Centre for the Study of the Economies of Africa
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# Nigeria Economic Review

## Fourth Quarter Report 2016

## ACKNOWLEDGEMENTS

This report was written by the CSEA's Research Team led by Chukwuka Onyekwena and Adedeji Adeniran with key contributions from Precious C. Akanonu, Joseph Ishaku, Ehikowoicho Idoko, Grace Onubedo, and Anointing Momoh.

We also appreciate the contribution of the Research Assistants: Enemaku Okpanachi and Peace John.

The report draws from monthly and quarterly data and publications from organisations including: National Bureau of Statistics (NBS), Central Bank of Nigeria (CBN), International Monetary Fund (IMF), International Energy Agency (IEA), and World Bank.

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

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## ACRONYMS

BDC: Bureau de Change

CBN: Central Bank of Nigeria

CRR: Cash Reserve Ratio

ECOWAS: Economic Community of West African States

ERGP: Economic Recovery and Growth Plan

EU: European Union

FIRS: Federal Inland Revenue Service

FDI: Foreign Direct Investment

FPI: Foreign Portfolio Investment

FOREX: Foreign Exchange

FGN: Federal Government of Nigeria

GDP: Gross Domestic Product

H1: First Half

H2: Second Half

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-size 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

## PREFACE

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

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

Section 3, External Sector Performance, captures key indicators of Nigeria's external sector performance (foreign trade, foreign investment, exchange rate and external reserve) in 2016Q4. This is to shed light on the factors affecting trade and investment flows into the country, and their policy implications. Section 4, Sectoral Performance, examines the key sectors and sub-sectors of the Nigerian economy to provide deeper insight into sectors driving domestic growth, employment and trade, as well as the impact of macroeconomic policy environment on key sectors of the economy. The report also includes a Special Feature Article section, which anatomically dissects the key strengths and shortcoming of the Medium Term Expenditure Framework (MTEF) and Fiscal Strategy Paper (FSP) for 2017-2019.

Thus, the broad aim of the quarterly report (2016Q4) is to provide an evidence-based analysis of the state of the Nigerian economy to inform public policies. The report presents some analyses of significant economic events in Nigeria within the period, and provides an outlook on what policymakers, businesses, and individuals should expect in subsequent quarters of 2017. The report relied mainly on data and publications from Central Bank of Nigeria (CBN), National Bureau of Statistics (NBS), International Energy Agency (IEA), International Monetary Fund (IMF) and World Bank. Analyses are based on available monthly and quarterly data from the aforementioned sources.

## EXECUTIVE SUMMARY

The global economy grew by 2.7 percent in the fourth quarter of 2016 (2016Q4) relative to 2.5 percent in 2016Q3, due to rising investment and consumption demands in developed and emerging economies as well as a rise in commodity prices. However, over the entire year, global GDP growth stood at 2.6 percent in 2016, relative to the growth of 3.09 percent recorded in 2015. Notably, output grew progressively in the US over the year, while the steady growth recorded in the UK since the start of the year stalled in 2016Q4. Also, the declining growth recorded in France since 2015 took a positive turn in 2016Q4, the rest of the Eurozone witnessed a fall in output in the quarter. While emerging economies recorded mixed experiences, many Sub-Saharan African countries showed signs of recovery in the period.

At the domestic level, the Nigerian economy remained in recession but witnessed a slight improvement in output growth on the account of rising crude oil production and prices. Particularly, the domestic economy contracted by -1.30 percent in 2016Q4 relative to a contraction of -2.24 percent in the preceding quarter. Against the backdrop of weaker but gradually improving economic activities, domestic inflation rose at a decelerating rate—averaging 18.45 percent in 2016Q4—as prices of non-food (core) items marginally decline amid rising food prices over the quarter. Over the entire year, 2016 has been one of the most challenging years for Nigerians with the sustained contraction in output and double-digit inflation rate throughout the year.

In terms of policy responses, the Federal Government outlined plans to increase spending on infrastructure in an effort to drag the economy out of the recession. However, these plans were hampered by shortfalls in budgetary spending on account of low crude oil production and prices, lower-than-expected tax receipts, delays in the passage of the budget, as well as delays securing external funding over the year. Despite the huge shortfalls in the budget for 2016, the proposed 2017 budget presented on 14th December 2016 assumes optimistic revenue and borrowing targets to finance an even more ambitious expenditure plan aimed at increasing spending by 20.4%, in an effort to lift the Nigerian economy out of its year-long recession.

In a similar vein, the monetary authorities have maintained tight monetary policy in response to the impact of rising inflation on foreign investment yields over the course of the year. Particularly, the monetary policy committee (MPC) raised monetary policy rate (MPR) to 14 percent in the third quarter of 2016 and maintained it throughout 2016Q4. However, there has been a rise in money supply and net domestic credit in the economy in efforts to stimulate the economy. Particularly, narrow and broad money grew by 13 percent to N10.66 billion and 3.86 percent to N22.83 billion respectively in 2016Q4, while net domestic credit grew by 4.1 percent to N26. 86 billion in 2016Q4. But, the growth in domestic credit was largely driven by the rise in commercial bank's credit to the public sector.

In the capital markets, Nigerian Stock Exchange (NSE) All-Share Index fell by 4.83 percent from 27,979.59 points to 26,626.94 points in 2016Q4. Over the entire year, Nigeria's stock market fell by 14.05 percent in 2016 on the account of lower company earnings due to the economic downturn, unclear fiscal policy direction, high inflation, monetary policy tightening in developed economies, and bearish sentiments which waned investors' confidence in the Nigerian equities. Bond yields rose over the year, with the Treasury bill rate rising from 8 percent in 2016 due to rising MPR and increased risk on government securities.

Nigeria's external sector shows slight improvement as total trade recorded its first quarterly increase (by 3.75 percent) in 2016Q4, due to rising crude oil export. But over the year 2016, total trade averaged $5.95 billion representing a 27.52 percent decline from $8.20 billion recorded in 2015. Unlike trade, foreign investment fell by 15 percent to $1.55 billion in 2016Q4, due to sharp decline in foreign portfolio investment. Notably, the year 2016 recorded a 46.86 percent decline in total capital imported into the country. In the foreign exchange market, the gap between interbank/official and bureau de change (parallel) exchange rates widened from 31 percent in Q3 to 46 percent in Q4. Over the entire year, the naira depreciated by 54.94 percent from ₦196.99/$ in December 2015 to ₦305.22 in December 2016 on the account of rising parallel market rates due to forex scarcity. The scarcity of forex was against the backdrop of declining external reserves which fell by 4.58 percent in 2016, despite some notable gains recorded in 2016Q4.

In line with general output contraction, key sectors of the Nigerian economy underperformed in the 2016Q4. Although there were slight improvements in the Oil and Gas, Manufacturing, ICT, and Financial Services sectors in the quarter, forex challenges, depreciation in the value of the naira, and weak consumer demand greatly constrained growth in key sectors of the economy.

Given the foregoing, outlook on the Nigerian economy is positive as it appears that the downturn in the domestic economy has reached its trough and is now scheduled for a gradual liftoff. Output growth is expected to gradually rise in 2017, possibly dragging the Nigerian economy out of the recession within the first half of 2017.

## 1. GLOBAL ECONOMIC PERFORMANCE

***The global economy ended 2016 on a strong footing in Q4 amid growth in developed economies and the upturn in emerging economies as a result of rising demand and commodity prices.***

The global economy experienced a boost in the last quarter of 2016 as a result of the upturn in emerging economies and accelerated growth in developed economies. Amid the geopolitical uncertainty in the US and Europe, the growth figures for Q4 still show resilience of these economies and indicate prospects for an even stronger economic growth in subsequent quarters. Emerging economies experienced a strong recovery as commodity prices stabilized. [1]. Global GDP grew at 2.7 percent quarter-on-quarter, above 2.5 percent in Q3. The global economy grew at 2.6 percent in 2016 as a whole.

The United States real GDP grew quarter-on-quarter by 1.9 percent *(Figure 1)*, an improvement on 1.7 percent in Q3[2]. Amid the political uncertainty preceding the November elections; investment and increased spending by consumers, local and state governments drove the observed growth levels[3]. Exports to the United States made up for 10.6 percent of Nigeria's exports, slowing down from 17.9 percent in Q3 making it Nigeria's third highest trading partner[4]. This is due to increased exports to other trading partners specifically Netherlands and South Africa, as well as the falling export intensity of the United States.

The UK economy maintained a 2 percent growth in Q4 *(Figure 1)* as in Q3. Despite the political uncertainty, the thriving services sector and household consumption were able to propel the economy to maintain its growth level from Q3. The weakening of the pound also enhanced exports in Q4. Exports increased by 2.4 percent by the end of the quarter to its highest recorded value of £48.8 billion driven by increased exports to non-EU countries. This might explain why the UK moved from the 9th largest source of Nigerian imports in Q3 (with imports worth approx. ₦63billion) to the 6th in Q4 (with imports worth approx. ₦102 billion)[5]. However, the economy grew at 1.8 percent in the entire 2016, a decline from 2.2 percent in the preceding year. The Euro zone expanded by 1.7 percent in Q4. Although this was a decline from 1.8 percent in Q3, this beats the expectations of a slower growth in the area. Amid geo-political uncertainties, domestic consumption remained resilient and was one of the major driver of growth in Q4.

[1] Laird Norton Wealth Management Q4 2016 Economic Outlook: "Where will Growth Come From?" Accessed online at: https://lairdnortonwm.com/wp-content/uploads/Q4-2016-Economic-Outlook.pdf
[2] All data from www.tradingeconomics.com except trade statistics which was obtained from the National Bureau of Statistics.
[3] Source: Bureau of Economic Analysis: "GDP increases in Fourth Quarter". Released 28/02/2017 and accessed online at: https://www.bea.gov/newsreleases/national/gdp/gdphighlights.pdf
[4] National Bureau of Statistics: "Foreign Trade in Goods Statistics.
[5] National Bureau of Statistics.

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

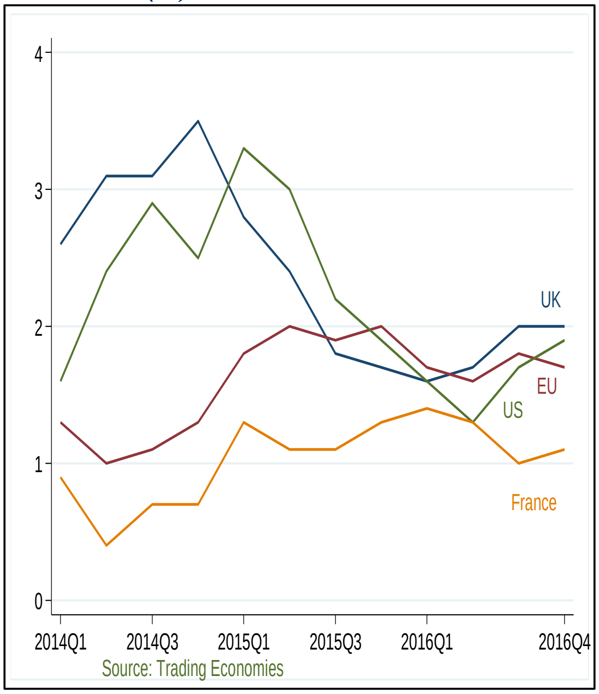
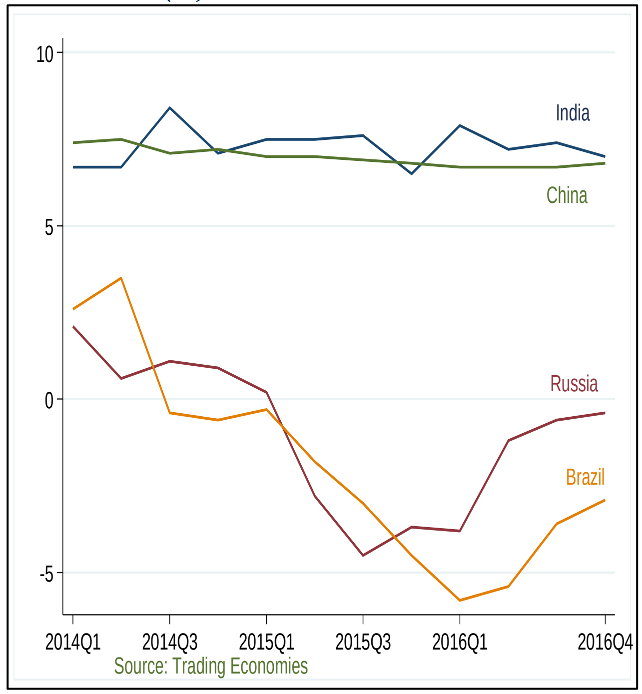



