

# Nigeria Economic Review

## First Quarter Report 2016



Centre for the Study of the Economies of Africa  
Quality Research For Sound Policies

## ACKNOWLEDGMENTS

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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

ACGS: Agricultural Credit Guarantee Scheme  
BDC: Bureau de Change  
CBN: Central bank of Nigeria  
CRR: Cash Reserve Ratio  
ECOWAS: Economic Community of West African States  
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  
YEAP: Youth Employment and Agricultural Programme

## PREFACE

The Nigeria Economic Review, a previous biannual publication of CSEA, is now published on a quarterly basis to provide a concise and timely analytical overview of key aspects of the Nigerian economy. The present quarterly 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 area 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 spillover 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 influencing 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 2016Q1. 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 provides insights into a contemporary issue within the review period.

Thus, the broad aim of the quarterly report (2016Q1) 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 2016. 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 the World Bank. Analyses are based on available monthly and quarterly data from the aforementioned sources.



## EXECUTIVE SUMMARY

The global economy is projected to grow by 3.2 percent in 2016 on the account of low global oil and commodity prices, softer activities in China and US, as well as increased volatility in global financial markets amongst other events witnessed in 2016Q1. Nigeria's external sector performance remains threatened by the appreciation of U.S. dollar and rebalancing of the Chinese economy. However, recent growth performance in Nigeria's major export destinations, India and Brazil, presents a positive outlook for external sector performance in the near term, ceteris paribus. On a regional outlook, Sub-Saharan Africa is expected to witness its lowest growth rate in 16 years, with a growth projection of 3 percent in 2016. The recent downward growth trend in the region is occasioned by multiple shocks from low commodity prices, tighter financial conditions, and shortages of food due to adverse weather.

On a domestic level, the Nigerian economy witnessed its first contraction since 2004, at -0.38 percent, and concurrently dropped out of the league of fastest growing economies in Africa. The contraction in the GDP growth in 2016Q1 was driven by the unusual contraction in the non-oil sector arising from the persistent depreciation of the naira in parallel markets, import constraints, excessive delay of the passage of 2016 budget, and prolonged fuel scarcity amongst other business challenges. At the backdrop of weaker economic activities, Nigeria's unemployment rate recorded its sixth consecutive rise, reaching 12.1 percent in 2016Q1. Unemployment remained highest amongst youths and women. Underemployment rate, which stood at 19.1 percent in 2016Q1, accelerated at a slower pace and remained highest in rural areas. Markedly, domestic inflation rate rose to double-digits, averaging 11.26 percent in 2016Q1, on the account of rising import, electricity and transport costs in 2016Q1. Both food and core sub-indices increased at faster rates throughout the quarter and converged around 12 percent in March, compared to preceding quarter.

On the fiscal policy landscape, with oil price falling as low as \$30 per barrel and ongoing economic challenges influencing business profits, federal government revenue fell to N1,269 billion in 2016Q1. Particularly, while federal government revenue from oil declined by 24.7 percent, non-oil revenue declined by 19.0 percent in the review period. Nevertheless, the Nigerian government have shown renewed commitment to infrastructural development given the 200 percent increase in capital expenditure proposed in the 2016 national budget. However, the proposed budget is heavy on debt and short on reforms.

CBN's Monetary Policy Committee (MPC) tightened monetary policy in March 2016, in response to threats of rising inflation and falling investments. Specifically, the Committee raised interest rate (to 12 percent) and cash reserve ratio (to 22.5 percent) while narrowing the asymmetric interest rate corridor (to +200/-500). The frequency and size of Open Market Operations (OMO), a major tool for mopping up liquidity, also increased especially in January. These signalled efforts to eject liquidity from the banking system, rein on the double-digit inflation, and compensate investors for negative returns due to inflation. Effectively, private sector credit (averaging 18.9 trillion in 2016Q1) which gained momentum in the earlier months of the year, took a slight dip in March.

Similarly, the Nigerian stock market underperformed in 2016Q1 with the All-Share Index declining by 14.4 percent as low interest rate amid rising inflation and worsening macroeconomic conditions raised Nigeria's risk profile and unnerved investors. However, the equity market gained considerable momentum in March, with a 6 percent growth rate relative to the preceding month. In the bond markets, investors' quest for safer investment alternatives drove rising bond prices and declining true yields on sovereign bonds. However, bond yields remained fairly attractive at +/-12 percent in 2016Q1.

In the external sector, Nigeria's total trade declined by 25.83 percent in 2016Q1. Both imports and exports fell, with exports falling more steeply (by 30.41 percent) on account of declining oil export occasioned by continued attacks on oil facilities. However, total trade improved in March (by 1.33 percent) and trade deficit fell to \$487.41 million in March, on account of recuperating oil export. Likewise, foreign capital investments fell to its lowest level since 2014, at \$710.97 million, given investors' concerns over the repatriation of potential income amid FOREX irregularities. Although foreign direct investment rose by 41.7 percent, foreign portfolio investment (with the largest share of capital inflows) fell sharply by 71.5 percent. In the exchange rate market, the gap between official and parallel market rate widened in 2016Q1. While the monthly official exchange rate remained at around N197/\$, the rates at Bureau De Change rate stood at around N320/\$.

However, the gap narrowed by 3.0 percent in March 2016 as currency speculations and hoarding moderated, largely due to federal government's reaffirmed stance against devaluation. The depletion of FOREX reserves in an effort to support the Naira also contributed in narrowing the official-parallel market rate gap in March. Key sectors of the Nigerian economy underperformed in 2016Q1. The Solid Mineral, Financial Services, and Manufacturing sectors recorded the farthest decline, while the Transport and Storage sector grew most significantly. The contributions of the Oil and Gas, Construction and Financial Services sectors to overall GDP increased significantly, while the solid mineral sector recorded the farthest decline in the review period.

Given foregoing trends, outlook on the Nigerian economy appears bleak. Worsening macroeconomic and social challenges influencing business activities and investments echo the possibility of a recession in the subsequent quarter.





## I. GLOBAL ECONOMIC PERFORMANCE

The global economy is expected to grow marginally on account of low commodity prices, rising global financial market volatilities, and softer activities in China and US.

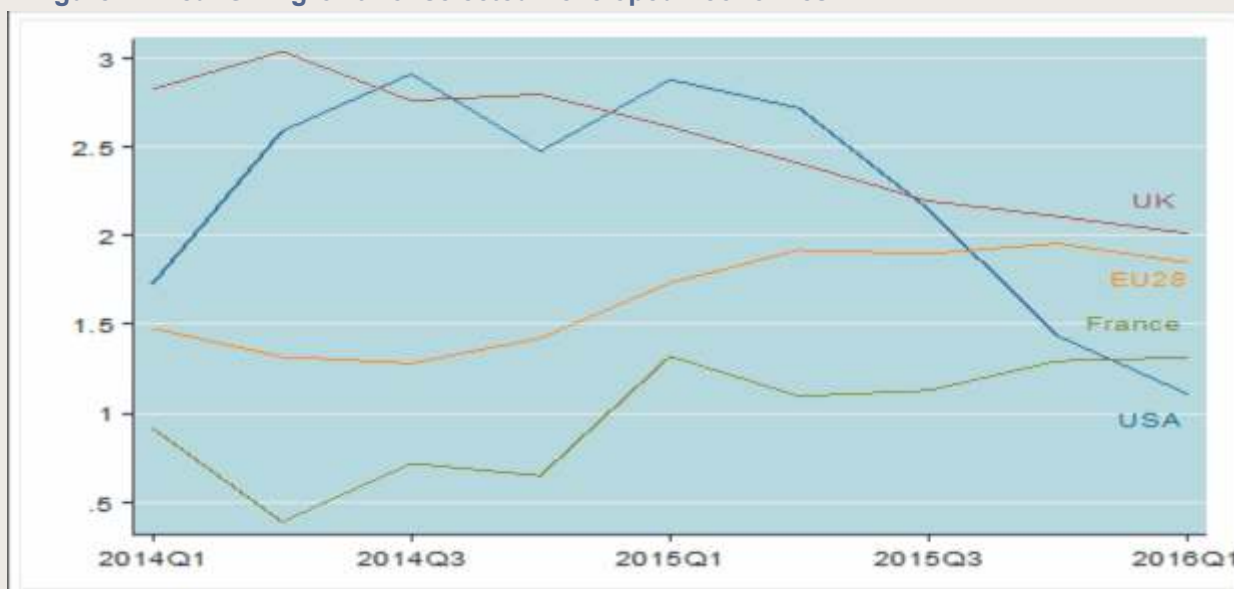
The World Bank projects a modest global growth of 3.2 percent for 2016, as at April 2016; a 0.2 percentage point decline from growth forecast in January 2016<sup>1</sup>. The downward revision of global growth projection is supported by declining Gross Domestic Product (GDP) growth rate recorded across advanced, developing, and emerging countries. For developed economies, the USA, UK and European Union (EU) witnessed marginal decline in GDP growth rate in 2016Q1 (figure 1). Specifically, the real GDP growth for USA declined from 1.4 percent in 2015Q4 to 1.1 percent in 2016Q1.

This was attributed to contraction in non-residential fixed investment and energy businesses, a strong dollar which harmed exports, as well as a slowdown in government spending and moderation in private consumption expenditure (PCE)<sup>2</sup>, among other factors. Similarly, the real GDP growth of UK declined marginally from 2.1 percent to 2.0 percent, while the EU GDP growth rate declined slightly from 1.9 percent to 1.8 percent, over the same period.

As in preceding quarter, France remained one of the developed economies with higher GDP growth in 2016Q1, albeit a deceleration. The French economy grew by 0.01 percent between 2015Q4 and 2016Q1 compared to 0.14 percent change recorded between 2015Q3 and 2015Q4. This suggests the French economy may be succumbing gradually to some of the global economic challenges. In relation to the Nigerian economy, ongoing trends in advanced economies continue to have notable impact on Nigeria's external sector performance.

Particularly, the upward trend in the value of the U.S. dollar continued to threaten a majority of Nigerian businesses relying on huge imports from the US. As a member of the British Commonwealth and UK's second largest trading partner in Africa, Nigeria has strong ties with the UK. Thus, the persisting downward trajectory of the British economy could result in Britain scaling back its investments in ongoing development projects, ranging from grants to non-profit partnerships and technical assistance (which stood at 232 million GBP for 2014/2015) in Nigeria<sup>3</sup>.

Figure 1 : Real GDP growth of selected Developed Economies



Source: Organization for Economic Co-operation and Development (OECD)

<sup>1</sup> "Too Slow for Too Long", IMF, World Economic Outlook, April 2016

<sup>2</sup> CBN MPC Communique 107, May, 2016

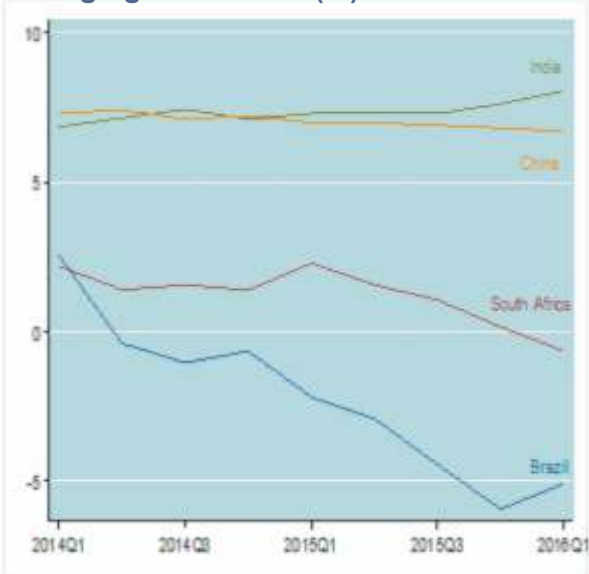
<sup>3</sup> <http://www.techproducts.com.ng/effects-of-brexit-on-nigeria-economy-and-technology-africa/>

On the other hand, emerging economies show irregular growth patterns (figure 2). The slowdown in China continued, as its real GDP growth rate declined further from 6.8 percent in 2015Q4 to 6.7 percent in 2016Q1. South Africa recorded negative real GDP growth of 0.6 for the first time in the past 10 quarters. Although Brazil continued to record negative real GDP growth observed since 2014Q2, slight improvement was noted in 2016Q1. Impressively, India maintained an upward growth trajectory, as output growth increased by 0.4%, from 7.6 percent in 2015Q4 to 8.0 percent in 2016Q1. This positive growth was attributed to the rising investment inflow occasioned by the positive growth outlook on the Indian economy<sup>4</sup>. Ongoing trends in emerging economies also present notable implications for the Nigerian economy. As the slowdown in the Chinese economy continues to reflect on the price of crude oil and other African commodities, the Nigerian economy is expected to continue to witness fiscal and monetary drag. Although the unrelenting depreciation of yuan is expected to have positive impact on the cost of imports into Nigeria (since China is Nigeria's biggest import trading partner), the persistent depreciation of naira in parallel markets erodes potential benefits to Nigerian businesses.

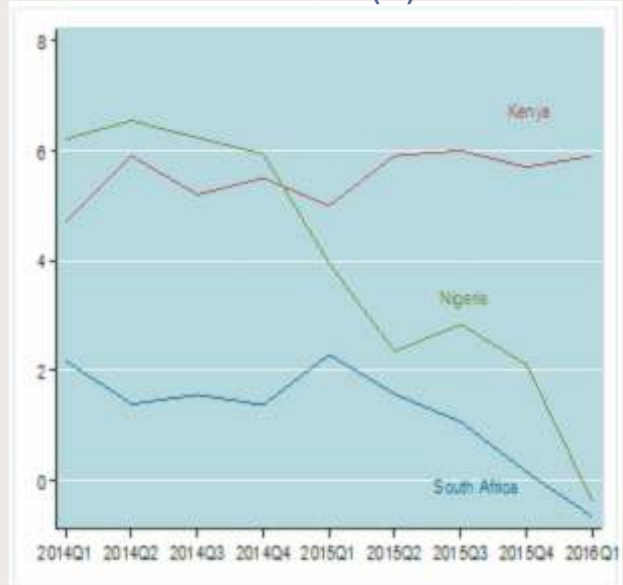
On the positive note, the recent upward growth trend in India and Brazil (Nigeria's prime export destinations) is expected to have positive impact on Nigeria's trade performance in the near term, *ceteris paribus*.

On a regional basis, economic growth for Sub-Saharan Africa (SSA) is estimated at 3 percent in 2016—the region's slowest growth performance in 16 years<sup>5</sup>. This represents a 3.5 percent decline from regional growth recorded in 2015. Both oil exporters like Angola and Nigeria, and non-energy-commodities exporters like Ghana, Zambia and South Africa witnessed depressed growth. Amongst many, Nigerian and South African economies reclined to negative GDP growth rates in 2016Q1; -0.6 percent and -0.38 percent respectively (figure 3). However, smaller net oil importing countries fared better; for instance, the Kenyan economy grew marginally by 0.2 percent between 2015Q4 and 2016Q1. Most of the countries in the region have been hit by multiple shocks—low commodity prices, tighter financial conditions, and shortages of food due to adverse weather conditions in many parts of the SSA region.

**Figure 2 : Real GDP growth of selected Emerging Economies (%)**



**Figure 3 : Real GDP growth of selected Sub-Saharan Economies (%)**



Source: Organization for Economic Co-operation and Development (OECD)

<sup>4</sup><https://www.thestreet.com/story/13626237/1/economic-growth-in-india-creating-buzz-for-that-nation-s-stocks.html>

<sup>5</sup><https://www.conference-board.org/data/globaloutlook/>

The ongoing trends show that oil price have continued to play a major role in shaping global economic climate. Low global oil price experienced since July 2014 have largely contributed in dampening the growth of oil exporting economies while supporting the growth of oil importing economies. However, the severity of the impact of the fall in oil prices have been dependent on country-specific differences in monetary and fiscal positions, quality of institutions, and extent of economic diversification, amongst other factors. Nevertheless, oil price increased marginally in 2016Q1, especially in the third month of the quarter (figure 4).

