

Issue 15,
April 14, 2017

Inflation

Consumer Price Index (CPI), the measure for Inflation, decreased for the second consecutive month in 2017. Precisely, Headline Inflation rate reduced marginally by 0.52 percent to 17.26 percent in March 2017¹. Similarly, Food and Core components of the CPI declined marginally by 0.09 and 0.6 percentage points to 18.44 percent and 15.40 percent respectively. Recent reversal in inflation trend can be attributed to the increase in domestic food production, amid the ongoing appreciation in the value of the naira thus reducing importation costs. Going forward, government should not relent in ensuring self-sufficiency in food production. Also, concerted efforts need be made to improve foreign reserves in order to sustain naira gain in the forex market and minimize exchange rate pass-through effects on domestic prices.



Financial Sector

Recent media highlights reveal that the Central Bank of Nigeria (CBN) increased commercial banks' limit on foreign currency borrowings, from 75 percent (adopted in 2014), to 125 percent of shareholders' fund beginning from April 2017². This was as a result of a breach of the previous regulatory limit by some commercial banks following the recent significant depreciation in the naira over the year. Going forward, there may be need for the CBN to attach stern penalties to the breach of regulatory limits on foreign currency borrowings in order to reduce the downward pressure on naira due to excess demand for dollar, and help prevent capital shortfalls in the banking sector.



Exchange Rate

Nigerian Naira depreciated by 1.2 percent at the parallel foreign exchange market between April 7, 2017 and April 14, 2017. The naira exchanged at N410/\$ as against N405/\$ the previous week³. Despite the CBN's weekly dollar sales to BDCs (\$20,000 to each BDC in the review week) and spot market sales of \$100 million to SMEs⁴, the naira's depreciated in the week. This may likely be attributable to speculative motives (on the basis that speculators likely anticipate that the CBN forex interventions may not be sustainable). Going forward, innovative market-based approaches that reveal the true exchange rate need be pursued so as to douse speculation and improve investors' confidence. This should be accompanied with a clear exchange rate policy that seeks exchange rate determination through the forces of demand and supply. The ongoing intervention by the CBN is a tentative solution that is not sustainable, aberrant to the market system, and can be counterproductive if poorly managed and coordinated.



External Reserves

The external reserves increased week-on-week by approximately \$77.22 million to \$30.44 billion on April 13, 2017⁵, following a possible increase in crude oil earnings. Crude oil (Bonny light) increased by 6.1 percent to end the week at \$55.92 per barrel⁶. Going forward, sustained increase in crude oil production is critical to maintaining external reserves in the near term and strengthening the value of the naira. But in the medium and long terms, sustainable increase in the domestic production of other key manufactured and agricultural products, domestically, would be necessary to ensure better stability in the country's external reserves and currency value.



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

ECONOMIC INDICATORS

QUARTERLY ECONOMIC INDICATORS	2016Q2	2016Q3	2016Q4
GDP Growth Rate (%)	-2.06	-2.24	-1.30
Oil GDP (%)	-17.48	-22.01	-12.38
Non-Oil GDP (%)	-0.38	0.03	-0.33
Unemployment Rate (%)	13.10	13.9	NA
Underemployment Rate (%)	19.30	19.7	NA
Foreign Direct Investment (US \$'Million)	184.29	340.64	344.63
Portfolio Investment (US \$'Million)	337.31	920.32	284.22
Other Investments (US \$'Million)	520.57	561.16	920.03
Total Revenue (FG) (N' Billion)	977.82	1,185.52	NA
Total Expenditure (FG) (N' Billion)	1,407.38	1,344.71	NA
FG Fiscal (Deficit)/Surplus (N' Billion)	429.56	159.19	NA
MONTHLY ECONOMIC INDICATORS	Dec-2016	Jan-2017	Feb-2017
Headline Inflation (%)	18.55	18.72	17.78
Food Sub-Index (%)	17.4	17.82	18.53
Core Sub-Index (%)	18.1	17.90	16.00
External Reserve (US\$ Million)	26,990.58	28,592.98	29,975.38
All Share Index (Points)	26,874.62	26,036.24	25,329.08
Market Capitalization (N' Billion)	9,246.92	8,972.99	8,765.92
Exchange Rate (BDC - N/US\$)	455.26	493.29	494.7
Official Rate (N/US\$)	305.22	305.20	305.31
Manufacturing PMI	52.00	48.20	44.6
Non-Manufacturing PMI	47.10	49.40	44.5
Crude Oil Price(US\$/Barrel)	53.48	55.01	46.39
Petrol (PMS - N/litre)	146.7	148.7	149.8
Diesel (AGO - N/litre)	196.25	240.52	249.38
Kerosene (NHK - N/litre)	231.85	433.84	352.42
MPR (%)	14	14	14
Private Sector CRR (%)	22.5	22.5	22.5
Public Sector CRR (%)	22.5	22.5	22.5
91 Day T-Bill Rate (%)	13.96	13.95	13.75
Savings Deposit (%)	4.18	4.22	4.22
Prime Lending (%)	17.09	16.91	17.13
Maximum Lending (%)	28.55	28.88	29.26
Narrow Money (N'Billion)	11,404.91	11,267.71	10,212.65
Broad Money (N'Billion)	23,725.13	23,380.94	22,365.65
Net Domestic Credit (N'Billion)	27,153.88	26,627.28	26,771.07
Credit to Government (N'Billion)	4,806.98	4,284.26	4,408.656
Credit to Private Sector (N'Billion)	2,234.69	2,234.30	2,2362.41
Currency in Circulation (N'Billion)	2,179.17	1,994.58	1,978.887
FAAC (N' Billion)	400	465*	514.15

*Provisional Figures (Subject to change)

NA: Not Available

¹National Bureau of Statistics. “CPI and Inflation Report March 2017”. Retrieved from, <http://www.nigerianstat.gov.ng/report/536>

²Reuters (2017). “UPDATE 1-Nigeria raises banks' FX loan limits to resolve breaches – cenbank”. Accessed April 17, 2017.

<http://af.reuters.com/article/nigeriaNews/idAFL8N1HL2GX?sp=true>

³Abokifx(2017). “Lagos Black Market Rate”. Accessed April 18, 2017.

https://abokifx.com/ratetypes/?rates=lagos_previous

⁴This Day (2017). “Again, CBN Sells Fresh \$250m through FX Forwards”. Accessed April 18, 2017.

<https://www.thisdaylive.com/index.php/2017/04/13/again-cbn-sells-fresh-250m-through-fx-forwards/>

⁵Central Bank of Nigeria (2017). “Movement in foreign Reserves”. Accessed April 18, 2017.

<http://www.cbn.gov.ng/IntOps/Reserve.asp?MoveDate=4/19/2017%202:12:50%20AM>

⁶cbn.gov.ng