*Figure 2: Real GDP of Selected Emerging Economies (%)*



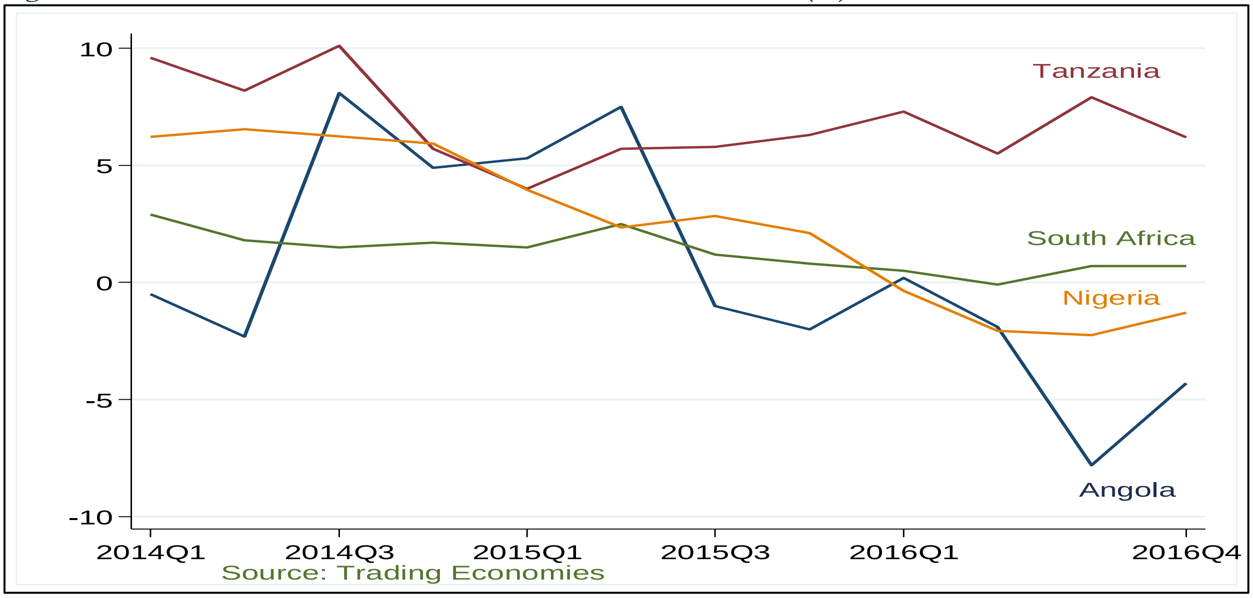

Emerging economies recorded mixed economic performance in Q4. China experienced a slight increase in economic growth in Q4 as real GDP grew at 6.8 percent *(Figure 2)* from 6.7 percent in Q3. Increased domestic consumption, growth of the manufacturing sector and increased government expenditure were the major drivers of growth. For 2016 as a whole, economic growth slowed to 6.7 percent from 6.9 percent in 2015. India however experienced a decline in economic growth from 7.4 percent in Q3 to 7 percent in Q4. Although this was a decline, it was above the 6.4 percent expected growth. This was due to improvement in the agricultural productivity and increased public expenditure. This decline in growth level was evident in India's trade relations with Nigeria during the fourth quarter of 2016 as exports to India fell to 16 percent from 25.4 percent in Q3.

The Sub-Saharan Africa economies showed signs of gradual recovery due to stabilizing commodity prices. Aggregate GDP increased by 1.1 percent in Q4; a 1 percent increase from Q3[6]. In 2016 as a whole, the region grew at 1.5 percent, a drastic fall from 3.1 percent in 2015, making 2016 the worst in two decades in terms of economic growth[7]. This was due to the low commodity prices, higher security problems and inadequate external demand. The performance in Q4 however shows potential for a recovery in subsequent quarters. The South African economy maintained its 0.7 percent growth level from Q3 *(Figure 3)*. This is attributed to the rising price of gold and improvement in the real estate, agricultural and manufacturing sectors. This recovery is reflected in its trade with Nigeria as South Africa became Nigeria's fifth highest trade partner, accounting for 5.4percent of Nigerian exports in Q4.

[6] Focus Economics: "Economic Snapshot of Sub-Saharan Africa". Accessed online at http://www.focus-economics.com/regions/sub-saharan-africa

[7] World Bank Group Flagship Report: "January 2017 Global Economic Prospects". Accessed online at https://openknowledge.worldbank.org/bitstream/handle/10986/25823/9781464810169.pdf

*Figure 3: Real GDP Growth in Selected Sub-Saharan Economies (%)*

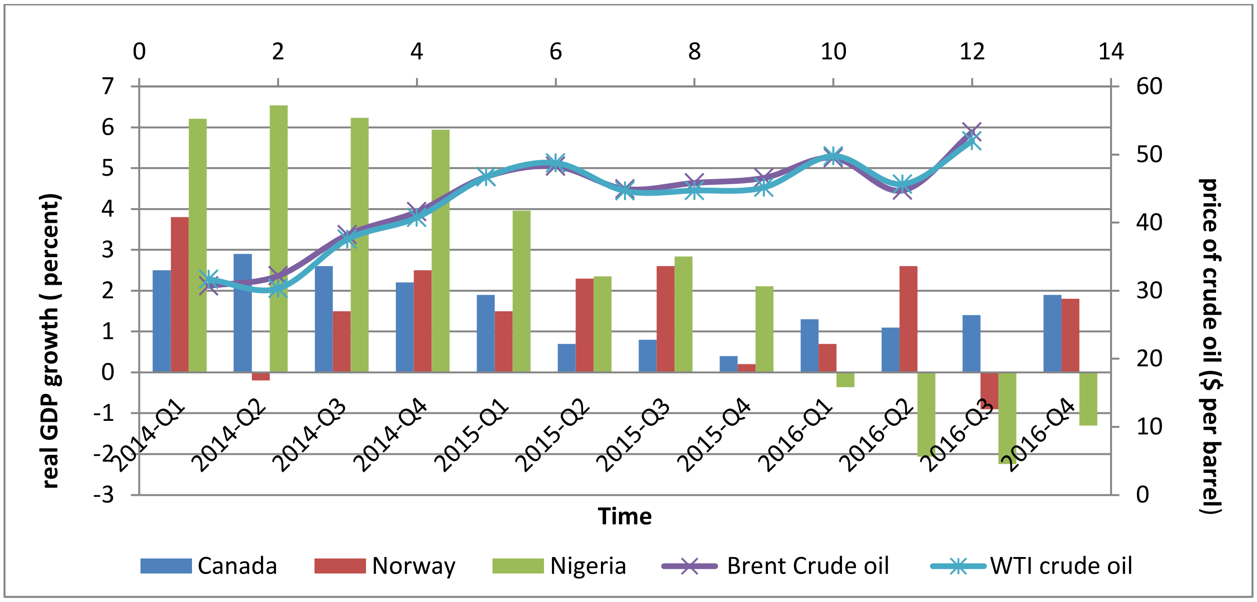



Major oil exporting economies although affected by the low oil prices experienced a rebound in Q4. Angola contracted by 4.3 percent year-on-year in Q4 *(Figure 3)*. This was an improvement on the 7.8 percent contraction in Q3. Clearly, the economy is responding positively to the rise in oil prices, which was responsible for the low performance of the economy. Scarcity of foreign exchange for the importation of inputs also hampered the growth of the non-oil sector[8]. The Canadian economy was boosted by increased consumer spending, housing, the rebound in oil prices, as well as the export of motor vehicles and parts, farm and fishing produce in Q4[9]. This was responsible for the 1.9 percent year-on-year increase in real GDP observed in Q4 *(Figure 4)*. Norway also experienced a weak recovery from the 0.9 percent contraction in Q3, to 1.8 percent year-on-year in Q4 *(Figure 4)*. This reflects the increase in petroleum activities due to the improvement in oil prices. Nigeria seemed to be on a path to slow recovery in Q4 as oil prices pick up and petroleum production activities rebound in the Niger-Delta area. In Q4, the economy shrank by 1.3 percent, an improvement from the 2.24 percent contraction recorded in Q3 *(Figure 4)*.

[8] Focus Economics: "Angola Economic Outlook" Released 21/02/2017. Accessed at http://www.focus-economics.com/countries/angola

[9] Business Vancouver: "Canadian Economy Grows in Q4, 2016, beating Economic Expectations". Released 02/03/2017. Accessed online at: https://biv.com/article/2017/3/canadian-economy-grows-q4-2016-beating-expectation/

*Figure 4: Real GDP Growth in Selected Oil exporting economies and Oil price changes (%)*




In summary, Q4 marked the start of a positive turnaround from the dismal performance experienced for most of the year 2016. The global economy gained some momentum in the quarter under review, setting up a path to full recovery in subsequent quarters. The economic performance of Q4 has improved the outlook for 2017. In 2017, growth in the US should take lead due to anticipated fiscal stimulus from tax cuts and increased public spending by the Trump administration. However, the proposal of the Trump-led government for the Border Adjustment Tax (BAT) which would increase import taxes to cover for its intended corporate tax cuts could negatively influence international trade in the US and might eventually inhibit growth[10]. The euro zone might still experience a slowdown due to the recession and inflation in member countries and uncertainty as to the policy implications of Brexit. Additionally, with major economies in the zone heading for the polls in 2017, there are uncertainties as to the geo-political environment and its economic implications for the zone and the global economy as a whole. This is particularly of importance to Nigeria, which has many of the member countries of the euro zone as its trading partners.

For emerging economies, there are mixed expectations. While the Chinese economy shows prospects of improvement driven by an improved external environment, the economic outlook for India seems bleak. The ban placed on its two largest rupee notes is slowing down consumption and industrial activities due to the shortage of cash in the cash-dependent country. This might have negative consequences for Nigeria as India remains part of Nigeria's top trading partners. There is however still a chance for recovery. A gradual recovery is expected in Sub-Saharan Africa as commodity prices improve and stabilize. Particularly, we anticipate stable oil prices due to an agreement by oil producers to control supply. Rising commodity prices on the other hand contributed to rising global inflation (3.5 percent in 2016) and might impede the effectiveness of monetary easing and eventually influence the flow of capital to emerging economies. Additionally, uncertainties exist for the region on possible changes in global financing and aid flows due to the protectionist bias of the Trump administration. These global occurrences create mixed expectations for the Nigerian economy in 2017. On the one hand, stable prices increase revenue and inflation levels at the same time. On the other hand, uncertainty around global

[10] Focus Economics: "Economic Snapshots of the Major Economies". Released 01/03/2017. Accessed at: http://www.focus-economics.com/regions/major-economies

financing has negative impacts on the economy as a result of the huge role it plays in development financing.

## 2. DOMESTIC ECONOMIC PERFORMANCE

To capture and analyse Nigeria's economic performance in the fourth quarter of 2016 (2016Q4), this section highlights key domestic macroeconomic indicators (GDP growth and price level). It also reports macroeconomic policy responses (fiscal and monetary policies) influencing domestic financial and economic performances recorded in the period under review. In addition, it outlines expectations and policy insights for succeeding quarters.

### 2.1 Economic Growth

***The Nigerian economy remains in recession but witnessed slight improvement in output growth largely on account of improving crude oil production and prices***

The Nigerian economy witnessed a contraction in GDP growth by -1.30 percent (quarter-on-quarter) in 2016Q4 (*Figure 5*). However, this growth rate was higher than growth recorded in the preceding quarter (-2.24 percent). Over the entire year, the Nigerian economy contracted by -1.51 percent reflecting one of the most challenging years for citizens, business operators and government.

*Figure 5: Quarter-on-Quarter GDP Growth Rate (%)*


As in preceding quarters, GDP growth in the oil sector contracted the most, by 13.65 percent in 2016Q4, although it pricked up from a growth of -22.01 percent recorded in the preceding quarter (*Figure 6*). This was on the account of improvement in crude oil production (Nigeria's largest export) from 1.63 million barrel per day (mbpd) in 2016Q3 to 1.90 mbpd in 2016Q4 (*Figure 7*). To a lesser extent, the rise in crude oil price from $46.28 in 2016Q3 to $49.06 in 2016Q4 also contributed to increased productivity in the oil sector *(Figure 8)*. But over the entire year, the oil production declined by 0.29 mbpd (297 thousand barrels per day) between 2015 and 2016, while average crude oil price fell by $9.5/barrel between 2015 and 2016.