The recent increase in oil price in 2016Q1 may be expected to have different effect on oil exporting and oil importing countries. Few countries have been selected among the top ten oil exporting and oil importing countries to examine the effect of the recent positive turn-around in oil prices (figure 5 and 6). As expected, the mild increase in oil price contributed declining output growth of major oil importing countries. For instance, the real GDP growth of USA and Japan declined, while the real GDP growth of France increased but at a decreasing rate (figure 5).

**Figure 4 : Brent and WTI Crude Oil Price (US\$/barrel)**



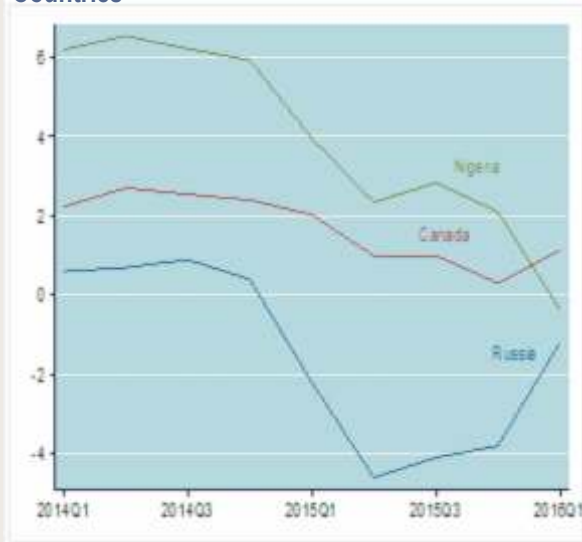
Source: Energy Information Administration (EIA)

Brent and West Texas Intermediate (WTI), and notable crude oil price benchmarks, both revealed a positive turn-around in the hitherto persistently falling oil price, in 2016Q1. This mild increase was partly attributed to the shortage in oil supply, especially with fortuitous reduction in oil production in Canada, Nigeria and Kuwait<sup>6</sup>. Consequently, oil prices increased from \$30.70 to \$38.21 per barrel (Brent) and/or from \$30.32 to \$37.55 per barrel (WTI) between January and March 2016.

This suggests that most oil importing countries may suffer more economic loss as oil prices rebound. On the other hand, oil exporting countries appear to respond positively to the gradual rise in oil price as expected (figure 6). Russia and Canada recorded remarkable improvement in economic growth, whereas, the potential benefit for Nigeria was constrained by its inability to expand production; this was however due to agitations, and vandalism of oil equipment in the oil producing - Niger Delta, region.

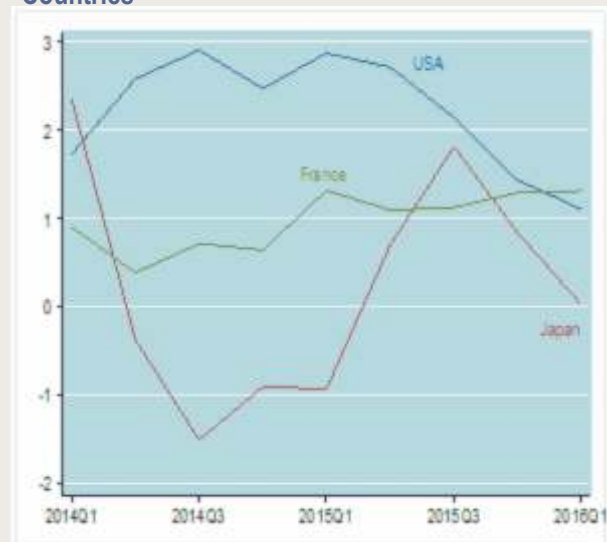


**Figure 5: Real GDP growth of selected Oil-Exporting Countries**



Source: Organization for Economic Co-operation and Development (OECD)

**Figure 6: Real GDP growth of selected Oil-Importing Countries**



In addition to global oil prices, the collapse in commodity prices, slowdown in the Chinese economy, slowdown in private consumption expenditure (PCE) and non-residential fixed investments in the United States, as well as increased volatility in global financial markets have significantly contributed to softer activities in the global economy.

These have generated several economic challenges ranging from fiscal constraints, exchange rate management problem, and the eventual accelerated pass-through inflation in oil exporting countries; to weak trade, diminishing capital inflows, tepid consumption spending and high financial market volatilities mostly recorded in oil importing developed and emerging economies. Given recent trends, it becomes imperative for commodity-exporting countries, particularly in the SSA region, to diversify their economies in order to reinvigorate growth<sup>7</sup>.

However, if the mild increase in the prices of oil and gold that started in 2016Q1 is sustained, SSA economies may perform better in 2016Q2. In such scenario, developed oil exporting economies such as Russia and Canada may also experience improved GDP growth in 2016Q2. However, the prices of oil and other commodities remain uncertain; thus, resurgence in global economic growth is not assured for subsequent quarters of the year.

Thus, regardless of the role of oil for both net oil exporters and net oil importers, it remains important for policymakers to promote policies that ensure sustainable long-term growth. Particularly, it has become more important than ever for commodity-dependent economies to urgently broaden export base to wedge against the vulnerabilities of commodity prices.

<sup>7</sup><http://www.focus-economics.com/regions/sub-saharan-africa>



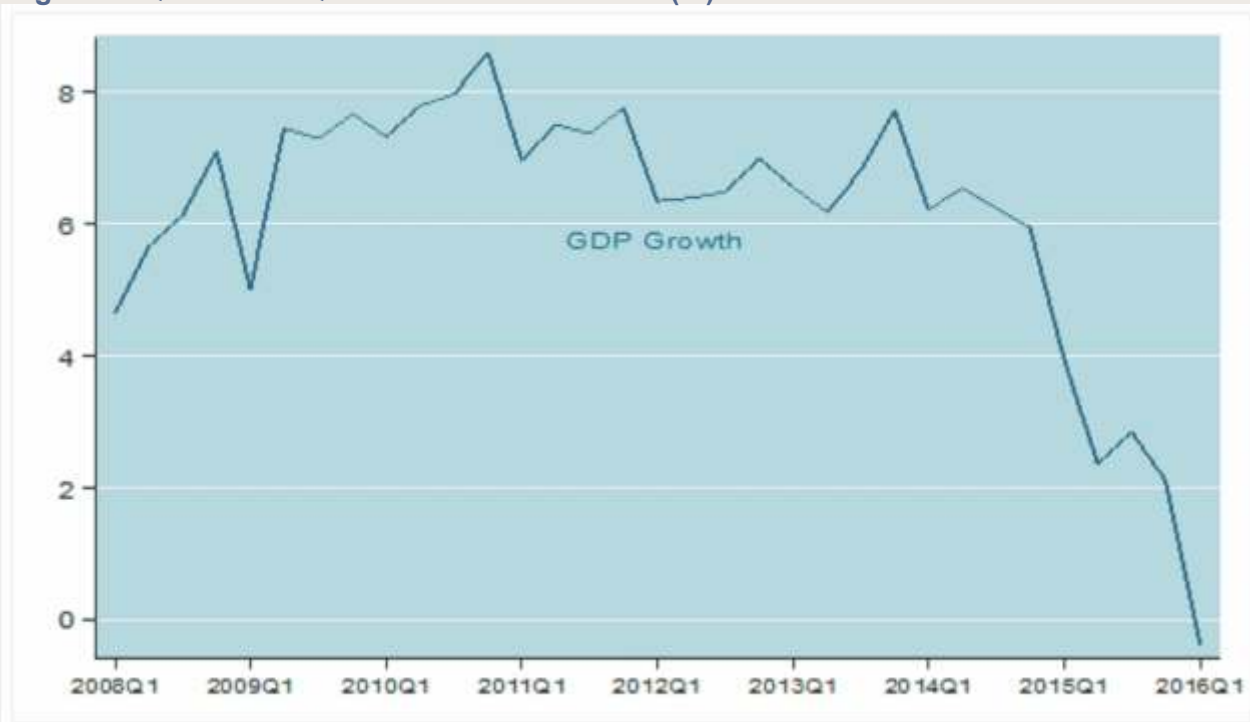


## 2. DOMESTIC ECONOMIC PERFORMANCE

To capture and analyse Nigeria's economic performance in the first quarter of (2016Q1), this section highlights key internal 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.

With recent trends, Nigeria dropped out of the top 15 fastest growing economies in Africa, based on reports by International Monetary Fund (IMF). The poor economic performance observed in the first three months of 2016 was largely driven by contraction in the non-oil sector. Despite positive growth in trade, agriculture (crop production) as well as information and telecommunications services, dramatic contractions in the solid minerals, financial institutions, manufacturing, construction, and

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



Source: National Bureau of Statistics (NBS)

### 2.1 Economic Growth

Nigeria witnesses its first economic contraction since the second quarter of 2004, and drops out of the league of fastest growing economies in Africa.

In the first quarter of 2016, the Nigerian economy witnessed severe decline in domestic output; recording a GDP growth rate of -0.38 percent, in the review period<sup>8</sup> (figure 7). This represents the country's first economic contraction since the second quarter of 2008. Prior to the negative growth rate, economic activities declined most significantly in 2015; leading to an average GDP growth rate of 2.82 percent in 2015 relative to an average of 6.8 percent recorded in the 10 preceding years<sup>9</sup>.

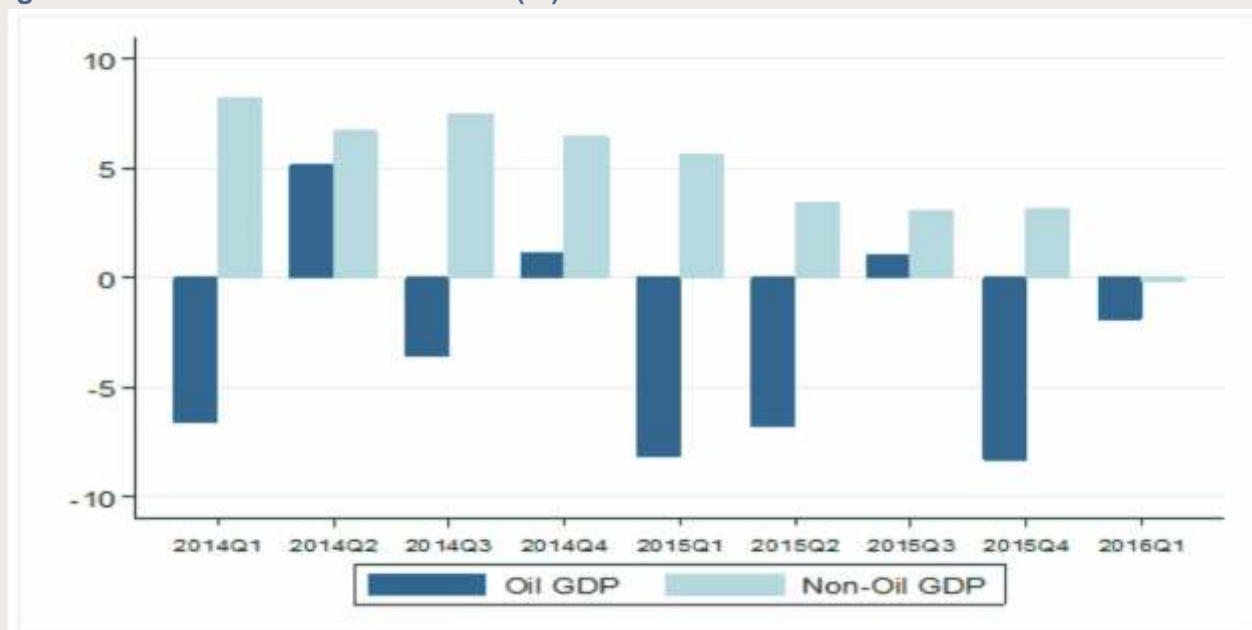
real estate sectors subdued overall economic growth. While the contraction in the oil sector improved substantially in 2016Q1 compared with the preceding quarter, the non-oil sector unexpectedly posted a negative growth rate. Specifically, the oil sector contracted by a mere -1.89 percent in 2016Q1 compared with -8.28 percent contraction in 2015Q4, while the non-oil sector GDP declined from 3.14 percent in 2015Q4 to -0.18 percent in 2016Q1 (figure 8)<sup>11</sup>.

<sup>8</sup> "Nigeria's Gross Domestic Product", National Bureau of Statistics (NBS), 2016

<sup>9</sup> *ibid*

<sup>10</sup> "Too Slow for Too Long", World Economic Outlook, International Monetary Fund, April 2016.

<sup>11</sup> "Nigeria's Gross Domestic Product", National Bureau of Statistics (NBS), 2016

**Figure 8 : Oil and Non-Sector Growth (%)**

Source: National Bureau of Statistics (NBS)

The foregoing trend is unsurprising given prolonged low crude oil price and production accompanied by substantial shortage in government revenue and foreign exchange (FOREX) reserve. Oil price fell from as high as \$64 per barrel in the second quarter of 2015 to as low as \$30.7 per barrel in January 2016, while oil production fell from 2.16 million barrels per day (mpd) in 2015Q4 to 2.11 mpd in 2016Q1<sup>12</sup>. While low oil prices were externally-driven, the fall in crude oil production was occasioned by domestic security tensions emanating from the Niger Delta region. These exerted pressure on FOREX reserve leading to aggressive foreign exchange management practises, especially constraints on import of some raw materials, intermediate and final goods. Concomitantly, the scarcity of FOREX which prompted the unofficial depreciation of the naira severely constrained business activities.

These problems were exacerbated by the excessive delay in the passage of 2016 national budget, as well as general disruptions in economic activities arising from prolonged fuel scarcity and worsened electricity issues witnessed in the review period. The untimeliness in the policy direction of the new government prompted delays in the passage of the 2016 budget.

Concurrently, the strike by domestic crude oil marketers and the vandalism of several oil pipelines stymied the movement of gasoline onshore and offshore; thus, giving rise to severe fuel scarcity in the review period. The perpetual scarcity of fuel in major cities of the country was costly for businesses, in terms of long hours spent on fuel queues and rise in the price of fuel, which contributed in stifling businesses in the non-oil sector. The worsening financial, economic and social challenges, particularly the depreciating value of the naira, weakening investment, high fuel price and security tensions dragging down crude oil production and power generation presents the possibility of a recession in the subsequent quarter.

The severe headwind in the Nigerian economy could be compounded if inhibitive economic policies, as well as related political and security issues are not addressed. Oil price would need to maintain an upward trajectory to significantly ease off fiscal and monetary drag, and kick-start economic growth; however, this seems highly unlikely. Thus, the government and monetary authorities should intensify efforts to tackle persisting challenges in the business environment. Particularly, improving foreign exchange management and minimizing disruptions in crude oil production and distribution should take utmost priority.

