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# Nigeria Economic Update

October 21, 2016

# Revenue Allocation

Recently released report by Nigeria Extractive Industries Transparency Initiative (NEITI)1 shows a significant decline in revenue allocation across the three tiers of government for 2016H1 (January to June). Specifically, total disbursements dropped (year-on-year) by 30.45 percent to N2.01 trillion in 2016H12. The drop in revenue allocations is accountable to the decline in both oil and non-oil revenue. While lower oil revenue was triggered by the drastic fall in oil price and production in 2016H1, lower non-oil revenue was driven by the decline in tax revenue occasioned by contraction in economic activities in the review half-year. This further weakens the ability of the government to fully execute both federal and state budgets. Amid low oil price and production, fiscal authorities are advised to strengthen non-oil revenue by expanding the Nigerian tax base. This will require improving coordination among the revenue–collecting agencies in order to improve information flow to tax administrators; which would contribute to closing the compliance gap and boosting domestic revenue.



# Financial Sector

Nigeria’s financial sector recorded an increase in broad money supply (M2) in September 2016. On a month-on-month basis, M2 grew by 2.25 percent to N22.13 trillion3, largely on the account of the increase in demand deposits and currency-outside-banks components of M2. Net Domestic Credit (NDC) also grew by 1.49 percent, on the account of the 14 percent growth in net credit to the Federal Government (FG) while net credit to the private sector declined marginally. While the rise in bank credit to the FG is crucial at this time given the dearth of government revenue, monetary authorities and the banking sector should take caution to ensure that private investment is not crowded out as it is a necessary catalyst for entrepreneurship and job creation.



# Crude oil price

Crude oil price increased in the review week. Nigeria’s bonny light gained 27 cents to $50.89/barrel4, and Brent crude increased by 0.8 percent to $51.78/barrel5 on October 21, 2016. This increase is attributable to speculations about a possible cap on crude oil supply by OPEC members in November, and proposed crude oil price support initiatives between Russia and OPEC which is expected to keep crude oil prices above $50/barrel. Although the prospect of crude oil prices is uncertain, Nigeria has marginally reduced the Official selling price of more than half of its oil grades (20 out of 26)6 in efforts to leverage on increasing global crude oil prices. This reflects competitiveness/readiness to reclaim market share lost as a result of domestic production constraints/pipeline vandalism.



# Stock Market

The All Share Index (ASI) and Market capitalization declined (week-on-week) by 0.95 percent to close at 27,596.82 points and ₦9.48 trillion respectively on October 21, 20167. Following a marginal appreciation in the preceding week, investors took advantage of the increased indices by participating in profit-taking which triggered the decline in market indices in the review week. Outlook on market indices remain bleak as few companies recently released Q3 earning results that yielded mixed investors’ sentiments about the profitability of the stock market’s equities8. However, the initiation of the planned capital projects (to be funded through the issuance of Eurobonds) could turn around investors’ sentiments and the prospect of the stock market.



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

1NEITI: Nigeria Extractive Industries Transparency Initiative

2NEITI (2016). “FAAC ALLOCATIONS DROPPED BY 30% IN FIRST HALF OF 2016 \*\* MAY AFFECT 2016 BUDGET IMPLEMENTATION AND INCREASE DEFICIT”. Accessed October 25, 2016. <http://neiti.org.ng/index.php?q=news/2016/10/24/faac-allocations-dropped-30-first-half-2016-may-affect-2016-budget-implementation-an>

3cbn.gov.ng. <http://www.cbn.gov.ng/rates/mnycredit.asp?year=2016&month=11>

4cbn.gov.ng.

5Reuters (2016). “Oil up on Russia-OPEC hopes; U.S. rig count jump limits gains”. Accessed October 25, 2016. <http://www.reuters.com/article/us-global-oil-idUSKCN12L03N>

6Bloomberg (2016). “Nigeria Cuts Oil Prices, Sees ‘Huge Cargo Overhang’ in Market” Accessed October 25, 2016. <http://www.bloomberg.com/news/articles/2016-10-20/nigeria-cuts-oil-prices-sees-huge-cargo-overhang-in-market>

7Nigerian Stock Exchange (2016). “Stock Market Report for October 21, 2016”. Retrieved from, <http://nse.com.ng/market_data-site/other-market-information-site/Week%20Market%20Report/Weekly%20Market%20Report%20for%20the%20Week%20Ended%2021-10-2016.pdf>

8Trwstocbrokers (2016). “Caution Trading: NSE Indices Slide, Despite Earnings Season Onset”. Accessed October 25, 2016. <https://trwstockbrokers.wordpress.com/page/5/>