

August 26, 2016

## Manufacturing

Recent data by the CBN shows a decline in manufacturing capacity utilization by 2.0 percentage points to 50.7 percent in 2016Q2<sup>1</sup>. Foreign exchange challenges in addition to cash squeeze in the review quarter, led to the decline in capacity utilization. This has hindered activities in the sector while impacting negatively on business confidence. Nonetheless, the CBN recently directed authorized FX dealers to dedicate 60 percent of FX purchases to manufacturers<sup>2</sup>. This policy measure is therefore expected to meet the sector's critical FX need for the purchase of imported raw material and other machineries, while boosting the potential for economic growth in the long term.



## FAAC Allocation

The monthly revenue allocation by FAAC declined by 21 percent, from N559 billion disbursed in June, 2016<sup>3</sup>. Precisely, the three tiers of government shared a total of N443.66 billion, being revenue realized in July, in a hierarchical percentage ratio of 52.7 : 26.7 : 20.6<sup>4</sup>. The decrease in revenue generated may be connected to reduction in quantity of petroleum sold and the slowdown in drilling activities of crude oil in July, occasioned by a number of force majeure<sup>5</sup> over the month. Going forward, subsequent decrease in government revenue may be averted if immediate efforts are directed towards remedying the situation in the Niger Delta region.



## Fiscal Focus

The 2017-2019 MTEF/FSP<sup>6</sup> shows an increase in some key fiscal parameters. In preparation for the 2017 fiscal year and budget, underlying assumptions in the MTEF include: increase in oil benchmark from \$38 to \$42.50 per barrel; exchange rate from N197/\$ to N290/\$; GDP growth rate to 3.73 percent and unchanged crude oil production level of 2.2 million barrels<sup>7</sup>. The changes may likely be attributed to sentiments about a continuous increase in global crude prices, improving GDP growth rate and stability in exchange rate and oil production levels. However, present and short term outlook on exchange rate, growth rate and oil production levels seems to deviate from the underlying assumption in the MTEF. Although oil price have gained some momentum, commodity prices are highly susceptible to volatility. Thus, a 2017 budget based on the stated underlying assumptions may encounter deficit financing and call for a policy reversal. This buttresses the need to expand revenue sources (for financing fiscal projects) beyond oil revenue in order to improve revenue generation and minimize the likelihood of policy reversals.

# BUDGET



## Portfolio Investments

Provisional data indicates a significant decline in both domestic investments and foreign portfolio investments (FPI) in July, 2016. Although, domestic investments slightly outperformed foreign investments by 1.8 percent, domestic capital inflows decreased by 37 percent to N45.9 billion while FPI declined by 44.5 percent to N44.3 billion<sup>8</sup>. The decline in investments may be attributed to diminishing investor confidence and a possible capital flight, owing to anticipation of an evidence-based economic recession in Nigeria. Going forward, policy changes and conspicuous efforts particularly targeted at tackling oil production shortages as well as addressing the regulatory constraints to forex liquidity, may be needed to minimize Nigeria's (business) risk profile and boost investors' confidence.



<sup>1</sup>CBN (2016). "CBN Economic Report Second Quarter 2016". Retrieved from, <http://www.cbn.gov.ng/Out/2016/RSD/CBN%20ECONOMIC%20REPORT%20second%20QUARTER%202016.pdf>

<sup>2</sup>Business Day (2016). "CBN Moves to stimulate economy, directs 60% FX to Manufacturing". Business Day newspaper, Tuesday, 23 August 2016. Pages 1, 4.

<sup>3</sup>Nairametrics (2016). "Government Suffers 20.5 percent loss in Latest Revenue Allocation". Accessed on August 26, 2016. <http://nairametrics.com/government-suffers-20-5-loss-in-latest-revenue-allocation/>

<sup>4</sup>The Eagle Online (2016). "FAAC: See what FG, states, LGs shared as July federal revenue". Accessed August 29, 2016. <http://theeagleonline.com.ng/faac-see-what-fg-states-lgs-shared-as-july-federal-revenue/>

<sup>5</sup>Force Majeure: A freedom from contractual obligations because of unfavorable conditions and circumstances.

<sup>6</sup>MTEF/FSP: Medium Term Expenditure Framework/ Fiscal Strategy Paper.

<sup>7</sup>Nigeria Newspaper (2016). "FEC Approves MTEF for 2017/2019". Accessed August 29, 2016. <http://breaking.com.ng/nigeria/fec-approves-mtef-for-2017-2019/>

<sup>8</sup>NSE (2016). "Domestic and FPI Report July 2016". Accessed August 29, 2016. [http://www.nse.com.ng/market\\_data-site/other-market-information-site/FPI%20Report/NSE%20Domestic%20and%20FPI%20Report%20July%202016.pdf](http://www.nse.com.ng/market_data-site/other-market-information-site/FPI%20Report/NSE%20Domestic%20and%20FPI%20Report%20July%202016.pdf)