*Figure 6: Oil Sector GDP Growth (%)*

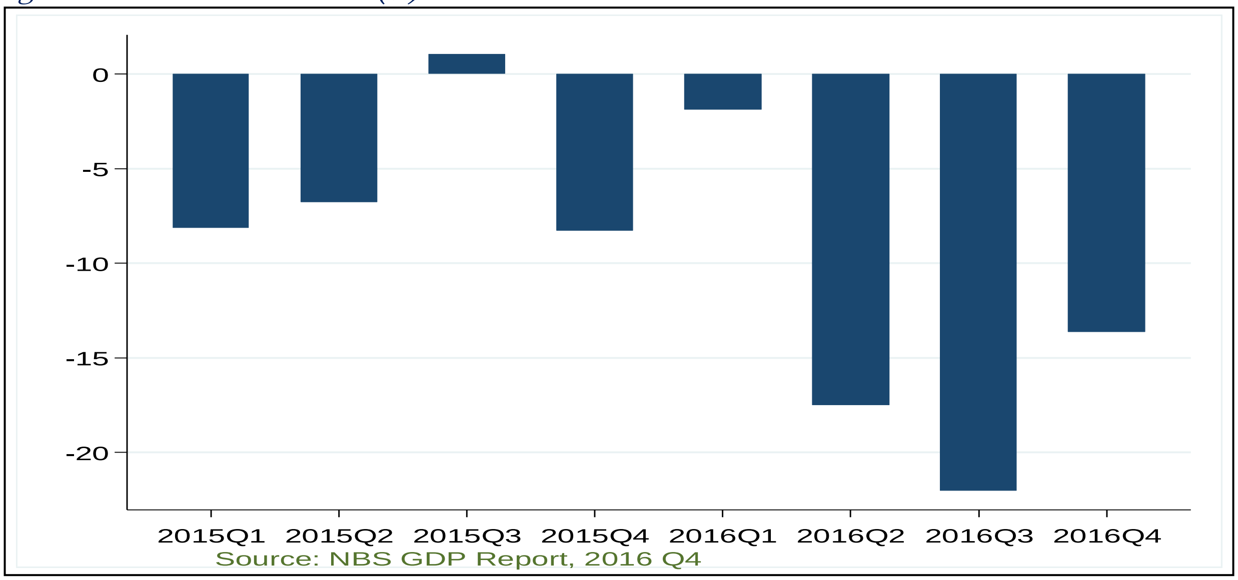



*Figure 7: Crude Oil Production (mbpd)*

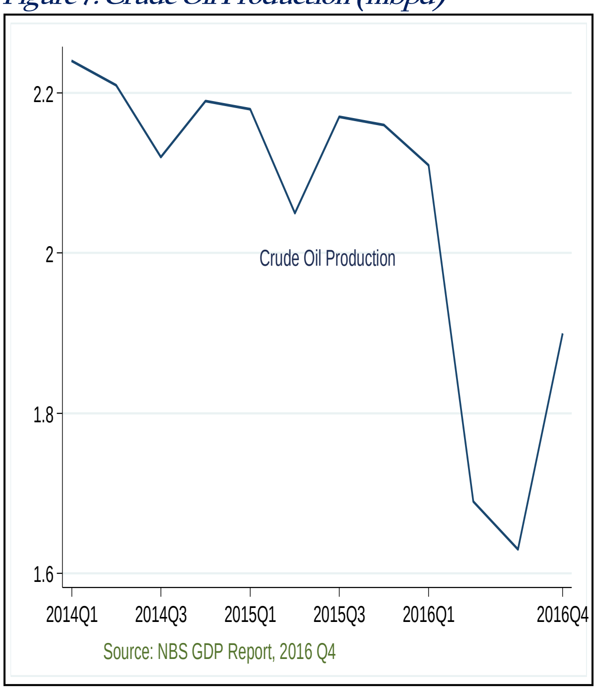
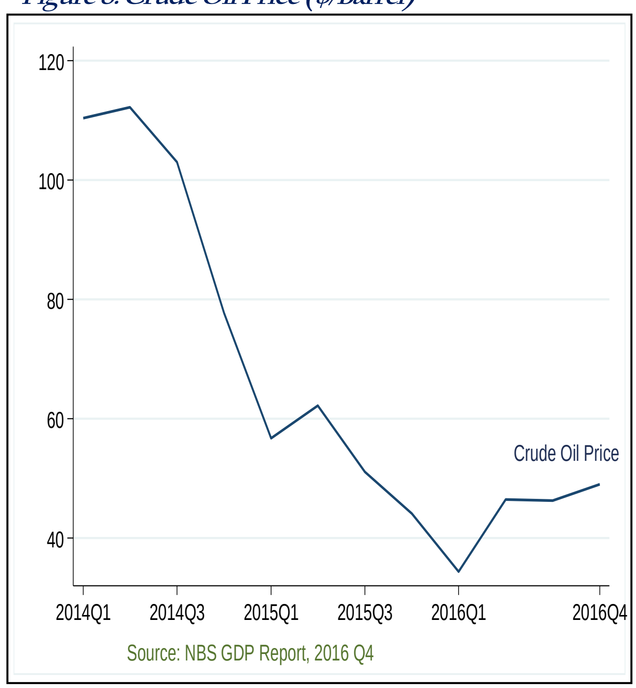
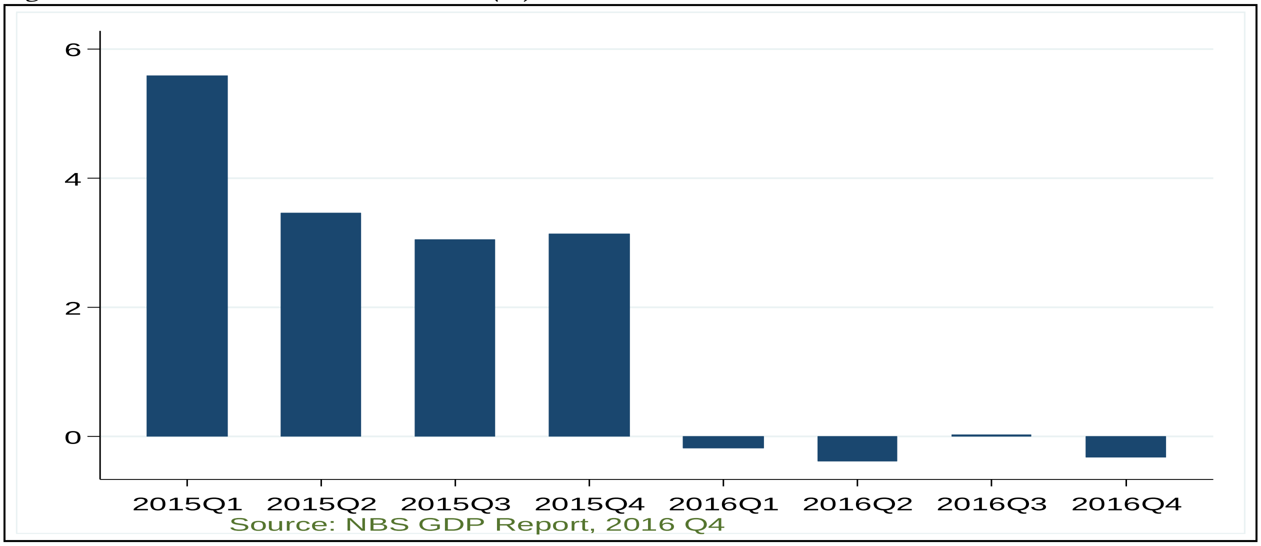



*Figure 8: Crude Oil Price ($/Barrel)*




However, GDP growth in the non-oil sector fell deeper by 0.33 percent in 2016Q4 relative to a growth of -0.03 percent recorded in the preceding quarter *(Figure 8)*. The decline in the non-oil sector is largely attributable to the significant decline in the Real Estate sub-sector (from -0.77 percent in 2016Q3 to -9.27 percent in 2016Q4). For the full year 2016, the non-oil sector declined by -0.22 percent in real terms compared to the growth of 3.75 percent in 2015. The sustained contraction in the Nigerian economy since 2016Q1 is on account of the far-reaching implications of: higher inflation, weaker consumption demand, increased pipeline vandalism, lower electricity generation, and significantly reduced foreign reserves and the attendant depreciation in the value of the naira.

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




Overall, it appears that Nigeria's economic downturn reached its trough in 2016Q3 and has begun showing signs of recovery in 2016Q4. Output growth is expected to continue to gradually rise in successive quarters. In fact, the International Monetary Fund (IMF) has predicted that the Nigerian economy will grow by 0.8 percent in 2017[11]. We expect this growth to be driven by a sustained calmness in the Niger Delta region leading to increase in crude oil production with positive implications for foreign reserves and currency appreciation. In addition, the positive trend in the global crude oil price will also play a key role. In line with this, the International Energy Agency (IEA) forecasts that the glut in international oil market will begin to recede in 2017 as the Organization of Petroleum exporting countries (OPEC) and non-OPEC countries implement production cuts, which would lead to a price recovery of up to $60/barrel. However the downside risks to this outlook includes the possibility of a slower-than-expected rate of global economic activity, fluctuating oil prices, and production shut-ins due to vandalism of oil installations.

Going forward, there is need to implement key reforms to address the supply-side deficiencies and remove bottlenecks to domestic production—in the agricultural and manufacturing sectors. Particularly, to reduce the pressure on the naira, developing the entire agricultural value chain is paramount. Moreover, given that the agricultural sector employs up to half of the Nigerian population[12], improvement in the sector will impact positively on living standards especially for the poor and reduce the incidence of social vices. In addition, since the oil-sector remain the main source of government revenue and foreign exchange, the Nigerian government needs to ensure lasting peace in the Niger Delta region for sustained returns. Other internal security crises, such as in the North-East, should also be

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[11] World Economic Outlook Update (January, 2017), *A Shifting Global Economic Outlook*. IMF *http://www.imf.org/external/index.htm?Year=2017&Month=01*

[12] World Bank (2017). Retrieved: http://data.worldbank.org/indicator/SL.AGR.EMPL.ZS?locations=NG

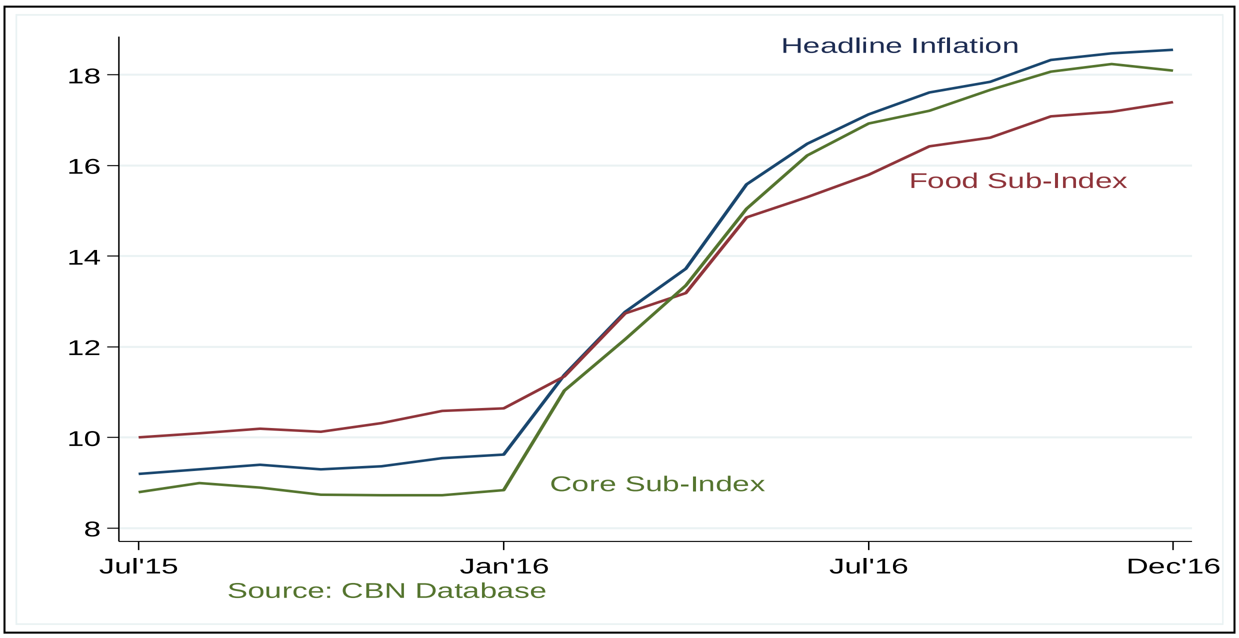
addressed in order to reduce the threats these security risks pose to food security as well as domestic and especially foreign investments.

## 2.2 Inflation

***Inflation in the Nigerian economy rose at a decelerating rate in 2016Q4 as prices of core components decline slightly.***

The general price level of goods and services in the country increased in the period under review: from an average level of 17.53 percent in 2016Q3 to 18.45 percent in 2016Q4 *(Figure 9)*. At an inflation level of 18.45 percent, Nigeria recorded its worst inflation since October, 2005. However, the pace of inflation growth have decelerated to 5 percent between 2016Q3 and Q4, compared to a quarterly growth rate of 14 percent between 2016Q2 and Q3. Both food and core sub-indices increased over the period, but inflation in core sub-index declined in December 2016—the first time since the start of the year. For the food sub-index, rising inflation was most severe in the prices of bread and cereal, oil and fats, fish, as well as meat. For the core sub-index, inflation increase was most severe in clothing materials, transportation (road, air, sea), as well as education. For the full year 2016, Nigerians have witnessed higher average cost of goods and service (food and non-food) with inflation rate entering into double digit territory in February 2016 and sustaining it throughout the year.

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




The upward pressure in prices, largely food component, is driven by high cost of power and energy, transport, production factors, as well as rising prices of imports which are yet to abate. It is expected that the pace of inflation growth would continue to decline in 2017 as the current monetary policy stance and other fiscal measures directed at improving food production begins to reflect on the consumer prices in the short to medium term. In the absence of any unforeseen shocks to the system, we expect inflation to remain at double-digit but level off at around 17 percent by mid-2017. This inflation expectation is based on the assumption of increased agricultural harvest, exchange rate stability orchestrated by improving forex inflows, and continuation of the current tight monetary policy stance of the CBN. However, increase in power tariff as Multi-Year Tariff Order (MYTO III) would likely kick in by the second half of 2017 and raise inflation rates. Going forward, the CBN should continue to maintain a tight monetary stance while improving exchange rate. Furthermore, the fiscal authorities should take action to improve agricultural productivity, through targeted spending in the sector and reforms that support the business activities of farmers.

