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The report builds on the analysis of data from the aforementioned sources, but the findings, interpretations and conclusions expressed herein are those of the authors and do not necessarily reflect the views of the Centre for the Study of the Economies of Africa, its trustees, or advisory council members.

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ACRONYMS

BDC: Bureau de Change

CBN: Central bank of Nigeria

CRR: Cash Reserve Ratio

ECOWAS: Economic Community of West African States

EU: European Union

FIRS: Federal Inland Revenue Service

FDI: Foreign Direct Investment

FPI: Foreign Portfolio Investment

FOREX: Foreign Exchange

FGN: Federal Government of Nigeria

GDP: Gross Domestic Product

IMF: International Monetary Fund

IEA: International Energy Agency

ITAS: Integrated Tax Administration System

MPC: Monetary Policy Committee

MPR: Monetary Policy Rate

NBS: National Bureau of Statistics

NDC: Net Domestic Credit

NSE: Nigeria Stock Exchange

OECD: Organization for Economic Corporation and Development

OPEC: Organization of Petroleum Exporting Countries

OMO: Open Market Operation

PCE: Private Consumption Expenditure

PMR: Parallel Market Rate

PMS: Premium Motor Spirit

Q1: First Quarter

Q2: Second Quarter

Q3: Third Quarter

Q4: Fourth Quarter

SMEs: Small and Medium Scale Enterprises

TSA: Treasury Single Account

USA: United States of America

UK: United Kingdom

UNCTAD: United Nations Conference on Trade and Development

VAT: Value Added Tax

YoY: Year on Year

PREFACE

The Nigeria Economic Review is a quarterly publication of CSEA that provides a concise and timely analytical overview of key aspects of the Nigerian economy. The report is an attempt to track the developments in the relevant aspects of the economy over a three-month period. It provides valuable insights into potential drivers of the economic trends and outlines expectations for subsequent quarters of the year. The areas of focus are Global Economic Performance, Domestic Economic Performance, External Sector Performance, and Sectoral Performance.

Section 1, Global Economic Performance, tracks key global and regional trends in Gross Domestic Product (GDP) growth, macroeconomic challenges, as well as monetary and fiscal policy responses. This is to enhance an understanding of the global economic stance and its potential spill over effects on the Nigerian economy, as well as to provide a basis for comparison with the domestic economy over the period under review. Section 2, Domestic Economic Performance, delves into key internal macroeconomic indicators (GDP growth, inflation and unemployment) and reports macroeconomic policy responses to financial and economic performances recorded in Nigeria over the review period. This is to provide an understanding of factors driving domestic economic performance, as well as some guidance to government, businesses and individuals in making informed decisions.

Section 3, External Sector Performance, captures key indicators of Nigeria's external sector performance (foreign trade, foreign investment, exchange rate and external reserve) in 2016Q3. This is to shed light on the factors affecting trade and investment flows into the country, and their policy implications. Section 4, sectoral performance, provides analyses of key sectors and sub-sectors of the Nigerian economy to provide deeper insight into sectors driving domestic growth, employment and trade, as well as the impact of macroeconomic policy environment on key sectors of the economy. The report also includes a Special Feature Article section, which anatomically dissects the fundamentals behind economic recession being experienced in the last three quarters.

Thus, the broad aim of the quarterly report (2016Q3) is to provide an evidence-based analysis of the state of the Nigerian economy to inform economic policies in Nigeria. The report presents some analyses of significant economic events in Nigeria within the period, and provides an outlook on what policymakers, businesses, and individuals should expect in subsequent quarters of 2017. The report relied mainly on data and publications from Central Bank of Nigeria (CBN), National Bureau of Statistics (NBS), International Energy Agency (IEA), International Monetary Fund (IMF) and World Bank. Analyses are based on available monthly and quarterly data from the aforementioned sources.

EXECUTIVE SUMMARY

Global economic growth remained fairly stable in 2016Q3 with baseline projections for global growth at 3.1 percent and 2.4 percent by International Monetary Fund (IMF) and the World Bank respectively. Growth in developed countries was moderate but unevenly distributed: while the U.S and the UK showed improvements, growth in other economies remained tepid. Among emerging countries, India witnessed higher growth while growth in China remained constant but the Chinese Yuan continued to appreciate. Given that India is Nigeria's major crude oil importer, improving economic conditions in India may translate into rising demand for Nigeria's crude oil. However, the continuous appreciation of the Yuan poses significant inflationary threat in Nigeria given the high level of imports from China. Subdued global demand, weak trade, uncertainties in commodity prices and consequences of the "Brexit" were the key constraining factors to growth over the period. In addition, growth in Sub-Saharan African countries remained generally slow on the account of low commodity price, political turmoil, and inconsistent government policies.

Domestically, the recession in the Nigerian economy worsened in 2016Q3 as Gross Domestic Product (GDP) growth rate fell from -2.06 percent in 2016Q2 to -2.24 percent in 2016Q3. While the non-oil sector grew marginally (0.03 percent), the oil sector contracted significantly (-22.01 percent) in the period. The contraction in GDP growth remains largely attributed to persistent crude oil production crises. Furthermore, Nigeria recorded its highest inflation since October 2005 in 2016Q3, as inflation rate averaged 17.53 percent in the quarter. The food sub-index increased at a faster pace especially in rural areas. The rise in inflation remains attributed to growing cost of transportation, utility prices, and imported production inputs. More so, unemployment rate rose for the eight consecutive time since 2014Q4; reaching an average of 13.9 percent in 2016Q3. Both unemployment and underemployment remained highest amongst youths and women. The rise in unemployment is attributable to the unparalleled growth in the labour force population relative to job creation.

In terms of fiscal policy responses to macroeconomic conditions over the period, the Nigerian government outlined plans to boost government revenue through non-oil sources and government borrowing, as well as resuscitate the economy through increased capital expenditure. Niger Delta militancy which led to a fall in crude oil production to a record low of 1.63 million barrels per day in the quarter remains one of the biggest challenges to the Nigerian economy. Thus, the Federal Government made efforts to constructively engage the Niger Delta militants while opening a new pipeline over the course of the quarter, but outcomes remain bleak.

Monetary policy responses over the period have involved tightening monetary policy rate (MPR) and introducing a number of forex policy instruments in order to deepen the financial system and maintain the Central Bank of Nigeria (CBN) mandate of price stability. Particularly, the monetary policy committee increased MPR by 200 basis points reaching 14 percent in 2016Q3, and increased its Open Market Operations (OMO) through the sale of Treasury bills worth N256 billion in August, all in an effort to reign on inflation and its adverse effect on foreign investments and portfolio inflows. The CBN also introduced administrative measures such as the licensing of eleven additional International Money Transfer Operators (IMTOs) with the mandate to sell forex directly to BDC. This is aimed at improving liquidity and stability in the forex market. While investors' confidence remains low, it is gradually improving as evidenced by capital market performance over the period. In essence, forex stability remained a key challenge in the period.

In the external sector, Nigeria's total trade value declined by 21.9 percent to US$ 5.44 billion in 2016Q3. However, trade balance improved as import fell sharply (73.5 percent) in the quarter on account of scale-back of investments (due to high borrowing costs; scarce foreign exchange, and mounting credit risks), as well as a fall in private demand (due to rising inflation and high unemployment). Furthermore, the total value of capital inflows into the Nigerian economy increased by 74.8 percent to US$ 1.82 billion between 2016Q2 and 2016Q3. While all foreign investment types recorded increases, foreign portfolio investment (FPI) recorded the highest increase of 172.8 percent in the period. The majority of growth in capital importation originated from debt financing, with portfolio investments in bonds and money market instruments accounting for about 85 percent of the increase. Notably, most of the attracted foreign capital originated from the United Kingdom (UK), which accounted for $1.10 billion of total capital imported in 2016Q3 in contrast with the recent quarterly average of $386.83 million capital imported from the UK between 2015Q3 and 2016Q2. The surge in the flow of capital from the UK into Nigeria could be explained by the increase in domestic MPR which made Nigeria's capital market more attractive relative to the UK with lower MPR – further decreased from 0.5 percent to 0.25 percent in August. However, on a year-on-year basis, capital inflows remained negative in 2016Q3 relative to the records in third quarter of 2015. This is generally as a result of weaker economic growth as well as uncertainties in fiscal and monetary policies in the period.

Notably, the Nigerian Naira depreciated significantly in 2016Q3; hitting a low of N324.5/$ on 18th August then settling at N305.23/$ in September relative to N233.42/$ recorded at the end of 2016Q2. Despite floating the Naira, the parallel and official forex market rates continued to diverge in the period. Furthermore, on a quarter-on-quarter basis, Nigeria's external reserves further depleted by 6.64 percent to $24.81 billion in 2016Q3. The steady decline in foreign reserves suggests that the CBN drew down reserves to supply more forex to Bureau De Change (BDC) in efforts to provide more liquidity in the market, as evidenced by the relative stability of the exchange rate in September despite weak export earnings from crude oil export.

Key sectors of the Nigerian economy underperformed in 2016Q3 on the account of persistent macroeconomic challenges and weak consumer demand. The manufacturing, transport and storage, and financial services sectors were most severely hit by FOREX challenges and the continued depreciation of naira; however the agriculture sector recorded slight improvements.

Lastly, while the Nigerian economy may recover from the recession in 2017, no radical improvement in economic performance is expected in the short term. Generally, there is the need for monetary-fiscal policy coordination in designing a comprehensive intervention mechanism that will address infrastructural challenges (particularly in power and transportation sectors) as well as support the production processes of local business (particularly in terms of access to forex for the import of key raw materials) in key sectors of the economy.

1. GLOBAL ECONOMIC PERFORMANCE

Global economic growth was fairly stable in 2016Q3 on account of moderate effect of the "Brexit", momentary increase in US growth, and moderate rise in commodity prices.

The global economic growth for 2016Q3 was projected to grow moderately amid various economic challenges including subdued global demand, weak trade, uncertainties in commodity prices and consequences of the "Brexit". However, with considerably efficient economic management strategies employed by various national economies, the global economy experienced uneven but fairly stable growth in 2016Q3. This indicates that the global economy may be setting towards recovery. On this note, the International Monetary Fund (IMF) retained the baseline projection for global growth in 2016 at 3.1 percent, having reduced it from 3.2 percent in July, 2016. Similarly, the World Bank also retained its global output growth projection for 2016 at 2.4 percent, having reviewed it downward from 2.9 percent in June, 2016.

Evidently, commodity prices increased moderately in the period under review, external trade improved slightly, and decisive economic policies were initiated to contain the effect of the July Referendum by Britain to opt out from the European Union (EU)—"Brexit". These developments, together with some specific national economic events impacted the economic performance of various developed, emerging and sub-Saharan economies in 2016Q3.

In 2016Q3, developed economies experienced a moderate but unevenly distributed growth. While some economies such as US and UK showed some improvement, others witnessed tepid and weaker performance. The US GDP rose to 1.7 percent in 2016Q3 from 1.3 percent in the previous quarter (*see Figure 1*). This growth has been attributed to lower long-term interest rate and a gradual monetary policy normalization which offset the potential negative effects of a stronger US dollar, the Brexit and the general decline in confidence[1]. In addition, the growth in US imports was 2.4 percent in 2016Q3, up from 0.2 percent in Q2. This implies that the US has sustained its reemergence as Nigeria's major trade partner; with Nigeria's export to US rising by 270% year-on-year in 2016Q3 (*see Section 3*).

Figure 1: Real GDP of Selected Developed Economies (%, yoy)

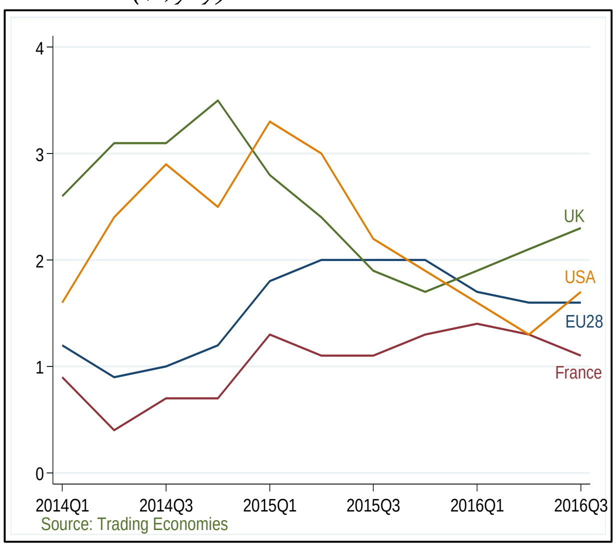
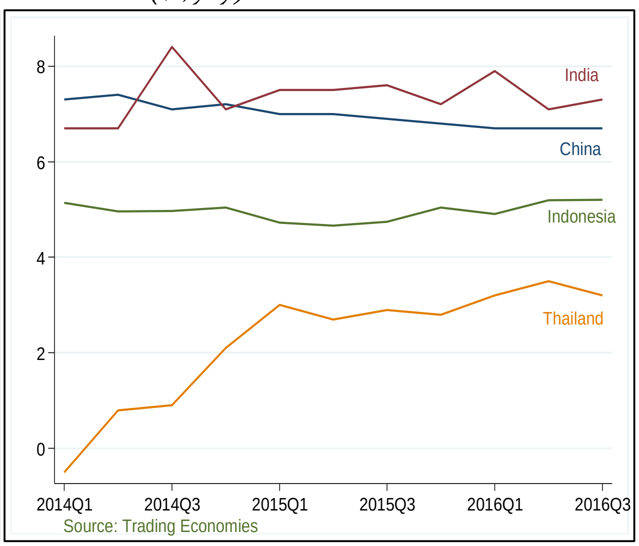


Figure 2: Real GDP of Selected Emerging Economies (%, yoy)



[1] CBN Communique No. 110, November, 2016 and Focus Economics: http://www.focus-economics.com/countries/united-states/news/gdp/economy-accelerates-in-q3-supported-by-external-sector

Similarly, the UK economy grew from 2.10 percent in 2016Q2 to 2.30 percent (year-on-year) (*see Figure 1*). The output growth rate for the 2016Q3 is important to the UK government, as it connotes sustained economic performance even after "Brexit"[2]. The anticipated adverse "post-Brexit" effect might have been subdued by accommodative monetary policies initiated by Bank of England in August 2016[3]. The rising growth in UK reflected as higher imports from Nigeria- which increased by 18 percent in 2016Q3 (*see Section 3.1.1*).

The effect of "Brexit" on other EU economies was also insignificant, as EU28 recorded a constant annual growth of 1.6 percent in 2016Q3 (*see Figure 1*). However, France recorded slower growth in 2016Q3 as its output growth dropped to 1.1 percent in 2016Q3 from 1.3 percent in 2016Q2. Nonetheless, Nigeria's exports to France in 2016Q3 increased by about 98 percent (*see Section 3.1.1*) which made France Nigeria's third largest trading partner in the year.

The emerging economies also experienced fairly stable but unevenly distributed growth. Some emerging countries recorded constant annual growth in 2016Q3; this includes China which recorded 6.7 percent growth for the third consecutive time and Indonesia which recorded 5.2 percent growth for the second consecutive quarter (*see Figure 2*). Meanwhile, India recorded higher growth from 7.1 percent in 2016Q2 to 7.3 percent in the review quarter. Conversely, slower growth is evident in Thailand, as the country grew by 3.2 percent in 2016Q3 which is lower than 3.5 percent growth rate it had in 2016Q2(*see Figure 2*).

China is the topmost exporter to Nigeria, while India is the Nigeria's topmost importer. Thus, higher growth in the Indian economy may translate to increase in demand for Nigeria's oil and non-oil commodities. This may partially explain the 29 percent increase in Nigeria export to India (*see Section 3.1.1*). On the other hand, continuous appreciation of Chinese Yuan against Naira[4] in the face of high imports from China would be expected to pass-through to the Nigeria's domestic prices in form of high inflation. This may be feeding into Nigeria's rising inflation which increased from 16.5 percent in June 2016 to 17.9 percent in 2016Q3 (*see Section 2*).

The trend in commodity prices, including oil and gold, also affected global economic performance. In the period under review, both Brent and WTI crude oil benchmarks fairly stabilized at about $45/barrel in 2016Q3 (*see Figure 3*). This implies that the 35 percent increase achieved in 2016Q2 is being sustained[5]. This relatively higher oil prices was sustained due to further decline in the US shale production (*See Figure 4*). Gold prices on the other hand continued on the rising trend, as it increased by 6 percent to reach three-year high of US$1,335/Ounce in 2016Q3, from US$1,260/Ounce in the previous quarter. The recent rise in the price of Gold has been attributed to its high demand as a store of value after EU referendum- which was expected to affect negatively EU economies and the value of their currencies[6]. The sustained oil prices and higher gold prices will be expected to have positive impact on the economic performance of oil and gold exporting countries.

[2] The Guardian, 27 Oct 2016. https://www.theguardian.com/business/live/2016/oct/27/uk-gdp-growth-figures-brexit-impact-economy-business-live

[3] See Bank of England Monetary Policy Summary, 4th August, 2016 for details: http://www.bankofengland.co.uk/publications/minutes/Documents/mpc/mps/2016/mpsaug.pdf

[4] Naira depreciates relative to US$ by 30.76 percent in the review quarter, from N233.42/$ in 2016Q2 to N305.23/$ (see Section 3.2).

[5] Oil prices fell to $33.84/barrel (Brent) in 2016Q1 which is the lowest since the beginning of the current oil price crash in 2014Q3.

[6] The Telegraph, July 15, 2016; http://www.telegraph.co.uk/business/2016/07/14/why-is-the-gold-price-rising-five-forces-driving-the-precious-me/

Figure 3: Brent Oil, WTI Oil Price An00000000d Gold Price (US$)

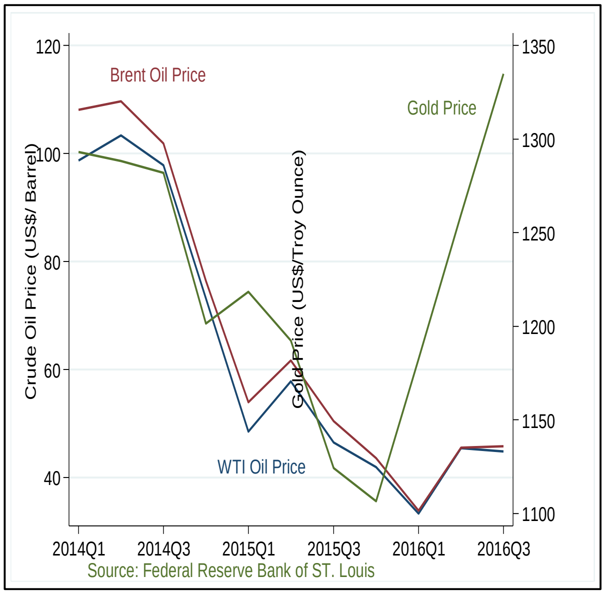
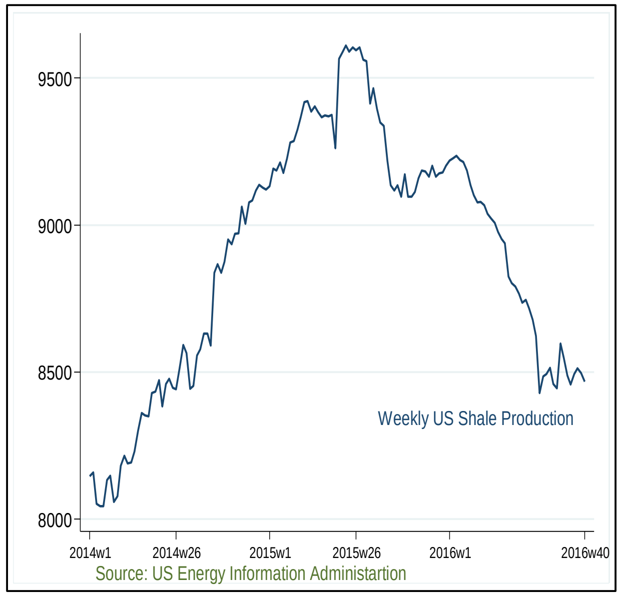


Figure 4: Weekly US Shale Production of Crude Oil ('000 Barrel/Day)



Economic growth in oil exporting countries showed mixed results in the quarter. Particularly, Nigeria witnessed negative economic growth (-2.24 percent) which deepened its economic recession in 2016Q3. Negative growth was also witnessed in Norway where growth fell from 2.6 percent to -0.9 percent. Like Nigeria, Norway is also facing exchange rate challenges due to oil price plunge; which is having negative impacts on its economic productivity. Russia remained in a recession, albeit witnessing a growth from -0.6 percent to -0.04 percent. Canadian economy grew by 1.3 percent compared to 1.1 percent in the previous quarter. The growth trends in Russia and Canada may have been influenced by increase in gold prices, as both countries are also major exporters of gold.