<sup>12</sup>“Statistical Database”, Central Bank of Nigeria, 2016

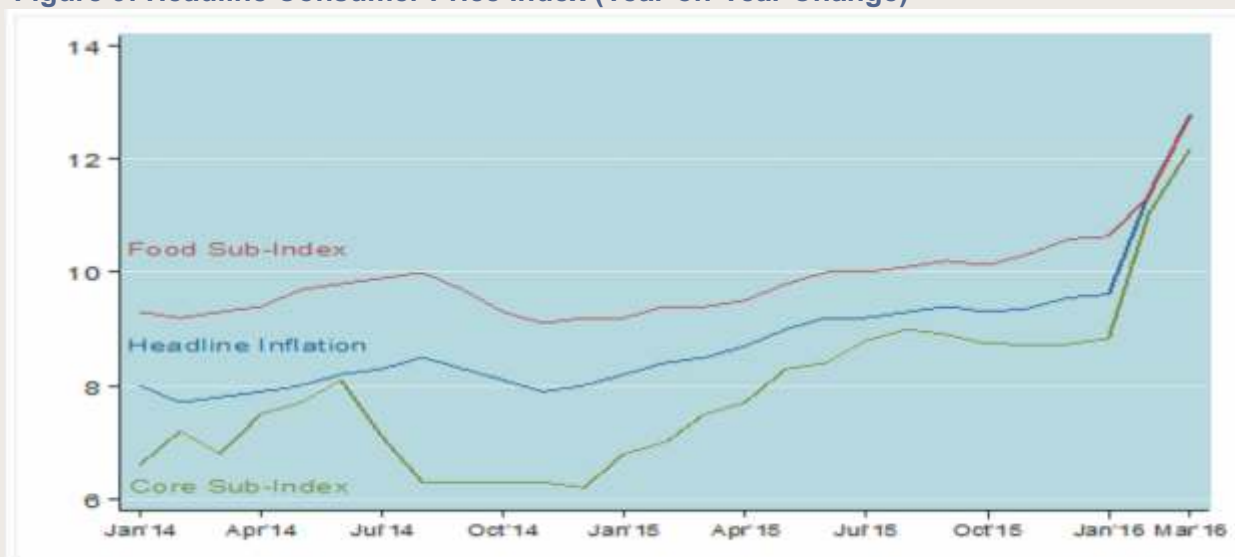
## 2.2 Inflation

*Rising import, electricity and transport costs drive inflation to double digits*

In 2016Q1, inflation rose farther above the 6-9 percent inflation target of the Central Bank of Nigeria (CBN) into double digits. Headline inflation rate increased from 9.55 percent recorded in December 2015 to 12.77 percent in March 2016 –yielding an average of 11.26 percent in 2016Q1<sup>13</sup> (figure 9). Inflation in both urban and rural centres increased at similar pace month-on-month in 2016Q1. Both food and core sub-indices increased at faster rates throughout the quarter and converged at +/- 12 percent in March.

In the food sub-index, inflation was most severe in fish, fruits and vegetables, as well as bread and cereals, while the rising prices of electricity, transportation and books drove inflation in core sub-index<sup>14</sup>. Inflation was partly driven by the import constraints and the unofficial devaluation of the naira in the parallel market, which consistently placed upward pressure on the prices of imported food and production inputs (figure 10). This was worsened by other domestic shocks arising from the nation-wide increase in electricity tariffs, vandalism of gas pipelines disrupting power generation, and the unusual rise in fuel price (figure 11); all leading to high cost of electricity and transportation.

**Figure 9: Headline Consumer Price Index (Year-on-Year Change)**



Source: Central Bank of Nigeria (CBN)

**Figure 10 : Parallel Market Rate (Dollars) and Inflation (%)**



Source: Central Bank of Nigeria (CBN)

**Figure 11 : Premium Motor Spirit (Petrol) Price(Naira)**



13“CPI and Inflation Report”, National Bureau of Statistics, 2016

14 “Prices of all items with the exception of agricultural products

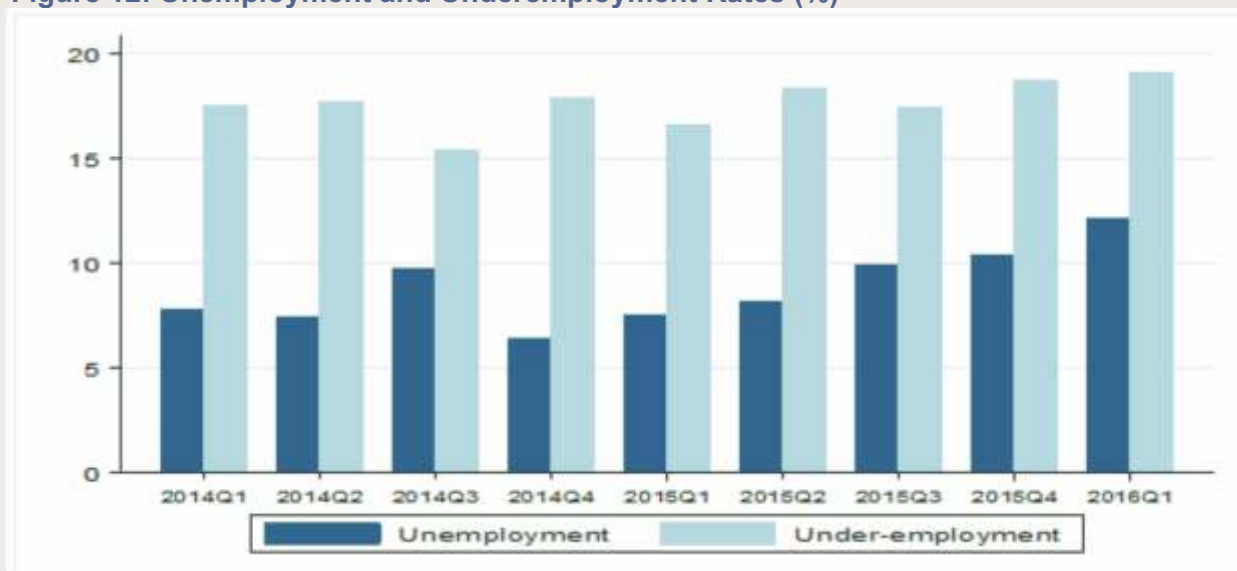
Inflation may continue its uptick in the second and third quarters of 2016. Although monetary authorities have tightened monetary policy in efforts to rein on inflation, inflation is still more likely to rise in subsequent quarters. The recent removal of fuel subsidy and the upward adjustment of fuel pump price (from N85.5 to N145) witnessed in 2016Q2 amid ongoing foreign exchange difficulties is expected to exacerbate inflation in subsequent quarters. Although the increase in fuel pump price is unfavourable in the short-medium term, its positive impact on supply of petrol and healthy competition is expected to drive down PMS Price in the medium-long term and improve investments in the downstream oil sector.

## 2.3 Unemployment

*The negative economic growth contributed to the sixth consecutive rise in unemployment, largely amongst youths and women*

Unemployment and underemployment rates rose in the first quarter of 2016 (figure 12). Particularly, unemployment rate accelerated from 10.4 percent in 2015Q4 to 12.1 percent in 2016Q1; the sixth consecutive rise 2014Q4. Precisely, with the shortfall in job creation and the increase in labour force population, the number of unemployed people increased by 1,449, 18 persons in 2016Q1, relative to preceding quarter. Unemployment remained highest in urban areas given graduates' preference for white collar jobs located in major cities.

Figure 12: Unemployment and Underemployment Rates (%)



Source: National Bureau of Statistics (NBS)

Likewise, the recent development in FOREX policy has the upside potential of improving foreign exchange rates in the medium-long term. Nevertheless, innovative improvements in foreign exchange management strategies amid FOREX scarcity will be expedient in reducing business costs and slowing down inflation. The federal government must also be proactive in dealing with tensions in the Niger Delta region to counter shocks on power generation and oil production.

Youth unemployment particularly increased to 42.24 percent in the review period. Underemployment rate also accelerated at a slower pace from 18.7 percent in 2015Q4 to 19.1 percent in 2016Q1. Underemployment remained highest in rural areas given the seasonal nature of farmers' jobs. Similar to preceding quarters, both unemployment and underemployment remained highest amongst women and youths<sup>15</sup>. The rise in unemployment rate was largely driven by the slowdown in economic activities, across sectors observed in the review period. All sectors with the exception of Information and Communication, Financial Services, and Transport and Storage posted a decline in sectoral GDP growth.

<sup>15</sup>"Unemployment and Under-employment Watch", NBS, 2016

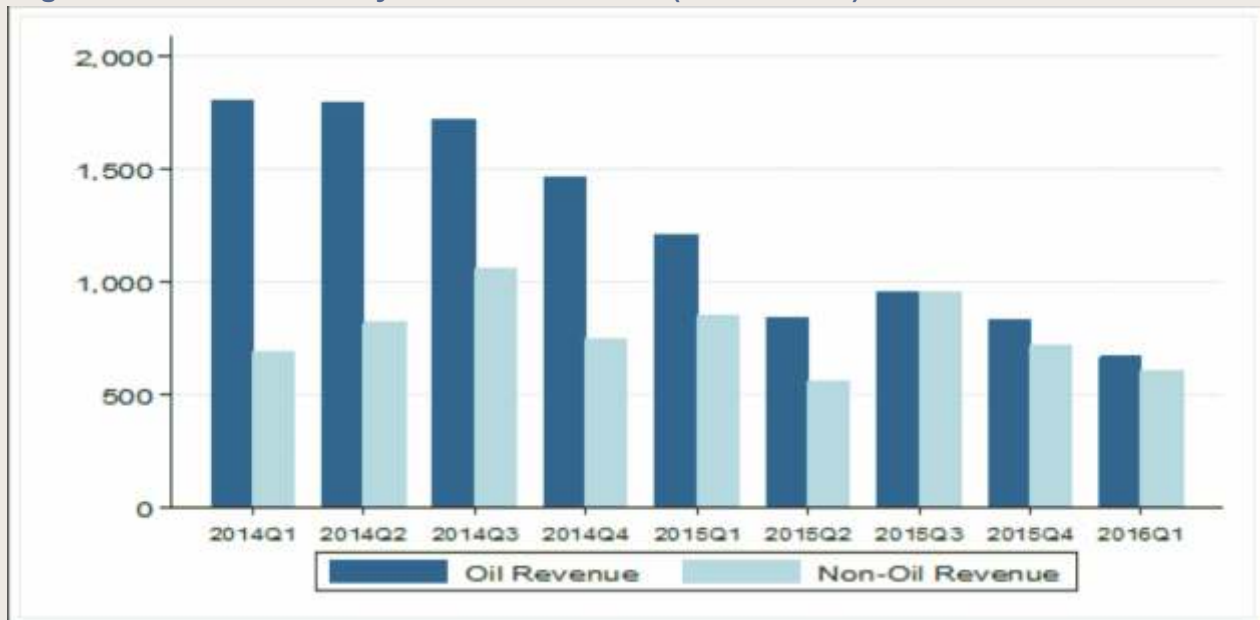
Foreign exchange issues, rising petrol price, epileptic power supply, soaring inflation and poor access to credit, amongst others, continue to cripple businesses and the employment capacity across the country. Rising unemployment amongst youths continue to be fuelled by skill mismatch despite graduate's preference for white collar jobs. Given present economic trends, unemployment rate may escalate in 2016Q2 and subsequent quarters if economic activities do not gain momentum in the near term. Addressing major constraints to small and mid-sized (SME) business activities remain a key to tackling unemployment.

## 2.4 Fiscal Policy Landscape

*Proposed 2016 Budget encapsulates higher capital expenditure signaling government commitment to boosting infrastructure*

With oil price falling as low as \$30 per barrel and ongoing economic challenges influencing business profits, federal government revenue declined in the first quarter of 2016 from N1,548 billion in 2015Q4 to N1,269 billion in 2016Q1 (figure 13). Particularly, federal government revenue from oil declined by 24.7 percent, while non-oil revenue declined by 19.0 percent<sup>16</sup>.

**Figure 13 : Gross Federally Collected Revenue (Billion Naira)**



Source: Central Bank of Nigeria (CBN)

The federal, state and local should make concerted efforts to support new and existing SMEs which is deemed necessary to kick-start an inclusive economic growth. Barriers to private sector lending must be tackled by monetary authorities to ensure credit availability to promising and existing entrepreneurs. Agricultural mechanization and enhancement will also be crucial to channelling youths to the agricultural sector which offers untapped employment potentials.

The federal government fiscal programme for 2016, as contained in the N6.1 trillion appropriation bill, was proposed in 2016Q1 but have not been passed. The 2016 budget proposal is 40 percent higher than the N4.49 trillion budgeted in 2015. The planned capital expenditure is higher by more than 200 percent from N556 billion in 2015 to N1.8 trillion in 2016, while planned recurrent expenditure merely increased by 1.9 percent relative to the preceding year's budget. This signals the new government's commitment to boosting infrastructure. However, the proposed budget is heavy on debt and short on reforms.

<sup>16</sup>“Quarterly Statistical Bulletin”, CBN, 2015



To improve the general economic environment, bolster investor confidence and promote growth, the present government increased efforts to crackdown corruption in 2016Q1. Furthermore, in efforts to shore up support for reduction in global oil output and attendant increase in oil prices, the Nigerian Head of State visited virtually all Organization for Petroleum Exporting Countries (OPEC) in the Middle East in 2016Q1. Apparently, in effect, crude oil price increased by about \$8 per barrel (from \$32.18 to \$38.21) between January and end of March 2016. If crude oil price continues the upward trend well above the Nigeria's 2016 oil price benchmark of \$38, the feasibility of the 2016 budget would be more promising.

These monetary strategies were to eject liquidity from the banking system, rein on the double-digit inflation, and attract investments. The increase in MPR by 100 basis point was aimed at bringing real interest rate to positive territory to compensate investors for negative returns on yields due to rising inflation. The hike in CRR was a direct effort to tighten bank cash flow by increasing mandatory reserve percentage out of total customer deposit; thus restricting lending and combating inflation. The narrowing of the MPR corridor was aimed at encouraging commercial banks to deposit excess funds with the CBN in efforts to minimize money in circulation and combat inflation.

**Figure 14 : Monetary Policy Rate and Cash Reserve Ratio (%)**



Source: Central Bank of Nigeria

## 2.5 Monetary Policy and Financial Sector Developments

*CBN tighten monetary policy in response to rising inflation and falling investments*

In response to inflationary threats and falling investment, the CBN tightened monetary policy in 2016Q1. The Monetary Policy Committee (MPC) raised monetary policy rate (MPR) from 11 percent to 12 percent in March, increased Cash Reserve Ratio (CRR) from 20 percent to 22.5%, and changed MPR corridor from +200/-700 to +200/-500<sup>17</sup> (figure 14). The frequency and size of Open Market Operations (OMO), a major tool for mopping up liquidity, also increased especially in January.

In all, the MPC reneged on earlier efforts to boost liquidity in support of economic growth, given that these efforts were hampered by monetary delays, fiscal uncertainties and structural challenges that prevented banks from lending to the private sector. Hence, the CBN reverted from growth-inducing policies in efforts to maintain its fundamental mandate of price stability. Following the decision to tighten monetary policy on 22<sup>nd</sup> March 2016, immediate spike in bond yields across the curve were observed in March. Yields on benchmark 20-year bonds, increased by 55 basis points (bps), to 12.7%; while yields on 10-year bonds increased by 45 bps, to 12.65%.