### 2.3 Fiscal Policy Responses/Landscape

***Nigerian economy recorded shortfall in budgetary spending for 2016 on account of low crude oil production and price, low tax receipts, as well as politicking***

As part of fiscal efforts to drag the country out of the current recession, the Federal Government outlined ambitious plans to increase spending in 2016, particularly on infrastructure. However, these plans have been hampered by declining government revenue owing to low crude oil production and price, lower than expected corporate and value-added tax receipts and customs revenue. Although crude oil production and price have increased slightly in 2016Q4 relative to their levels in Q2 and Q3 *(Section 1, Figure 7 & 8)*, funds remain insufficient.

One of the reason for the shortfall in spending can be explained in part by the delay in the passage of the budget. The budget which was passed five months into the fiscal year projected expenditure to rise by 40 percent to N6.1million, relative to N4.3 trillion expenditure level in 2015. Particularly, capital spending would represent 26.2 percent (N1.6 trillion) of total budget– which is about four times higher than actual capital expenditure in the preceding year. To finance the expansive expenditure plan, revenue was projected to grow by 20.1 percent to N3.9 trillion and deficit by 96.2 percent to N2.2 trillion (with an implied deficit to GDP ratio of 2.1 percent). An assessment of the performance of 2016 budget shows that it obviously fell short of target. As at 27$^{th}$ October 2017, the Senate Committee on Appropriation revealed that out of the N1.5 trillion budgeted for capital expenditure in 2016, only N753.6 billion has been spent so far. Also, according to the Medium Term Expenditure Framework and Fiscal Strategy Paper (MTEF/FSP) for 2017-2019 submitted to the National Assembly, the government's Half-Year Revenue shortfall was N976.35 billion. Furthermore, the FG largely relied on deficit financing and overdraft facility from the CBN to balance its books with the fiscal deficit as at 2016H1 reported at N1.5 trillion (66.6 percent of total approved for the fiscal year 2016). This implies a fiscal deficit to GDP ratio of 3.2% compared to 2.1% approved for 2016 *(Table 1)*.

Another major reason for the poor implementation of the budget so far is the difficulty the FG has had in securing domestic funding for the budget. Domestic funding have been hampered by lowered than expected oil and non-oil revenue. At the same time, the FG has had troubles securing international funding. In November 2016, the Executive arm of the government requested approval from the Senate to borrow $29.9 billion externally over the next 3 years in efforts to meet Nigeria's infrastructure needs and plans as highlighted in the MTEF/FSP. However, the Senate returned this borrowing proposal (which would almost quadruple Nigeria's external debt) to the Executive, citing a lack of details. While there is no question that Nigeria's infrastructure needs an enormous amount of investment, the government needs to consider the effect that increased debt service costs will have on its fiscal sustainability and future investment. Further erosion in the value of the Naira or another drop in oil prices could cause the debt servicing costs to consume an inordinate fraction of the budget. It is therefore important to rain-in on public debt. However, if debt accumulation is unavoidable, it is important to ensure priority is given to infrastructure, which will positively impact on the long-term growth prospect. If external borrowing is successful, it is critical to ensure appropriate monitoring and evaluation mechanism to ensure that funds are utilized judiciously and yield the optimal returns on investment.

Despite the underwhelming performance of the 2016 budget, the proposed 2017 budget presented on 14th December 2016 still assumes optimistic revenue and borrowing targets to finance an even more ambitious expenditure plan aimed at increasing spending by 20.4% to N7.3 trillion *(Table 1)*. This is largely on account that funding constraints are expected to ease slightly in 2017 as oil production has seen a continued increase and the government has had some recent success in securing lending from multilateral bodies, most recently a $600 million loan from the African Development Bank. The $1 billion Eurobond issuance planned for the first quarter of 2017 should also provide some much-needed funds to support the implementation of the budget. The higher oil price that resulted from the OPEC oil cut agreement is expected to increase the appetite for Nigeria's Eurobond issuance.

*Table 1: 2015 and 2016 Budget Performances alongside Proposed 2017 Budget*

| | Items | 2015 Budget | 2015 Actual | 2016 Budget | 2016 Actual (as at June) | 2017 Budget |
|---|---|---|---|---|---|---|
| **Asumptions** | GDP Growth (%) | 5.50% | 2.80% | 3.50% | -1.20% | 2.50% |
| | Oil Production Volume (mbpd) | 2.28 | 2.1 | 2.2 | 1.9 | 2.2 |
| | Average Budget price per Barrel ($) | $53.00 | $52.66 | $38.00 | $39.53 | $42.50 |
| | Average Exchange Rate (N/$) | 190 | 196.1 | 197 | 211.33 | 305 |
| **Revenue** | Oil & Gas Revenue (billion, Naira) | 1,637.90 | - | 717.6 | 406 | 1,985.00 |
| | Non-oil Revenue (billion, Naira) | 1,214.70 | - | 1,472.40 | 323.6 | 1,370.00 |
| | Independent Revenue (billion, Naira) | 439.3 | - | 1,505.90 | 106.6 | 805.6 |
| | Others (billion, Naira) | 110.5 | - | 160.4 | 115.3 | 776 |
| | **Total FGN Retained Revenue** | **3,452.40** | **3,209.60** | **3,856.20** | **951.5** | **4,936.60** |
| **Expenditure** | Statutory Transfer (billion, Naira) | 375.6 | 338.6 | 351.4 | 171.2 | 419 |
| | Debt Service (billion, Naira) | 958.1 | 1,060.40 | 1,475.30 | 609.5 | 1,660.00 |
| | Recurrent Special Intervention (billion, Naira) | - | - | 300 | - | 350 |
| | Recurrent (Non-debt) (billion, Naira) | 2,593.20 | 2,550.10 | 2,346.40 | 1,479.60 | 2,550.00 |
| | Capital Expenditure (billion, Naira) | 557 | 384.1 | 1,587.40 | 159.1 | 2,240.00 |
| | **Total Expenditure (billion, Naira)** | **4,484.00** | **4,333.10** | **6,060.50** | **2,419.40** | **7,298.00** |
| **Fiscal Deficit** | Fiscal Deficit (billion, Naira) | -1,031.60 | -1,123.50 | -2,204.30 | -1,467.90 | -2,361.43 |
| | Domestic Borrowing (billion, Naira) | 502.1 | - | 984 | 624.5 | 1,252.00 |
| | Foreign Borrowing (billion, Naira) | 380 | - | 900 | - | 1,067.00 |
| | Credit Advance by CBN (billion, Naira) | - | - | - | 393.4 | |
| **Total Borrowing (billion, Naira)** | | **882.1** | **na** | **1,884.00** | **na** | **2,319.00** |
| | | 94,145.00 | 94,145.00 | 102,921.70 | 46,136.50 | - |
| | | -1.10% | -1.20% | -2.10% | -3.20% | -2.20% |

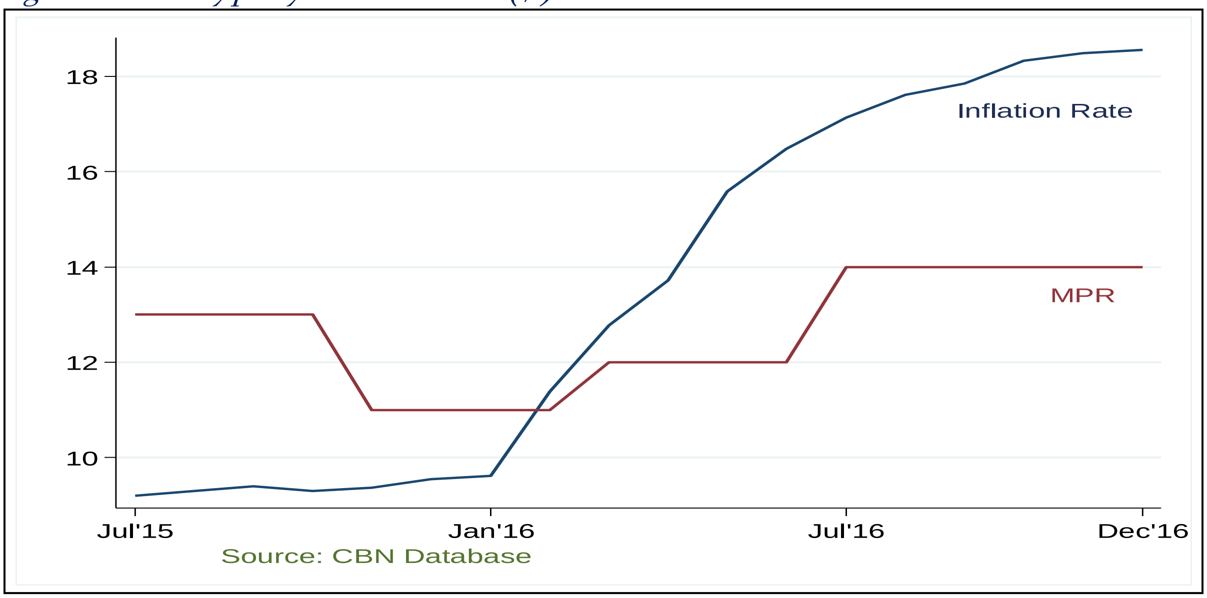
Source: Afrinvest (2017)

## 2.4 Monetary Policy Responses and Capital Market Development

***CBN maintains tight monetary policy rate to check inflation and improve foreign capital inflow, while the capital market continue to underperform***

The Monetary Policy Committee (MPC) of the Central Bank of Nigeria met once in 2016Q4 to decide on the appropriate levels of monetary policy instruments in response to domestic macroeconomic developments. In response to the quandaries of deteriorating economic growth, high and rising inflation, as well as low foreign investment, the monetary authorities made the decision to maintain tight monetary policy, during the MPC meeting held on the 21st and 22nd of November 2016. With inflation rate at 18.3 percent and the monetary policy rate (MPR) at 14 percent *(Figure 10)*, the real interest rate was -4.3%. A further drop in real interest rates into negative territory would make Nigerian assets less attractive to foreign investors, at a time when foreign portfolio inflows into the country is needed to ease the pressure on CBN's foreign reserves and address its currency depreciation. However, raising the MPR would increase borrowing costs for local borrowers. This presented an additional difficulty for the MPC as it had to balance the conflicting requirements of foreign and local investors. After considering these conflicting requirements, the MPC elected to maintain the MPR at 14 percent (maintained since July 2016), as well as leave all other major policy rates unchanged. Effectively, MPR averaged 14 percent in 2016H2 relative to the MPR average of 11.67 percent recorded in 2016H1.

***Figure 10: Monetary policy rate and Inflation (%)***




The CBN's justification for policy tightening has been that monetary policy instruments can do little to lift a structurally-induced growth slowdown and inflation which are largely dependent on factors such as forex shortages and the failure of the government to settle its debts with domestic companies like gas and electricity companies. Hence, it is seen as more prudent to focus on anchoring inflation expectation lower while re-pricing fixed income assets yields upward to compensate investors for higher inflation, attract foreign capital, and support liquidity in the forex market.

Given that past monetary policy decisions, particularly the MPR which has had 6 months to crystallize, it is expected that the MPC would effect some changes on monetary policy instruments in the first half of 2017. The direction of change would be dependent on the assessment of: fiscal policy responses in 2017; the impact of the July 2016 hike in MPR in lowering inflation expectation; the impact of monetary policy tightening on the responsiveness of foreign portfolio investments; the improvement or otherwise in foreign exchange market liquidity; and possibly the impact of monetary policy tightening consumption and private investment. These assessments would determine the monetary policy decisions in the first half of 2017.

Nevertheless, our outlook is that monetary policy would remain tight in 2017, especially as the government embarks on deficit spending to drag the economy out of it present recession. Moreover, major global central banks (such as the US Fed, ECB, and BOJ) are expected to draw back on quantitative easing and tighten their monetary policies, which would contribute to capital reversals from emerging market and developing economies. This would compel developing economies, like Nigeria, desirous of attracting capital inflows to keep monetary policy rate tight and at attractive levels.

Key monetary aggregates grew in the period under review. In 2016Q4, Broad money supply (M2) grew by 3.86 percent to N22.83 billion, while Narrow money supply (M1) grew by 13 percent to N10.66 billion *(Figure 11)*. Over the entire year, narrow and broad money supply grew by 36 percent and 14 percent respectively in 2016 compared to 2015. Net Domestic Credit (NDC) grew by 4.1 percent to N26.86 billion in 2016Q4. However, growth in NDC was largely driven by 24.3 percent rise in credit to the government by commercial banks, while commercial banks' credit to the private sector only grew by 1.2 percent *(Figure 12)*. Although there is a higher default risk at this time of economic recession which disincentivizes commercial banks from lending to the private sector, there is need for government to adopt policies that help mitigate the risk in order to encourage more lending to the private sector, which is crucial to galvanizing domestic consumption and investment. Over the entire year, NDC grew by 17 percent between 2015 and 2016. The significant rise in money supply and net domestic credit in the economy in response to the economic downturn, may have contributed to the steady rise in inflation rate recorded over the year. However, the rise in monetary aggregates over the period was somewhat unavoidable given the envisaged need to support private and government sectors at a critical time.

