

March 24, 2016

Monetary Policy

The Central Bank of Nigeria (CBN) committed to monetary policy tightening at the end of its 106th Monetary Policy Committee (MPC) meeting held between March 21 and 22, 2016. CBN's current policy stance is in contrast to its earlier expansionary policy position. Specifically, the Monetary Policy Rate (MPR) was increased from 11 per cent to 12 per cent, while the Cash Reserve Ratio (CRR) was raised from 20 to 22.5 per cent. The Liquidity Ratio (LR) was retained at 30 per cent, while the asymmetric corridor was narrowed from +200 and -700 basis points to +200 and -500 basis points¹. The imperative to reduce the credit exposure of the banking system to Non-Performing Loans (NPL) may have played a significant role in CBN's decision to reduce the asymmetric corridor. The current policy direction is largely driven by the high rate of inflation as well as the potential scope for further price increase in the economy. In the near term, the policy decision is expected to put a check on the decline in the real income of households as well as the negative real interest which essentially limits capital inflow. Despite apparent advantages from monetary policy tightening, the ensuing increase in interest rate may likely hinder the provision of loan facilities to 'high-risk' sectors such as Agriculture.



Crude oil price

As anticipated, OPEC's weekly basket price increased slightly by 1.79 per cent from \$35.18 in March 18 2016 to \$35.81 in March 24, 2016². Similarly, the price of Nigeria's Bonny Light increased by 1.31 percent from \$39.67 per barrel during the same period². Remarkably, during the period under review, Nigeria's crude oil export to the United States rose to a 3-year year (559,000bpd). The increase in the price of crude oil is not unconnected to speculative activities in the oil market, given the commitment of major oil producers, including OPEC members, to further reduce oil output⁴. Going forward, the price of crude oil depends to a large extent, on the outcome of rounds of meetings by major oil producers in Doha by April 17, 2016, to decide on freezing current oil production at the January output level.



Stock Market

The All-Share Index (ASI) and Market Capitalization appreciated by 0.8 percent between March 18, 2016 and March 24, 2016⁶. In particular, while the ASI increased from 25,694.79 points to 25,899.91 points, the Market Capitalization increased from N8.83 trillion to N8.91 trillion. In general, although the number of equities that depreciated (38) was higher than the number of equities that appreciated (22), the improved performance of the stock market during the period under review likely points to renewed investor confidence, given the passage of the 2016 Appropriation Bill. Accelerated implementation of the bill, after the assent of the President, will be key to stimulating economic activities in the short term.



Unemployment Rate

Recent data on Nigeria's labour market points to a rise in the rate of unemployment and underemployment in 2015Q4. Specifically, compared to 2015Q3, the rate of unemployment and underemployment rose to 10.4 per cent and 18.7 per cent from 9.9 percent and 17.4 percent respectively⁷. These statistics however masks the true situation of the youth employment in Nigeria. Disaggregated data by age category shows that unemployment and underemployment within the youth age category (15-24) was remarkably higher than the national average, at 19 and 34.5 per cent respectively. Similarly, the unemployment rate of the 25-34 age category was slightly higher than the national average, at 11.4 per cent. Unemployment by gender indicates that unemployment is higher among males (12.3 per cent) than females (8.8 per cent). We expect that the recent passage of the 2016 Appropriation Bill will considerably boost economic activities in the near term, thereby improve the employment situation.



Compiled by the Information and Data Management (IDM) Unit, CSEA

¹Central Bank of Nigeria Communiqué No. 106 of the Monetary Policy Committee Meeting of Monday and Tuesday, March 21 and 22, 2016. Accessed March 23, 2016 <https://www.cbn.gov.ng/Out/2016/CCD/March%202016%20%20Communique%20106.pdf>

²OPEC Weekly Oil Price. Accessed March 24, 2016. http://www.opec.org/opec_web/en/data_graphs/40.htm

³Cbn.gov.ng

⁴Nairametrics. Nairametric, March 24, 2016. "Nigeria Crude Exports to the US Hit Three Year High".

<http://nairametrics.com/nigeria-crude-exports-to-the-us-hit-three-year-high/>

⁶NSE (2016). Weekly Market Report. Accessed March 26, 2016. <http://www.nse.com.ng/>

⁷NBS 2016, Unemployment/under - employment Report Q4 2015

CSEA