<sup>17</sup>Central Bank of Nigeria Communique No. 104 of the Monetary Policy Committee Meeting, March 2016

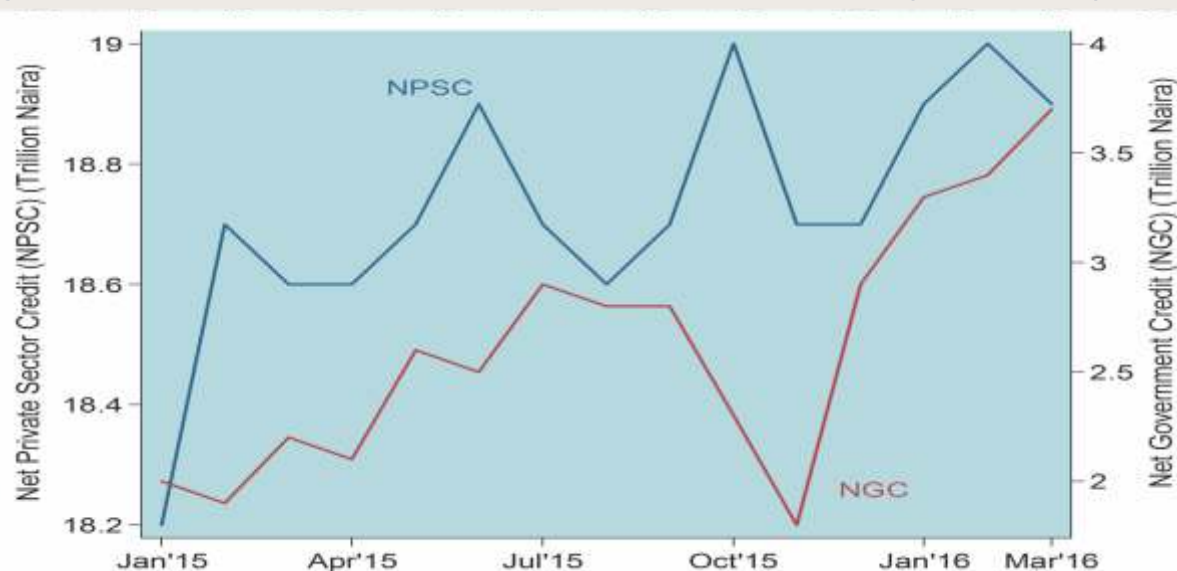


The 5-year paper bond yield –with the most liquid maturity– rose by 41 bps, to 11.7%. Bond yields on 1-year treasury bills and 91-days treasury bills increased to 9.56% and 6.10%. The impact of preceding monetary policy easing led to the increase in net domestic credit in 2016Q1 (figure 15). Particularly, credit to the government averaged N3.5 trillion in 2016Q1 relative to 2.3 in 2015Q4, while credit to the private sector marginally increased from 18.8 trillion naira in 2015Q4 to 18.9 trillion in 2016Q1. Private sector credit which gained some momentum in January and February, took a slight dip in March. This can be attributed to recent monetary policy tightening amid business difficulties, discouraging banks from lending to the private sector.

These raised the risk profile of the Nigerian economy and unnerved investors. Nevertheless, the stock market gained considerable momentum with market capitalization rising from 8,308 in February to 8,832 in March. This is possibly as a result of the increase in the official interest rate, the rise in the crude oil price, the strong balance sheet of Dangote Cement Plc (which contributes one-third of total market capitalization), amongst others, in March 2016.

At the bond market, four auctions of 5-year and 10-year tenure bonds with a combined value of N160 billion to N240 billion were offered on 20<sup>th</sup> January and 10<sup>th</sup> February 2016. A total of 100 5-year, 10-year and 20-year bonds were also auctioned on 16<sup>th</sup> March.

**Figure 15: Net Domestic Credit to Private and Government sectors (Trillion Naira)**



Source: Central Bank of Nigeria (CBN)

The equity market underperformed in 2016Q1. On a quarterly average, All-Share Index (ASI) declined from 28,479 points in 2015Q4 to 24,905 points in 2016Q1, while Market Capitalization fell from N9,791 billion in 2015Q4 to N8,566 billion in 2016Q1<sup>18</sup>. The decline can be attributed to the prevailing low interest rate amid rising inflation. This was aggravated by the official release of GDP figures for 2015Q4, constraints on capital flows, as well as the growing concerns about the extent of non-performing loans in the banking system given worsening business difficulties.

Bond yield remained fairly attractive across tenors at +/- 12 percent in 2016Q1 relative to preceding quarter. 5-year bond yield recorded a 4.2 percent quarter-on-quarter increase, while 10-year bond yield increased by 6.0 percent relative to the preceding quarter (figure 17 and 18). However, after the jump in bond yields in January 2016, bond yields began to fall in February, signaling investors repositioning to safer investment; from stock market to less risky alternatives offered at the bond market<sup>19</sup>.

<sup>18</sup>“Quarterly Statistical Bulletin”, CBN, 2015

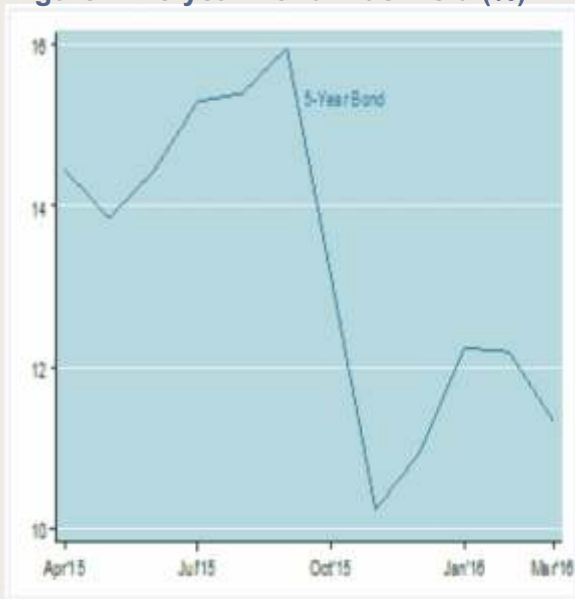
<sup>19</sup>“FGN Bonds”, CBN, 2015

**Figure 16: Stock Market All-Share Index and Market Capitalization**



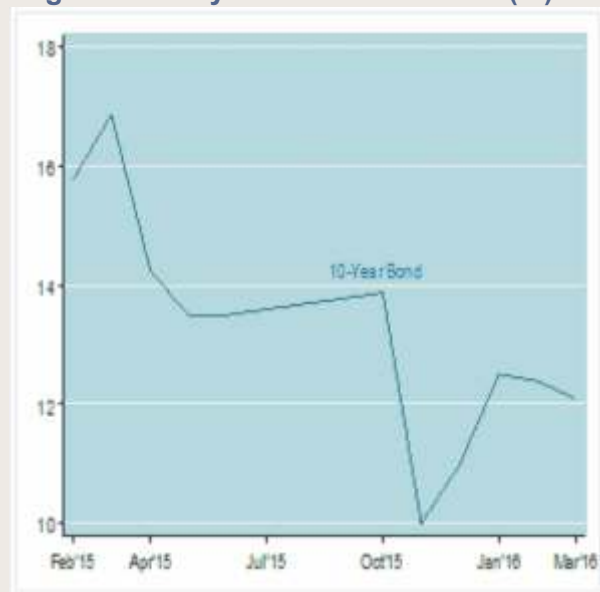
Source: Central Bank of Nigeria

**Figure 17: 5-year Bond True Yield (%)**



Source: Central Bank of Nigeria

**Figure 18: 10-year Bond True Yield (%)**



Despite calls from investors to devalue the naira (which has been pegged at 197-199 per dollar) for more than a year given exchange rate difficulties, no currency adjustment policies were implemented in 2016Q1. However, there was an indication in the March MPC meeting that the CBN is working to make innovative adjustments to better manage FOREX. Monetary policy may remain tight in successive quarters, most likely until inflation rate records considerable decline. The Committee's decision to tighten monetary

policy in March is expected to reflect on key monetary aggregates, particularly money supply, in 2016Q2. The recuperating stock market performance, as observed in March, could be sustained if business climate and economic prospects continue to improve in subsequent months, particularly with regards to foreign exchange management, oil price, and security situation. As stock market gains momentum, true yields on new bond auctions is expected to increase in the near term as investors' appetite for risky securities rises.

Overall, the Nigerian economy witnessed severe headwinds in the first quarter of 2016. The economy contracted owing to business difficulties emanating from crude oil price and production shocks and the attendant FOREX scarcity, unofficial devaluation of the naira, import control and rising fuel price amid an epileptic power supply. Worsened economic conditions fueled the sixth consecutive rise in unemployment. Inflation worsened in the review period on the account of rising transport, electricity and import costs. On the positive side, the federal government showed commitment to infrastructural development in capital expenditure as proposed in the 2016 budget with 184 percent increase compared to the previous 2015 budget.

Monetary authorities tightened monetary policy in response to inflationary threats and investment outflows. Given unfavorable trends, there is a high probability that the Nigerian economy will post a recession in 2016Q2. Furthermore, oil price and production, as well as the domestic security situation remain uncertain, presenting significant downside risks to the economic, commercial and financial landscape. This presents a strong imperative for businesses, investors, and policy makers to examine how their operations and investments will be affected if economic stress deepens. Both monetary and fiscal authorities must initiate proactive measures to address present businesses challenges and kick-start economic growth.



### 3.EXTERNAL SECTOR

This section provides indicators of external sector performance for the Nigerian economy focusing on its foreign trade, foreign investment, exchange rate and external reserve in the first quarter of 2016.

#### 3.1 Foreign Trade

*While Nigeria's total trade declined, its trade balance improved as oil export and price gained slight momentum in March*

In 2016Q1, Nigeria's total trade stood at \$5576.62 million, a 25.83 percent decline from \$7,518.51 million recorded in 2015Q4 (figure 19). Both imports and exports fell sharply but export component fell more deeply by 30.41 percent to remain at \$2,377.35 million in 2016Q1. However, there was a marginal improvement in total trade in the month of March by 1.33 percent, while trade deficit improved in the 2016Q1 to record a deficit of \$487.41 Million in March. Overall, Nigerian economy recorded a trade deficit of \$821.93 million in its merchandise trade in 2016Q1.

The decline in export is attributable to, among other factors, the decline in oil production and export occasioned by oil facilities vandalism by Niger Delta Avengers which started since February, 2016. This reflects the extent of reliance of Nigeria's foreign trade on oil exports. Similar decline in imports can be explained by the scarcity of forex making importation increasingly difficult. The marginal increase in total trade as well as trade balance is traceable to 8.55 percent increase in exports for the month of March.

This may not be unconnected with increase in oil export as a result of ENI lifting its force majeure on Brass River crude as well as Shell reopening the Trans Niger pipeline which carries Bonny Light to the export terminal. Within the same time, open arbitrage to the United States also helped clearing cargoes (Energy mix report)<sup>20</sup>. This was accompanied by the U.S. oil imports from Nigeria hitting three-year high<sup>21</sup> and explains the reason why export to the US increased by 81.5 percent in the 2016Q1. Export to other main trading partners decreased significantly in the same quarter (Table 1).

Figure 19 : Trade Flows (US\$ Million)



Source: CBN Database

<sup>20</sup> <http://energymixreport.com/nigerias-march-crude-oil-exports-set-to-increase-from-february/>

<sup>21</sup> <http://www.financialnigeria.com/u-s-oil-imports-from-nigeria-hit-three-year-high-news-474.html>



In terms of export trade direction, the top destination for Nigeria's exports is India, followed by the United States, Spain, and other African countries, especially South Africa (Appendix 1). In terms of import direction, China remained Nigeria's number one import partner, followed by the United States and India (Appendix 2). The trend of export and import direction in 2016Q1 is similar to the preceding quarters, except for the noticed displacement of some of the traditional trading partners such as USA and Netherlands by some emerging trading partners such as India (in terms of export destination) and China (in terms of supplying market). Further, top on the list of the imported goods of Nigeria are refined petroleum products and wheat, while crude oil and gas top the list of exported commodities (UNCTAD database).

This shows Nigeria's limited ability to domestically refine locally produced crude oil, thus making the country to operate at the lower levels of the oil and gas global value chain. It is revealed from the foregoing that Nigeria's trade position is largely dictated by crude oil export. Hence, it would be recommended that the government consolidates on its pursuit of economic diversification in order to reduce vulnerability of the Nigerian economy to oil shocks and forestall persistent negative trade balance. Also, the observed diversification in the direction of trade is a step in the right direction which should be consolidated to reduce vulnerability associated with trading with very few partners.

Hence, it would be recommended that the diversification of the productive base of the Nigerian economy should leverage on mobilizing domestic resources through private sector participation, particularly in the manufacturing, agricultural and solid mineral sectors.

### 3.2 Foreign Investment

*Investors' concerns on the repatriation of potential income, given FOREX controls, push capital inflows down to its lowest level since 2014*

The total value of capital inflows into Nigeria in the first quarter of 2016 stood at \$710.97 million – the lowest since 2014. All components of Nigeria's capital inflows plunged from 2015Q3 to 2015Q4. While the deepest decline of 71.54 percent to a historic low record of \$271.04 million, in the 2016Q1, came from foreign portfolio investment (FPI) (characterized with the largest share in capital inflows), foreign direct investment (FDI) rose by 41.65 percent to \$174.46 million in 2016Q1 from \$123.16 million in 2015Q4 (figure 20). Although FDI increased in 2016Q1, it remained the smallest component representing 24.54 per cent of capital inflows. Nigeria's FDI is dominated by equity, which recorded \$173.73 million or 99.58% of total FDI in the first quarter. Other foreign investment such as trade credits, loans and other claims also continued to decline from \$1020.26 million in 2015Q3 to \$265.47 million in 2016Q1.

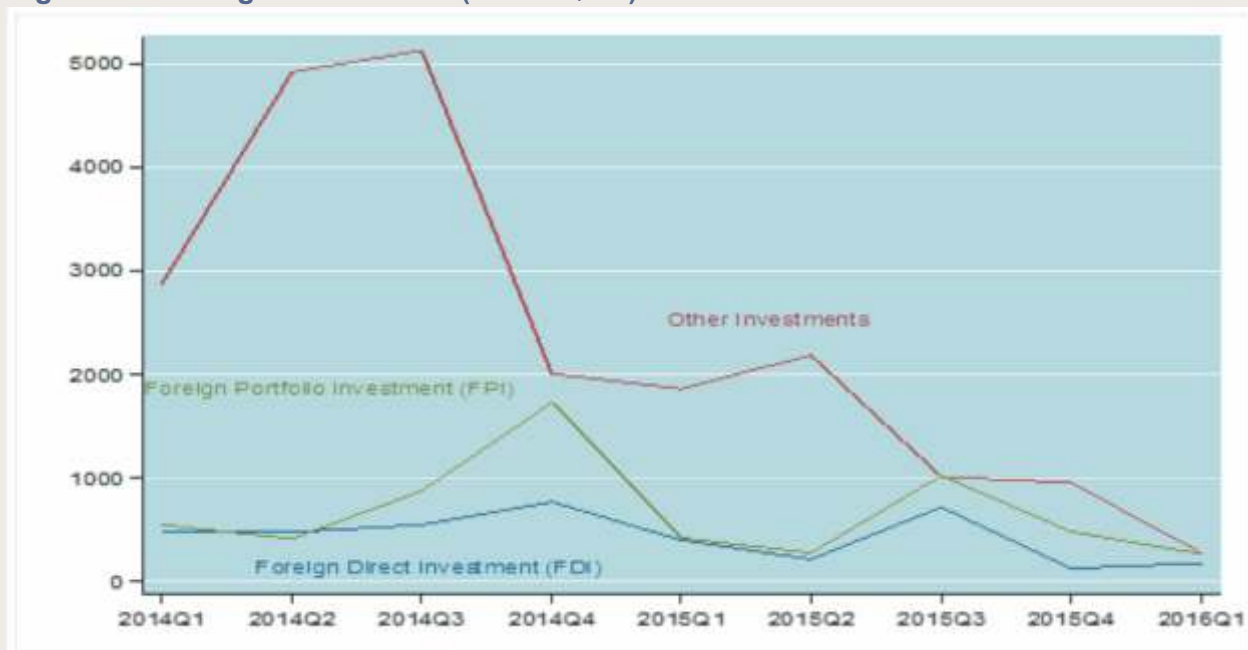
The decline in foreign investments in the 2016Q1 could be attributed to the continuous impact of the directive by the CBN to exclude certain transactions from eligibility to access foreign exchange in the Nigerian foreign exchange market by June 2016. The prohibited items were excluded from funding through interbank, exports proceeds and Bureau de Change (BDC). Hence, investors may be concerned about the possibilities of repatriating the earnings from their investments, given the controls in the forex market.

Specifically, the decline in FPI in the 2016Q1 may reflect the skepticism of portfolio investors in Nigerian equity, bond and other money market instruments. In addition, the forex restrictions which caused Nigeria to be ejected from a widely-tracked JPMorgan Emerging Markets bond index in 2015Q3 may have continuously deterred potential investors.