Figure 5: Real GDP of Selected Oil-Exporting Economies

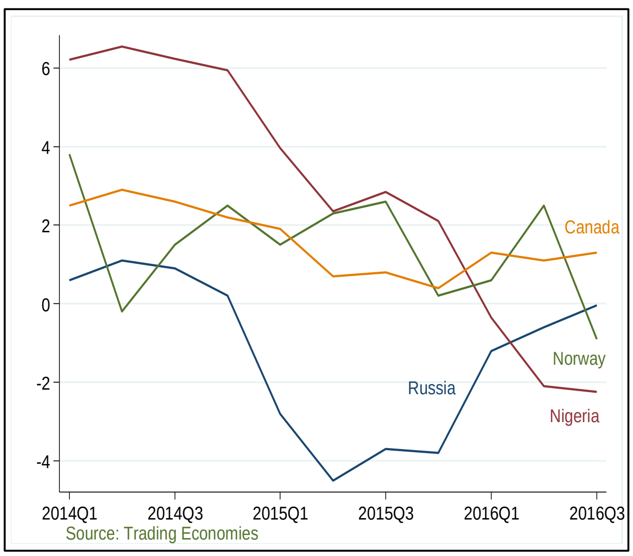
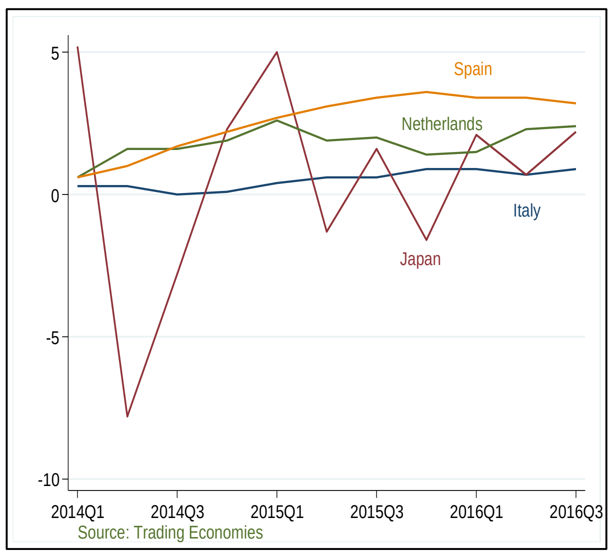


Figure 6: Real GDP of Selected Oil-Importing Economies



A review of economic performance of major oil importing countries shows that many of these countries grew stronger in the review period. Examples include USA and India discussed earlier, and China which maintained its growth trajectory (*see Figures 1 & 2*). Others include; Italy, with higher growth of 0.9 percent from 0.7 percent in the previous quarter; Japan, with higher growth of 2.2 percent from 0.7 percent in the previous quarter; and Netherland, with higher growth of 2.4 percent from 2.3 percent in the previous quarter (*see Figure 6*). Among other factors, the stronger growth recorded by these countries is also connected with low oil prices and reduced pressure on production cost. By implication, the current oil price level is still low to pose any significant threat to oil importing countries.

For sub-Saharan African (SSA) countries, economic performance was generally slow on account of low commodity prices, inconsistent government policies and political turmoil. The economic performance of the major SSA oil exporting countries such as Nigeria and Angola shows that these countries remain beleaguered despite the recent modest pickup in oil prices. As a dominant economy in West Africa, Nigeria's recession affects overall economic performance of the region[7]. Particularly, the economy of Benin Republic is being adversely affected by the decline in the import of used cars which regularly transit through Benin to Nigeria[8]. On the account of Nigeria's poor economic performance, the African Development Bank (AfDB) is scheduled to deliver a $1billion grant to Nigeria in order to enable the country offset N2.2 trillion deficit in its 2016 budget. Similarly, South Africa only managed to sustain its previous quarter's growth (0.7 percent) despite the sustained increase in Gold prices. The problem with South African economy has been attributed to the adverse impact of the country's political turmoil on investors' confidence and credit rating[9].

Generally, the global economy performed fairly well in 2016Q3 on account of subdued "Brexit" effect, momentary increase in US growth and moderate rise in commodity prices. Based on the assumption that this trend will be sustained, it is expected that global economic performance will improve in 2017. For this to be achieved, it is assumed that the UK and EU economies will continue to perform well given that they survived the short term negative economic effect of "Brexit". Also, commodity prices are expected to increase further especially with the oil production cut by OPEC and non-OPEC members. This is expected to ameliorate the economic performance of some underperforming oil exporting countries like Nigeria, Angola and Norway. However, the outlook for the US economic performance in 2017 is mixed, due to potential economic effects of a change of government in the US.

[7] ECOWAS President's Brief https://www.naij.com/994737-read-nigerias-economic-recession-affecting-west-africa.html
[8] https://newtelegraphonline.com/business/benin-republic-controls-63-nigerias-vehicle-imports/
[9] http://www.focus-economics.com/regions/sub-saharan-africa

2. DOMESTIC ECONOMIC PERFORMANCE

To capture and analyse Nigeria's economic performance in the third quarter of (2016Q3), this section highlights key domestic macroeconomic indicators (GDP growth, inflation and unemployment). It also reports macroeconomic policy responses (fiscal and monetary policies) influencing domestic financial and economic performances recorded in the period under review. In addition, it outlines expectations and policy insights for succeeding quarters.

2.1 Economic Growth

Nigeria's economic recession worsened in 2016Q3 as crude oil production crises persist

The recent recession in the Nigerian economy further deepened in the third quarter of 2016 (2016Q3). On a year-on-year basis, Gross Domestic Product (GDP) growth rate declined to -2.24 percent in 2016Q3 following a growth rate of -2.06 percent in 2016Q2 and -0.36 percent in 2016Q1 *(Figure 7)*[10].

Figure 7: Year-on-Year GDP Growth Rate (%)

As with the preceding quarters, the oil sector dragged overall GDP down with a GDP growth of -22.01 percent in 2016Q3 from -17.48 in 2016Q2 *(Figure 8)*[11]. However, the non-oil sector slightly picked up from the negative growth rates recorded in the last two quarters to 0.03 percent in 2016Q3 *(Figure 9)*. The marginal growth in the non-oil sector was largely driven by the activities of Agriculture (particularly crop production) and Services (particularly Information and Communication). With the exception of agriculture and telecommunications, virtually all other major sectors of the economy underperformed. The contraction in the mining and quarrying sector was the major driver of the underperformance in non-oil sector.

[10] Third Quarter GDP Report, NBS, 2016
[11] ibid

Figure 8: Oil Sector GDP Growth

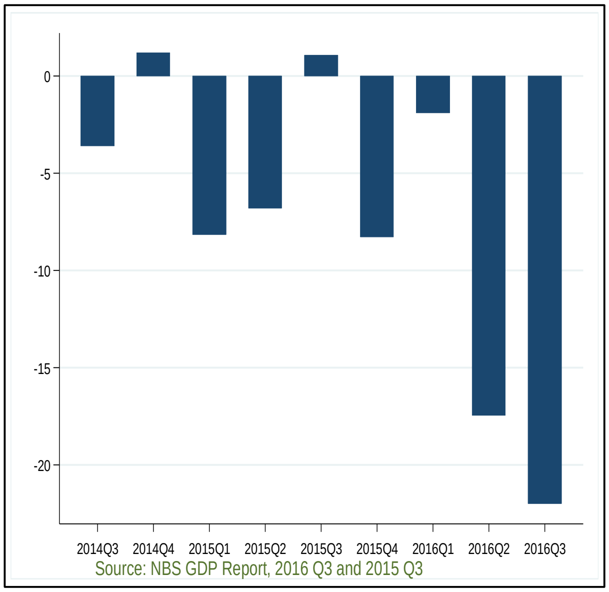
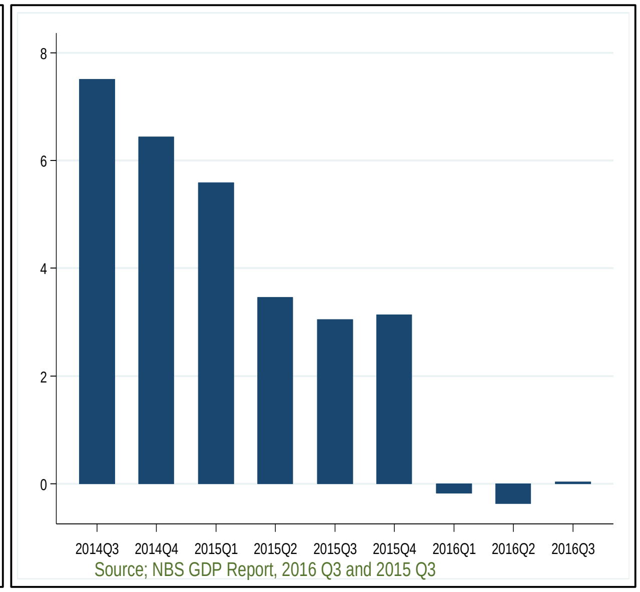
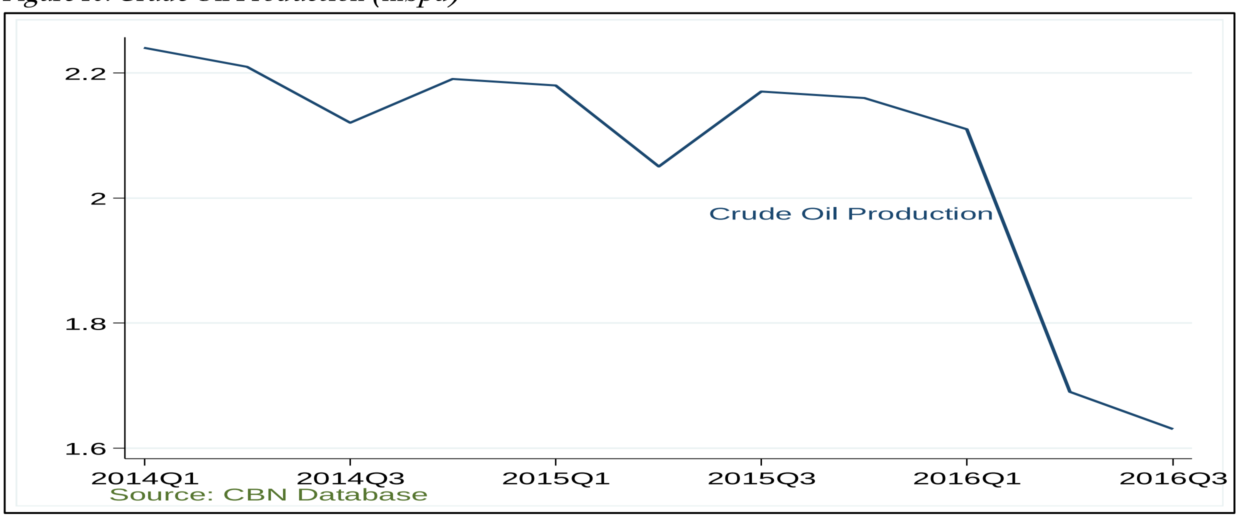


Figure 9: Non-Oil Sector GDP Growth



Persisting low crude oil production due to insurgency in the Niger Delta and its attendant adverse impact on government revenue and expenditure, foreign exchange (forex) earnings, and weak consumer demand remain the main drivers of the deepening recession. Domestic oil production which fell deeply at the start of the year, further fell in Q3 but at a slower pace; averaging 1.63 million barrels per day (mbpd) in 2016Q3 relative to 1.69 mbpd in 2016Q2 and 2.11 mbpd in 2016Q1 *(Figure 10)*[12].

Figure 10: Crude Oil Production (mbpd)



Given present trends, it is likely that the recessionary trend may continue into the first quarter of 2017. While the Nigerian economy may come out of recession in 2017, no radical improvement in economic performance is expected in the short term. Nevertheless, there is prospect for enhanced economic growth in the medium term provided that the country can take advantage of its exemption from OPEC oil production cap. Calming tensions in the Niger Delta region to raise domestic crude oil production at least to its 2015 average of 2.14 mbpd will be highly beneficial to improving growth in the oil sector. The

[12] Crude Oil Production, CBN, 2016

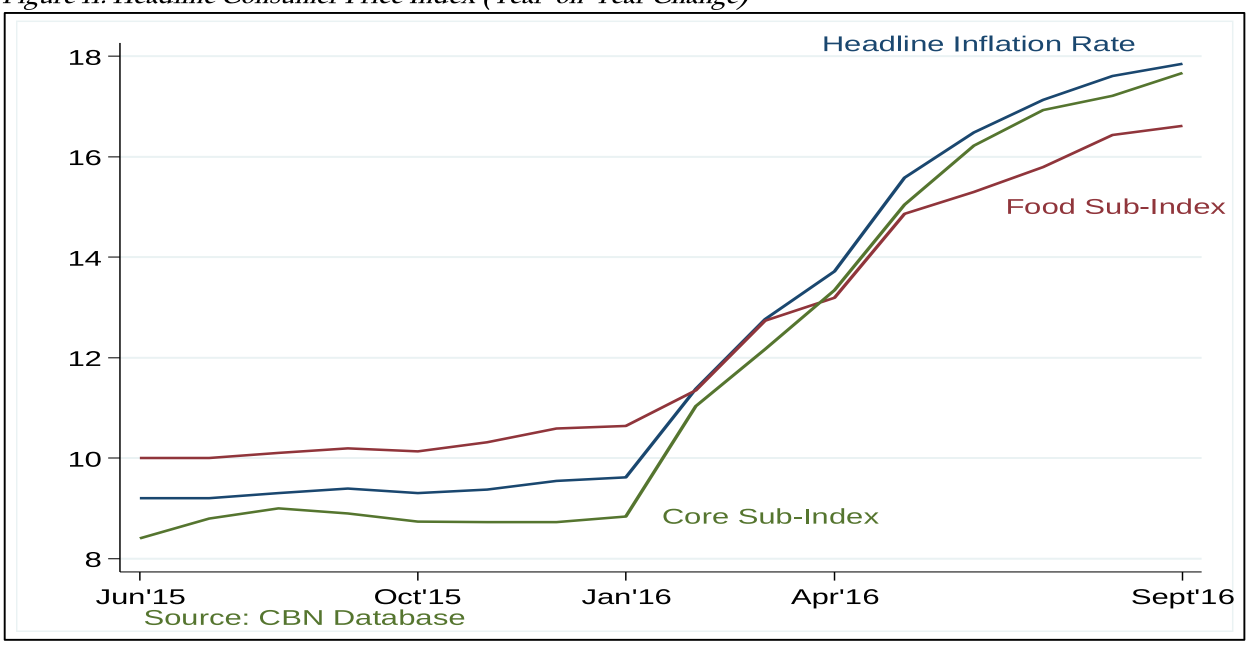
government should also enact the Petroleum Industry Bill (PIB) urgently and fast-track the Incorporated Joint Ventures (IJV)[13] strategy for upstream oil JV operations in order to more effectively manage critical corporate governance, funding, financing and investment protection issues in the oil sector. Furthermore, while the structure of the Nigerian economy is well diversified, addressing the undiversified structure of government revenue and foreign exchange earnings would be necessary to unlock long-term sustainable economic growth potentials of the non-oil sector. One of the main ways of achieving this is to intensify supply-side efforts by increasing capital expenditure to address infrastructural deficits (particularly with power, roads, and water) and support local businesses in accessing production inputs particularly in key economic sectors.

2.2 Inflation

Nigeria recorded its highest inflation reading since October 2005

In 2016Q3, the double-digit inflation rate in the Nigerian economy further increased: from an average of 15.26 percent in 2016Q2 to 17.53 percent in 2016Q3[14] *(Figure 11)*. At an inflation level of 17.53 percent, Nigeria recorded its worst inflation since October, 2005. Both food and core sub-indices increased in the three months of 2016Q3, with food sub-index increasing at a faster rate compared to preceding quarters. In the food sub-index, inflation was most severe in fish, cereal and bread produce among others. In the core sub-index, inflation was highest in electricity, kerosene, solid fuel, clothing, footwear, books and stationery. The general price level of goods and services rose in both urban and rural centres but was more pronounced in the rural areas during the review period. On the positive side, the pace of growth in inflation has slowed in recent times relative to the first half of the year.

Figure 11: Headline Consumer Price Index (Year-on-Year Change)



[13] A JV arrangement in which the companies involved create or incorporate a separate corporation and divide its shares between themselves generally as an equitable way to distribute income from the joint business operations.
[14] "CPI and Inflation Report", National Bureau of Statistics, 2016

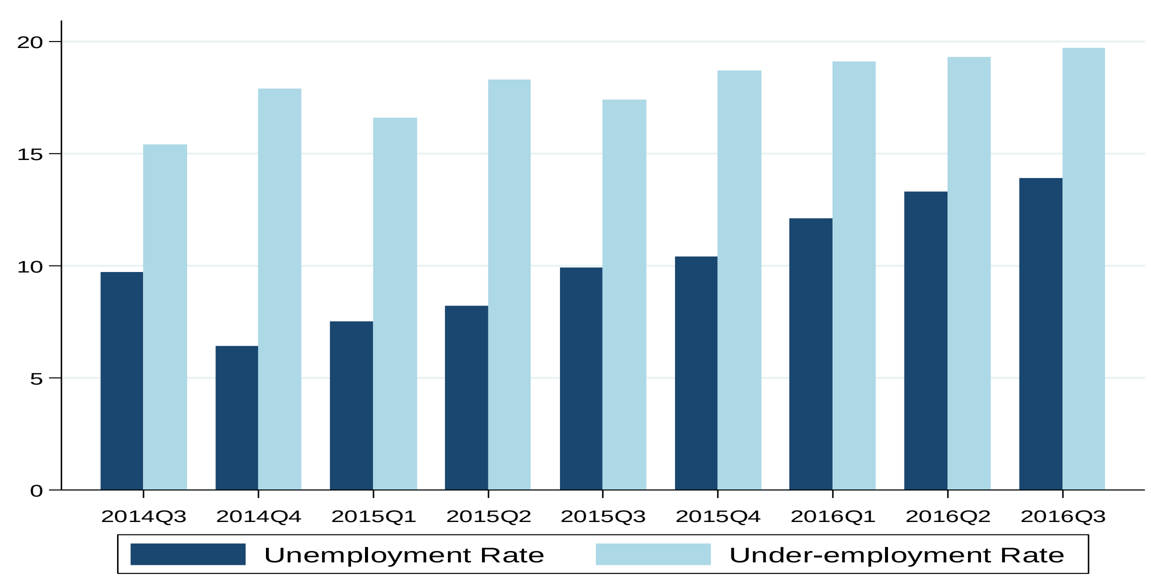
The current pressure on prices can be characterized as a cost-push inflation, as it continues to be driven by reform-related structural and supply-side factors including: energy and utility prices, transportation costs, and imported production inputs. Going forward, the gradual reduction in the growth rate of general price level is anticipated in 2017. The impact of harvest season which has started to kick-in for most agricultural produce; the present tight stance of monetary policy; and flexible exchange rate regime should continue to feed into tapering inflation trend in 2017. From the monetary side, the return of stability in the foreign exchange market would be expedient in locking-in inflation expectations for 2017. However, improvement in forex earning inflows, through the rise in export and foreign investment inflows, is required to ensure foreign exchange rate stability. Thus, there is need for monetary-fiscal policy coordination in designing a comprehensive intervention mechanism.