***Figure 11: Money Supply (N' million) (2016)***

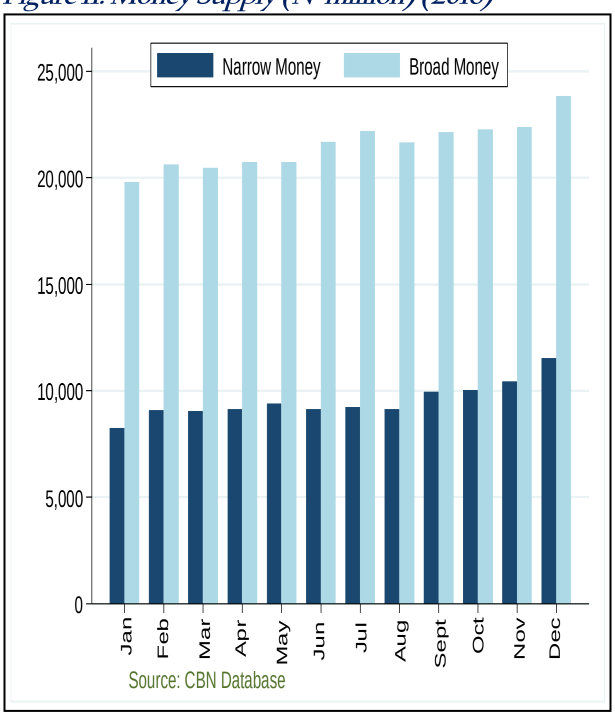
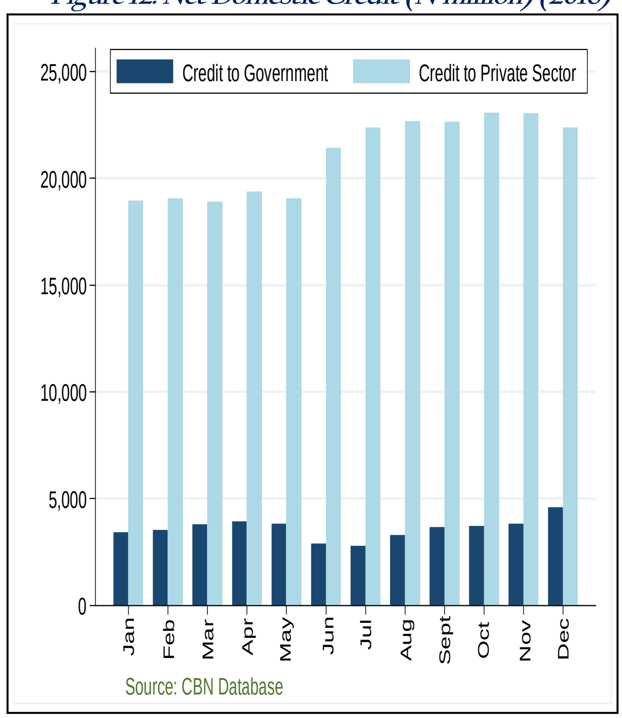
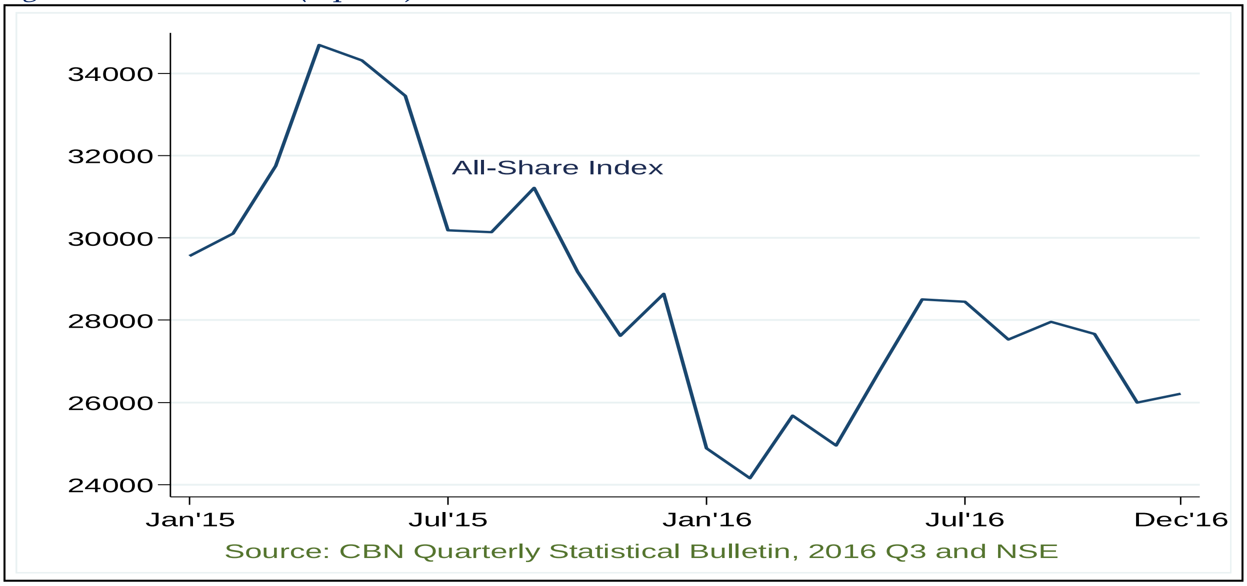



***Figure 12: Net Domestic Credit (N'million) (2016)***



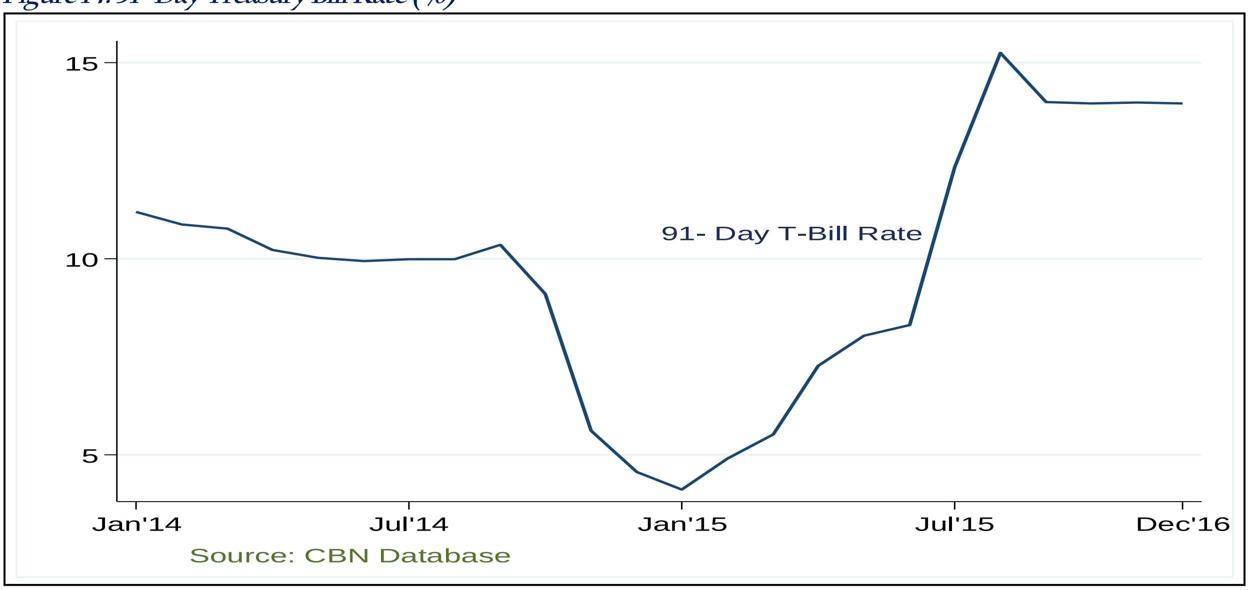

With regards to capital market developments, the Nigerian Stock Exchange (NSE) All-Share Index fell by 4.83 percent, from 27,979.59 points in 2016Q3 to 26,626.94 points in 2016Q4 *(Figure 13)*. For the full year 2016, Nigeria's equity market underperformed with a 14.05 percent fall in 2016 relative to 2015. The decline is attributable to lower company earnings due to the economic recession; unclear fiscal policy direction; high inflation; monetary policy tightening in developed countries; and bearish market sentiments, which has led to an exodus of foreign investors.

*Figure 13: All-Share Index (in points)*




At the same time, bond yields have risen marginally over the period. Particularly, yields on 91-days Treasury Bill (T-Bill) rate have risen from 13.86 percent in 2016Q3 to 13.97 percent in 2016Q4 *(Figure 14)*. Over the entire year, T-bill rate have risen by 8 percent between 2015 and 2016. The upward trend in bond yields reflects the higher MPR, as well as the increased risk on Nigerian government securities as a major credit rating agency, Standard & Poor (S&P), downgraded Nigeria's credit rating in September from B+ to B.

*Figure 14: 91- Day Treasury Bill Rate (%)*



From the foregoing, it is expected that the Nigerian stock market will continue to underperform as long as the economy remains in recession and there are no clear policy plans and actions to rescue the economy. On the other hand, bond yields are expected to continue to increase until Nigeria's oil output and general economy recovers. Going forward, there is a need for coordinated monetary and fiscal policy mechanism to address the rising inflation and underperformance of the capital market. This would entail tightening monetary policy while the government embarks on the needed infrastructure spending guided by a clear policy framework to drag the Nigerian economy out of the recession.

Overall, the domestic economy underperformed in 2016Q4 albeit showing signs of improvement. The recession in the Nigerian economy continued over the period; however, output growth improved slightly, largely on account of the significant rise in crude oil production and marginal increase in crude oil price. Furthermore, inflation worsened in the review period but at a decelerated rate due to decline in the prices of non-food (core) components. In response to prevailing economic conditions, the Nigerian government outlined plans to spend its way out of the recession, especially through increased capital expenditure backed by external borrowing. However, over the year 2016, a shortfall in budgetary spending was recorded on account of low crude oil production and price, low tax receipts, as well as regulatory delays. In efforts to subdue inflation and especially improve foreign capital inflows, the CBN switched to tight monetary policy in the second half of 2016 and maintained it throughout the rest of the year. In the capital market, the stock market continued to underperform throughout the year while yields on government bonds continue to rise, reflecting higher risks in the Nigerian economy. Going forward, there is a need to implement key reforms that address the supply-side deficiencies and remove bottlenecks to domestic production; sustained the peace in the Niger-Delta region to improve oil production; tackle security crises in the North-East to promote food security and investment; as well as embark on targeted capital expenditure guided by a policy strategy to lift the economy out of its recession.

## 3. EXTERNAL SECTOR

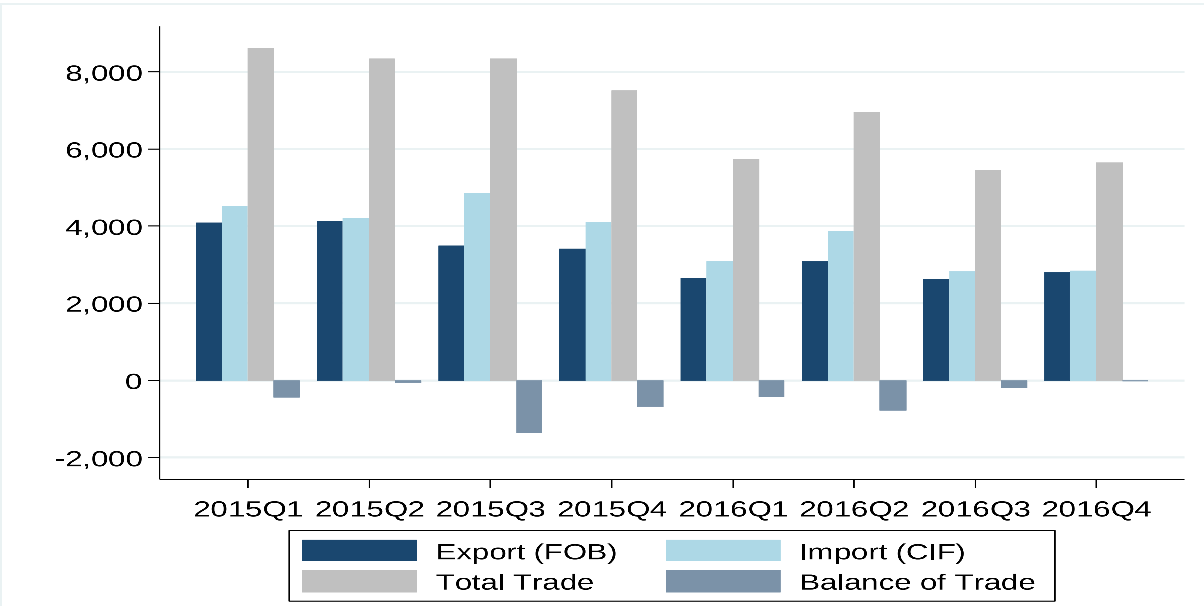
This section presents indicators of Nigeria's external sector performance focusing on foreign trade and investment, exchange rate and external reserves in the fourth quarter of 2016. This is expected to give insights into expectations of the public and private sectors for 2017.

