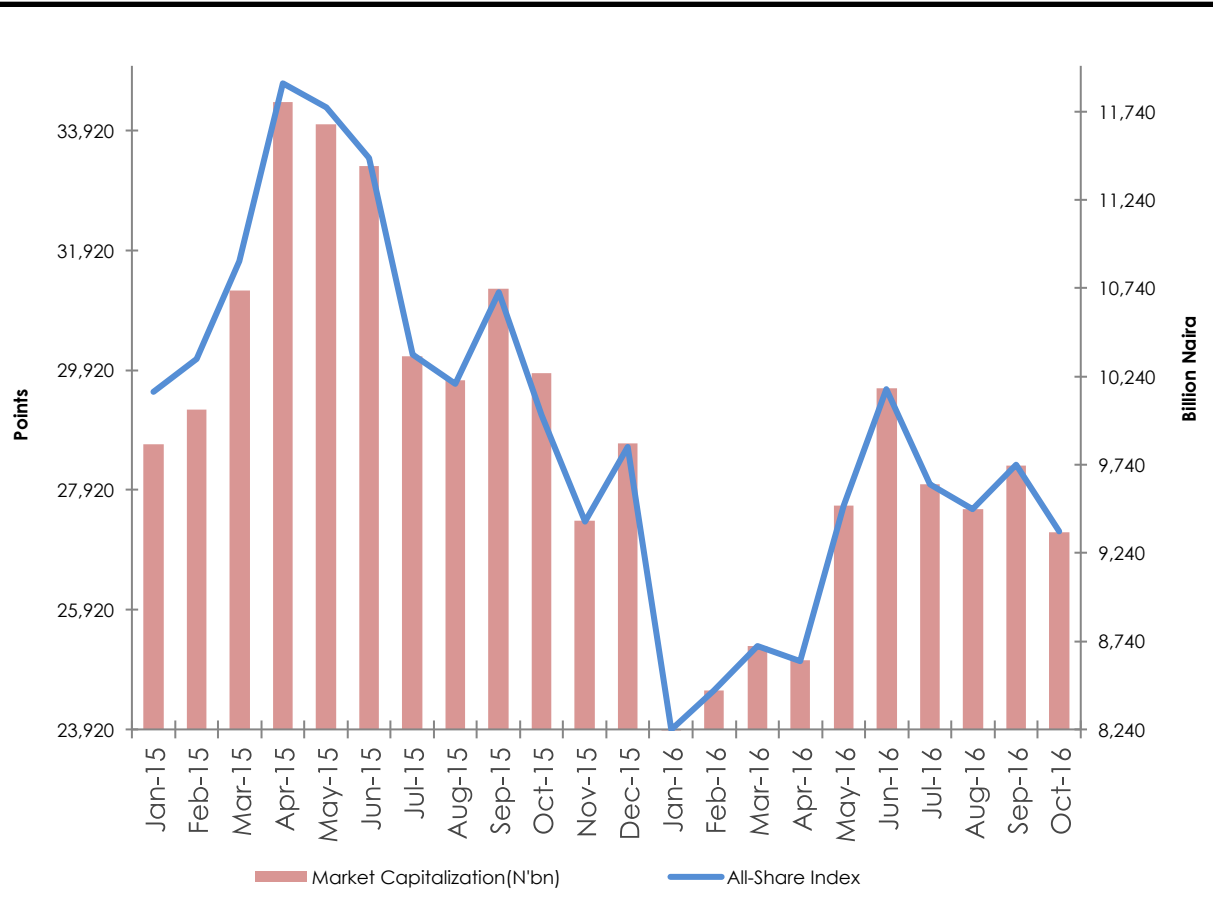
- Average OBB rate rose from 2.1% in January to 30.0% in October
- During the same period, O/N rate rose from 2.6% to 31.3%. Implications:
 - High cost of borrowing (govt. and private)
 - High returns on financial investment
 - Preference for fixed income instrument
 - But with high inflation, real return low

☐ MPC maintained the existing monetary policy, leaving the MPR rate at 14%

implying:

- Preference for price stability over growth
- Trade-off between domestic and foreign investment
- Need for complementary fiscal policy

Stock Market



- ❑ The All-Share Index stood at 27,220.09 points at the end of October 2016
 - Fell from 28,335.40 recorded in August
 - Gained 18.48% from January
 - Lost 6.71% compared to October 2015
- ❑ Market capitalization for the same period was N9.4trn
- ❑ ASI closed at 25,517 yesterday
- ❑ Market Cap of N8.8tn
- ❑ Q3 corporate earnings was insipid
 - Challenging economic environment
 - Investors negative sentiment
 - Low foreign inflow
- ❑ Introduction of Infrastructure Bonds can also deepen market
 - NSIA, Infracredit, Guarantco, PENCOM, SEC