2.3 Labour and Employment

Unemployment rate attained its eight consecutive rise as the labour force population grew with disproportionate rise in job creation

In the third quarter of 2016, unemployment and underemployment rates accelerated. Unemployment rate increased from 13.3 percent in 2016Q2 to 13.9 percent in 2016Q3; the eight consecutive rise since 2014Q4[15] *(Figure 11)*. The total number of unemployed persons in the labour force totalled 11.2 million in 2016Q3, as an additional 554,311 people joined the unemployed pool from the second quarter. As before, unemployment was higher in urban centres given the preference for white collar jobs located in the urban areas. Similarly, underemployment also increased from 19.3 percent in 2016Q2 to 19.7 percent in 2016Q3, totalling 15.6 million underemployed persons in the quarter *(Figure 12)*. Underemployment was higher in rural areas due to the seasonal nature of farming. Both unemployment and underemployment remained highest among youths and women.

Figure 12: Unemployment and Underemployment Rates (%)



Source: NBS Unemployment Report, 2016 Q3 and 2015 Q3

[15] "Unemployment/ Underemployment Watch", Third Quarter, NBS, 2016

The rise in unemployment and underemployment rates is attributable to the disproportionate rise between the labour force population and job creation on the account of unfavourable economic conditions. With 782,886 persons in the economically active population entering the labour force, the number of people in the labour force rose from 79.9 million in 2016Q2 to 80.67 million in 2016Q3[16] *(Figure 13)*. However, only 31,782 jobs were created between second and third quarters of 2016 *(Table 1)*. Thus, the magnitude of job created in the economy has not been sufficient to meet the ever-growing labour market. The rate of unemployment also reflects the current economic realities in Nigeria, with only few businesses growing and creating new employment while many are shedding jobs. Given the current growth rate of the Nigerian labour force population, the Nigerian economy would have to create about 2.6 million jobs annually to hold unemployment rate at the current rate of 13.9 percent. However, labour productivity rose but remained low in the period; as output fell more than total labour employed. *(Figure 14)*.

Figure 13: Labour Force Population (million)

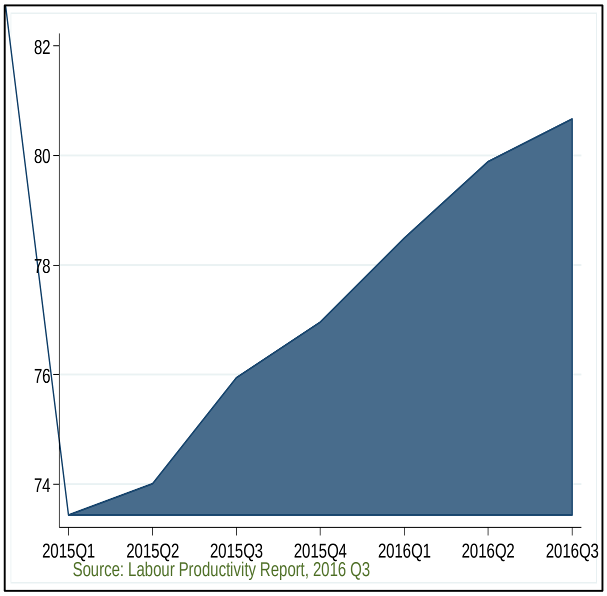


Figure 14: Labour Productivity (Naira)

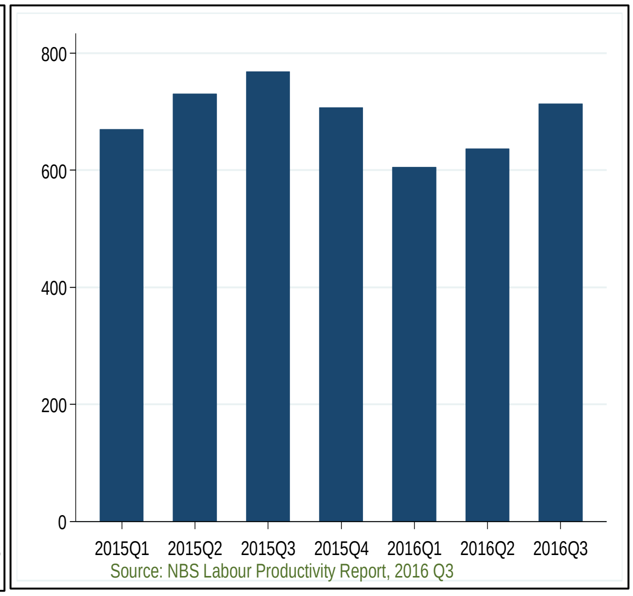


Table 1: Job Creation across Sectors

	2015				2016		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Formal Jobs	130,941	51,070	41,672	27,246	21,477	55,124	49,587
Informal Jobs	332,403	83,903	428,690	476,563	61,026	105,543	144,651
Public Sector	5,726	6,395	4,818	-4,288	-3,038	-5,223	-7,012
Total	469,070	141,368	475,180	499,521	79,465	155,444	187,226
Source: NBS Job Creation Survey, 2016 Q3 and 2016 Q2							

Given the trends of contracting output and firms' cut back on investments in real assets, unemployment and underemployment rates will likely continue to rise in 2017. However, we expect the growth rate of unemployment to decline as economic conditions gradually improves over the year. Importantly, the government needs to support job creation in key sectors of the economy, so that more people can become

[16] Job Creation Survey, NBS, 2016Q3

economically empowered, hence improve aggregate demand and overall economic growth. The Federal Government can work with the CBN to support domestic firms in key sectors of the economy by making accessible foreign exchange required to import intermediate inputs in the short term. Sufficient support (such as tax relief) should also be offered to local industries producing key raw materials and provide a mechanism for firms to readjust operations and source raw materials and other inputs locally overtime, in the long run.

2.4 Fiscal Policy Responses

The Nigerian Government outlined plans to boost government revenue and resuscitate the economy

As part of the efforts to resuscitate the Nigerian economy, from present stagflation, the Federal Government has outlined plans to increase spending especially on infrastructure. However, these plans have been hampered by pressure on government revenue on the account of low crude oil production. Particularly, militant activities in the Niger Delta region have brought Nigeria's crude oil production to record lows of less than 1.63 million barrels per day in 2016Q3 *(Figure 15)*. The Federal Government has made efforts to constructively engage the Niger Delta militants, and repair vandalized pipelines in the period, with the hopes of pushing up crude oil output thereby boosting government revenue and capital spending.

Global crude oil prices fell slightly from $46.44 in 2016Q2 to $46.28 in 2016Q3, however it is expected to hover around $50 per barrel in 2017 *(Figure 16)*. While crude oil price has gained momentum in recent times and Nigeria has been exempted from oil production cuts, it is unlikely that a permanent resolution to the Niger Delta crisis would be achieved in the immediate term. Thus, the expected gains from the current rise in oil prices, Nigeria's exemption from oil production cut, and the repairs of vandalized pipelines may not yield benefits in the near-term without the resolution of the Niger delta agitations.

Figure 15: Crude oil production graph (mbpd)

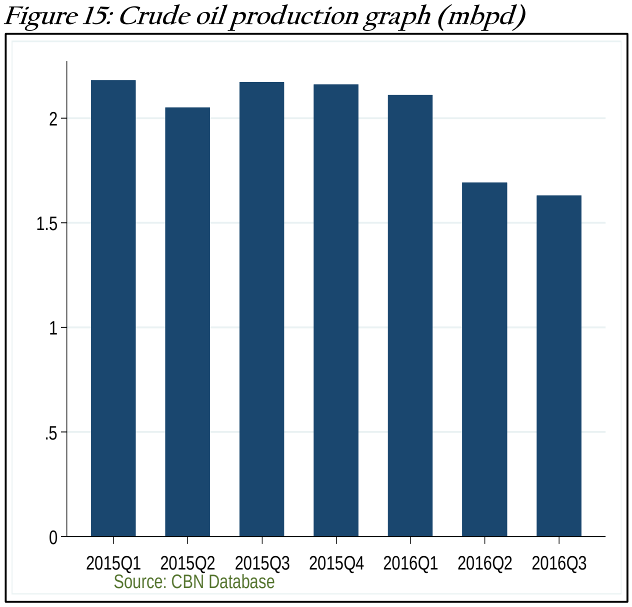
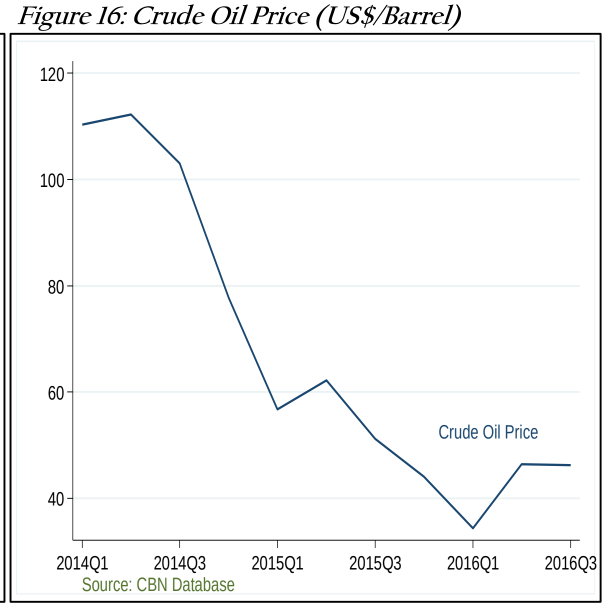


Figure 16: Crude Oil Price (US$/Barrel)



The Nigerian government has also made plans to boost government revenue through non-oil sources and government borrowing. Until oil revenues significantly improve, government revenues are expected to continue to be driven by non-oil sectors in 2017. As at June 2016, about 70 percent of the N559.03 billion shared across the Federal, State and Local Governments was generated from non-oil revenue sources; which is a significant leap from the 40 percent non-oil revenue generated at the start of the year. Despite improvements in non-oil revenues, there is still a shortage of government revenue and huge funding gaps which the government intends to cover through borrowing. Consequently, the Federal Government has made plans to issue US$1 billion Eurobond in addition to the US$3 billion budget deficit to be financed by the World Bank and the African Development Bank. Furthermore, the Federal Government has made plans to introduce the highly controversial Communication Service Tax (CST), which if passed into law, will impose a 9 percent charge on telecommunication subscribers for various services including voice call, messages and data usage from telecommunication services providers, Pay TV stations, and internet services.

Indubitably, recession and especially stagflation are difficult economic conditions with no quick fixes. While the Nigerian government has recognized the need for coordinated expansionary fiscal policies to resuscitate aggregate production and consumption, there is need to urgently implement necessary policies. Notably, more efforts towards early payment of salaries and arrears of public sector employees particularly in states and local governments to stimulate aggregate consumption, should be considered as part of the overall fiscal policy strategy. However, the recurrent expenditure should not jeopardize capital spending critical to redressing the infrastructural deficit as well as improving business performance and economic outlook. While consumer demand for goods could be boosted through increased spending, synchronized efforts of monetary and fiscal authorities is critical to ensure that the inflow of money does not chase too few goods and thus further exacerbate inflationary conditions.

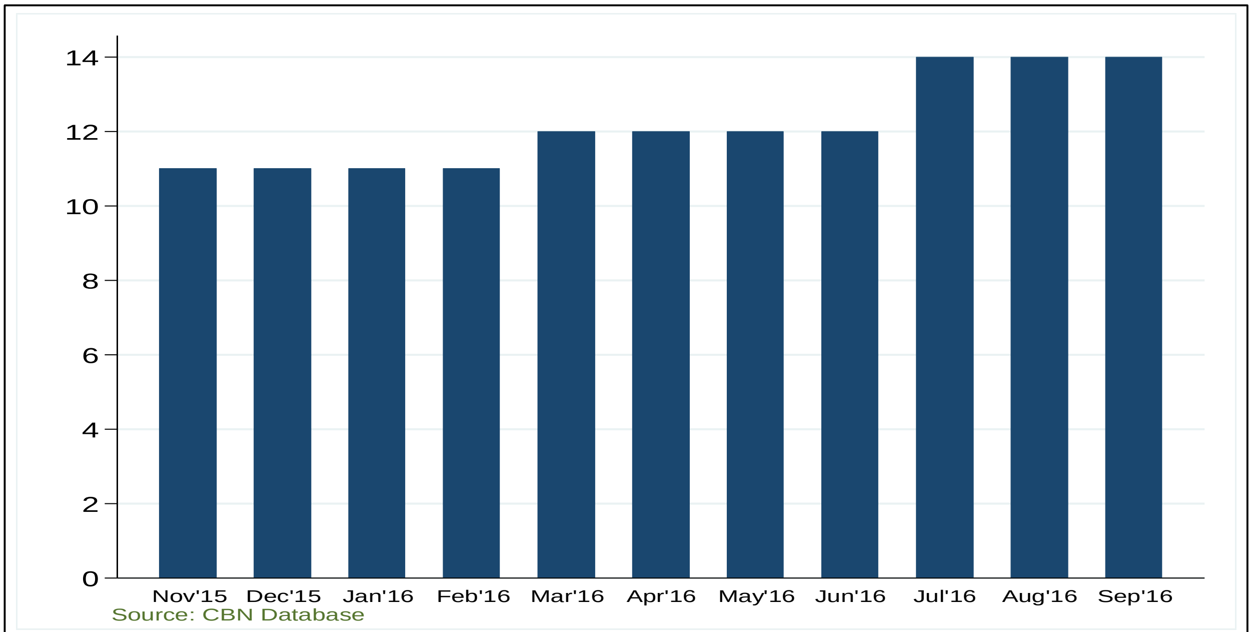
Furthermore, while it is crucial to raise government non-oil revenue through taxes in order to support spending, the fiscal authorities could rather consider using tax incentives to support domestic firms and provide stimuli for economic activities in both the supply and demand sides given shortages in government revenue. In addition, addressing the issue of informality would be critical at this time. Organizing the informal sector and recognizing its profitable role could contribute to economic development and stability in government revenue while saving the government from the unattractive alternative of tax increase. This can also improve the capacity of informal workers to meet their basic needs by increasing their incomes and strengthening their legal status. The government can achieve this by setting up policies and strategies to support the formalization of the sector. Particularly, effective regulatory framework, good governance, better government services, improved business environment, fostering the availability of information on the sector, as well as improving access to financing, technology and infrastructure are essential in this process.

2.5 Monetary Policy and Capital Market Development

CBN introduced a higher monetary policy rate and a number of forex policy instruments in efforts to deepen the financial market and uphold its mandate of price stability

The Monetary Policy Committee (MPC) of the Central Bank of Nigeria met twice in 2016Q3 to decide on the appropriate levels of monetary policy instruments given present global and domestic economic developments. During the MPC meeting in July 2016, the committee made the decision to raise monetary policy rate (MPR) by 200 basis points from 12 percent to 14 percent while all other key monetary policy instruments were retained *(Figure 17)*. The decision to raise MPR was hinged on the significant spike in inflation recorded in June, which on one hand was twice the size of upper limit of CBN inflation target and on the other hand was eroding the real purchasing power of fixed income earners and the real interest rate/yield on investments. In September 2016, the Committee retained all policy rates: MPR at 14 percent, Cash Reserve Ratio (CRR) at 22.5 percent, Liquidity ratio at 30 percent, and Asymmetric Window at +2 and -5 percent around the MPR. All rates were retained on the account of the prevailing economic risks largely driven by structural factors, as well as the need to allow the MPR and other forex market reforms introduced recently, more time to crystallize.

Figure 17: Monetary policy Rate (MPR) (%)



Key monetary aggregates grew in the period under review. Broad money supply (M2) grew by 4.5 percent from an average of N21.04 billion in 2016Q2 to N21.98 billion in 2016Q3, while narrow money (M1) increased by 2.3 percent from an average of N9.22 billion in 2016Q2 to N9.43 billion in 2016Q3 *(Figure 18)*. The growth in M2 was traced to an exchange rate effect following the depreciation of naira in the second quarter of the year. Net Domestic Credit (NDC) grew by 9.8 percent from N23.49 billion in 2016Q2 to N25.81 billion in 2016Q3 *(Figure 19)*. The development in NDC essentially reflected the relative growth in the supply of secured credit to the private sector by 13 percent; from N19.95 billion in 2016Q2 to N22.56 billion in 2016Q3. However, credit to the government fell by 8.4 percent; from N3.54 billion in 2016Q2 to N3.25 billion in 2016Q3. Given the rise in private sector credit amid economic difficulties, secured loan performance (as measured by default rates) deteriorated in the review period. However, according to CBN's Credit Conditions Survey Report for 2016Q3, commercial banks are optimistic that default rate will slow down in subsequent quarters.