From the above, it is critical for Nigeria to remove impediments to inflows of foreign investments by creating enabling business policy environment necessary to raise and restore the much needed capital inflows and investors' confidence.



Figure 20: Foreign investments (Million \$US)



Source: NBS Database

### 3.3 Exchange Rate

*Official-Parallel market rate gap widened in 2016Q1, but narrowed slightly in March as government's staunch anti-devaluation stance moderates currency speculations*

The gap between the interbank and the bureau de change (BDC) exchange rates widened in 2016Q1; although the gap narrowed slightly in March (Figure 21). While the monthly official exchange rate seems to have remained at around N197/\$ since March 2015, the BDC rate stood at N320/\$ by March 2016. The increasing gap between the interbank and the BDC in these periods could be attributed to foreign exchange control of the Central Bank.

In addition, the CBN policy in February which allowed FOREX to be sourced autonomously from sources such as exporters, correspondent banks as well as the Bureau de Change (BDC) segment contributed to the widening gap. The appreciation of Naira by 3.0 percent between February and March, 2016 at the BDC could be attributed to speculations in the forex market given the staunch government anti-devaluation stance which reduced the rush for dollar and currency hoarding.

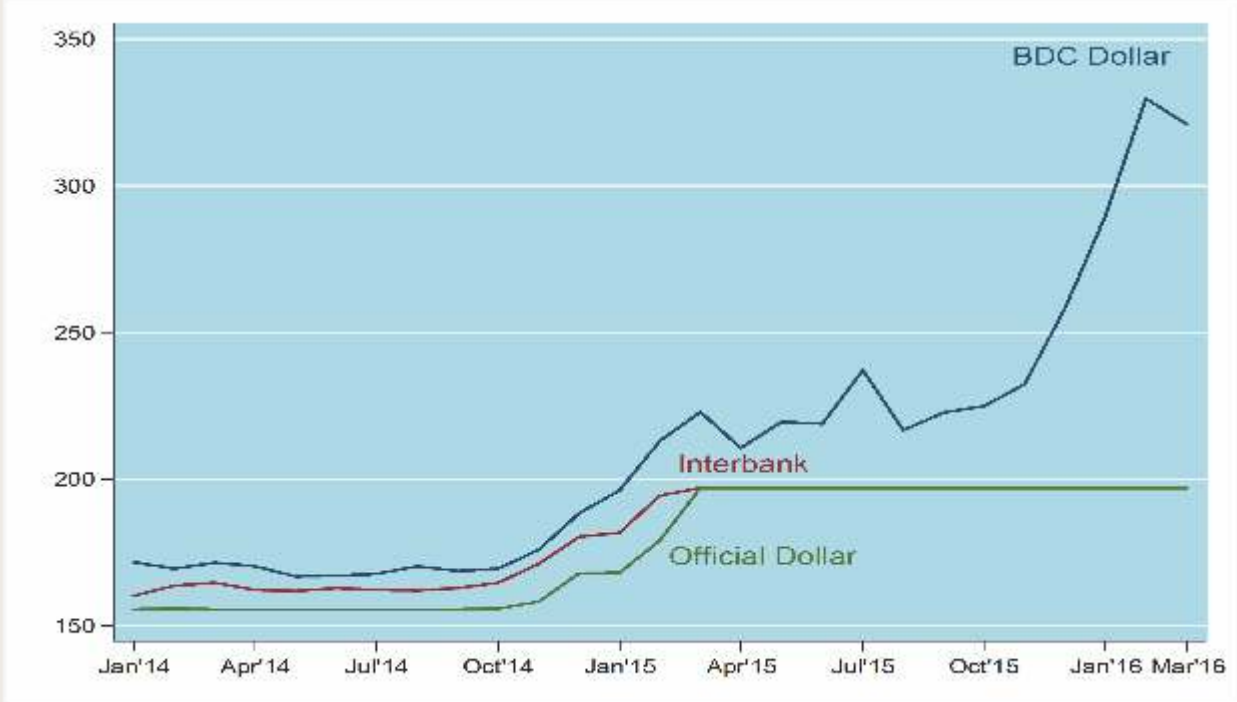
In the absence of sufficient FOREX reserve in the short-medium term, innovative approach to foreign exchange management will be necessary to control widening official-parallel market gap. In the long term, intensifying high quality locally-produced goods and services as well as proactive approach at improving operational capacity of existing refineries will help to ease the excessive demand for dollars and reduce the gaps between official and parallel market exchange rate.

### 3.4 External Reserves

*FOREX reserve steadily declined as CBN makes efforts to stabilize the Naira.*

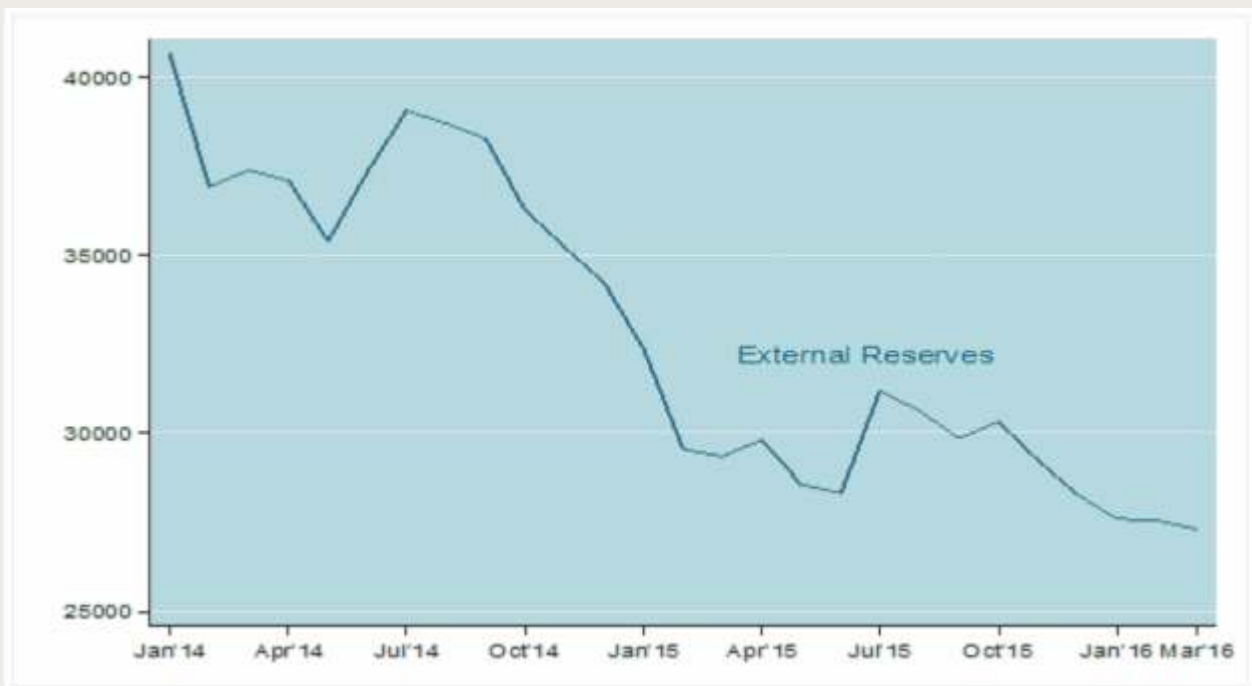
There have been steady decline in external reserves since the beginning of the year 2016. It dropped substantially by 9.0 percent between the last quarter of 2015 (2015Q4) and first quarter of 2016 (2016Q1) (figure 22). The external reserves value of \$27,336.38 Million as at March 2016 can provide about 9 months import cover.

**Figure 21 : Nigeria's Exchange Rate (Naira-USD)**



Source: CBN database

**Figure 22 : Nigeria's External Reserve (Million USD)**



Source: National Bureau of Statistics (NBS)

The trend in external reserves suggests increasing activities of the monetary authority in using external reserves to stabilize the Naira. Therefore, excess demand for forex above supply may have contributed to the declining trend in reserves. It also points to the degree to which Nigeria is import dependent. Since Nigeria's import is dominated by refined petroleum products which account for 15.89 percent of total imports, there is a need to increase domestic refining capacity to cater for huge domestic demand and minimize pressure on Naira. In sum, Nigeria's external sector indicators show that the Nigerian economy underperformed in 2016Q1, but showed signs of improvements in March.

Specially, foreign trade declined but trade balance improved in 2016Q1 due to slight improvement in oil price and export in March amid economic and security issues. Foreign capital inflows reclined to its lowest level since 2014, largely due to FOREX controls mounting investors' apprehension over the repatriation of potential income. The gap between parallel and official market rates widened in 2016Q1, but narrowed slightly in March owing to reduced currency speculations and hoarding following the government's strong reaffirmation of its anti-devaluation stance. The nation's FOREX reserve steadily declined in first three months of the year as a result of CBN's efforts at stabilizing the Naira. Trends in Nigeria's external sector indicators show considerable recovery (particularly, improvements in trade balance and exchange rate) in the latter part of 2016Q1. However, the drivers of the recovery appear to be unsustainable.



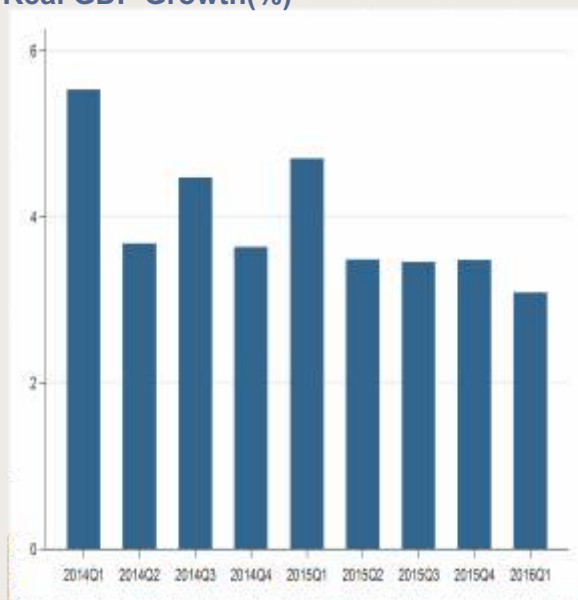


## 4 .SECTORAL PERFORMANCE

This section examines the performance of key sectors in Nigeria's economy. With focus on the first quarter of 2016 (2016Q1), the section investigates the factors driving sectoral growth, as well as the extent to which these sectors contribute to real GDP growth. The last part of the section presents a summary of the key findings as well as actionable recommendations for policy.

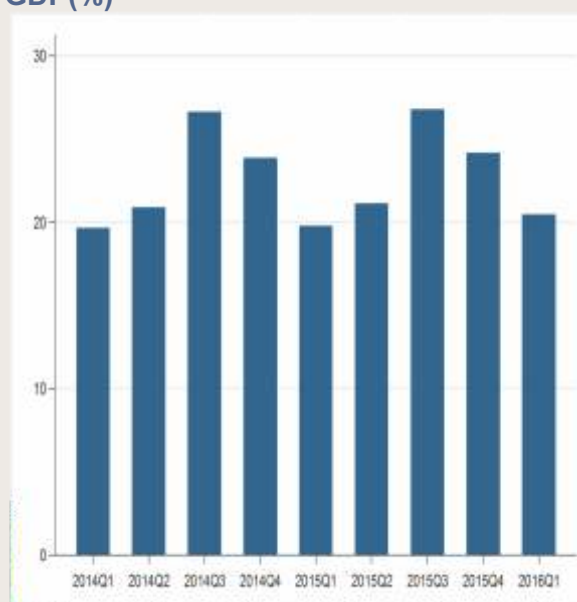
Besides the general slowdown in economic activities which evidently affected all aspects of the economy within the quarter, the agricultural sector was particularly affected by lower crop output, given lower productivity from the dry season farming. Also, given the rain-fed nature of Nigeria's agriculture, farmers in both the Southern and Northern parts of the country were largely engaged in early planting farming activities such as land clearing, rather than crop cultivation.

**Figure 23: Agricultural Sector and Real GDP Growth(%)**



Sources: National Bureau of Statistics (2015)

**Figure 24 : Contribution of Agriculture to real GDP(%)**



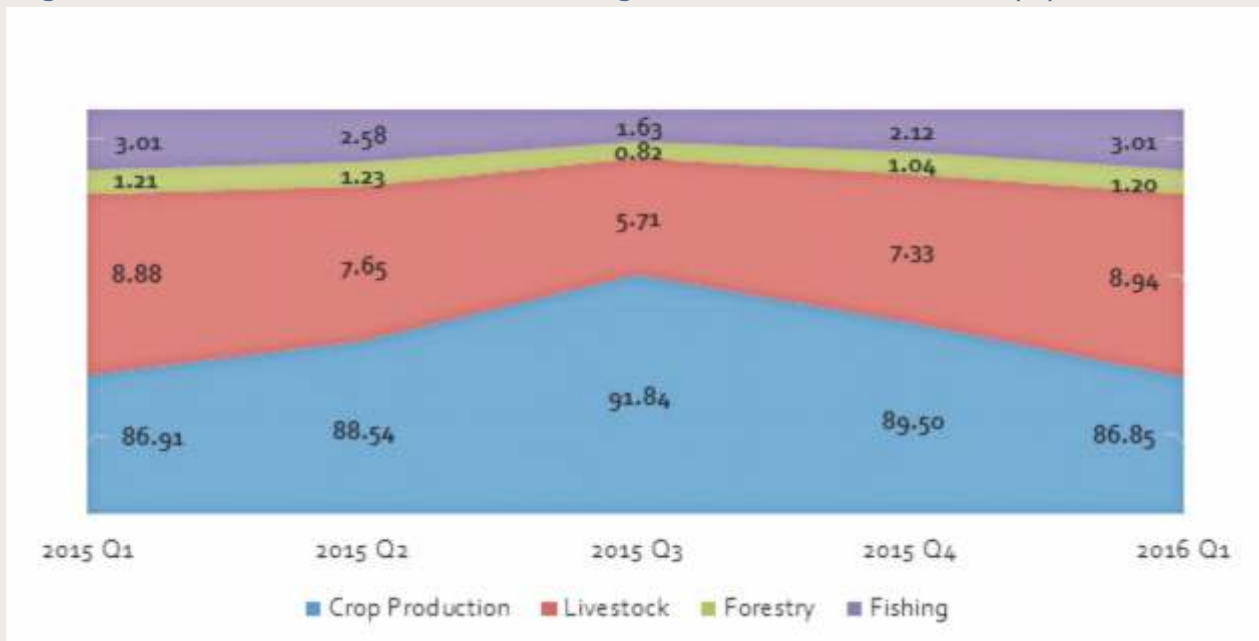
### 4.1 Agriculture

Sector's GDP growth and contribution to overall GDP declined considerably on the account of lower crop productivity due to seasonal variation

The agricultural sector continued to maintain its position as the second highest contributor to Nigeria's real GDP growth rate in 2016Q1. The sector's performance has however, faced a downward trajectory, in terms of both real GDP growth (figure 23) and contribution to real GDP (figure 24), since 2015Q3. On a quarter-on-quarter basis, agriculture's contribution declined by 3.7 percent between 2015Q4 and 2016Q1, while its growth rate declined marginally by 0.39 percent.

Despite increased cattle rustling by insurgents in the Northeast, which led to the temporary closure of major cattle markets in the North, especially in Borno state, livestock production in 2016Q1 increased nonetheless, albeit marginally (figure 25)..



**Figure 25: Contribution of Sub-sectors to Agriculture Real GDP Growth (%)**

Sources: National Bureau of Statistics(2016) and Central Bank of Nigeria (2015)

With diversification of Nigeria's economic base ranking as one of the priority areas of the current government, the Central Bank of Nigeria (CBN) continued to play its role as a credit guarantor for small-holder farmers through the Agricultural Credit Guarantee Scheme (ACGS). However, compared to 2015Q4, CBN's total credit guarantee of 1.64 billion to farmers in 2016Q1 represents a substantial decline of 47 per cent. Also, the number of farmers guaranteed declined significantly from 22,543 to 11,369.