Fiscal Position

❑ FACC in October fell to N455bn; N559bn was attained in June

- Vandalism and maintenance costs
- Oil price fluctuations
- Low economic activities

❑ Low FACC contributes to States'

- Inability to pay salaries
- Reduced purchasing power

❑ Federal Government retained revenue in Q3'16 was N934.5 billion

❑ So far 25.7% negative variance this year

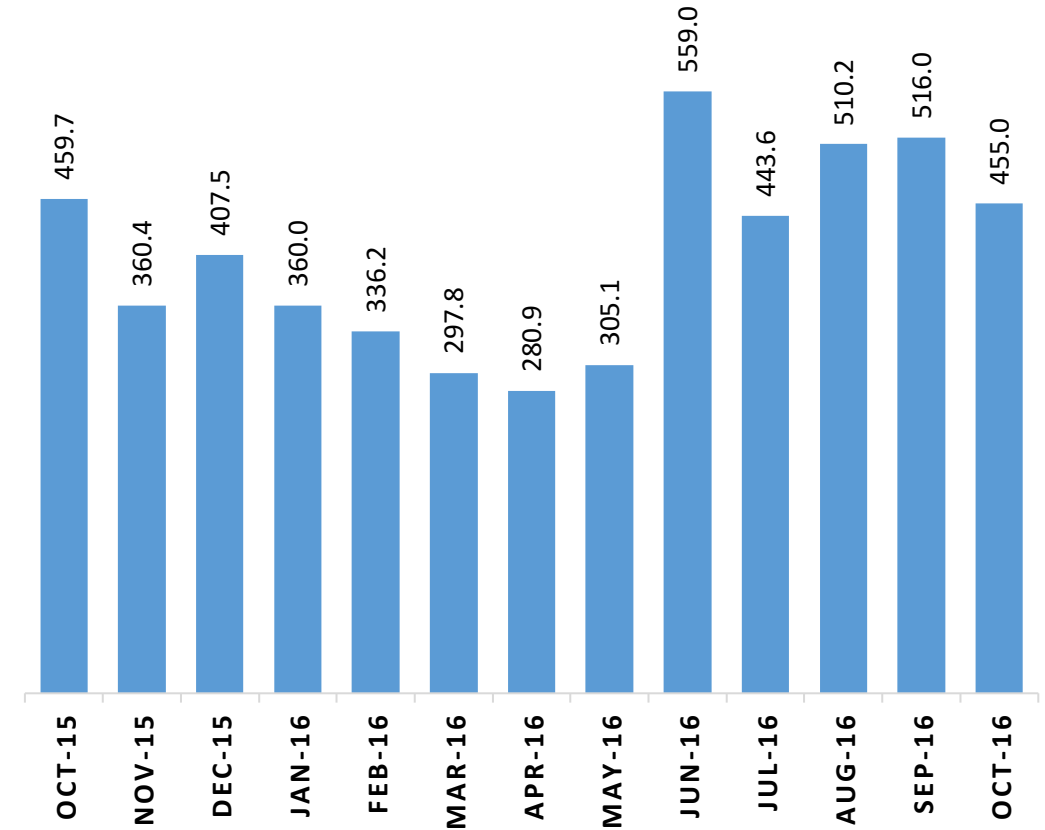
❑ Expenditure was N1,235.5 billion

❑ 19.6% positive variance this year

❑ Estimated deficit of N1,090.96 billion

❑ 98.8% higher than the budgeted for 9 months

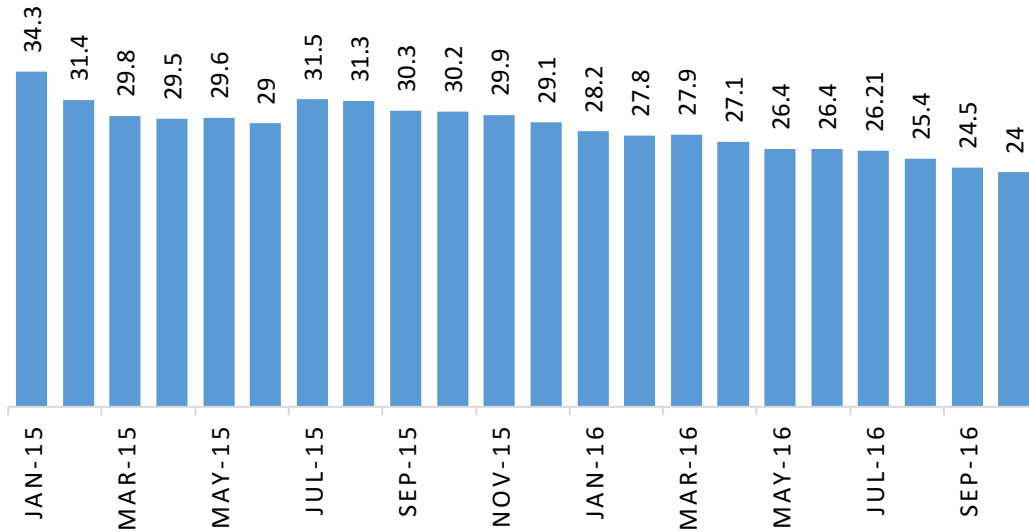
FAAC ALLOCATION (N'B)



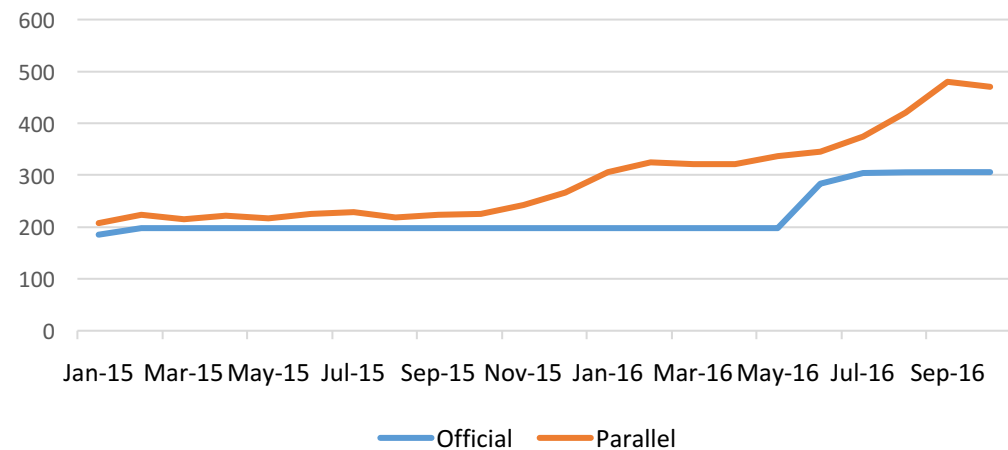
	Q1-15	Q2-15	Q3-15	Q4-15	Q1-16	Q2-16	Q3-16
Retained Revenue (N'b)	1,027.0	538.6	1,044.8	808.5	505.1	677.9	934.52
Expenditure (N'b)	1,156.6	1,024.5	1,190.3	1,544.3	1,230.3	1,136.9	1,235.5
Overall Balance (N'b)	-129.5	-485.9	-145.5	-735.8	-725.2	-659.1	-301.0

External Trade and Finance

EXTERNAL RESERVES (\$'BN)



EXCHANGE RATE (N/USD)



- ❑ Nigeria's current account has been in the negative since Q4'2015
- ❑ Stood at –N141.7bn in Q1'16
- ❑ EIU is projecting current account deficit of –N1,576bn and –N1,607bn for 2016 and 2017 respectively
- ❑ Nigeria's external reserve as at the end of October stood at \$23.95bn.
 - Lost 14.9% from January 2016 and 20.5% from October 2016
 - Dwindling reserves attributed to Nigeria's inability to meet its crude oil production target
- ❑ There is about 54% premium between the official (305/\$) and parallel (470/\$) exchange rates
- ❑ Market segmentation caused by:
 - Demand higher than supply
 - Delayed policy response
 - Speculation and uncertainty
- ❑ Efforts to equalise rates
 - Increased weekly supply to BDCs from \$30,000 to \$50,000
 - \$7.9bn intervention at the interbank foreign exchange market
 - Road shows to attract foreign investor
 - Maintaining MPR at 14%
- ❑ Investor are cautious
 - CBN independence
 - Policy inconsistency
 - Foreign exchange risk
 - Poor domestic investment climate

Determining Factors Going Forward

- Militancy and insurgency
- Corruption fight
- Fiscal stance of States
- Competitiveness
- Investments (Domestic and Foreign)
- Infrastructure
- Elections – e.g. Edo, Ondo
- Oil price
- Tax base and rates
- Infrastructure
- Public Debt
- Interest rate
- Exchange rate

Thank you