Figure 18: Money Supply (N million)

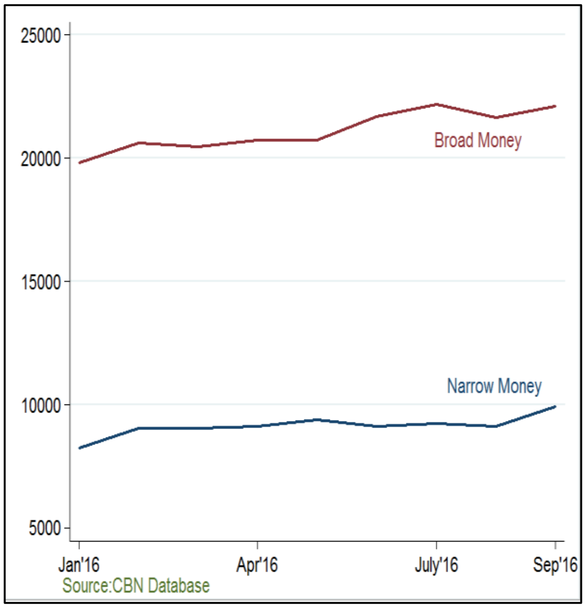
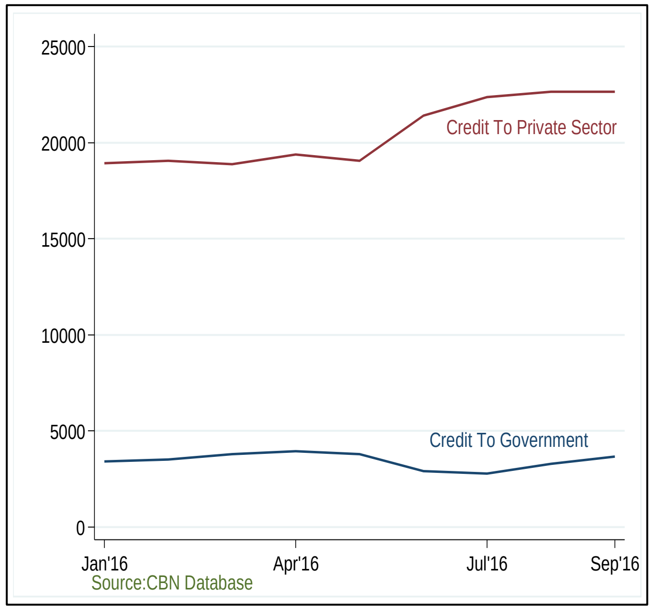
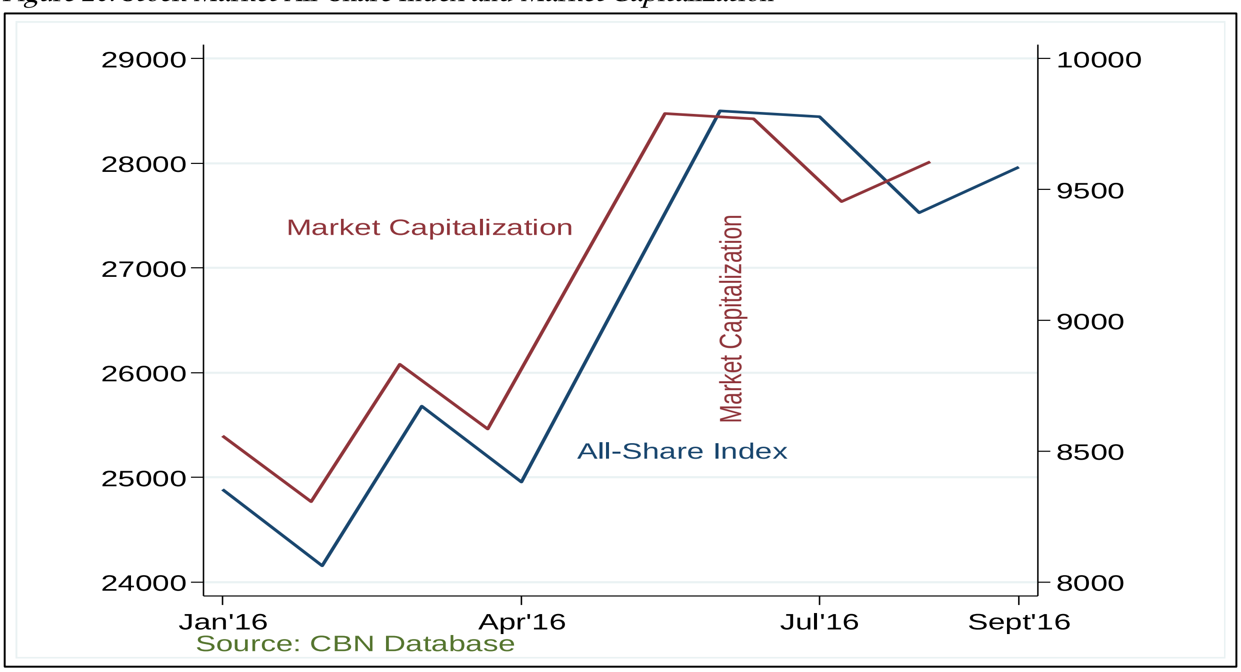


Figure 19: Domestic Credit (N million)



Overall, the capital market did not show vulnerabilities to domestic and external sector developments in 2016Q3 relative to the preceding quarter. The equities segment of the capital market witnessed growth as the All-Share Index (ASI) increased by 4.7 percent, from N26.73 billion in 2016Q2 to N27.98 billion in 2016Q3 (*Figure 20*). Similarly, Market Capitalization increased by 4.60 percent from N9.19 billion in 2016Q2 to N9.61 billion in 2016Q3. While the Nigerian equity market witnessed a bearish July as the ASI fell by 1.6 percent at the start of the quarter, the market picked up in September and closed the quarter at a higher index.

Figure 20: Stock Market All-Share Index and Market Capitalization



In the forex market, price stability remains an issue as naira-dollar exchange rate continued to rise, especially at the parallel market (See section 3.3). In direct efforts to deepen the foreign exchange market and ensure financial stability generally, a number of policy instruments were deployed between July and September such as the increase in benchmark interest rate. Complementary administrative measures were also taken towards achieving this goal, among which was the directive given to International Money Transfer Operators (IMTOs) to sell forex directly to Bureau de Change (BDC) operators, in order to improve liquidity in that segment of the forex market. Moreover, the CBN moved to license an additional eleven IMTOs to operate in the country in efforts to further strengthen inflows. However, the naira continued to weaken at the international market over the period; with the official naira-dollar exchange rate rising from an average of N208.6 in 2016Q2 to N303.2 in 2016Q3. The slower rate of growth in the inflow of forex earnings relative to forex demands remain the biggest challenge inhibiting the ability of the CBN to defend the naira. Nevertheless, investor confidence has gradually improved in the new forex regime as seen in the improving capital market performance.

Furthermore, the Bank increased its Open Market Operations (OMO) in August through the sale of its 3 months, 6 months and 1 year Treasury Bills worth N256 billion in order to soak up excess liquidity and further lend support to the Naira. The CBN offered yields particularly on the 6 months and 1 year Bills, which remained attractive at 18 percent and 18.5 percent respectively. This kept real return within the positive territory, enough to offset the expected uptick in headline inflation and potentially lure back foreign portfolio inflows.

The monetary authorities have been relatively successful in managing the banking sector and capital market in 2016Q3 amid worsening recession. With the economy in recession, corporate earnings are expected to remain under pressure, thus investors' appetite will likely remain lethargic. Furthermore, while the CBN has made attempts to stabilize the forex market, the value of the naira is likely to be subdued in succeeding quarters due to the limitations of monetary policy in addressing underlining economic fundamentals that are constraining forex inflows. Recognizing that the conditions which precipitated the current economic downturn have not been essentially sensitive to monetary policy interventions, a greater onus lies with fiscal policy in addressing the issues. Moreover, given the trade-off between growth-inducing and price-stabilizing monetary policies, the use of monetary policy instruments should not undermine the Bank's primary mandate of price and financial system stability. Particularly, while a cut in interest rate could spur credit growth in both the private and public sectors and thus provide liquidity to stimulate consumption, investment and growth; evidence based on a previous cut in 2015Q4 and 2016Q1 shows that such move at this time tends to push up exchange rate, and inflation to a lesser extent. This is because it disincentivizes capital importation which further exacerbates forex issues. More so, based on recent evidence, the liquidity provided through monetary policy easing were not deployed by commercial banks to provide credit to key sectors of the economy and stimulate growth, as the Bank had intended, due to reform-related and structural issues affecting the Nigerian business environment. Thus, monetary policy priority should continue to be directed at price stability (including consumer prices and exchange rate) as opposed to growth stimulation, especially since price stabilization is within the Bank's purview and is also a key driver for growth. With reference to price stability, the Bank should deepen forex supply particularly for raw materials to boost industrial output.

Overall, the domestic economy underperformed in 2016Q3. The recession in the Nigerian economy deepened over the period on the account of persisting low crude oil production due to insurgency in the Niger Delta and weak consumer demand. Furthermore, inflation worsened in the review period on the account of reform-related structural and supply-side factors including: energy and utility prices, transportation cost, and imported production inputs. Unemployment continued to rise in both urban and rural centres, and remained most severe amongst youths and women. In response to prevailing economic conditions, the Nigerian government outlined plans to boost government revenue through non-oil sources and government borrowing, as well as resuscitate the economy through increased capital expenditure. In efforts to deepen the financial market and uphold its mandate of price stability, the CBN tightened monetary policy and introduced a number of forex policy instruments. While monetary authorities have managed to stabilize the banking sector and capital market in 2016Q3 amid worsening stagflation, the value of the naira remains subdued. There is a general need for monetary-fiscal policy coordination in designing a comprehensive intervention mechanism that will redress infrastructural challenges (particularly in regards to power and transportation) as well as support the production processes of local businesses (particularly in terms of access to forex for the import of key raw materials) in key sectors of the economy.

3. EXTERNAL SECTOR

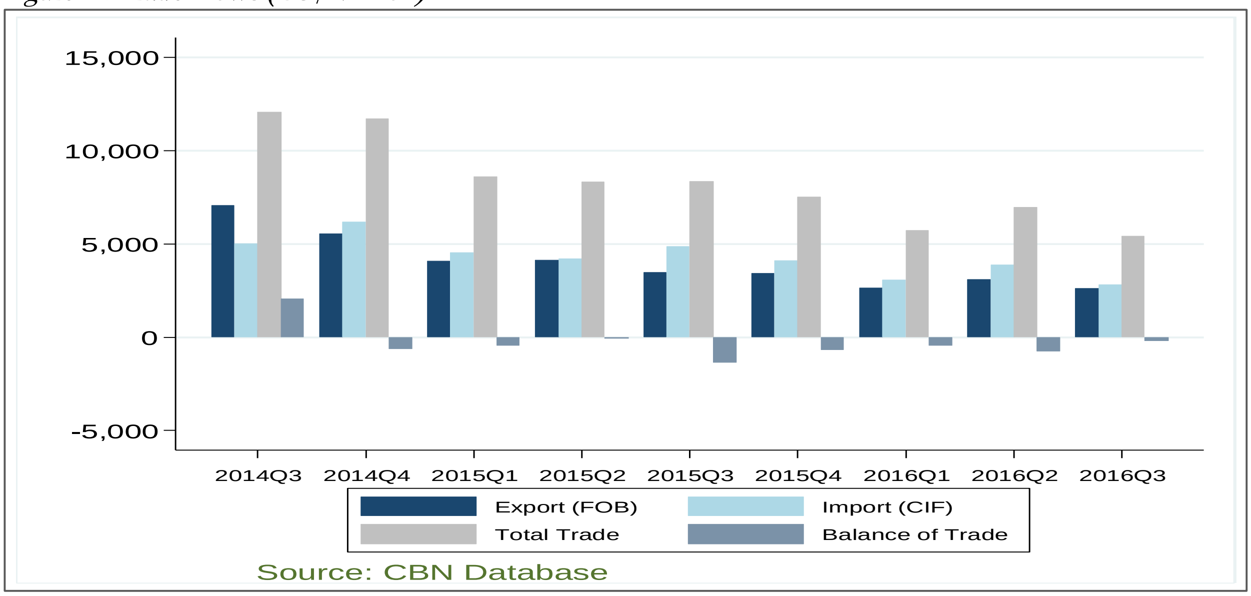
This section presents key indicators of Nigeria's external sector performance focusing on foreign trade and investment, exchange rate and external reserves in the third quarter of 2016. This is expected to give insights into expectations of the public and private sectors in subsequent quarters.

3.1 Foreign Trade

Though Nigeria's total trade declined, its trade balance improved as imports fell sharply in July.

Nigeria's total trade averaged \$5.44 billion in 2016Q3, a 21.9 percent decrease from the preceding quarter value of \$6.96 billion *(Figure 21)*. The decline in total trade value was as a result of decrease in both imports and exports. However, much of the drop in trade arose from the import component, which averaged \$2.63 billion in 2016Q3 compared to \$3.57 billion in 2016Q2, representing a 26.3 percent decrease. On the other hand, exports averaged \$2.61 billion representing a 15.4 percent decrease from an average of \$3.09 billion in 2016Q2. The significant decline in imports above exports reduced the trade deficit by 73.5 percent, from \$0.78 billion in the preceding quarter to \$0.21 billion in 2016Q3.

Figure 21: Trade Flows (US\$ Million)



In terms of export trade direction, the top destination for Nigeria's exports is India, followed by the US *(Table 2)*. The trend of export direction in 2016Q3 is similar to the preceding quarter. Nigeria's exports to India and the US increased by 29.0 and 20.3 percent respectively. Also, trade between Nigeria and other African countries increased over the period. Nigeria's export to other African countries increased by 50.0 percent in the period under review. Exports to notable trading partners including the United Kingdom and France also grew by 17.8 and 97.7 percent respectively. Furthermore, mineral products accounted for the majority (97.3 percent) of Nigeria's export in 2016Q3.

Table 2: Nigeria's Top 10 Export Destinations (₦'million)

	AFRICA		AMERICA			EUROPE						ASIA		
	TOTAL	ECOWAS	USA	Canada	Brazil	Germany	UK	Netherlands	Italy	France	Spain	Japan	India	China
2013 Q1	304,220.0	178,248.7	414,095.1	51,032.6	343,031.2	95,744.1	183,241.7	386,037.5	221,594.8	218,308.0	327,614.9	4,737.8		49,956.8
Q2	503,768.3	218,464.1	441,239.8	83,531.2	442,958.3	116,587.5	222,832.0	201,165.6	227,494.5	238,704.8	210,294.7	19,285.5		25,326.8
Q3	545,039.5	192,315.4	278,473.8	86,386.7	273,079.3	45,702.2	174,364.8	512,446.1	233,598.6	211,410.1	262,072.2	13,120.7		38,155.2
Q4	439,839.0	167,847.6	70,025.6	37,380.0	289,849.4	50,852.1	149,500.5	393,673.6	310,729.8	166,903.6	194,866.6	35,027.8		57,297.7
2014 Q1	424,379.1	171,197.2	147,440.2	1,651.5	376,764.3	56,785.6	268,402.2	461,516.8	150,850.3	310,862.4	345,956.9	144,152.3		100,918.4
Q2	410,683.6	174,587.8	250,138.9	398.6	413,904.4	57,209.1	304,405.3	449,742.3	287,368.3	248,427.9	514,078.6	121,576.1		77,106.2
Q3	628,170.5	326,765.1	137,998.1	2,891.9	287,204.5	55,029.6	152,500.0	467,338.2	166,444.4	218,570.5	387,766.2	124,337.3		31,676.3
Q4	462,619.9	152,188.6	80,865.4	25,460.9	239,977.2	106,438.2	99,611.3	284,260.5	109,096.5	156,805.2	270,183.4	126,337.0		54,909.5
2015 Q1	496,908.7	252,692.9	43,788.4	22,794.4	160,182.1	77,178.8	67,653.7	304,122.1	63,986.3	101,909.9	234,544.7	132,000.8	436,555.0	64,369.6
Q2	382,081.7	122,383.5	116,080.4	24,098.2	202,497.0	55,909.9	91,594.3	379,864.5	68,079.3	164,025.0	234,550.6	79,490.0	554,207.1	18,199.0
Q3	287,892.6	140,433.9	85,510.6	19,647.9	169,439.9	34,266.7	192,231.7	245,066.5	28,570.3	106,603.7	211,357.2	80,438.0	408,239.5	29,093.6
Q4	223,414.7	84,266.0	89,169.6	39,190.2	100,105.6	20,833.7	63,366.7	207,214.4	55,948.2	139,583.1	228,484.6	43,284.2	380,692.7	45,822.9
2016 Q1	155,615.5	55,191.8	160,087.6	47,885.7	71,727.7	17,109.8	41,959.5	62,435.2	34,837.5	94,774.9	143,565.7	33,092.3	266,963.7	54,271.7
Q2	247,363.2	97,908.3	256,156.9	90,573.1	47,591.8	31,577.6	83,752.1	137,229.8	29,860.2	91,789.5	179,569.5	23,997.3	338,472.5	23,479.2
Q3	371,167.8	190,303.0	308,118.7	51,744.1	64,879.4	30,745.3	98,657.2	132,540.4	34,067.7	181,591.5	185,357.6	16,875.8	436,626.0	14,397.7

Source: NBS Foreign Trade Report, 2016 Q3

In terms of import direction, China remained Nigeria's number one import partner, followed by Belgium and Netherlands *(Table 3)*. The trend of import direction in 2016Q3 is similar to the preceding quarter, except that Belgium displaced the US as Nigeria's top three import partners. Topping the list of imports for 2016Q3 were mineral products, boilers machinery and appliances.

Table 3: Nigeria's Top 10 Import Destinations (₦'million)

	AFRICA		AMERICA			EUROPE						ASIA		
	TOTAL	ECOWAS	USA	Canada	Brazil	Germany	UK	Netherlands	Italy	France	Spain	Japan	India	China
2013 Q1	58,712.5	5,340.7	84,279.8	6,170.9	27,679.1	46,633.4	98,867.5	80,943.5	23,152.1	55,476.1	18,482.5	17,004.2		335,773.8
Q2	119,422.2	59,724.8	154,660.1	8,306.3	31,008.3	56,445.2	89,199.2	100,213.8	31,970.0	35,002.6	53,560.8	16,309.5		387,707.4
Q3	392,286.8	8,709.4	188,649.2	15,675.1	91,125.7	70,266.2	120,827.8	100,976.2	27,376.1	39,858.9	54,163.3	31,072.1		378,325.1
Q4	102,834.3	48,006.1	185,072.0	13,909.1	50,103.1	60,608.5	58,171.9	95,718.0	29,753.9	54,540.4	19,929.1	27,859.2		374,121.9
2014 Q1	65,098.7	8,438.8	164,743.0	11,289.7	42,108.0	64,501.5	70,070.5	76,363.9	34,113.1	36,427.6	26,857.9	24,019.6		368,108.4
Q2	78,111.1	12,246.4	235,611.5	13,955.4	38,381.5	76,821.8	77,489.5	138,687.4	30,623.7	63,692.4	39,007.0	26,750.7		426,075.5
Q3	317,460.4	15,223.6	183,259.2	11,312.4	54,102.8	65,251.7	73,763.7	94,134.1	33,432.8	38,164.5	33,483.5	31,233.2		429,085.0
Q4	61,366.0	10,168.2	167,267.0	21,082.1	53,084.4	75,927.5	67,966.1	141,245.7	64,841.9	46,622.7	22,744.9	44,577.3		393,522.0
2015 Q1	108,370.9	55,746.0	136,808.6	11,859.3	42,522.8	54,664.8	75,248.4	124,056.7	69,076.0	37,941.7	41,314.7	28,883.5	96,605.3	387,508.2
Q2	107,190.9	45,906.7	146,967.6	12,470.2	40,519.5	52,386.0	78,264.0	109,390.5	31,102.6	41,104.5	62,980.8	18,737.0	115,246.5	336,241.2
Q3	65,413.5	16,308.3	160,603.2	11,958.6	39,514.4	55,043.3	54,231.0	101,820.0	27,293.6	30,547.1	15,692.4	16,565.9	97,415.8	459,398.2
Q4	139,403.8	95,807.9	137,616.9	13,437.5	48,905.3	48,266.5	76,015.8	80,137.7	29,985.0	47,594.5	20,086.3	25,553.7	99,304.6	384,538.5
2016 Q1	101,004.2	54,447.2	136,494.6	14,516.1	52,117.8	45,444.4	76,862.2	109,092.7	31,613.8	82,229.7	29,647.1	16,905.2	91,360.6	348,817.2
Q2	89,928.2	21,488.1	199,063.3	16,443.4	35,326.8	73,612.1	119,625.8	332,867.1	27,596.4	106,167.5	41,237.3	60,652.2	125,127.7	496,514.2
Q3	87,847.6	8,518.7	165,476.8	20,098.2	90,460.1	74,483.5	62,935.6	299,656.7	36,798.1	91,292.6	45,559.4	25,970.0	121,290.1	478,650.4