To a large extent, the decline in CBN's credit support to the agricultural sector is connected to federal government's weakening fiscal position in 2016Q1. This drop, may perhaps affect Nigeria's policy objective of becoming food self-sufficient in the next few years. Overall, the limited use of improved agricultural inputs, including technology, land use practices, as well as new seed varieties, have continued to constrain increased productivity in the agricultural sector.

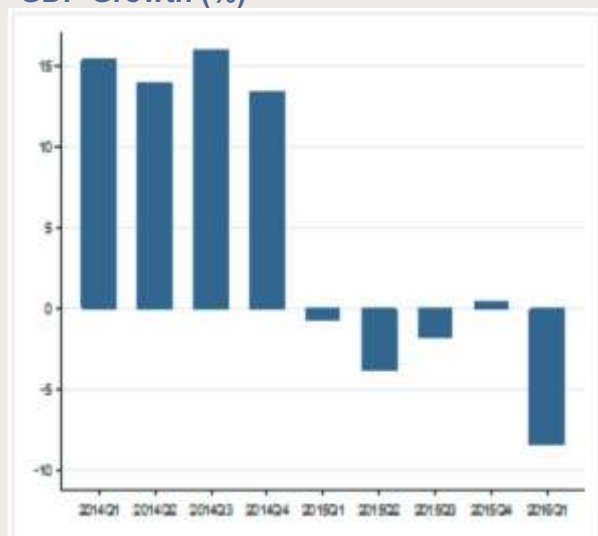
## 4.2 Manufacturing

*Worsening macroeconomic challenges and weakening consumer demand led to a dramatic contraction in the sector's GDP growth*

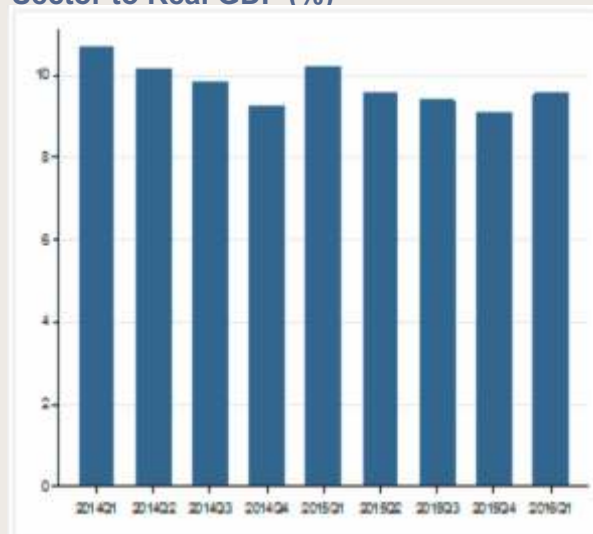
The role of a strong and resilient manufacturing sector in spurring economic growth, and increasing the value additions of factors of production, including labour, cannot be overstated. In Nigeria, even though the manufacturing sector has historically not been a key contributor to the economy, its performance has nonetheless declined significantly in recent years. As shown in *Figure 26*, apart from the marginal positive growth recorded in 2015Q4, the manufacturing sector has mainly experienced negative growth at the beginning of 2015.

In particular, the decline of the manufacturing sector in 2016Q1 was largely driven by contractions in oil refining, cement, food, beverage and tobacco, as well as motor vehicle assembling. Aside the marginal increase in the contribution of manufacturing to real GDP in 2016Q1, the sector's contribution declined persistently since 2015. It is however, important to note that the slight percentage increase in the contributing of the manufacturing sector to real GDP in 2016Q1, amidst persistent negative growth in the sector (*figure 27*), reflects reductions in the contribution of other sectors of the economy to the real GDP.



**Figure 26 : Manufacturing Sector Real GDP Growth (%)**

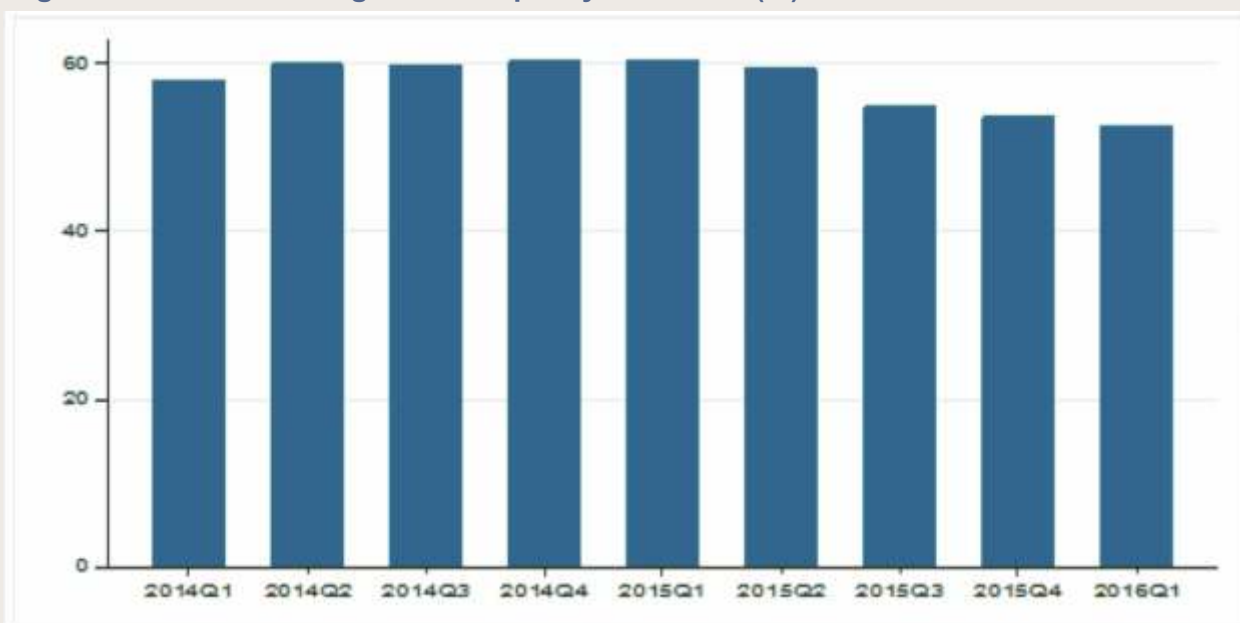
Sources: CBN, 2015 and NBS, 2016

**Figure 27: Contribution of Manufacturing Sector to Real GDP (%)**

The substantial contraction recorded in the manufacturing sector is rather not surprising. Persistent macroeconomic challenges and weak consumer demand, coupled with the resurgence of hostilities in the oil producing region of the Niger Delta, and in particular the onslaught against oil infrastructure, were central to sector's decline in 2016Q1. Monetary authority's unchanged macroeconomic policy stance, especially, as relates to capital and forex controls, continued to undermine productive activities in the manufacturing sector.

The Federal Government of Nigeria's response to the large-scale attack of oil facilities in the Niger Delta in the next few months will determine the extent of activities in oil production and refining going forward. 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.

Expectedly, manufacturing capacity utilization rate continued its downward trend in 2016Q1. Specifically, the sector's capacity utilization rate fell from a high of approximately 60 per cent in 2015Q1 to a low of 53 percent in 2016Q1 (*figure 28*). Apart from persistent power outages and the scarcity of petroleum products, other factors including exchange and forex controls, as well as low investor confidence, have also played considerable roles in stifling productive activities in the manufacturing sector.

**Figure 28 : Manufacturing Sector Capacity Utilization (%)**

Source: CBN (2016)

In view of the present government's policy objective of economic diversification and job creation, and the central importance of the manufacturing sector, the government may need to liberalize its capital and forex policies, to facilitate the access of firms to critical raw materials and capital that are needed for production. Similar policy measures can also be adopted in the downstream sector of the petroleum market, especially given forex shortages.

### 4.3 Oil and Gas

*Growth in the oil and gas sector contracted on the account of renewed attacks on oil and gas infrastructures*

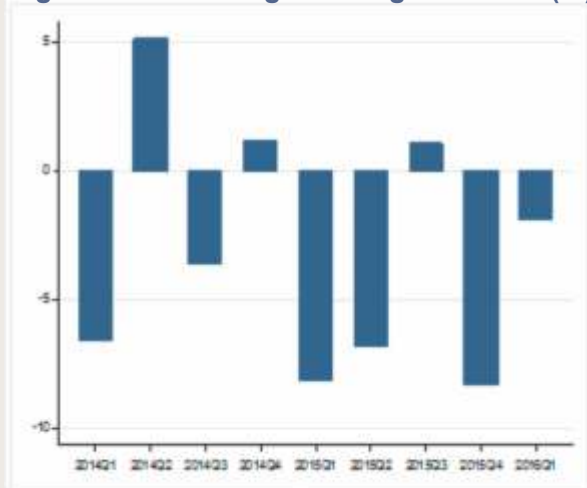
The growth rate of the oil and gas sector remained negative in 2016Q1 (-1.89 per cent), although this performance surpassed the growth rate recorded in the preceding quarter (2015Q4, -8.28 per cent). On a year-on-year basis, the sector's growth in 2016Q1 was also stronger compared to the growth performance recorded in 2015Q4 (figure 29). Notwithstanding the sectors' relative improved growth performance, oil production fell from 2.16 million barrels per day (mbpd) in 2015Q4 to 2.11 mbpd in 2016Q1. More specifically, crude oil export sharply declined by 4.9 per cent from 1.44 mbpd in 2015Q4 to 1.37 mbpd on 2016Q1.

Perhaps, the increased contribution of the oil and gas sector to real GDP in 2016Q1 (figure 30) mirrors the decline of other sectors contribution to real GDP. Particularly, the decline in the contribution of the agricultural sector by approximately 4 percentage points between 2015Q4 and 2016Q1 is a case in point. Data from CBN also shows that Nigeria's reference crude oil – bonny light - steeply declined by 22 per cent, from US\$44.08 in 2015Q4 to US\$34.39 in 2016Q1. On the one hand, the resurgence of attacks on upstream oil and gas infrastructures in the Niger Delta region was largely accountable for the decline in crude production and exports. On the other hand, the substantial decline in the price of crude oil was exogenously determined by the demand and supply dynamics in the international oil market.

Despite the poor performance of the oil sector, and its declining contribution to total revenue, it has however remained the largest contributor to the pool of government's revenue. In particular, although oil revenue<sup>23</sup> declined by 19.8 per cent between 2015Q4 and 2016Q1, its share of total revenue stood at 52.5 per cent, in comparison to non-oil revenue's share of 47.5 per cent. Since the price of crude oil is exogenously determined, the federal government needs to hasten efforts to engage with stakeholders in the Niger Delta, to more quickly increase crude oil exports.

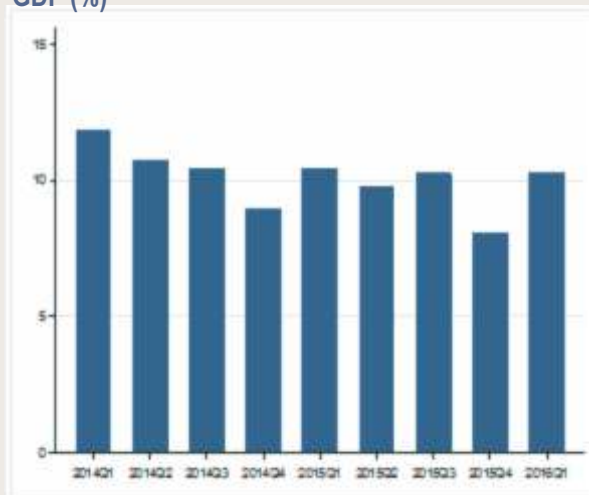
<sup>23</sup>It is important to note that the crude oil and gas component of oil revenue declined by 61.3 percent, from 212.86 billion naira in 2015Q4 to 82.43 billion naira in 2016Q1 (CBN, 2016).

Figure 29 : Oil and gas GDP growth rate (%)



Source: CBN (2015) and NBS (2016)

Figure 30 : Contribution of Oil and gas sector to real GDP (%)



#### 4.4 Financial Sector

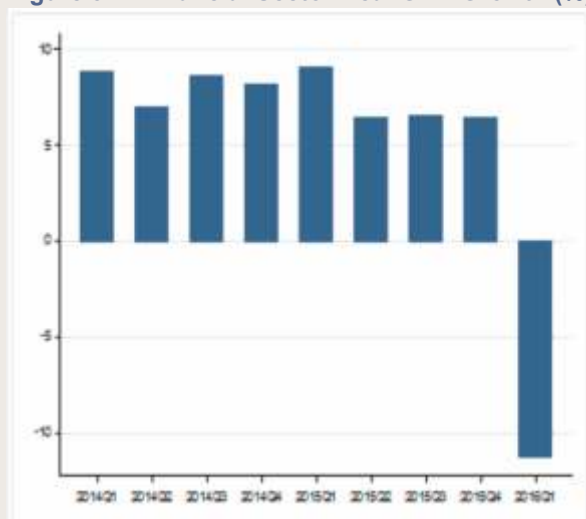
The financial sector contracted significantly due to the contractionary impact of TSA and naira depreciation on the performance of the banking sub-sector

After more than a decade of positive growth rate and high performance, the financial sector recorded its first negative growth rate in 2016Q1. Specifically, growth in the sector declined considerably by 17.4 percentage points from 6.4 percent in the previous quarter (2015Q1) to -11.28 per cent in 2016Q1 (figure 31). Aside the challenging macroeconomic environment, the sector's poor performance was also driven by declining bank deposits and lending, and a tighter credit system, given rising loan impairment charges.

Two other important factors contributed to the poor performance of the financial sector in 2016Q1. First, the ongoing implementation of the Treasury Single Account (TSA) which reduced banking sector liquidity, has considerably hampered the cash flow and profitability of deposit money banks. The decline of net foreign asset holdings in the banking system given the continuous depreciation of the naira relative to the dollar, is yet another important factor that has adversely affected the performance of the financial sector.

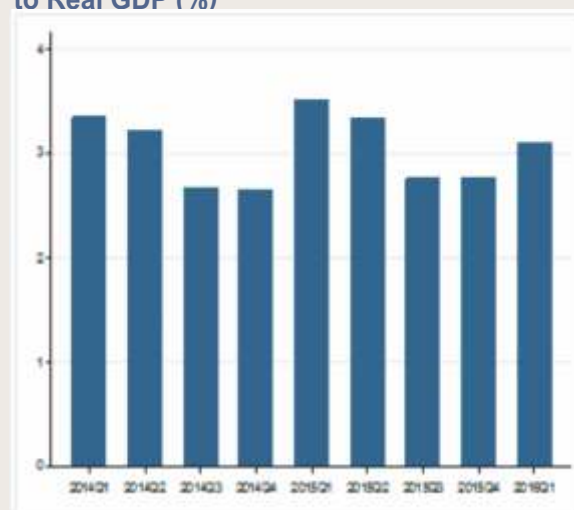
In spite of the negative growth recorded by the financial sector in 2016Q1, the sector's contribution to real GDP increased marginally compared to the preceding quarter – 2015Q4 (figure 32). A significant part of this increase in GDP contribution was driven by a rise in the volume of government securities, treasury bills and bonds, held by the banking system. Given the implication of the huge rise in the share of non-performing loans (NPL) in the credit books of banks for financial system stability, the CBN and other banking sector regulators such as Asset Management Corporation of Nigeria (AMCON) are encouraged to re-examine current banking processes, particularly corporate governance.