### 3.1 Foreign Trade

*Nigeria's total trade recorded its first quarterly increase for over a year, as trade balance improved on increased exports*

Nigeria's total trade averaged $5.65 billion in 2016Q4, a 3.75 percent quarter-on-quarter increase (*Figure 15*). However, total trade recorded a 24.89 percent decrease from the value in the corresponding quarter in 2015. Increase in total trade value was as a result of a marginal increase in imports and a moderate increase in exports. The import component increased by 0.76 percent to average $2.84 billion in 2016Q4. Most of the improvement in total trade value came from a 6.97 percent increase in exports, which averaged $2.81 billion in 2016Q4. The significant increase in exports over imports improved the trade deficit by 81.31 percent from the preceding quarter to record $0.04 billion in 2016Q4. Over the year 2016, total trade averaged $5.95 billion representing a 27.52 percent decline from $8.20 billion recorded in 2015.

*Figure 15: Trade Flows (US$ Million)*



Source: CBN Database

In terms of export trade direction, the top destination for Nigeria's exports is India, followed by the Netherlands and the US *(Table 2)*. The Netherlands overtook the US as the second largest destination for Nigeria's exports in 2016Q4. This was due to a 150.35 percent increase in the value of exports to the Netherlands. Also, trade between Nigeria and other African countries continued its upward trend from 2016Q2 in 2016Q4. Nigeria's exports to other African countries increased by 23.70 percent in the period under review. Furthermore, mineral products accounted for the majority (96.4 percent) of Nigeria's exports in 2016Q4.

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

| | Africa | | America | | | Europe | | | | | | Asia | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Total | ECOWAS | USA | Canada | Brazil | Germany | UK | Netherlands | Italy | France | Spain | Japan | India | China |
| 2013 Q1 | 304,219.97 | 178,248.71 | 414,095.11 | 51,032.63 | 343,031.20 | 95,744.09 | 183,241.66 | 386,037.54 | 221,594.76 | 218,308.04 | 327,614.95 | 4,737.77 | 0.00 | 49,956.79 |
| 2013 Q2 | 503,768.29 | 218,464.13 | 441,239.77 | 83,531.18 | 442,958.25 | 116,587.50 | 222,832.03 | 201,165.63 | 227,494.47 | 238,704.76 | 210,294.71 | 19,285.45 | 0.00 | 25,326.78 |
| 2013 Q3 | 545,039.50 | 192,315.37 | 278,473.79 | 86,386.66 | 273,079.34 | 45,702.17 | 174,364.77 | 512,446.06 | 233,598.59 | 211,410.11 | 262,072.24 | 13,120.68 | 0.00 | 38,155.22 |
| 2013 Q4 | 439,838.99 | 167,847.55 | 70,025.62 | 37,380.02 | 289,849.36 | 50,852.12 | 149,500.54 | 393,673.55 | 310,729.77 | 166,903.59 | 194,866.62 | 35,027.83 | 0.00 | 57,297.66 |
| 2014 Q1 | 424,379.06 | 171,197.17 | 147,440.23 | 1,651.53 | 376,764.27 | 56,785.58 | 268,402.18 | 461,516.82 | 150,850.27 | 310,862.44 | 345,956.89 | 144,152.25 | 0.00 | 100,918.38 |
| 2014 Q2 | 410,683.62 | 174,587.78 | 250,138.90 | 398.64 | 413,904.37 | 57,209.10 | 304,405.33 | 449,742.28 | 287,368.29 | 248,427.88 | 514,078.58 | 121,576.06 | 0.00 | 77,106.19 |
| 2014 Q3 | 628,170.52 | 326,765.14 | 137,998.14 | 2,891.87 | 287,204.46 | 55,029.60 | 152,499.98 | 467,338.18 | 166,444.40 | 218,570.53 | 387,766.19 | 124,337.26 | 0.00 | 31,676.30 |
| 2014 Q4 | 462,619.89 | 152,188.57 | 80,865.43 | 25,460.94 | 239,977.15 | 106,438.17 | 99,611.34 | 284,260.46 | 109,096.49 | 156,805.20 | 270,183.36 | 126,336.96 | 0.00 | 54,909.50 |
| 2015 Q1 | 496,908.71 | 252,692.93 | 43,788.43 | 22,794.39 | 160,182.06 | 77,178.81 | 67,653.69 | 304,122.06 | 63,986.26 | 101,909.88 | 234,544.73 | 132,000.81 | 436,555.04 | 64,369.57 |
| 2015 Q2 | 382,081.66 | 122,383.55 | 116,080.38 | 24,098.17 | 202,496.97 | 55,909.90 | 91,594.30 | 379,864.50 | 68,079.30 | 164,024.97 | 234,550.56 | 79,489.98 | 554,207.08 | 18,199.05 |
| 2015 Q3 | 287,892.58 | 140,433.88 | 85,510.55 | 19,647.94 | 169,439.88 | 34,266.72 | 192,231.68 | 245,066.48 | 28,570.28 | 106,603.73 | 211,357.20 | 80,437.97 | 408,239.51 | 29,093.57 |
| 2015 Q4 | 223,414.71 | 84,266.02 | 89,169.64 | 39,190.23 | 100,105.61 | 20,833.69 | 63,366.73 | 207,214.36 | 55,948.16 | 139,583.06 | 228,484.56 | 43,284.23 | 380,692.68 | 45,822.92 |
| 2016 Q1 | 155,695.21 | 55,271.50 | 160,087.55 | 47,885.70 | 71,727.74 | 17,109.76 | 41,959.54 | 62,435.21 | 34,837.50 | 94,774.87 | 143,565.71 | 34,438.58 | 266,963.65 | 54,271.67 |
| 2016 Q2 | 247,363.24 | 97,908.34 | 256,156.85 | 90,573.12 | 47,591.82 | 31,577.61 | 83,752.08 | 137,229.81 | 29,860.16 | 91,789.48 | 179,569.50 | 23,997.31 | 338,436.73 | 23,479.19 |
| 2016 Q3 | 374,677.16 | 192,850.92 | 296,811.01 | 51,744.08 | 64,879.37 | 30,072.74 | 98,006.26 | 133,500.40 | 34,702.78 | 190,534.44 | 175,811.49 | 16,875.75 | 457,752.09 | 12,525.32 |
| 2016 Q4 | 463,474.57 | 230,559.45 | 317,210.60 | 41,941.65 | 23,083.07 | 72,131.66 | 76,945.03 | 334,222.63 | 81,081.27 | 158,260.57 | 286,779.44 | 39,645.99 | 475,644.09 | 31,862.72 |

Source: NBS Foreign Trade Report, 2016 Q4

In terms of import direction, China remains Nigeria's number one import partner, followed by Belgium and the Netherlands *(Table 3)*. China, Belgium and the Netherlands accounted for 17.5, 15 and 10 percent of total imports respectively. The trend of import direction in 2016Q4 is similar to the preceding quarter. Topping the list of imports for 2016Q4 were mineral products and boilers machinery and appliances respectively accounting for 31.4 and 20.1 percent of total imports.

With the exception of agricultural goods, which grew by 1.7 percent, imports of all other goods categories declined in 2016Q4 relative to 2016Q3 (NBS, 2016). Imports is lower compared to values recorded in 2015 as a result of rising inflation and high unemployment generating weak aggregate demand. Also, scarcity of foreign exchange at the official rates and prohibitively expensive black market rates make foreign goods unattractive. In this regard, local production capacity needs to be enhanced to substitute imports with comparable locally produced goods. Further, fiscal authorities need to implement policies that would increase output and employment to revive the economy and increase aggregate demand.

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

| | Africa | | America | | | Europe | | | | | | Asia | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Total | ECOWAS | USA | Canada | Brazil | Germany | UK | Netherlands | Italy | France | Spain | Japan | India | China |
| 2013 Q1 | 58,712.5 | 5,340.7 | 84,279.8 | 6,170.9 | 27,679.1 | 46,633.4 | 98,867.5 | 80,943.5 | 23,152.1 | 55,476.1 | 18,482.5 | 17,004.2 | - | 335,773.8 |
| 2013 Q2 | 119,422.2 | 59,724.8 | 154,660.1 | 8,306.3 | 31,008.3 | 56,445.2 | 89,199.2 | 100,213.8 | 31,970.0 | 35,002.6 | 53,560.8 | 16,309.5 | - | 387,707.4 |
| 2013 Q3 | 392,286.8 | 8,709.4 | 188,649.2 | 15,675.1 | 91,125.7 | 70,266.2 | 120,827.8 | 100,976.2 | 27,376.1 | 39,858.9 | 54,163.3 | 31,072.1 | - | 378,325.1 |
| 2013 Q4 | 102,834.3 | 48,006.1 | 185,072.0 | 13,909.1 | 50,103.1 | 60,608.5 | 58,171.9 | 95,718.0 | 29,753.9 | 54,540.4 | 19,929.1 | 27,859.2 | - | 374,121.9 |
| 2014 Q1 | 65,098.7 | 8,438.8 | 164,743.0 | 11,289.7 | 42,108.0 | 64,501.5 | 70,070.5 | 76,363.9 | 34,113.1 | 36,427.6 | 26,857.9 | 24,019.6 | - | 368,108.4 |
| 2014 Q2 | 78,111.1 | 12,246.4 | 235,611.5 | 13,955.4 | 38,381.5 | 76,821.8 | 77,489.5 | 138,687.4 | 30,623.7 | 63,692.4 | 39,007.0 | 26,750.7 | - | 426,075.5 |
| 2014 Q3 | 317,460.4 | 15,223.6 | 183,259.2 | 11,312.4 | 54,102.8 | 65,251.7 | 73,763.7 | 94,134.1 | 33,432.8 | 38,164.5 | 33,483.5 | 31,233.2 | - | 429,085.0 |
| 2014 Q4 | 61,366.0 | 10,168.2 | 167,267.0 | 21,082.1 | 53,084.4 | 75,927.5 | 67,966.1 | 141,245.7 | 64,841.9 | 46,622.7 | 22,744.9 | 44,577.3 | - | 393,522.0 |
| 2015 Q1 | 108,370.9 | 55,746.0 | 136,808.6 | 11,859.3 | 42,522.8 | 54,664.8 | 75,248.4 | 124,056.7 | 69,076.0 | 37,941.7 | 41,314.7 | 28,883.5 | 96,605.3 | 387,508.2 |
| 2015 Q2 | 107,190.9 | 45,906.7 | 146,967.6 | 12,470.2 | 40,519.5 | 52,386.0 | 78,264.0 | 109,390.5 | 31,102.6 | 41,104.5 | 62,980.8 | 18,737.0 | 115,246.5 | 336,241.2 |
| 2015 Q3 | 65,413.5 | 16,308.3 | 160,603.2 | 11,958.6 | 39,514.4 | 55,043.3 | 54,231.0 | 101,820.0 | 27,293.6 | 30,547.1 | 15,692.4 | 16,565.9 | 97,415.8 | 459,398.2 |
| 2015 Q4 | 139,403.8 | 95,807.9 | 137,616.9 | 13,437.5 | 48,905.3 | 48,266.5 | 76,015.8 | 80,137.7 | 29,985.0 | 47,594.5 | 20,086.3 | 25,553.7 | 99,304.6 | 384,538.5 |
| 2016 Q1 | 101,086.9 | 54,447.2 | 135,969.6 | 14,516.1 | 52,117.8 | 45,368.0 | 75,264.9 | 108,997.7 | 31,441.5 | 82,918.9 | 29,647.1 | 16,903.1 | 90,525.0 | 355,167.5 |
| 2016 Q2 | 92,264.1 | 23,824.1 | 199,063.3 | 16,443.4 | 35,326.8 | 73,612.1 | 123,026.0 | 383,410.4 | 27,596.4 | 90,469.0 | 40,962.4 | 60,652.2 | 125,127.7 | 496,514.2 |
| 2016 Q3 | 87,847.6 | 8,518.7 | 165,476.8 | 20,098.2 | 90,460.1 | 74,483.5 | 62,935.6 | 305,381.7 | 36,798.1 | 91,292.6 | 45,559.4 | 25,970.0 | 121,290.1 | 478,650.4 |
| 2016 Q4 | 82,650.3 | 15,077.2 | 205,648.5 | 18,249.3 | 78,025.0 | 78,634.4 | 101,647.4 | 230,033.9 | 30,693.5 | 75,091.2 | 32,677.9 | 30,857.5 | 113,891.0 | 404,130.2 |

Source: NBS Foreign Trade Report, 2016 Q4

The export values increased due to slight increase in oil prices and crude oil exports. Crude oil exports in 2016Q4 were 24 percent higher than the value recorded in 2016Q3 (NBS, 2016). Increase in crude oil production volumes comes on the back of talks between the federal government and political leaders from the oil-rich Niger Delta.[13] Also, the agreement reached on 30th November by OPEC members to cut crude oil output by 1.2mbpd caused Brent crude prices to rally over 22 percent by the end of 2016Q4.[14] The consensus was widened on 10th December when 11 non-member producers signed up to the planned