Source: NBS Foreign Trade Report, 2016 Q3

On one hand, the decrease in imports was driven, *inter alia*, by declining private demand due to rising inflation occasioned by the depreciation of the naira. Furthermore, businesses are struggling to maintain current levels of operations and have scaled back investments as a result of high borrowing costs, scarce foreign exchange, and mounting credit risk.[17] The government needs to pursue a robust import substitution agenda that backs local manufacturing to meet domestic demand. This will go a long way in correcting trade imbalances. In addition, the government can improve business conditions for firms by providing foreign exchange required to import intermediate inputs in the short term. In the long run, firms should readjust operations and look to source raw materials and other inputs domestically to enable value addition within the economy. On the other hand, exports declined on account of low crude oil prices and low production volumes. This suggests that more effort needs to be put towards reaching lasting peace

[17] http://naija247news.com/2016/10/q316-nigerias-economic-review-and-outlook-worth-the-risk/

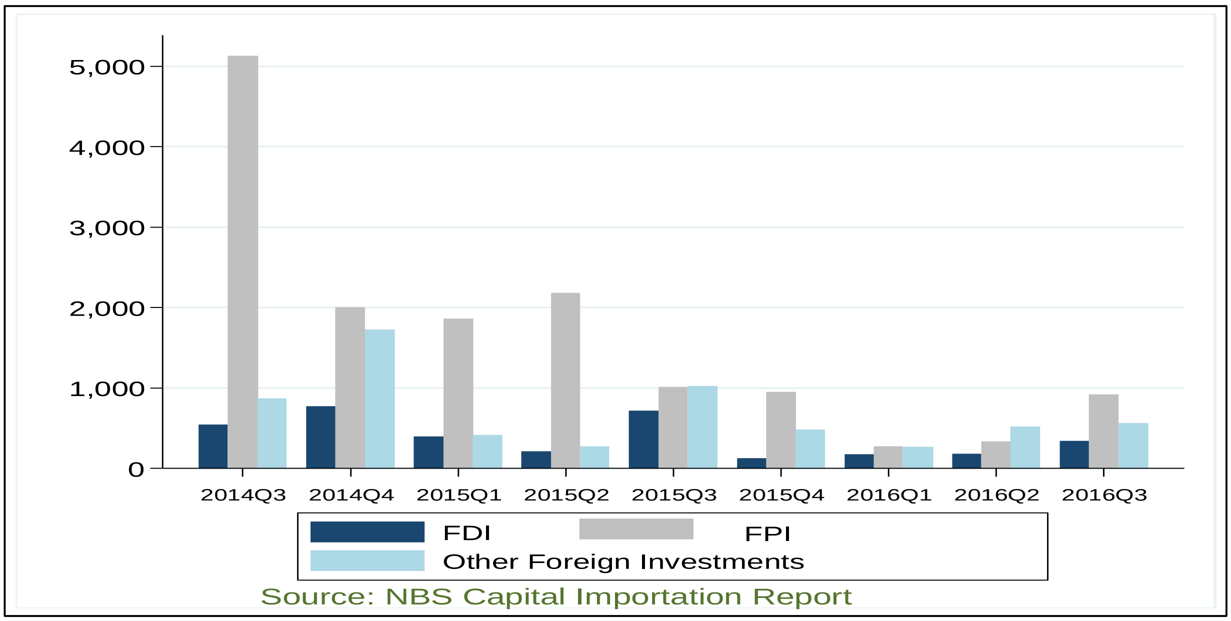
with militants in the Niger Delta, responsible for vandalizing oil installations. This represents a more direct channel through which the government can act to improve production.

3.1 Foreign Investment

Capital importation into the Nigerian economy, particularly FPI, increased significantly in the period under review mainly due to a record high MPR.

The total value of capital inflows into Nigeria in 2016Q3 stood at $1.82 billion *(Figure 22)*. This represents a $779.95 million or 74.8 percent quarter-on-quarter increase. There were increases across all the foreign investment types. Foreign Portfolio Investment (FPI) recorded $920.32 million, which represents the largest increase at 172.8 percent, followed by an increase of 84.8 percent for Foreign Direct Investment (FDI) and a marginal increase of 7.8 percent for other foreign investments such as loans. While FDI increased by $156.35 million to record $340.64 million, it remained the lowest component of capital importation in 2016Q3. FPI estimated at $920.32 million displaced other foreign investments (estimated $561.16 million) as the largest component of capital importation in 2016Q3. These dynamics made FPI account for 50.5 percent of total capital imported compared to 30.8 percent and 18.7 percent of other foreign investments and FDI, respectively.

Figure 22: Foreign Investment (US$ Million)



Much of the growth in the value of capital importation came from debt financing, with portfolio investments in bonds and money market instruments accounting for about 85 percent of the increase. Under FPI, bonds increased from zero in 2016Q2 to $369 million in 2016Q3, and money market instruments recorded a quarter-on-quarter increase from $57.50 million in 2016Q2 to $350.20 million in 2016Q3. This was expected as the CBN increased the MPR to a record 14 percent in July to attract foreign capital. In terms of country of origin for Nigeria's capital inflows, most of the attracted foreign capital came from the United Kingdom (UK), which accounted for $1.10 billion or 60.24 percent of total capital imported in 2016Q3. This is in contrast to the recent quarterly average of $386.83 million capital imported from the UK between 2015Q3 and 2016Q2. In addition to the increase in MPR, the drop in the official bank rate in the

UK from 0.5 percent to 0.25 percent in August explains the surge in flow of capital from the UK.[18] In order for such capital inflows to be sustainable, the CBN would have to maintain an attractive MPR going forward.

Banking regained its spot as the sector that attracted the most capital in 2016Q3 with $555.52 million, 30.5 percent of the total capital importation *(Table 4)*. This is followed by telecommunication and the oil and gas sector recording $244.80 million and $171.63 million respectively. Four sectors (Marketing, Hotels, Tanning and Weaving) failed to attract any foreign capital in 2016Q3. Eight out of twenty sectors recorded a decline in the value of capital importation, the largest of which was in Servicing; with a decline of $83.20 million or 69.48 percent relative to the previous quarter.

Table 4: Capital Importation by Sectors (US$ Million)

Capital Importation by Sector ($ million)											
	2014Q1	2014Q2	2014Q3	2014Q4	2015Q1	2015Q2	2015Q3	2015Q4	2016 Q1	2016Q2	2016Q3
TOTAL	3904.55	5803.89	6542.58	4499.74	2671.59	2666.36	2748.10	1556.95	710.97	1042.17	1822.12
Banking	104.93	191.10	330.99	337.16	114.89	360.92	244.24	193.49	107.58	108.11	555.52
Telecomms	135.68	61.66	27.07	769.92	336.87	138.40	369.49	93.37	13.44	118.71	244.80
Oil And Gas	201.14	3.83	3.16	0.05	9.47	4.86	2.21	13.22	20.83	200.39	171.63
Production	104.07	107.88	365.10	366.92	118.36	51.20	162.42	91.72	77.77	89.42	68.25
Financing	345.28	723.14	1,073.83	566.06	763.49	46.54	35.15	13.71	42.57	1.08	36.56
Servicing	32.36	53.58	110.49	354.88	6.29	12.83	65.64	115.71	55.05	119.75	36.55
Trading	169.35	68.11	46.43	101.72	28.54	91.57	6.66	40.77	55.08	12.37	18.95
Electrical	5.95	1.79	5.84	2.44	0.83	73.39	0.58	137.52	70.15	12.84	18.65
Agriculture	15.08	0.22	0.83	8.19	2.68	0.05	95.10	0.50	0.20	1.00	10.90
Construction	10.63	4.62	4.88	35.56	4.30	3.24	11.10	9.38	10.16	14.95	3.62
Consultancy	2.81	6.96	7.74	8.91	0.70	0.10	0.23	9.56	0.14	0.20	2.14
Transport	0.30	1.64	-	0.53	2.10	0.24	6.11	1.55	0.86	-	1.55
I T Services	2.50	2.57	1.65	3.25	1.40	5.75	2.02	3.61	1.02	0.63	0.03
Hotels	0.57	0.53	1.34	8.83	-	-	1.15	-	0.75	-	0.00
Source: NBS Capital Importation Report, 2016 Q3											

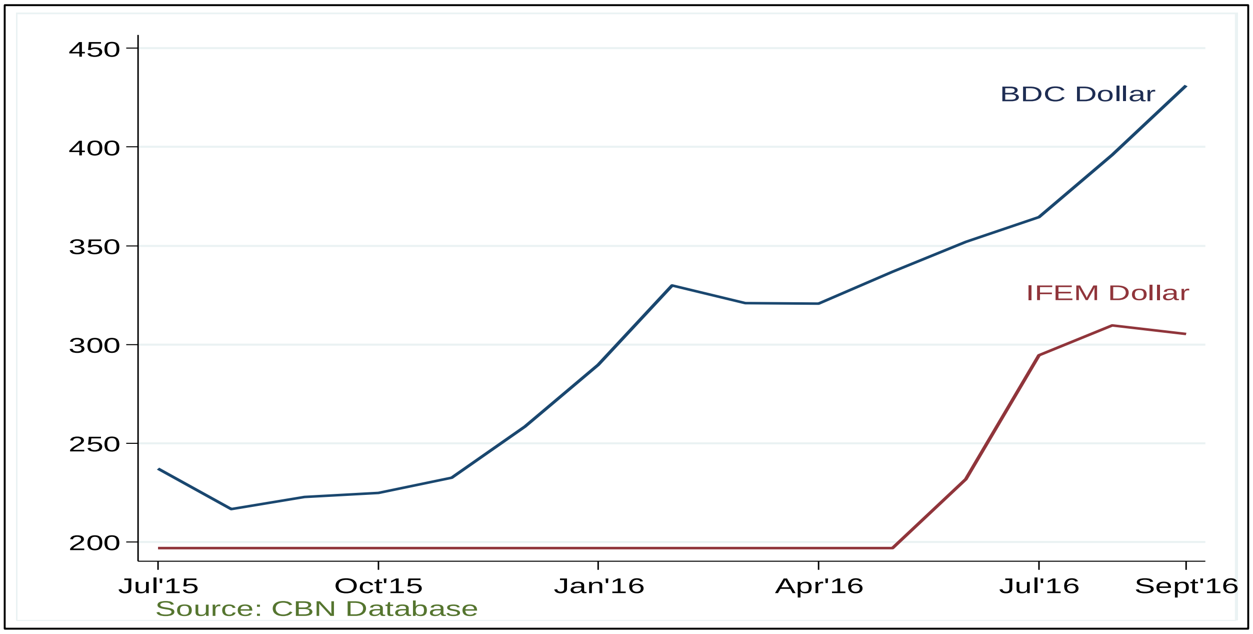
[18] http://www.bankofengland.co.uk/boeapps/iadb/Repo.asp

3.2 Exchange Rate

The Naira significantly depreciated in the period under review with the interbank and BDC rates failing to converge.

Despite the adoption of the floating exchange rate system by the Central Bank of Nigeria in 2016Q2, the interbank exchange rate continued a depreciation trend from June until 18th August when the naira hit a low of ₦324.5/$ (*Figure 23*). The naira settled at a mean of ₦305.23/$ in September, which represents a 31.70 percent depreciation from the ₦231.76/$ rate attained at the end of 2016Q2.

Figure 23: Monthly Exchange Rate (N/S)



Despite floating the naira, the exchange rate market has failed to witness a convergence between the different rates (interbank rate, BDC rate and parallel market rate) as expected. Instead, exchange rates diverged further in 2016Q3. In this respect, releasing some reserves might be necessary to align the BDC rate and the interbank rate. However, there is need to take cognizance of the importance of maintaining a healthy foreign reserve. These conditions are necessary for Nigeria to better position itself to access concessionary funding if the government decides to.

3.3 External Reserves

Nigeria's external reserves further deplete in 2016Q3 as the CBN makes efforts to stabilize the Naira amid low forex earnings.

There has been a steady decline in Nigeria's external reserves since 2015Q3 from an average of $30.58 billion to about $24.81 billion in the 2016Q3. On a quarter-on-quarter basis, Nigeria's foreign reserves declined by 6.64 percent *(Figure 24a)*. The steady decline in foreign reserves indicates that the CBN is financing payment imbalances in the foreign exchange market. This is evident in the relative stability of the exchange rate in September despite the trade deficit recorded in the quarter. The foreign reserve balance as at September 2016 can provide about 9 months import cover *(Figure 24b)*.

Figure 24a: External Reserve (US$ Million)

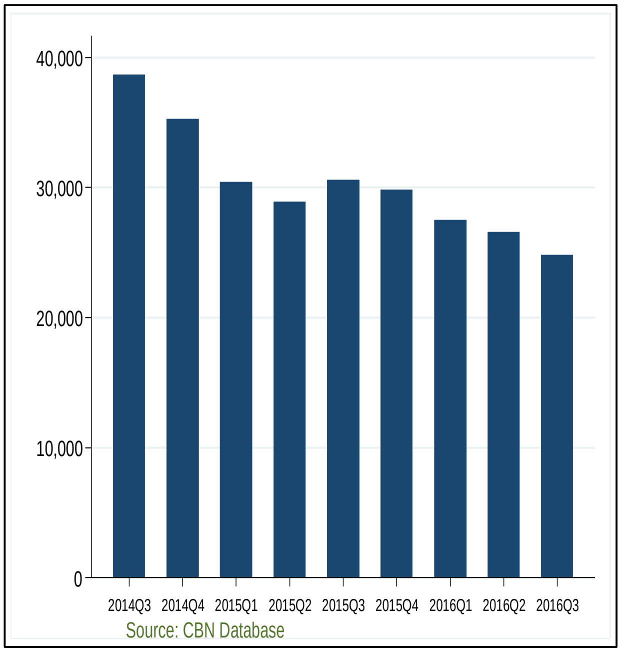
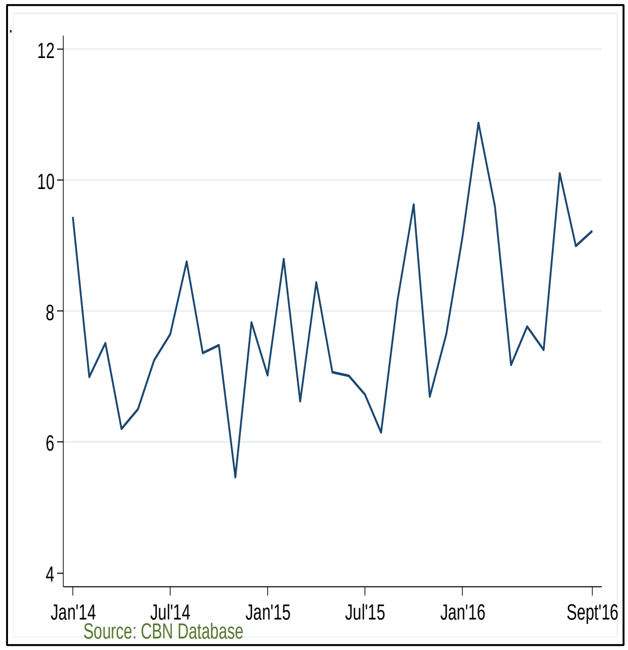


Figure 24b: External Reserve/Import Ratio



Overall, Nigeria's external sector indicators showed that the Nigerian economy experienced mixed performance in the period under review. Specifically, foreign trade declined but trade balance improved in 2016Q3 due to a sharper decline in imports than in exports. Foreign capital inflows however improved on account of a July hike in MPR. The Naira continued its depreciation trend from the preceding quarter, with the gap between parallel market and official market rates widening further in 2016Q3. Further, Nigeria's external reserves steadily declined in 2016Q3 as CBN financed payment imbalances in the foreign exchange market. Trends in the nation's external sector indicators show weak performance with the exception of the improvement in trade balance and capital importation, especially FPI.

4. SECTORAL PERFORMANCE

This section examines the performance of key sectors of the Nigerian economy, with focus on the third quarter of 2016 (2016Q3). It investigates the factors driving sectoral real GDP growth, as well as sectoral and sub-sectoral contributions to economy-wide real GDP in the quarter. The last part of the section features a summary of key findings and presents a number of policy recommendations.

4.1 Agriculture Sector

Harvest activities and increased credit drive marginal improvement in agriculture sector performance, as the Harmattan season gradually sets in.

In the third quarter of 2016, agriculture sector Real GDP grew marginally by 0.01 percent from the 4.53 percent growth experienced in 2016Q2 *(Figure 25)*. The sector also contributed 28.65 percent to overall real GDP; an increase of 6.10 percent quarter-on-quarter and 1.86 percent year-on-year. This makes the agriculture sector the highest contributing activity sector to economy-wide real GDP in the third quarter of 2016; as was the case in the second quarter *(Figure 26)*. The high contribution of the Agricultural sector to overall real GDP can be attributed to marginal improvements in the sector, but, to a greater extent this is a reflection of the poor performance of other sectors of the economy.

Figure 25: Agriculture Sector Real GDP Growth Rate (%)

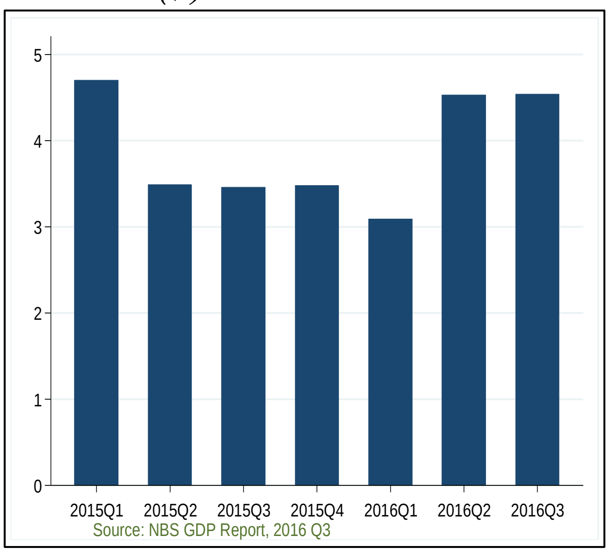
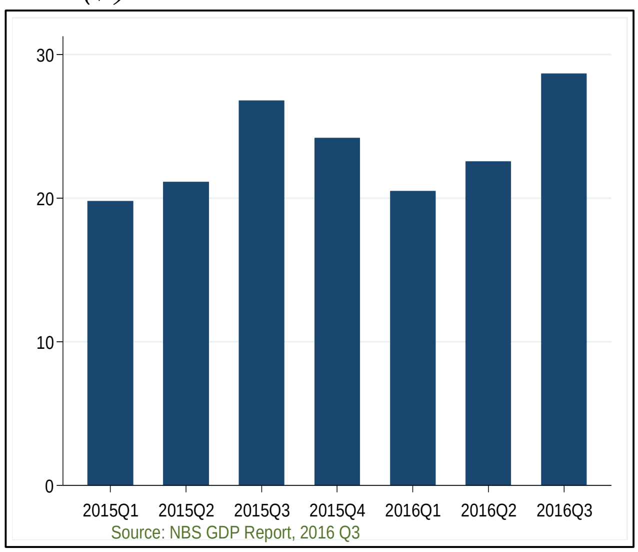


Figure 26: Agriculture Sector Contribution to Real GDP (%)



The marginal increase in the growth rate of the sector's real GDP (by 0.01 percent) was particularly sustained by slight increase in the outputs of crop production (by 0.16 percent) and fishing (from -6.58 in 2016Q2 to -0.34 in 2016Q3) sub-sectors *(Figure 27)*. Furthermore, crop production accounted for bulk of the productivity in the sector by making up 92.15 percent of total agriculture sector GDP[19]. All other sub-sectors (livestock and forestry) experienced declined growth except the fishing subsector which improved by 6.51 percent from 2016Q2 rates but was still negative at -0.34 percent[20].