Figure 31 : Financial Sector Real GDP Growth (%)



Source: NBS (2015) and NBS (2016)

Figure 32 : Contribution of Financial Services to Real GDP (%)



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#### 4.5 Transport and Storage Sector

*The sector's growth increased dramatically while its contribution to GDP declined marginally, owing to the sharp rise of activities in the road transport sub-sector*

In comparison to other sectors of the economy, the transportation and storage sector recorded the highest increase in its contribution to GDP in 2016Q1 (14.73 percent). The contribution grew by 10.34 percentage points in 2016Q1, after its growth stalled throughout 2015 (figure 33). The sector's disaggregated data indicates that increased activities in the road sector sub-sector and post and courier services were the main drivers of growth in the transportation and storage sector.

However, economic activities declined in other critical areas of the transportation and storage sector. These include railway transportation, water and air transport, as well as transportation via pipelines. Despite the strong growth rate recorded by transportation and storage, its contribution declined in 2016Q1 relative to 2015Q4, although it was rather significant (figure 34).

<sup>24</sup>The Nigeria Deposit Insurance Corporation (NDIC) annual report of 2015 shows that non-performing loans (NPLs) of commercial banks in Nigeria rose by 82.87 per cent, rising from 354.34 billion naira in 2014 to 648 billion naira in 2014.

Figure 33 : Growth Rate of Transport & Storage (%)

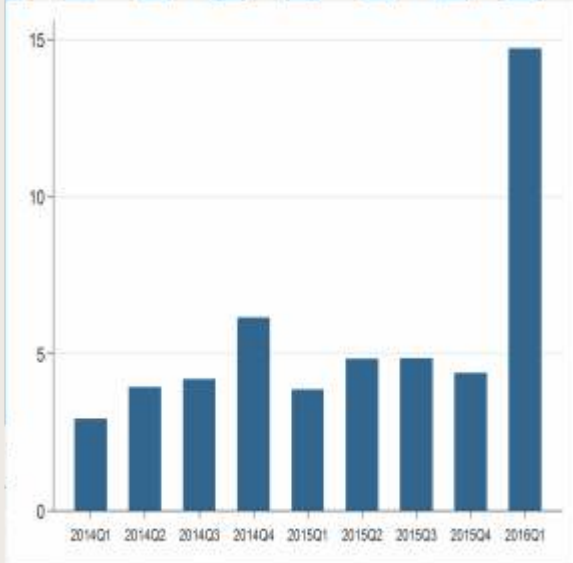
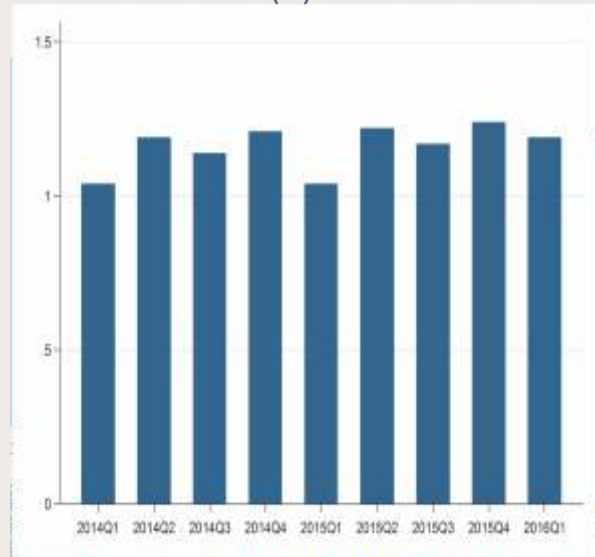


Figure 34: Contribution of Transport & Storage Sector to Real GDP (%)



Source: CBN (2015) and CBN (2016)

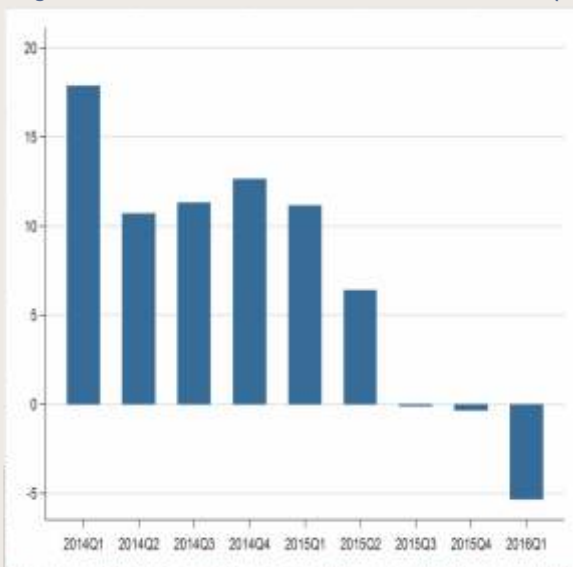
#### 4.6 Construction Sector

*Prolonged shortfall in government revenue led to a significant GDP contraction in the construction sector*

Growth rate in the construction sector continued its downward decline. Specifically, construction real GDP growth declined significantly by 5.02 percentage points, from -0.35 per cent in 2015Q4 to -5.37 per cent in 2016Q4 (figure 35). In comparison to the sector's performance in a similar period in the previous year (2015Q1), the sector declined

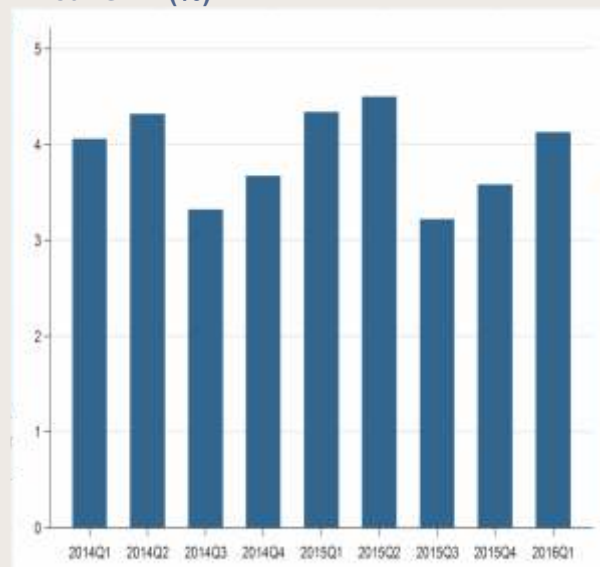
sharply by 16.54 percentage points. Given that construction in Nigeria is largely public sector driven, substantial shortfalls in revenue of government (federal and state) was the key driver of the sector's poor performance, as most government projects including road construction and house construction, were put on hold since the second half of 2015.

Figure 35: Construction Sector Real GDP Growth (%)



Source: CBN (2016) and NBS (2016)

Figure 36: Contribution of Construction to Real GDP (%)





The increase in the Construction sector's contribution to real GDP in 2016Q1 relative to 2015Q4 largely reflects the relative fall in contribution of other sectors of the economy (figure 36). The continuous decline of the construction sector has significant implications for both infrastructural development as well as youth employment in Nigeria. Already, leading construction companies such as Julius Berger Plc have begun cost-cutting measures, which may likely include the retrenchment of unskilled labour in its workforce. To this end, the federal government is encouraged to quickly resolve political economy issues in the 2016 Appropriation Bill, and sign it into law. This will considerably revamp economic activities, including infrastructural development and jobs creation.

#### 4.7 Solid Minerals

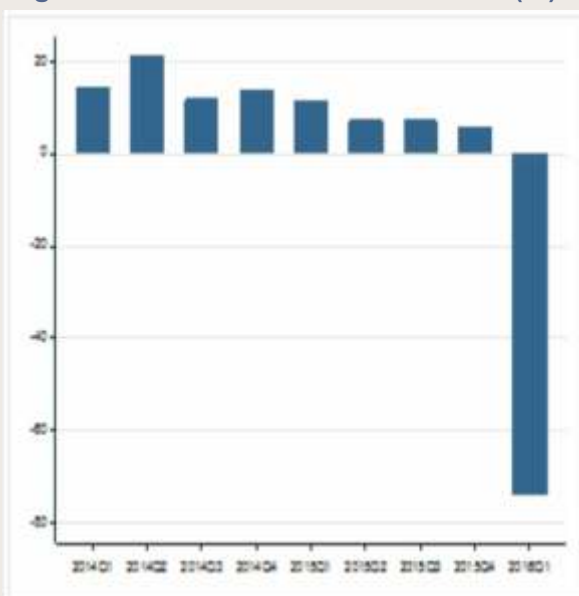
*Growth in the solid mineral sector recorded the worst contraction in 2016Q1 due to drastic decline in quarrying activities and limestone mining occasioned by weakened demand*

Growth rate of the solid minerals sector plummeted in the first quarter of 2016 from 5.73 percent in 2015Q4 to -73.63 percent, representing a decline of over 1300 percent (figure 37).

Although sector growth has been steadily decreasing since 2015Q1, this is the first time since 2014 that the solid minerals sector is experiencing negative growth. The sector's contribution to GDP also fell from about 0.16 percent in 2015Q1 to 0.04 percent in 2016Q1, representing a decline of about 72.88 percent (figure 38). While the performance of the Coal Mining and Metal Ore sub-sectors improved, the Quarrying and other mining sub-sector declined significantly relative to preceding quarter. Although the quarrying and other mining sub-sector remained the major economic activity in the solid minerals sector, the sub-sector's GDP enormously declined from N26,242.65 million recorded in 2015Q4 to N2,454.04 million recorded in 2016Q1 (figure 39).

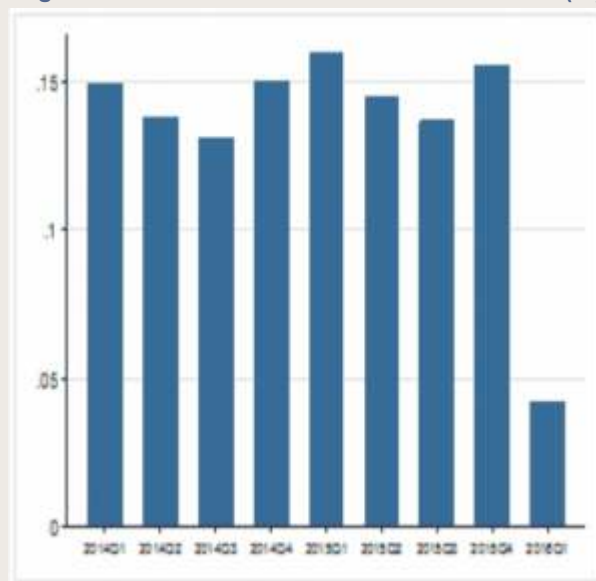
This rapid decline in solid mineral sector's growth performance can be linked to the underperformance of the construction and manufacturing sectors; particularly, the reduction in the quarrying activities of construction companies and the decline in the mining of limestone by cement manufacturing companies. The sector is characterized by a high percentage of informal sector activities (comprising of illegal miners and artisanal) and heavily influenced by deficiencies in infrastructure (particularly transport and power sector). This could explain its weak contribution to GDP.

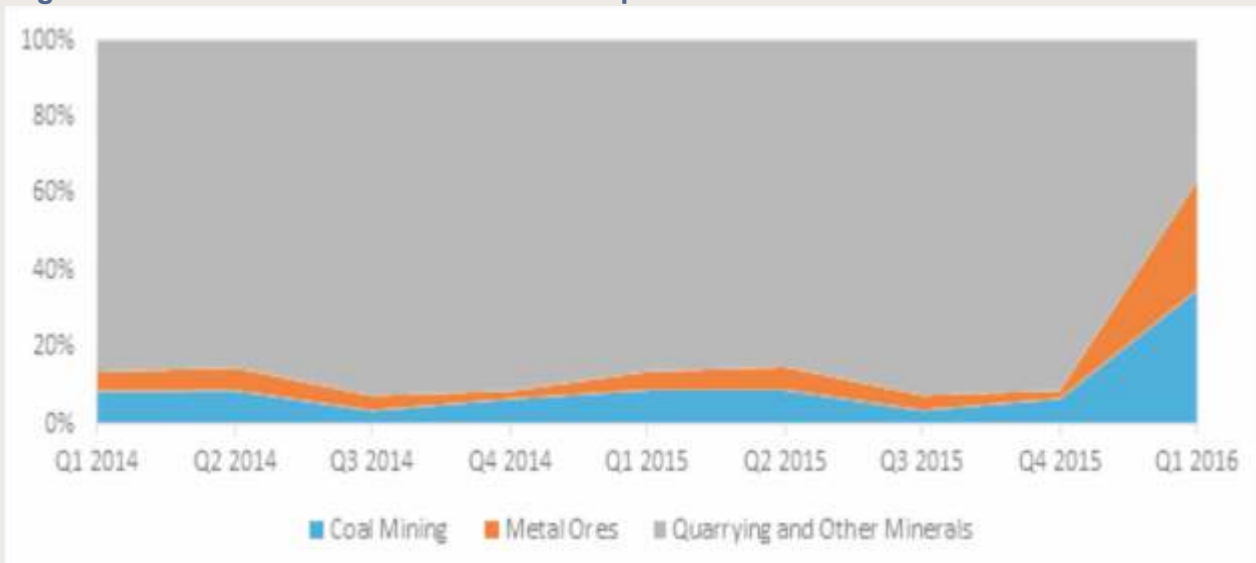
Figure 37 : Solid Mineral Growth Rate(%)



Source: National Bureau of Statistics(2015)

Figure 38 : Solid Mineral Contribution to GDP(%)



**Figure 39: Solid Minerals Sub-Sectoral Components**

Source: CBN (2015)

The solid mineral sector requires a developed transportation network to facilitate exports, as well as a stable power supply for the extraction of raw materials. On the positive side, the Federal Government has allocated over N1.76 trillion (215 percent higher than 2015 allocation) for capital expenditure in the 2016 National Budget, which includes the construction and renovation of various infrastructural projects. Furthermore, the decline in both local and foreign investment in the mining industry within the period also contributed to the huge contraction in the sector. FDI net inflows have declined by more than 36 percent since 2015, due to sundry economic and security issues. Given that the sector is capital intensive, it is recommended that the present government makes concerted efforts to articulate policy plans in order to attract investments.