[13] https://www.bloomberg.com/news/articles/2016-11-01/opec-quest-gets-tougher-as-libya-and-nigeria-ramp-up-oil-supply
[14] https://www.bloomberg.com/news/articles/2016-12-29/oil-market-seen-as-unlikely-haven-from-political-risk-in-2017

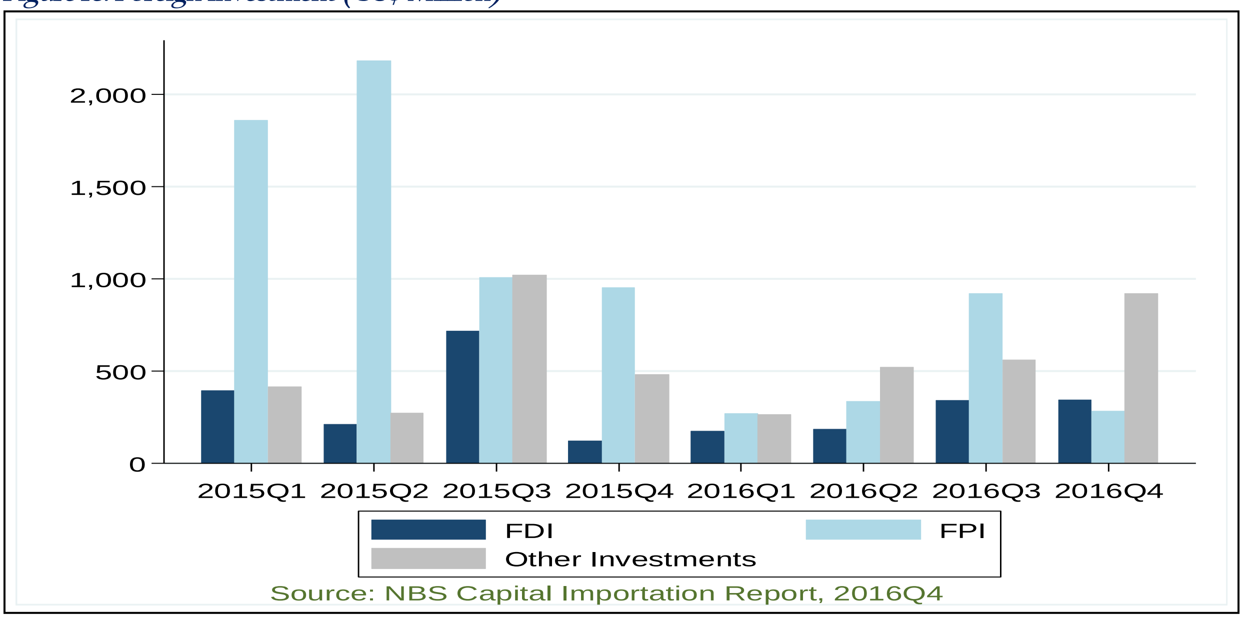
production cut.[15] Nigeria's exemption from the planned production cut, improved production volumes due to reduction in violence in the Niger Delta, and rising oil prices will bring more export gains for the country going forward. However, the oil price rally may be stifled if parties fail to comply with the agreed production cuts. Also, the fall in aggregate output might be offset by increase in the production volumes of exempted member states (Nigeria and Libya) especially if things go according to their respective governments' plans.

### 3.2 Foreign Investment

***Money market instruments and bonds failed to sustain inflow of foreign capital in 2016Q4, leading to a decline in the value of capital importation.***

An estimated $1.55 billion worth of capital was imported into Nigeria in 2016Q4, representing a 15 percent decline from the 2016Q3 value (*Figure 16*). The fall in total value of imported capital was due to a sharp decline in Foreign Portfolio Investment (FPI), despite gains in Foreign Direct Investment (FDI) and other foreign investments. FPI recorded $284.22 million in 2016Q4, a 69.12 percent decline from the 2016Q3 value. FDI increased marginally by 1.17 percent to record $344.64 million while other foreign investments grew by 63.95 percent to record $920.03 million in 2016Q4. Other foreign investments displaced FPI as the largest component of capital importation in 2016Q4. These dynamics show that other foreign investments accounted for 59.40 percent of total value of imported capital in 2016Q4 while FDI and FPI accounted for 22.25 and 18.35 percent, respectively.

*Figure 16: Foreign Investment (US$ Million)*




Having attracted a substantial amount of foreign capital in 2016Q3 as investors rushed to take advantage of high yielding investments in bonds and money market instruments, FPI failed to sustain those capital inflows in 2016Q4 despite the retention of MPR at 14 percent. This is plausibly as a result of skepticism about CBN's management of the exchange rate, having floated it midyear. CBN's continuous intervention

[15] https://www.bloomberg.com/news/articles/2016-12-10/non-opec-joins-opec-in-first-global-oil-output-cuts-in-15-years

in the exchange rate market saw it trade around ₦305/$ throughout the quarter under review. This coupled with continuous foreign exchange shortages may have dampened investors' confidence about their ability to repatriate the earnings from their investments. FPI inflows may continue to be low going into 2017 as market watchers are confident about a Fed rate hike early in the year, which may see a reallocation of some investments from emerging markets the US. To this end, the monetary authority should consider easing its grip on the exchange rate to boost investor confidence while making real returns to investment attractive.

Most of the growth in other foreign investments came from loans which grew by 63.43 percent to record $917.01 million in 2016Q4. Growth in other foreign investments, especially in the loans category, is expected to be maintained going into 2017 as the government plans to issue a $1 billion Eurobond as well as finance almost half of the ₦2.3 trillion deficit contained in its 2017 spending plan with international borrowing.[16] Authorities have to make sure that they access the cheapest loans available given the fiscal imperative to boost economic activities in the presence of dwindling revenues. Further, government should implement strategies to boost FDI so as to reduce the economy's reliance on volatile capital inflows such as portfolio investments.

Telecommunication sector displaced banking as the sector with the largest value of capital imported, having increased by 126 percent from $244.80 million in 2016Q3 to $554.25 in 2016Q4 (*Table 4*). The value of foreign capital imported by the oil and gas sector increased by 90.70 percent to record $327.30 million in 2016Q4. This was the second largest contribution to the total value of capital imported. A 70.96 fall in the value of capital imported by the banking sector relegates it to third place with $161.30 million imported in 2016Q4. Three sectors (Hotels, Tanning and Weaving) failed to attract any foreign capital in 2016Q4. Eight sectors recorded a decline in the value of capital imported; banking with the biggest absolute decline of $394.22 million while consultancy has the largest relative decline of 79 percent.

[16] http://www.budgetoffice.gov.ng/pdfs/2017/HMBNP%20Budget%20Breakdown%20Presentation.pdf

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

| | 2014 Q1 | 2014 Q2 | 2014 Q3 | 2014 Q4 | 2015 Q1 | 2015 Q2 | 2015 Q3 | 2015 Q4 | 2016 Q1 | 2016 Q2 | 2016 Q3 | 2016 Q4 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Shares | 2,773.36 | 4,575.25 | 4,523.86 | 1,934.32 | 1,280.67 | 1,877.26 | 1,736.48 | 831.88 | 243.53 | 347.99 | 646.28 | 228.24 |
| Agriculture | 15.08 | 0.22 | 0.83 | 8.19 | 2.68 | 0.05 | 95.10 | 0.50 | 0.20 | 1.00 | 10.90 | 10.37 |
| Banking | 104.93 | 191.10 | 330.99 | 337.16 | 114.89 | 360.92 | 244.24 | 193.49 | 107.58 | 108.11 | 555.52 | 161.30 |
| Construction | 10.63 | 4.62 | 4.88 | 35.56 | 4.30 | 3.24 | 11.10 | 9.38 | 10.16 | 14.95 | 3.62 | 3.75 |
| Consultancy | 2.81 | 6.96 | 7.74 | 8.91 | 0.70 | 0.10 | 0.23 | 9.56 | 0.14 | 0.20 | 2.14 | 0.44 |
| Drilling | 0.01 | 1.01 | 39.24 | 1.00 | 1.01 | 0.01 | 0.13 | 0.17 | - | 0.41 | 0.05 | - |
| Electrical | 5.95 | 1.79 | 5.84 | 2.44 | 0.83 | 73.39 | 0.58 | 137.52 | 70.15 | 12.84 | 18.65 | 23.72 |
| Financing | 345.28 | 723.14 | 1,073.83 | 566.06 | 763.49 | 46.54 | 35.15 | 13.71 | 42.57 | 1.08 | 36.56 | 15.13 |
| Fishing | 0.45 | - | 0.10 | - | - | - | - | 0.01 | - | 3.00 | 1.00 | 2.00 |
| I T Services | 2.50 | 2.57 | 1.65 | 3.25 | 1.40 | 5.75 | 2.02 | 3.61 | 1.02 | 0.63 | 0.03 | 0.04 |
| Marketing | 0.06 | - | 0.03 | - | - | - | 0.15 | 0.80 | 0.20 | - | - | 0.60 |
| Oil And Gas | 201.14 | 3.83 | 3.16 | 0.05 | 9.47 | 4.86 | 2.21 | 13.22 | 20.83 | 200.39 | 171.63 | 327.30 |
| Production | 104.07 | 107.88 | 365.10 | 366.92 | 118.36 | 51.20 | 162.42 | 91.72 | 77.77 | 89.42 | 68.25 | 67.21 |
| Servicing | 32.36 | 53.58 | 110.49 | 354.88 | 6.29 | 12.83 | 65.64 | 115.71 | 55.05 | 119.75 | 36.55 | 87.56 |
| Hotels | 0.57 | 0.53 | 1.34 | 8.83 | - | - | 1.15 | - | 0.75 | - | - | - |
| Telecomms | 135.68 | 61.66 | 27.07 | 769.92 | 336.87 | 138.40 | 369.49 | 93.37 | 13.44 | 118.71 | 244.80 | 554.25 |
| Trading | 169.35 | 68.11 | 46.43 | 101.72 | 28.54 | 91.57 | 6.66 | 40.77 | 55.08 | 12.37 | 18.95 | 38.52 |
| Transport | 0.30 | 1.64 | - | 0.53 | 2.10 | 0.24 | 6.11 | 1.55 | 0.86 | - | 1.55 | 2.76 |

Source: NBS Nigerian Capital Importation, 2016 Q4

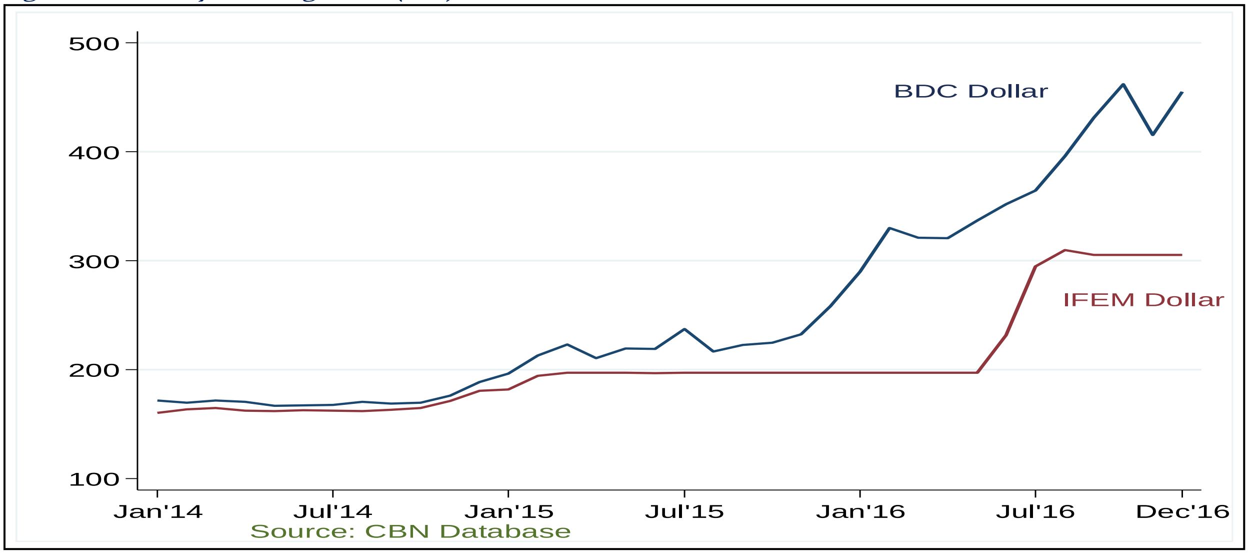
## 3.3 Exchange Rate

***CBN's management of the interbank exchange rate leaves it unchanged from the previous quarter, while the official-parallel market rate gap widens in 2016Q4.***

The gap between the interbank foreign exchange market (IFEM) and the bureau de change (BDC) exchange rates widened from an average of 31 percent in 2016Q3 to 46 percent in 2016Q4 (*Figure 17*). The IFEM exchange rate barely changed from the ₦305.23/$ rate attained at the end of 2016Q3—trading at an average of ₦305.22/$ in December. However, the naira traded for ₦455.26/$ at the BDC in December, which represents a 5.60 percent depreciation from ₦431.1/$ averaged at the end of 2016Q3. Over the entire year, the naira depreciated by 54.94 percent from ₦196.99/$ in December 2015 to ₦305.22 in December 2016.