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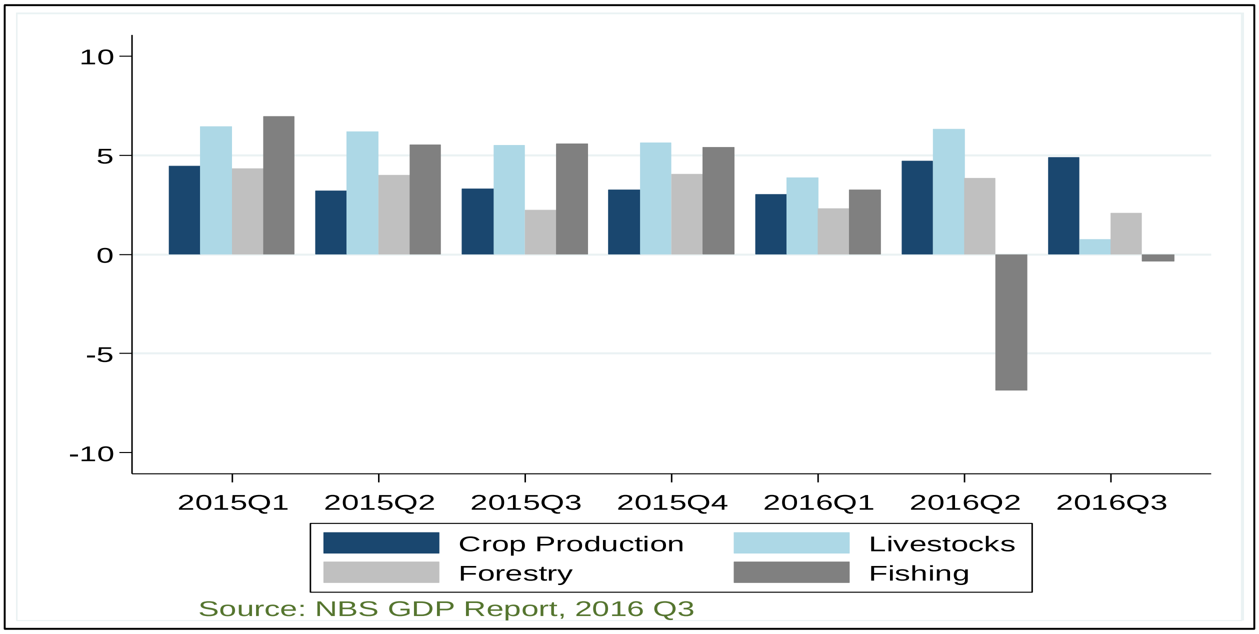
[19] NBS Nigerian Gross Domestic Report Quarter Three

[20] NBS Nigerian Gross Domestic Report Quarter Three

Figure 27: Agriculture Sub-sector real GDP growth rates (%)



The slight improvements experienced in the agriculture sector in 2016Q3 is as a result of continued harvest activities, as well as access to agricultural credit. The federal government through the Central Bank of Nigeria (CBN) continued to guarantee credit for small-holder farmers under the Agricultural Credit Guarantee Scheme (ACGS). CBN's total credit guarantee to farmers increased from ₦1.993 billion in 2016Q2 to about ₦2.146 billion in 2016Q3, representing an increase of 7.66 percent. Also, the number of farmers guaranteed under the ACGS increased significantly (by 43.9 percent) from 12,405 to 17,851.[21]

The positive performance of the agriculture sector; though marginal, reflects the commitment of the Federal government of Nigeria to its policy objective of becoming food self-sufficient in the next few years. Looking forward to subsequent quarters, productivity in the sector might decline slightly due to the rain-fed and seasonal nature of agriculture in Nigeria. However, the decline would be marginal even as harvest activities continue and other areas of the agriculture value chain; such as storage, transportation and processing, get to be exploited. Also, the attention given to the sector by the government, especially by making credit available to farmers and other participants in the agriculture value chain through the CBN and the Bank of Industry, is expected to yield more results and further impact on the performance of the sector.

However, it needs to be highlighted that the key driver of the agriculture sector development lies outside the core farming activities. For example, the major constraints to productivity in the sector includes; limited access to capital, limited access and use of improved agricultural inputs – such as technology and improved seed varieties –, existing land tenure arrangements and laws, and inadequate infrastructure. Hence, the government needs to fully step-up in its role of creating an enabling environment especially in the area of infrastructure development, to enable private sector players make the required investments in the agriculture sector.

[21] CBN report of activities under the Agricultural Credit Guarantee Scheme (various issues)

4.2 Construction Sector

Continued shortfall in government revenue and slow implementation of the 2016 budget accounts for significant contraction of the construction sector component in real GDP.

Construction sector real GDP growth rate remained negative, however with marginal improvement by 0.15 percentage points from -6.28 percent in 2016Q2 to -6.13 percent in 2016Q3. Year-on-year, real GDP growth in the sector was negative with a difference of 6.02 percentage points between 2015Q3 and 2016Q3 *(Figure 28)*. Given that construction activity in Nigeria is largely public sector driven, continued shortfalls in government revenues (federal and state) have been the key driver of the sector's poor performance. Most government projects including road and building construction, have been put on hold since the second half of 2015 and the implementations of several of the "new" projects outlined in the 2016 budget are yet to begin. This is because most of the funds allocated to the sector by government seems to be going into offsetting a backlog of contractor debts that have accrued over the years.

Meanwhile, marginal increase in the Construction sector contribution to real GDP in 2016Q2 (by 0.17 percent) relative to 2016Q1 could not be sustained into 2016Q3. This is understandably so as the previous increases in the contribution of the sector to real GDP (starting from 2015Q3) was not as a result of improvements within the sector but was more of a reflection of the fall in relative contribution of other sectors of the economy to real GDP (including the Oil and gas sector, the financial services sector and the manufacturing sectors) *(Figure 29)*.

Figure 28: Construction Sector Real GDP Growth Rate (%)

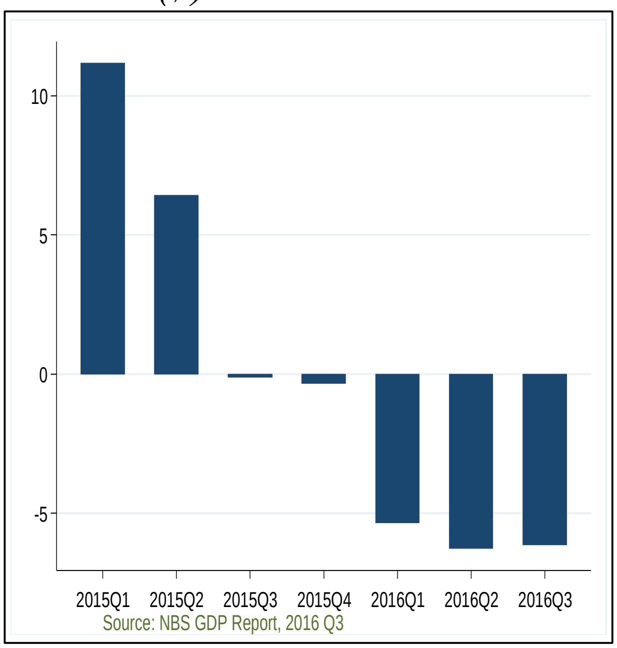
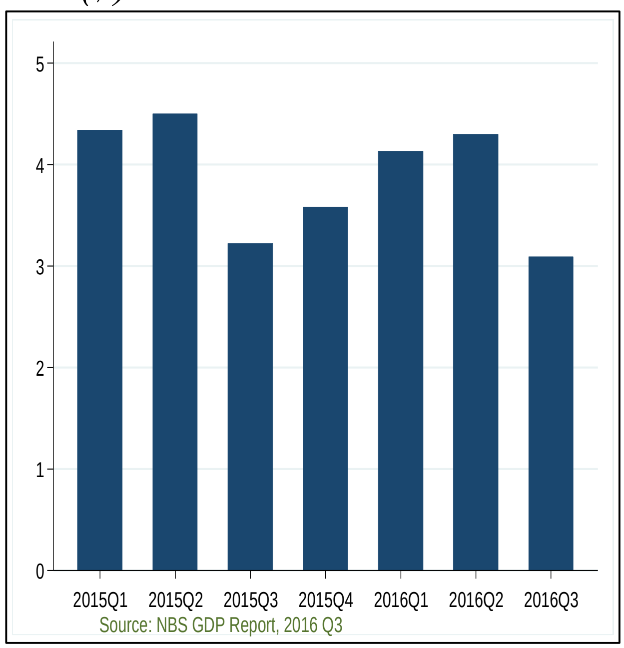


Figure 29: Contribution of Construction Sector to GDP (%)



Looking forward and considering the slow implementation of the budget which is largely due to heavy fiscal constraints being faced by the government, not much improvement is expected in the construction sector in subsequent quarters. This is more so as the fiscal year is coming to an end and many of the projects in the 2016 budget might be transferred to the 2017 budget as part of a Virement arrangement.

The continuous downturn in the construction sector activity has significant implications for both infrastructural development as well as employment generation in Nigeria. Hence, there is every need for government to speed up the process of passing and implementing the 2017 Appropriation bill. Also, in the face of persistent downturn in oil revenue accruing to government, there is urgent need for more concerted efforts at plugging fiscal leakages while also exploring alternative income sources; particularly increased efficiency in tax administration. An increase in government revenues will allow for the required fiscal stimulus needed to considerably revamp economic activities across all other sectors, including infrastructural development and jobs creation.

4.3 Financial Sector

The financial sector experienced slight improvements; however challenging macroeconomic environment continues to constrain performance.

After two consecutive quarters of negative growth, the financial sector rebounded to experience positive growth at 2.64 percent in 2016Q3. Particularly, the sector growth came up by 13.46 percent from -10.82 percent in 2016Q2. However, year-on-year comparison showed that the growth rate of the sector was still significantly lower than the corresponding rate in 2015Q3 *(Figure 30)*. Despite the increased and positive real GDP growth recorded by the sector in 2016Q3, its contribution to real GDP declined marginally by 0.15 percent *(Figure 31)*.

Figure 30: Financial Services Real GDP Growth Rate (%)

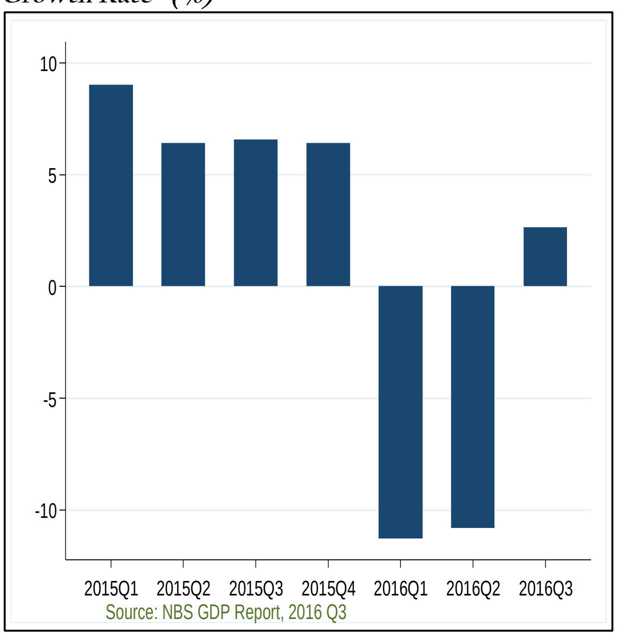
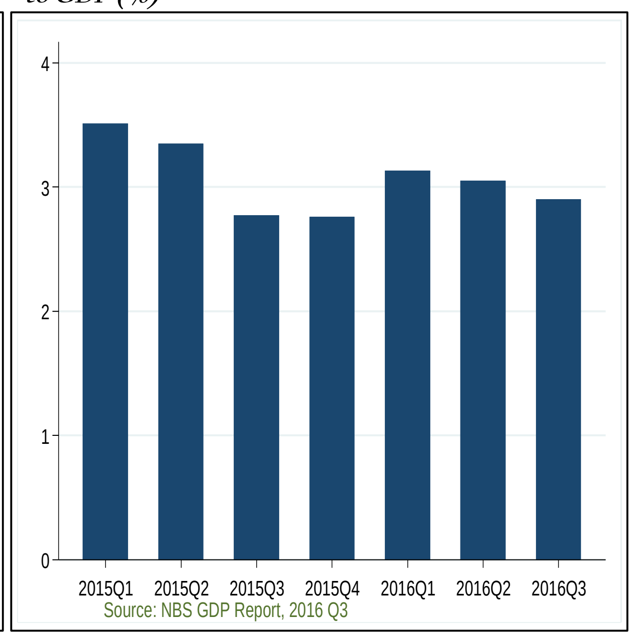


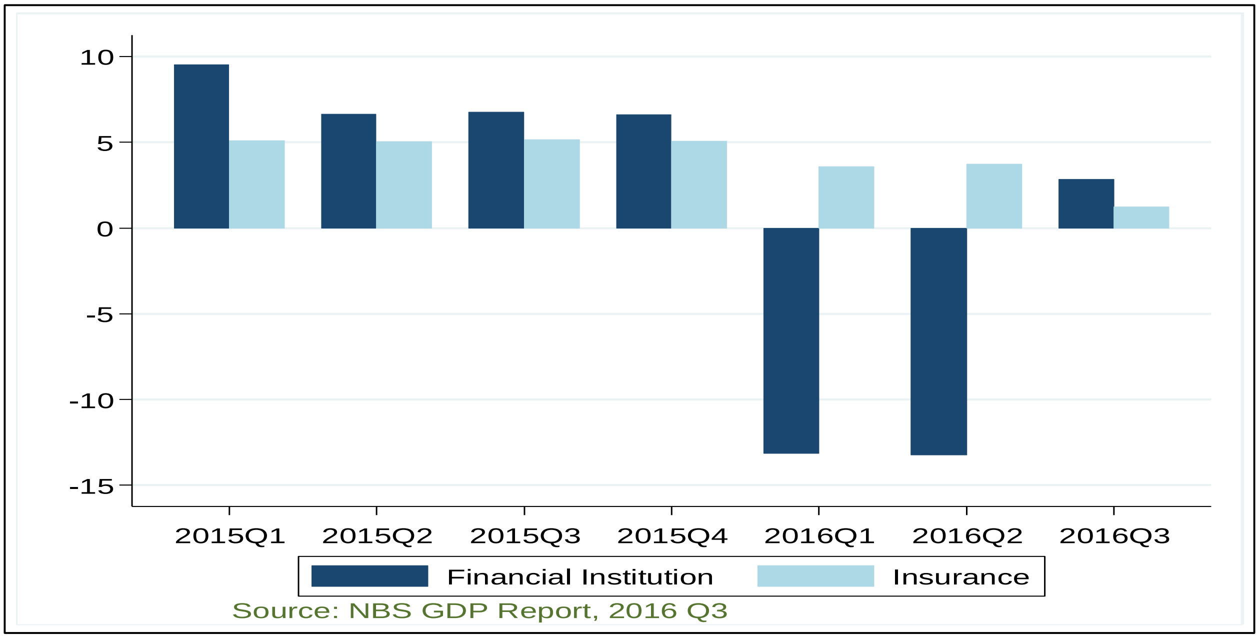
Figure 31: Financial Services Contribution to GDP (%)



The impressive performance of the financial sector was driven by significant improvements in the banking/Financial institutions sub-sector; which experienced growth rate of 2.85 percent, up from -13.24 percent in 2016Q2, and its percentage contribution to the financial sector increased from 83.28 percent in 2016Q2 to 87.63 to 2016Q3[22]. Conversely, growth in the insurance sub-sector slowed down in 2016Q3 *(Figure 32)*.

[22] NBS Nigerian Gross Domestic Report Quarter Three

Figure 32: Financial Sub-sectors real GDP growth rate (%)



The financial sector continues to face a challenging macroeconomic environment characterized by declining bank deposits and lending, a tighter credit system and high operating costs. Also, the sector is negatively affected by the contractionary impacts of declining net foreign asset holdings in the banking system as a result of the continuous depreciation of the naira relative to the dollar. Looking forward, it can be expected that the sector will continue to experience improvements as it adjusts fully to the shocks and challenges of the macroeconomic environment; including the implementation of the TSA in 2016Q1, and also as the various monetary policy actions of the central bank continue to kick in.

4.4 Information and Communication Sector

The ICT sector declined significantly on account of weak performance in telecommunications and information services, Motion Pictures and Music production.

In real terms, Information and Communications Technology (ICT) sector GDP growth rate declined in the third quarter of 2016 by 0.24 percentage points to 1.11 percent from the 1.35 percent experienced in 2016Q2. The sector's growth rate has continuously declined since 2015Q1 (*Figure 33*). Also, the contribution of the ICT sector to GDP declined by 2.45 percent from 12.68 percent in 2016Q2 to 10.14 percent in 2016Q3 (*Figure 34*).