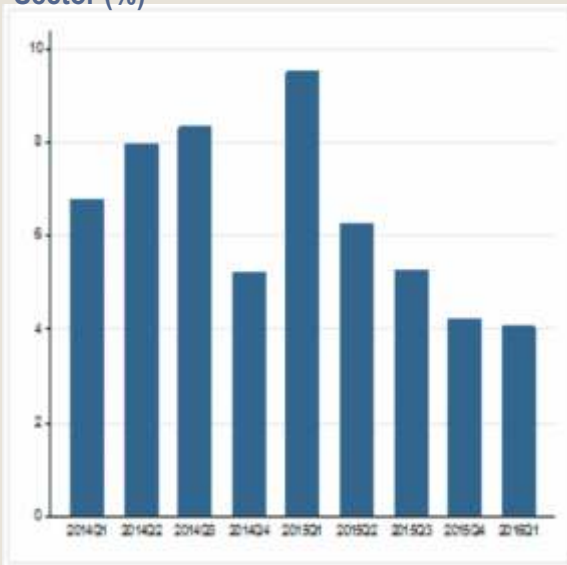
#### 4.8 Information and Communication Sector

*The ICT sector declined marginally on the account of underperformance in telecommunications and information services as well as weaker broadcasting activities*

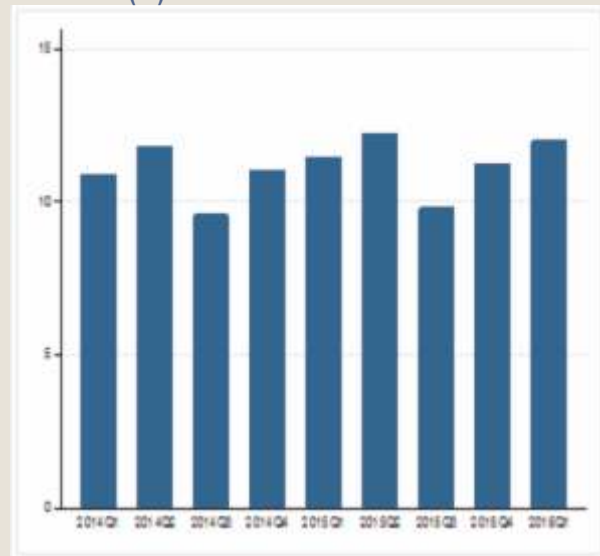
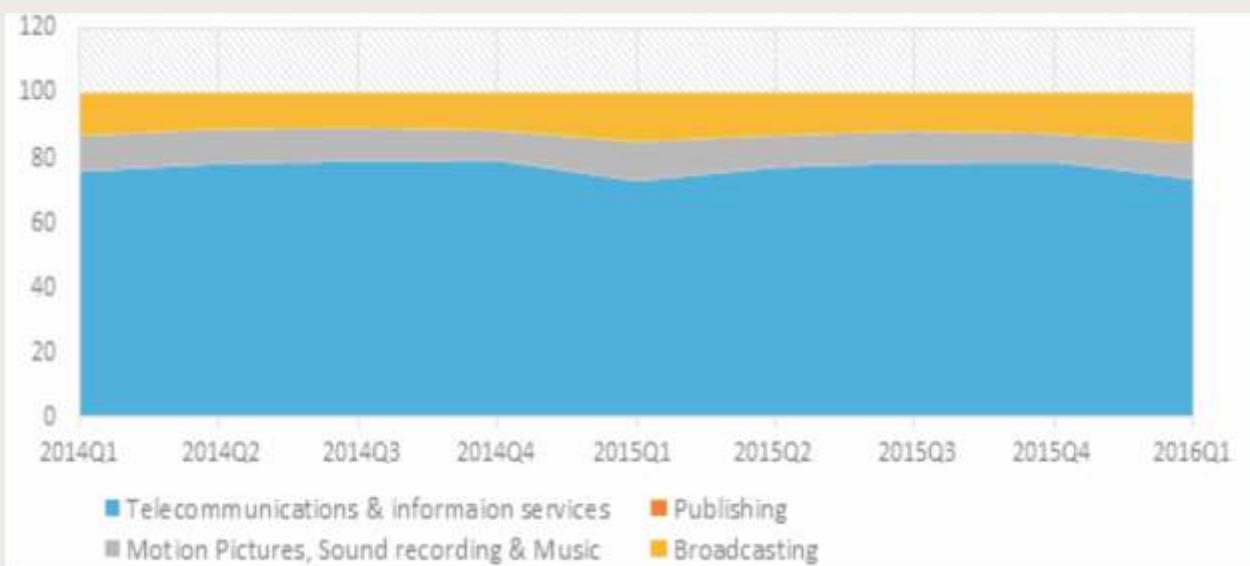
In real terms, the Information and Communication sector growth declined by 4.07 percent in 2016Q1 compared to growth rates of 4.21 percent in 2015Q4 and 9.49 percent in 2015Q1. The sector's growth rate have consecutively declined since 2015Q1 (figure 40).

On the other hand, the contribution of the sector to GDP increased marginally in 2016Q1 (11.98 percent) as compared with the previous quarter (11.26 percent) (figure 41). The weaker growth performance is attributable to lower consumer demand for Telecommunications and Information Services, as well as Broadcasting (figure 42).

The information and communication sector's contribution to GDP has been significant over the years, despite slight fluctuations in growth rate. With the passage of 2016 budget in 2016Q2, which held a significant allocation to information and communication, the sector is expected to outperform in 2016Q2 relative to preceding quarter. However, the policies for the sector may need to be broadened to accommodate the expanding sector.

**Figure 40 : Growth Rate of Info. & Comm. Sector (%)**

Source: National Bureau of Statistics (2015)

**Figure 41 : Contributions of Info. & Comm Sector to real GDP (%)****Figure 42 : ICT Sector's Sub Sectoral Components of Telecommunication (%)**

Source: CBN (2015)

On the overall, key sectors of the Nigerian underperformed in 2016Q1 on the account of persistent macroeconomic challenges and weak consumer demand. The Solid Mineral, Manufacturing, and Financial Services sectors were most severely hit by FOREX challenges and the depreciation of naira. On the other hand, the Transport and Storage sector (particularly road transportation) witnessed an unusual increase in the review period. Although the contributions of the Agricultural sector decreased considerably, it remained the second highest contributor to overall GDP growth, following the services industry as a whole.

The contributions of the Oil and Gas, Construction and Financial Services sectors also increased significantly, while the contributions of the solid mineral sector fell most significantly in the review period. Sectoral performance is likely to improve in medium term, given the federal government's commitment to infrastructural development as depicted in the capital expenditure for 2016 budget. Lastly, key sectors of the economy are likely to continue to underperform in the subsequent quarter of 2016.





## 5.SPECIAL FEATURE ARTICLE

### Tackling Inflation Challenge in Post-2014 Global Oil Crisis in Nigeria:

*Remove exchange rate barrier and align macroeconomic policy towards diversification that promote economic self-reliance*

Nigerian economy is facing serious inflation challenge in recent times. Inflation pressure confronting the economy since the first quarter of 2015 has assumed a hill-top stance. Available data shows that inflation is on the accelerated momentum, rising from single digit of 8.5% in March 2015 to hit double-digits of 12.8% in the corresponding month in 2016. This is well-above the target band of 6-9% of the Central Bank of Nigeria (CBN). Recent experience necessitates a proper assessment of the sources of inflationary pressure as well as strategies adopted by policymakers so far to contain it.

Given strong connections of the current inflation to country's policy reactions to the global oil shock, an overview of the drivers of monetary policy and the attendant trend in inflation is worthwhile. This can be discussed in line with the following periods: no monetary policy adjustment<sup>25</sup>; restrictive monetary stance and slight exchange rate adjustment<sup>26</sup>; restrictive monetary policy with exchange rate controls<sup>27</sup>; and expansionary monetary policy and exchange rate controls<sup>28</sup>.

At the dawn of the global oil crisis especially in the third quarter of 2014, there were no marked changes to monetary policy measures. Despite a (10 percent) fall in oil price and (2 percent) depletion of external reserve during the period, Cash Reserve Requirements (CRR), Monetary Policy Rate (MPR), and Liquidity Ratio were maintained at 15%<sup>29</sup>, 12%, and 30% respectively. Also, the margin between Wholesale/Retail Dutch Auction System exchange rate (N157/US\$) and parallel market (N167/US\$) was quite narrow.

Year-on-year inflation rate was relatively stable, hovering around 8 percent in the period. Following continuous decline in external reserve with the consequent upward pressure on exchange rate, adjustment was made to policy instruments in the fourth quarter of 2014. MPR increased to 13% (to induce foreign inflow) and CRR to private sector was raised to 20% - a largely restrictive monetary policy<sup>30</sup>. Also, Naira was devalued from N155/US\$ to N168/US\$. This was aimed at easing the growing speculative demand in the parallel market; and by the end of December 2014, the exchange rate in the market moderately rose to N191/US\$. Despite large unfavourable trade balance in the fourth quarter of 2014<sup>31</sup>, inflation rate in the period was stable with an average of 8.05%.

As a policy response to large trade deficits and shrinking external reserve, the CBN in a bid to save the international value of Naira closed Wholesale/Retail Dutch Auction Sale (WDAS/RDAS) in the first quarter of 2015 and further pegged exchange rate at N197/US\$ - the foundation of exchange controls. This period (2015Q1-2015Q3) heightened speculation in the parallel market with a bandwagon-effect on exchange rate. By the end of September 2015, exchange rate stood at N223/US\$ in the parallel market as against N197/US\$ in the official market.

Consequently, inflation took an upward trend rising from 8.16% to 9.39% between January and September 2015<sup>32</sup> respectively, coupled with a weaker output growth experience during the period. In addressing this phenomenon, the Monetary Policy Committee in November 2015, embarked on an accommodative policy and revised MPR and CRR downwards from 13% to 11% and 25% to 20% respectively. This policy, which resulted to higher liquidity injection in the banking system, was aimed at facilitating credit access to the real sector of the economy.

25\* 2014 third quarter

26\* 2014 fourth quarter

27 \*From 2015 first quarter to 2015 third quarter

28 \*From 2015 fourth quarter to date

29\*Note that this is Private Sector CRR; Public Sector CRR was 75% in the period under review.

30\*Although monetary policy instruments aimed at monetary tightening, money supply actually increased during the period

31 \*Average trade deficits between October and December 2014 stood at about N102 billion

32\* Higher political spending during first and second quarter of 2015 general elections might also feature in inflation experience of the period



However, the period witnessed high excess liquidity in the banking system due to Deposit-Money-Banks' reluctance to grant loans as envisaged. Higher money supply with low output can be a source of high inflation during the period. As at March 2016, inflation hit double digits of about 12.8%. Also, the gap between official and parallel market exchange rate increased astronomically, as the parallel market rate stood at N322/US\$ within the period. Also, the fuel scarcity which increased the average price of fuel, and thus the cost of transportation at the time contributed to the rising inflation.

It can be drawn from the foregoing that the period with monetary policy tightening combined with flexible exchange rate seemed desirable for stable inflation than periods with exchange rate controls. This is because exchange rate control policies tend to inhibit free mobility of capital and hamper domestic investment. More so, the policy intensified speculative activities in the parallel market, widening the gap between official and parallel exchange rate<sup>33</sup>. Given the country's heavy dependence on imported commodities and intermediate inputs as well as CBN's constraints on the supply of foreign exchange to importers at official rate, continuous depreciation of Naira in the parallel market was witnessed, leading to an upsurge in imported and domestic prices.

Thus based on the aforementioned accounts of these periods, a combination of exchange controls with expansionary monetary policy seems inimical to output growth and price level stability; and therefore, may not be the best response to the present economic challenges.

The evidence from above discussions point to notion that current inflation trend is driven by exchange rate adjustments by monetary authorities<sup>34</sup>. Added to this are structural factors such as fuel scarcity, increased electricity tariff, persistent insecurity, and seasonality of agricultural produce<sup>35</sup> which also contribute to inflation surge in the recent times. Therefore, effective tackling of the inflation challenges requires a profound approach that combines sound monetary policy measures with reforms that aims at tackling structural challenges in the economy. Reforms which aim at diversification of the economy and promote economic self-reliance are strongly recommended. More can be achieved through initiatives that foster greater agricultural productivity and enhances agriculture value-chain in the economy.

The 2016 budget greatly support heavy infrastructural projects. This, if well-implemented would create a favourable environment for investors and reduce the cost of doing business. Timely passage of the budget is highly needed to complement already strained monetary policy stance. In selecting the right monetary policy strategy, there is need to disengage the on-going exchange controls in favour of free-floating policy to mitigate speculation in the forex (parallel) market. This would restore investors' confidence, foster stability in the financial market, and provide a good platform to select appropriate monetary measures in combating recent rapid inflation experience.

<sup>33</sup> As at the end of February 2016, the wedge between official and parallel market exchange rates has widen by N128, with Naira exchanged for dollar at the parallel market at N325/US\$ compared to N197/US\$ official rate

<sup>34</sup> While acknowledging that inflation can also be driven through fiscal measures but this seems not applicable in the current period. The 2016 budget has just been passed and not yet signed into law

<sup>35</sup> See Central Bank of Nigeria Communiqué No. 106 of the Monetary Policy Committee Meeting of Monday and Tuesday, March 21 and 22, 2016

## 6. CONCLUDING REMARKS

This report presents an overview of the Nigerian economy by examining key macroeconomic indicators, external sector and sectoral performance in 2016Q1. The appraisal of the internal sector macroeconomic indicators show that the Nigerian economy has performed poorly. Particularly, the domestic economy contracted for the first time since the second quarter of 2004, inflation rate rose to double-digits while unemployment recorded its sixth consecutive rise in 2016Q1. Significant contractions were observed in key sectors of the economy, particularly in the Manufacturing, Financial Services, and Solid Mineral sectors. Although external sector indicators signalled an upturn in March, on average the performance of key indicators was weak in 2016Q1.

Specifically, foreign trade declined on average but trade balance improved in March, foreign investment inflows declined to its lowest level since 2014, and the official-parallel market rate gap widened in 2016Q1 although it narrowed in March. The contraction in the domestic economy was unsurprising given prolonged warning signs that were not satisfactorily addressed by monetary and fiscal authorities. Addressing present challenges will entail proactive policy measures especially at the sight of a looming recession. The present government efforts at diversifying the economy, improving infrastructure, minimizing distortions to oil production and tackling other challenges in the business environment should be supported by unwavering monetary efforts to improve foreign exchange management.

## APPENDIX

Table 1. Nigeria export direction (N' Billion)

Year-Quarter	AFRICA		AMERICA			EUROPE						ASIA		
	African Total	ECOWAS	USA	Canada	Brazil	Germany	UK	Netherlands	Italy	France	Spain	Japan	India	China
2014 Q1	424.38	171.20	147.44	1.65	376.76	56.79	268.40	461.52	150.85	310.86	345.96	144.15	-	100.92
2014 Q2	410.68	174.59	250.14	0.40	413.90	57.21	304.41	449.74	287.37	248.43	514.08	121.58	-	77.11
2014 Q3	628.17	326.77	138.00	2.89	287.20	55.03	152.50	467.34	166.44	218.57	387.77	124.34	-	31.68
2014 Q4	462.62	152.19	80.87	25.46	239.98	106.44	99.61	284.26	109.10	156.81	270.18	126.34	-	54.91
2015 Q1	496.91	252.69	43.79	22.79	160.18	77.18	67.65	304.12	63.99	101.91	234.54	132.00	436.56	64.37
2015 Q2	382.08	122.38	116.08	24.10	202.50	55.91	91.59	379.86	68.08	164.03	234.55	79.49	554.21	18.20
2015 Q3	287.89	140.43	85.51	19.65	169.44	34.27	192.23	245.07	28.57	106.60	211.36	80.44	408.24	29.09
2015 Q4	223.41	84.27	89.17	39.19	100.11	20.83	63.37	207.21	55.95	139.58	228.48	43.28	380.69	45.82
2016 Q1	161.26	50.36	161.91	28.33	57.56	23.42	30.83	88.85	40.82	81.41	127.89	34.86	192.40	43.79

Table 2. Nigeria import direction (N' Billion)

Year-Quarter	AFRICA		AMERICA			EUROPE						ASIA		
	Africa Total	ECOWAS	USA	Canada	Brazil	Germany	UK	Netherlands	Italy	France	Spain	Japan	India	China
2014 Q1	65.1	8.4	164.7	11.3	42.1	64.5	70.1	76.4	34.1	36.4	26.9	24.0	-	368.1
2014 Q2	78.1	12.2	235.6	14.0	38.4	76.8	77.5	138.7	30.6	63.7	39.0	26.8	-	426.1
2014 Q3	317.5	15.2	183.3	11.3	54.1	65.3	73.8	94.1	33.4	38.2	33.5	31.2	-	429.1
2014 Q4	61.4	10.2	167.3	21.1	53.1	75.9	68.0	141.2	64.8	46.6	22.7	44.6	-	393.5
2015 Q1	108.4	55.7	136.8	11.9	42.5	54.7	75.2	124.1	69.1	37.9	41.3	28.9	96.6	387.5
2015 Q2	107.2	45.9	147.0	12.5	40.5	52.4	78.3	109.4	31.1	41.1	63.0	18.7	115.2	336.2
2015 Q3	65.4	16.3	160.6	12.0	39.5	55.0	54.2	101.8	27.3	30.5	15.7	16.6	97.4	459.4
2015 Q4	139.4	95.8	137.6	13.4	48.9	48.3	76.0	80.1	30.0	47.6	20.1	25.6	99.3	384.5
2016 Q1	82.5	41.3	127.1	14.4	50.1	44.9	61.4	73.8	31.1	58.2	25.4	16.9	89.4	345.5

Source: NBS Foreign Trade Statistics Report, 2016Q1

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