Figure 33: ICT Real GDP Growth Rate (%)

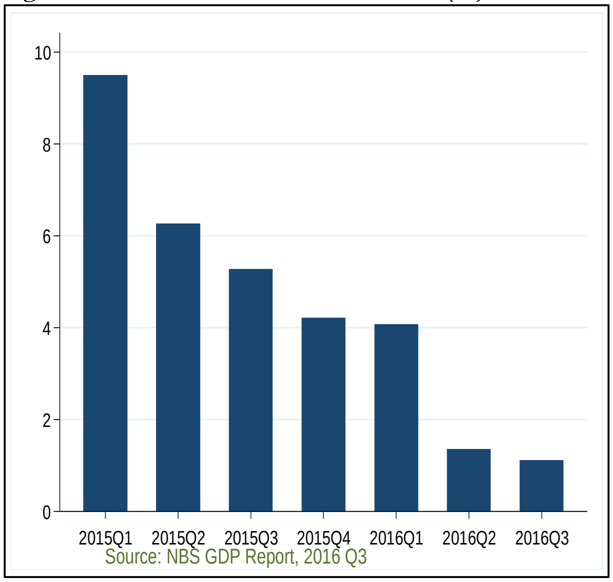
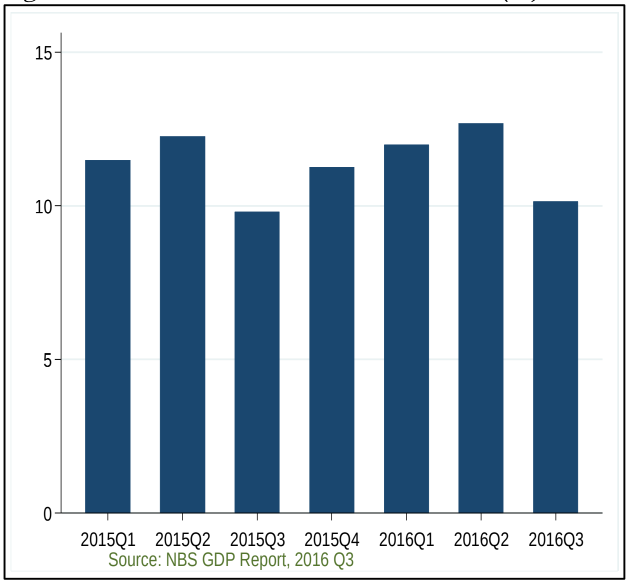
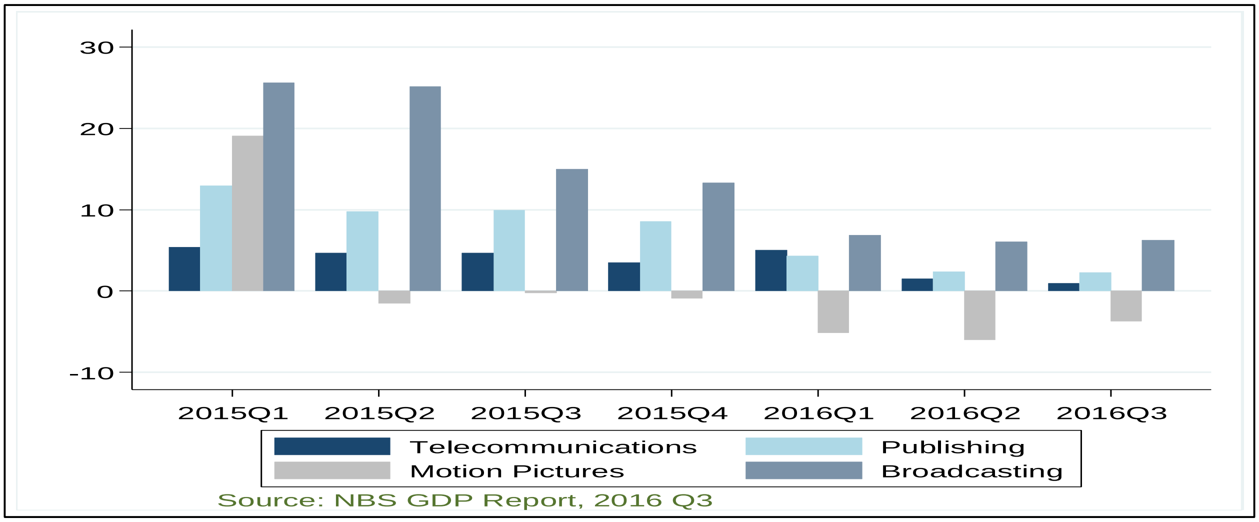


Figure 34: ICT Sector Contribution to GDP (%)



The various sub-sectors of the ICT sector also performed poorly; with the exception of broadcasting which grew by 6.27 percent, a slight improvement over the 6.05 percent growth rate witnessed in 2016Q2 (*Figure 35*). The motion picture sub-sector continued to experience negative growth.

Figure 35: Sub-sectoral Contribution to ICT Sector Real GDP (%)



Overall, the weakened growth performance of the sector is attributable to weak performance across the various sub-sectors. Particularly, a N330 billion fine imposed by the Nigerian Communications Commission (NCC) on foremost telecommunications company, MTN, for failing to disconnect 5.1 million improperly registered mobile lines within a prescribed date[23] resulted in a partial slowdown of activities in the Telecommunications subsector. While it was expected that the passage of 2016 budget should boost performance in the sector; given significant budgetary allocation to the sector, the slow implementation of the budget and other fiscal revenue constraints dwarfed this expectation.

4.5 Transport and Storage Sector

Marginal improvements was recorded in the transport sector. However, foreign exchange crisis and high cost of fuels continue to bite hard.

The transportation and storage sector recovered from a 136 percent real GDP growth rate decline in 2016Q2 (from 14.73 percent 2016Q1 to -5.37 percent in 2016Q2) to experience a slightly positive growth of 0.72 percent in 2016Q3 *(Figure 36)*. There was also a marginal improvement in the contribution of the sector to economy wide real GDP quarter-on-quarter (0.03 percent) and year-on-year (0.03 percent improvement) *(Figure 37)*. Disaggregated data for the sector indicate that while there was generally low performance for all the sub-sectors, slight improvements in the transport sector was driven most significantly by the road transport sub-sector as well as by significant improvement in the growth rate of the post and courier services sub-sector (from -67.88 percent in Q2 to – 1.11 percent in Q3)[24] *(Figure 38)*.

Figure 36: Transport and Storage Sector Real GDP Growth Rate (%)

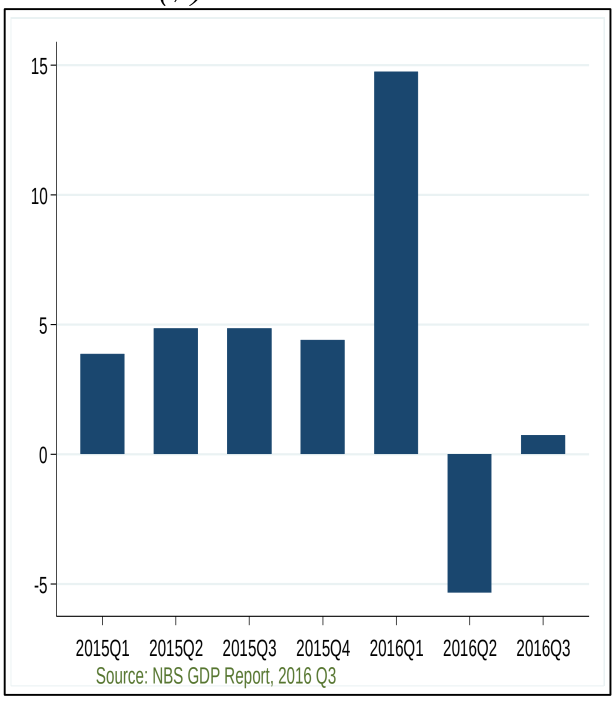
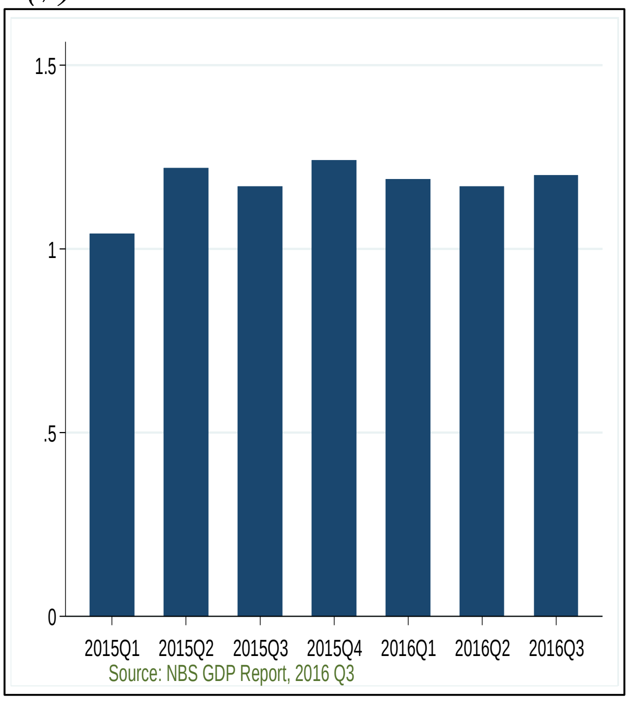


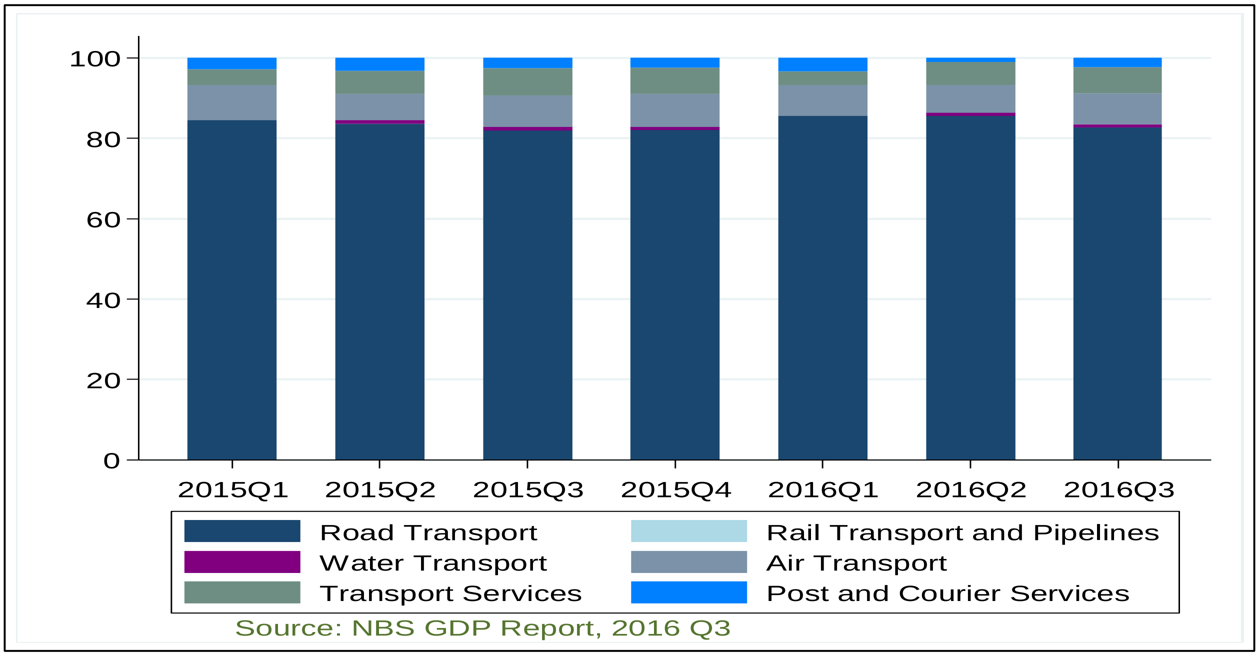
Figure 37: Transport Sector Contribution to GDP (%)



[23] http://punchng.com/fine-mtn-pays-n30bn/

[24] NBS Nigerian Gross Domestic Report Quarter Three

Figure 38: Sub-sectoral Contribution to Transport and Storage Sector Real GDP (%)



The low level of performance in the sector has been as a result of significant rise in prices across the board from 2016Q1[25]. With the persistent foreign exchange crisis in the Nigerian economy, airline operators discontinued cheap fares and cut capacity with a number of operators pulling out of the Nigerian market. Also, the scarcity of Jet A1 aviation fuel challenged the aviation sector; with a number of airlines reporting to have stopped over in neighbouring countries to refuel enroute Nigeria[26]. Economic activities declined in other critical areas of the transportation and storage sector as well. Transportation via pipelines declined owing to renewed militant attacks on gas and petroleum product pipeline installations in the Niger Delta region.

The outlook for this sector remains bleak, as the foreign exchange crisis persists in the country. The impact will continue to bite harder on the aviation sub-sector in which most of the operating costs and expenses are denominated in foreign currency. Going forward, considering the high level of investments required for the physical components of the sector, government needs to embrace and encourage increasing private sector activity in the sector by putting in place the necessary policies, particularly by giving concessions for the construction, operation and maintenance of critical transport infrastructure. Also, government needs to be more deliberate in borrowing to finance infrastructure by tying its borrowings to particular infrastructure projects across the country.

4.6 Manufacturing

Adverse macroeconomic environment continue to constrain manufacturing sector performance and productivity.

Every country seeking to grow and develop must travel the path of building a viable manufacturing sector and so the need for improved productivity and performance in the Nigeria's manufacturing sector cannot be over emphasized. A strong and resilient manufacturing sector has always been the engine of job creation

[25] http://www.premiumtimesng.com/business/business-news/212942-nigerias-inflation-rises-17-9-per-cent-september.html
[26] http://www.vanguardngr.com/2016/09/arik-air-grounded-foreign-airlines-flying-nigeria-forced-refuel-abroad/

all over the world. In Nigeria, even though the manufacturing sector has not been a key contributor to the economy, its performance has constantly declined in recent years. The trend of negative real GDP growth in the manufacturing sector continued (apart from a short-lived positive growth of 0.38 percent in 2015Q4). Real GDP growth rate in the sector declined by -1.02 percent between 2016Q2 and 2016Q3 *(Figure 39)*. Again, contribution of the sector to real GDP declined by 0.23 percent to stand at 9.19 percent *(Figure 40)*. As in the previous quarter, the relative size of the sector's contribution to real GDP; amidst persistent negative growth rate, implies that the sector is comparatively underperforming than other sectors in the economy.

Figure 39: Manufacturing Sector Real GDP Growth Rate (%)

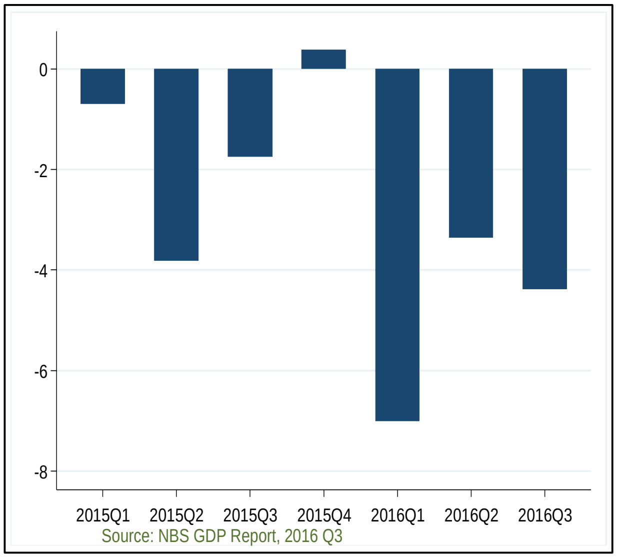
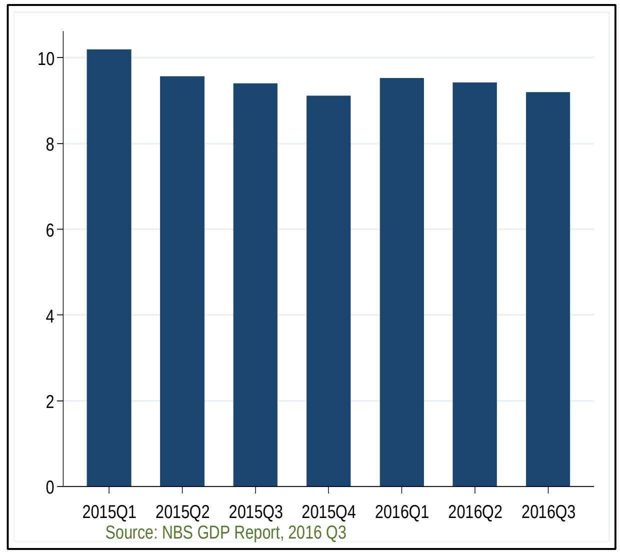


Figure 40: Manufacturing Sector Contribution to GDP (%)



The contraction recorded in the manufacturing sector while not surprising, has been driven by several factors including persistent power outages, low investor confidence, scarcity of petroleum products, and unfavorable macroeconomic policy stance; especially with regards to access to capital and foreign exchange. Although the monetary authorities have taken a number of steps to address the challenges in accessing forex; including directing that commercial banks allocate 60 percent of forex to manufacturers[27], this is yet to have the desired impact on the sector. Particularly, the Central Bank regulation restricting the allocation of forex for import of certain products, appear to continue to undermine productivity in the sector as some of the disallowed products have been identified as key manufacturing inputs. Going forward, the special consideration granted to manufacturers to access forex should be maintained and monitored closely to avoid abuse. Also, the items for which forex cannot be accessed should be reviewed in consultations with manufacturers to ensure that key manufacturing sector inputs are accommodated.

Meanwhile, the response of the Federal Government to the security challenges (particularly the renewed militant agitations in the Niger Delta and Boko Haram insurgency in the North-East) in the country will go a long way to improve investors' confidence. But then, irrespective of government's means of engagement in the Niger Delta (dialogue or military operation), the recent upsurge in attacks on upstream facilities in the petroleum sector is expected to delay new investment decisions and limit production activities, given higher risks and uncertainties.

[27] http://www.thisdaylive.com/index.php/2016/08/23/cbn-directs-banks-to-allocate-60-of-fx-sales-to-manufacturers/

4.7 Mining and Quarrying[28]

Growth in the mining and quarrying sector further contracted in 2016Q3 due to sustained decline in oil and gas and coal mining.

Real GDP growth rate of the mining and quarrying sector continued in a downward trajectory to -21.64 percent in 2016Q3 from -17.19 percent in 2016Q2 *(Figure 41)*. The decline was driven most significantly by declines in the oil and gas sector and coal mining activities. The contribution of the sector to GDP also decreased marginally by 0.07 percent from 8.41 percent in 2016Q2 to 8.34 percent in 2016Q3 *(Figure 42)*.

Figure 41: Mining and Quarrying Sector Real GDP Growth Rate (%)

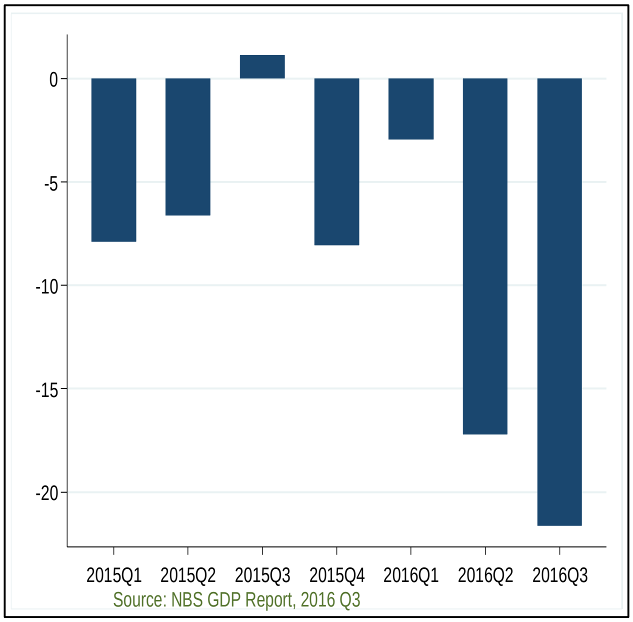
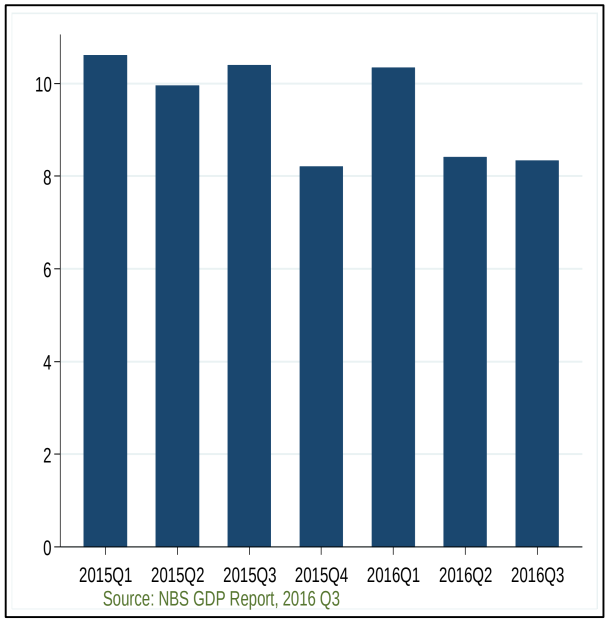


Figure 42: Solid Minerals Sector Contribution to Real GDP (%)



The low level of performance in the mining and quarrying sector can be linked to low performance in the construction and manufacturing sectors. Also, the high level of artisanal, informal and illegal mining activities that characterize the sector remains a constraint to its productivity. This is however not to downplay the heavy constraints brought about by deficiencies in infrastructure needed by the sector, which equally weakens its contribution to the GDP.

There are definitely no quick wins in the solid mineral sector considering the low level of engagement in the sector over the years. However, the government needs to be more proactive in creating the necessary policy environment to signal some level of activity and to attract the required investments in the sector in the medium and long term.

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[28] The mining and quarrying sector in this report includes both solid minerals and oil and gas sectors because the 2016 third quarter data available on NBS lumps both together unlike preceding reports.

4.8 Oil and Gas

Growth in the oil and gas sector contracted further on the account of continued attacks on oil and gas infrastructure.

The fuel scarcity experienced for a major part of the second quarter gradually eased out in the third quarter as PMS was more readily available at the reviewed pump price of ₦145; although with slight price variations across the country. The growth rate of the oil and gas sector however remained negative dropping to -22.01 percent from -17.48 percent in 2016Q2 *(Figure 43)*. Contribution of the oil and gas sector to real GDP decreased marginally by 0.07 percent from 8.26 percent in 2016Q2 to 8.19 percent in 2016Q3. On a year-on-year basis, the sector's growth in 2016Q3 was lower than the growth performance recorded in 2015Q3 *(Figure 44)*.

Figure 43: Oil and Gas Sector Real GDP Growth Rate (%)

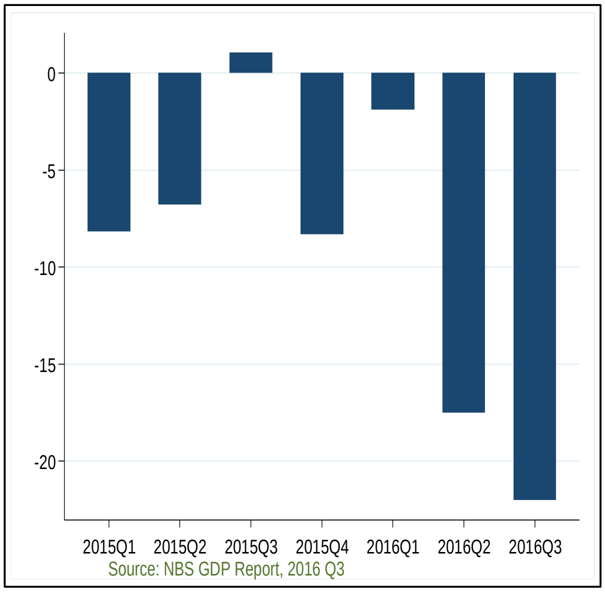
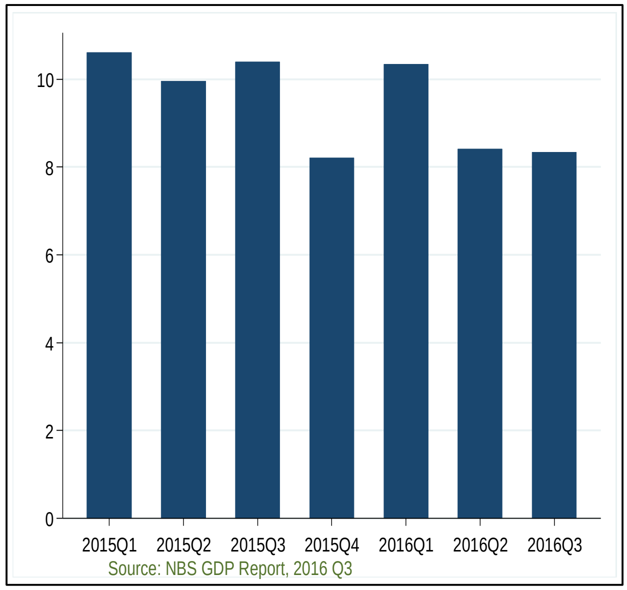


Figure 44: Oil and Gas Sector Contribution to Real GDP (%)



Data from OPEC shows that Nigeria's reference crude oil, bonny light, maintained an average price of US$46.47 per barrel in 2016Q3. However, crude oil production fell to an average 1.63 million barrels per day (mbpd) from an average 1.69mbpd in 2016Q2.[29] Also, the oil and gas contributed 8.19 percent to total real GDP while the non-oil sector contributed the remaining 91.81 percent compared with 8.26 percent and 91.74 percent respectively in 2016Q2.

The dismal performance in the oil and gas sector has been mainly due to continued attacks on upstream oil and gas infrastructures in the Niger Delta region. Meanwhile, it is expected that a crude oil production cut decision by OPEC member countries and other non-OPEC oil exporting countries; sometime in 2016Q4, will drive the prices of crude oil up as well as engender stability in global crude oil prices. To take full advantage of possible crude oil price increases, the federal government needs to hasten efforts to engage with stakeholders in the Niger Delta to resolve the ongoing militant crisis, and thereby ensure an increase in crude oil production and exports.

[29]NBS Nigerian Gross Domestic Report Quarter Two

In conclusion, key sectors of the Nigerian economy underperformed in 2016Q3 on the account of persistent macroeconomic challenges and weak consumer demand. The manufacturing, transport and storage, and financial services sectors were most severely hit by forex challenges and the continued depreciation of naira. There was however slight improvements in the Agriculture sector. Particularly, the Agricultural sector remained the second highest contributor to overall GDP growth, following the services industry as a whole. Lastly, key sectors of the economy are likely to continue to underperform in subsequent quarters.

Looking forward, the Agriculture sector might experience slight slowdown even as the farming season comes to an end. Not much is expected for the construction and ICT sectors owing largely to the slow implementation of the 2016 budget. The transport sector is not likely going to experience any significant improvements in the near term even as the foreign exchange and Niger Delta crises continue to bite hard on the economy. Meanwhile, slight improvements can be expected in the financial sector as it continues to adjust to the shocks from the implementation of the TSA. There is also the expectation that most of the operators in the sector will continue to engage in cost-cut measures to drive improvements in performance.

Going forward, there is the urgent need for government to speed up the process of implementing the 2016 budget and more so take proactive steps to ensure that the 2017 budget implementation process is set in motion in the quickest possible time. In face of the downturn in oil revenue accruing to government, there is also the need for more concerted efforts at plugging fiscal leakages while also exploring alternative income sources; such as increased efficiency in tax administration and external borrowing. This will considerably revamp economic activities across all sectors. The government needs to fully step-up in its role of creating an enabling environment especially in the area of infrastructure development, to enable private sector players make the required investment decisions. More so, considering the high level of investments required across the various sectors of the economy, government needs to embrace and encourage increasing private investment by putting in place the necessary policies. In the transport sector particularly, concessions should be given for the construction, operation and maintenance of critical transport infrastructure. Also, government needs to be more deliberate in borrowing to finance infrastructure by tying its borrowings to particular infrastructure projects across the country.

The government has shown its understanding of the role of the manufacturing sector in improving the economic fortunes of the country by giving manufacturers preferential access to foreign exchange for the imports of much needed plant, machineries and raw materials. However, careful monitoring is needed to avoid abuse of this "window", and to make sure that the foreign exchange is used for the purpose for which it is secured. Again, while there may be no quick wins in the solid mineral sector considering the low level of engagement within the sector over the years, the government needs to be more proactive in creating the necessary policy environment to signal the level of activity needed to attract the required investments to the sector. Finally, the Federal Government needs to speed up its response to the large-scale attacks on oil facilities in the Niger Delta. In the next few months this will determine the extent of activities in the oil production and refining subsector and also determine the amount of funds available for implementing the budget. But then, irrespective of government's means of engagement in the Niger Delta (dialogue or military operation), the various attacks on upstream facilities in the petroleum sector is expected to delay new investment decisions and limit production activities, given higher risks and uncertainties.

5. SPECIAL FEATURE ARTICLE

Towards an effective growth recovery path: understanding the drivers of the current recession.

The Nigerian economy has witnessed a deep slump in recent time. Given a record of 2.2 percent output contraction in 2016Q3 as against 2.1 percent in the second quarter, the country's economy no doubt, is in a deep recession. Available statistics indicates that recent poor economic performance is as a result of continuous decline in Oil-GDP which more than offsets the (slight) positive growth recorded in the Non-Oil Sector. Since the first half of 2016, Oil-GDP has been on a negative growth path, declining from -1.89 percent in 2016Q1 to about -2.2 percent as at 2016Q3. However, Non-Oil GDP recovers from two-output contraction quarters (-0.2 percent and -0.4 percent in 2016Q1 and 2016Q2 respectively) to register a positive growth of about 0.03 percent in 2016Q3. A deeper outlook of the ongoing recession requires a proper diagnosis into the factors associated with the economic headwinds.

Several factors contribute to the current growth dip. These range from low external reserve that brought about foreign exchange pressure, to weak aggregate demand and high inflationary stance. The above were largely triggered by the global oil crisis in mid-2014 which caused a crash in crude oil prices. Since the event of the oil crisis, GDP Growth has been on the decelerating stance declining from 6.2 percent to about 2.1 percent between 2014Q3 and 2015Q4 and eventually turned negative at the start of 2016Q1. The waning growth performance of the recent experience has been imminent given the country's poor adjustment mechanism to the economic crisis engendered by the 2014 global oil crisis. Given that recession globally is associated with a period of weak demand brought about by low consumption and investment spending, this article analyses real GDP at both expenditure and activity levels in Nigeria with a view to gaining proper insights into factors driving the ongoing recession.

Prior to the recession period, shrinkage in government expenditure largely contributed to the downward trajectory of the real GDP growth. Evidence based on the Nigerian Bureau of Statistics' (NBS) Real GDP Expenditure Approach (2015Q3, Q4)[30] Report indicates that government consumption expenditure, exports and imports declined prior to the recession period, while household consumption expenditure and gross fixed capital formation registered significant increase penultimate to the recession. As a result of low revenue from crude oil, spending activities at all levels of governance were constrained. This greatly led to severe fiscal crisis especially at sub-national level of governance. Most States in Nigeria are unable to meet up with their fiscal obligations in terms prompt payment of workers' salaries[31] and emoluments as well as pensioners' allowances. The obvious implication of declining government expenditure is the dismal growth trends.

In terms of sectoral activity performance, significant decline in crop production, crude petroleum and natural gas, oil refining, and other manufacturing activities hugely contributed to the economy's recessionary outlook. The NBS Nigerian GDP Report 2015Q4[32] indicates huge falls in the crop component of Agricultural sector a quarter to the recession. Same applied to oil refining, crude petroleum and natural gas, and other manufacturing activities; whose output also fell in 2015Q4. While a decline in crop production can be largely attributed to seasonality of agricultural produce, low capacity utilization ostensibly accounts for waning performance in manufacturing activities. Since 2015Q3 average capacity

[30] http://www.nigerianstat.gov.ng/report/399
[31] http://www.vanguardngr.com/2016/05/bleak-may-day-26-states-workers-owed-salaries/
[32] http://www.nigerianstat.gov.ng/report/371

utilization has been on a downward trend declining from 59.5% in the period to 50.7% in 2016Q2[33]. This occurrence is a combined effect of high cost of production[34] brought about by increase in electricity tariffs[35], high gasoline prices, epileptic power supply, and scarcity of foreign exchange to import required inputs[36].

Given the highlighted diagnosis of the ongoing recession, it is expedient that government keys into the following initiatives to enhance recovery and foster growth in the near term. First, there is need to emphasize on productive spending at all tiers of governance. Granted that low revenue from crude oil constrain huge spending in the current period, however, more can be achieved from judicious and efficient utilization of the little funds available for spending. In this regard, expenditure should be tied to productive ventures based on sound project evaluation assessment. Transfer spending for consumption purposes should be strictly avoided. Second, consideration need be given to diversification of electricity generation. Current generation from gas supply has been cut short due to militant activities in the Niger Delta oil producing region. As a remedy to epileptic power supply to the industrial sector, inwards-looking initiative should be adopted to foster better electricity supply. Government can tap into alternative source of electricity generation such as coal. The country has one of the finest coals in the world in abundant quantity. Large investment in research and development needs be undertaken to ensure cleaner and safer power generation from coal so as to overcome the environmental concern. Third, the monetary authority should maintain credibility in full flexibility of the foreign exchange market while also make money and capital markets more attractive for development financing. Commitment to free-floating exchange rate strategy would enhance investors' confidence and douse speculation activities in the parallel market. Fourth, in order to ensure fiscal sustainability in the medium term, it is required that government revenue be re-structured away from oil. Consideration should be given to other activities that can generate foreign exchange inflows into the economy. Nigeria is rich in mineral resources other than crude oil. The country should tap into them. For example, the mining sector can be developed to attract investment and boost the country's revenue potentials. Essentially, the government should key into diversification strategy that seeks to boost the country's exports and improve the supply-side towards economic self–reliance. This involves an articulation of reforms aimed at addressing structural bottlenecks to domestic production.

[33] http://www.tradingeconomics.com/nigeria/capacity-utilization
[34] http://www.financialwatchngr.com/2016/06/26/inflation-manufacturers-plot-new-survival-strategy/
[35] http://www.premiumtimesng.com/business/195537-nigerian-government-hikes-electricity-tariffs-abolishes-fixed-charges.html
[36] http://www.vanguardngr.com/2016/04/cbn-averts-closure-200-manufacturing-firms-forex-access/

6. OUTLOOK AND RECOMMENDATIONS

Growth in the domestic economy is likely to continue to decline into the first half of 2017. While the Nigerian economy may come out of recession in 2017, no radical improvement in economic performance is expected in the short term. Nevertheless, there remains some prospect for enhanced economic growth in the medium term provided that the country can: first, take advantage of its exemption from OPEC oil production cap. Calming the tensions in the Niger Delta region and enacting the Petroleum Industry Bill (PIB) as well as the IJV strategy for upstream oil JV operations will be highly beneficial towards improving oil-sector growth and yielding quick returns. Second, there is need to emphasize on productive spending at all tiers of governance. Given the present dearth of funds, more can be achieved from judicious and efficient utilization of the little funds available for spending. In this regard, expenditure should be tied to productive ventures based on sound project evaluation assessment while transfer spending for consumption purposes should be strictly avoided. Third, addressing the undiversified structure of government revenue and foreign exchange revenue would be necessary to unlock long-term sustainable economic growth potentials of the non-oil sector. Particularly, the government needs to fully create an enabling environment with respect to infrastructure (power, transport and water) development as well as provide support for local businesses in accessing production inputs, to enable private non-oil sector players make the appropriate investment decisions. As a remedy to epileptic power supply to the industrial sector, the government can tap into alternative source of electricity generation such as coal. Fourth, the monetary authority should maintain credibility in full flexibility of the foreign market while also making money and capital markets more attractive for development financing.

Despite rising inflation, gradual reduction in the growth rate of general price level is anticipated in 2017. The impact of harvest season which has started to kick-in for most agricultural produce; the present tight stance of monetary policy; and flexible exchange rate regime should continue to feed into tapering inflation in 2017. From the monetary side, the return of stability in the foreign exchange market would be expedient in locking-in inflation expectations for 2017. However, improvement in forex earning inflows, through the rise in export and foreign investment inflows, is required to ensure foreign exchange rate stability; thus, the need for monetary-fiscal policy coordination in designing a comprehensive intervention mechanism.

Unemployment and underemployment rates will likely continue to rise into 2017 on account of contracting output and firms' cut back on investments in real assets. However, we expect the growth rate of unemployment to decline as economic conditions gradually improve over the year. Importantly, the government needs to support job creation in key sectors of the economy, so that more people can become economically empowered, hence improve aggregate demand and overall economic growth. The Federal Government can work with the CBN to support domestic firms in key sectors of the economy by providing foreign exchange required to import intermediate inputs in the short term. Sufficient backings should also be offered to local industries producing key raw materials and provide a mechanism for firms to readjust operations and source raw materials and other inputs locally in the long run, in order to enable value addition within the economy.

Furthermore, in order to stimulate aggregate consumption, the payment of salaries indebted to public sector employees particularly in states and local governments should be considered part of the overall fiscal policy menu. However, these recurrent expenditure should not jeopardize capital spending critical to redressing the infrastructural deficit, and improving the Nigerian business performance as well as economy outlook. While consumer demand for goods could be boosted through increased spending, synchronized efforts of monetary and fiscal authorities is critical to ensure that the inflow of money does not chase too few goods and thus further exacerbate inflationary conditions. Furthermore, while it is crucial to raise government non-oil revenue through taxes in order to support spending, the fiscal authorities should rather consider using tax incentives to support domestic firms and provide stimuli for economic activities in both the supply and demand sides given the presence of limited government funds.

With the economy in recession, corporate earnings are expected to remain under pressure, thus investors' appetite will likely remain lethargic. Furthermore, the value of the naira is likely to be subdued in succeeding quarters due to the limitations of monetary policy in addressing underlining economic fundamentals which is constraining forex inflows. In addition, limitation of monetary policy in this regard implies that a greater onus lies with fiscal policy in addressing the issues. Moreover, given the trade-off between growth-inducing and price-stabilizing monetary policies, the use of monetary policy instruments should not undermine the Bank's primary mandate of price and financial system stability. Hence, the Bank should deepen forex supply to key industries for the access to production inputs to boost industrial output.

Key sectors of the economy are likely to continue to underperform even into the first quarter of 2017. The agriculture sector might experience slight slowdown in subsequent quarters as the farming season comes to an end. Not much is expected for the construction and ICT sectors owing largely to the slow implementation of the 2016 budget. The transport sector is unlikely to experience any significant improvements in the near term due to foreign exchange challenges. Meanwhile, slight improvements can be expected in the financial sector as it continues to adjust to the shocks from the implementation of the TSA. Most of the operators in the sector will likely continue to engage in cost-cut measures given present trends. Therefore, going forward, there is the urgent need for the government to take proactive steps to ensure that the 2017 budget implementation process is set in motion in the quickest possible time. Given low oil revenue, there is also the need for more concerted efforts at plugging fiscal leakages while also exploring alternative income sources; such as increased efficiency in tax administration and external borrowing. However, the government needs to be more deliberate in borrowing to finance infrastructure by tying its borrowings to particular infrastructure projects across the country. Specifically, in the transport sector, concessions should be given for the construction, operation and maintenance of much needed transport infrastructure. For the manufacturing sector, careful monitoring is needed to avoid abuse of the preferential access to forex for manufacturers and ensure that funds are used solely for the purpose for which they are secured. For the solid mineral sector, the government needs to be more proactive in creating the necessary policy environment to attract the required investments to the sector.

7. CONCLUDING REMARKS

This report presents an overview of the Nigerian economy by examining key macroeconomic indicators, external sector performance and key domestic sector performance in 2016Q3. The evidence presented shows that internal and external economic indicators have remained largely unimpressive with several indicators worsening over the quarter. Particularly, the recession in the Nigerian economy deepened, inflation rate recorded its highest reading since October 2005, unemployment rates accelerated for the eighth consecutive time since 2014Q4, and key sectors of the economy witnessed considerable output decline in 2016Q3. In terms of external sector indicators, Nigeria's foreign trade value declined significantly, external reserves depleted marginally, and the Naira significantly depreciated in 2016Q3. However, trade balance improved with imports falling steeply and capital importation into the Nigerian economy increased significantly in the period.

While the present macroeconomic condition is unfavorable and economic indicators are alarming, our outlook for 2017 is fairly positive given the detached efforts of fiscal and monetary authorities to resuscitate the economy. However, more than ever before, there is the need for monetary-fiscal policy coordination in designing a comprehensive intervention mechanism that will redress infrastructural challenges as well as support the production processes of local business in key sectors of the economy.

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