The CBN continues to maintain a conservative approach to the exchange rate market despite the presumed liberalization of the market. This has failed to bring about convergence between the IFEM, where foreign exchange is in short supply, and the BDC market where prices are expensive. The government is expected to allow market-determined rates as part of its soon-to-be-released Economic Recovery & Growth Plan (ERGP) to boost investors' confidence. Further, sustaining the improvement in production and price of crude oil as well as peace in the Niger Delta is expected to increase the foreign exchange earnings of the country and ease the current exchange rate woes.

*Figure 17: Monthly Exchange Rate (N/S)*




### 3.4 External Reserves

***Nigeria's external reserves increased for the first time in over a year in Q4 as revenue from crude oil sales improve.***

There was an upswing in Nigeria's external reserves in 2016Q4 following its downward trend in 2015Q3 (*Figure 18a*). On a quarter-on-quarter basis, Nigeria's external reserves increased by 13.37 percent from $23.81 billion at the end of 2016Q3 to record $26.99 billion in December. The rise in external reserves is driven mostly by improved revenue from the sales of crude oil as both production volume and price recover. The foreign reserve balance as at December 2016 can provide over 10 months import cover *(Figure 18b)*. On a year-on-year basis, Nigeria's external reserves declined by 13.97 percent having averaged $29.29 billion in 2015Q4.

*Figure 18a: External Reserve (US$ Million)*

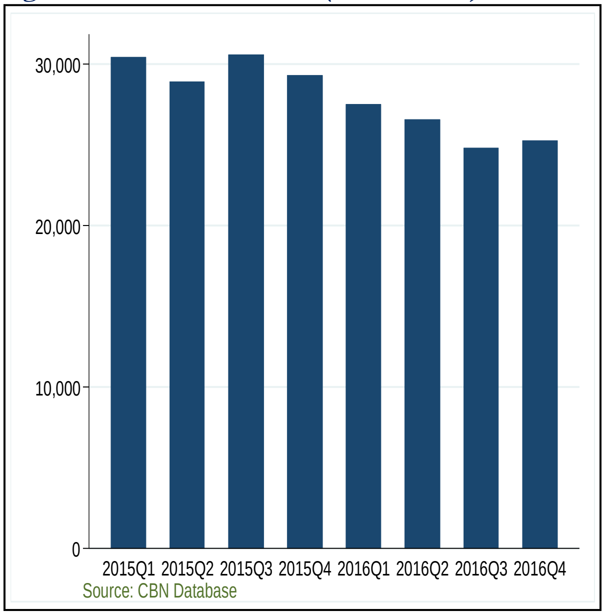
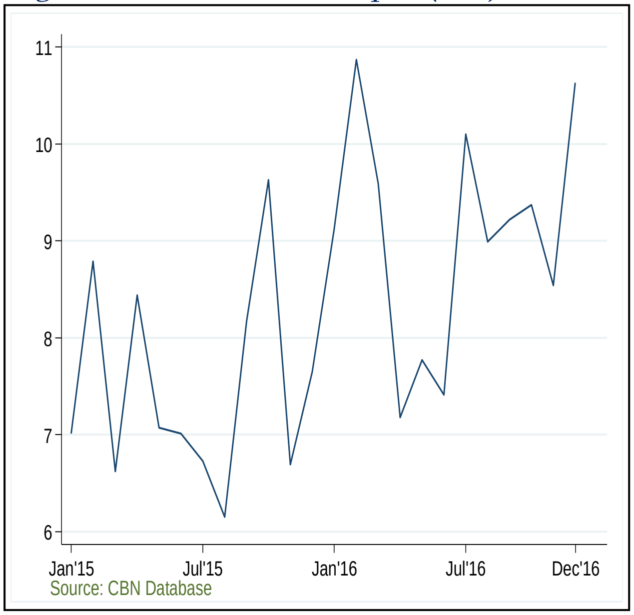



*Figure 18b: External Reserve/Import (FOB) Ratio*




Generally, Nigeria's external sector indicators show mixed performance in the period under review. Particularly, total trade increased for the first time in over a year in 2016Q4 due to improvement in crude oil exports. Despite gains in FDI and other foreign investments, the value of capital imported declined in 2016Q4 as portfolio investors shied away from Nigeria's bonds and money market instruments a reversal from the significant inflow recorded 2016Q3. CBN's efforts kept the official exchange rate unchanged in the period under review although the official-parallel market rate gap widened further. There was moderate improvement in Nigeria's external reserves, after a downward trend that lasted over a year, due to improved crude oil revenues. These trends show signs of improvement at the end of a year that has posed severe economic challenges for the country. Going into 2017, we do not expect a dramatic improvement in foreign trade particularly from the export of crude oil, as crude oil prices despite the planned production cut is expected to hover between $50 and $60. However, Nigeria can significantly increase its oil revenue and external reserves by sustaining recent gains in the Niger Delta region and improving oil output. CBN needs to maintain an attractive MPR and truly liberalize the foreign exchange market to improve the inflow of foreign capital into the country.

# 4. SECTORAL PERFORMANCE

This section examines the performance of the key sectors of the Nigerian economy in the fourth quarter of 2016. It investigates the factors driving sectoral GDP growth, as well as contributions to economy-wide real GDP in the quarter. Sectors reviewed include financial, agriculture, construction, manufacturing, Information & Communications Technology, transport and oil and gas. The section concludes by presenting a summary of key findings and policy recommendations.

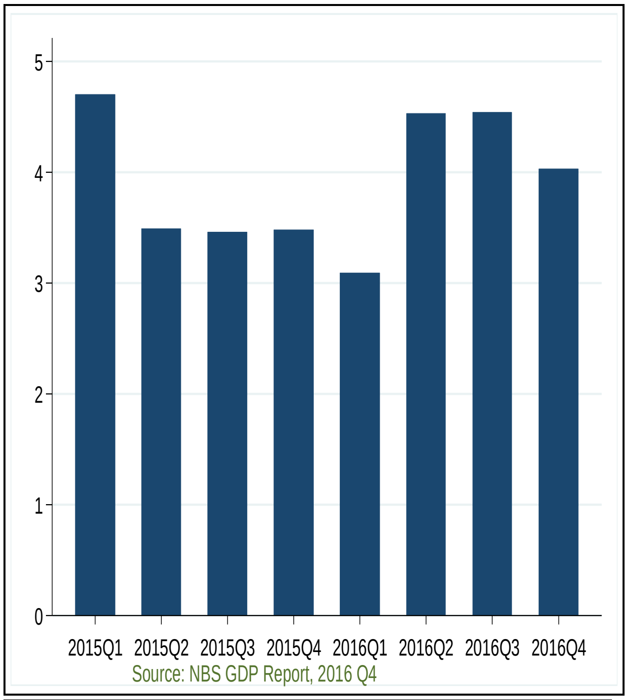
## 4.1 Agriculture sector

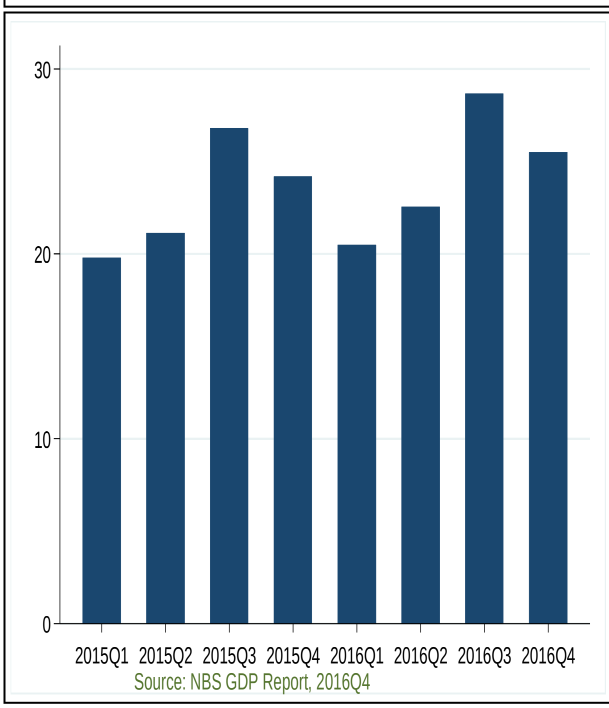
***Agricultural sector real GDP decline, largely due to effect of the Harmattan season.***

On a quarter-on-quarter basis, the growth rate and contribution of the agricultural sector to GDP declined by 0.5 and 3.16 percentage points respectively in 2016Q4 (Figures 19 & 20). This reduction can be attributed to the seasonal nature of agriculture production and the effect of the Harmattan season. However, for 2016 as a whole, real GDP for the sector increased by 4.11 percentage points—in contrast with the overall decline in the economy for the year. Also, year-on-year, the real GDP growth rate in the sector increased by 0.56 percentage points from 3.48 per cent in 2015 Q4 to 4.03 per cent in 2016 Q4 (Figure 25). Meanwhile, at 25.49 per cent, the agriculture sector remains the highest single contributing sector to Nigeria's real GDP.

*Figure 19: Agriculture Sector Real GDP Growth Rate (%)*

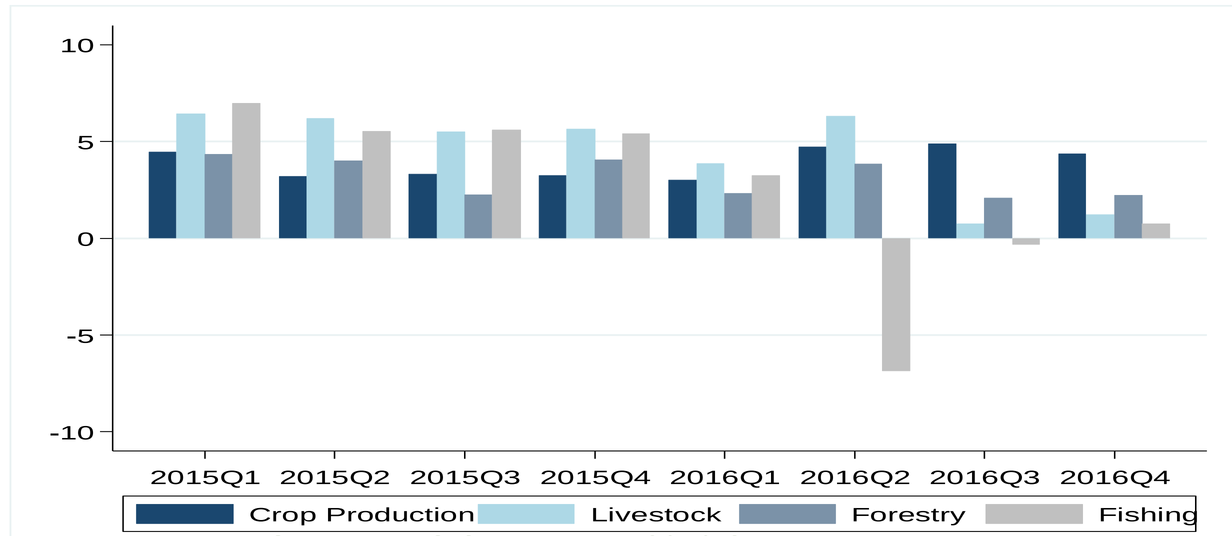
*Figure 20: Agriculture Sector Contribution to Real GDP (%)*


0
1
2
3
4
5
2015Q1
2015Q2
2015Q3
2015Q4
2016Q1
2016Q2
2016Q3
2016Q4
Source: NBS GDP Report, 2016 Q4


0
10
20
30
2015Q1
2015Q2
2015Q3
2015Q4
2016Q1
2016Q2
2016Q3
2016Q4
Source: NBS GDP Report, 2016Q4

The fishing sub-sector recorded the highest increase in real GDP growth rate on a quarter-on-quarter basis – having recorded negative growth in the two preceding quarters - to record a growth rate of 0.76 percent. Other sectors that recorded quarter-on-quarter positive real GDP growth are the livestock and forestry sub-sectors. Meanwhile, crop production sub-sector recorded a decrease of 0.52 percentage points between 2016 Q3 and 2016 Q4 *(Figure 21)*.

*Figure 21: Agriculture Sub-sector real GDP growth rates (%)*




Source: NBS GDP Report, 2016 Q4

In 2017, the government proposes to continue to engage the agricultural sector as a major channel for the diversification of the economy. To this end, it has allocated N123.44Billion to the Federal ministry of Agriculture in the 2017 budget. This amount which is a 62.82 percent increase over the allocation in 2016, accounts for only 1.76 percent of the total budget. However, strategic allocations have been made for infrastructure investment in transport, power, housing and security all of which are expected to boost productivity in the agriculture sector. More so, the allocation to the agriculture sector is expected to complement current efforts by the Federal Ministry of Agriculture and CBN to boost agricultural productivity through various initiatives such as the Anchor Borrowers Programme, commercial agricultural credit scheme and the Nigeria Incentive-Based Risk-Sharing System for Agricultural Lending.

The policy agenda of the 2017 budget concentrates on developing the agricultural sector by facilitating access to inputs, improving market access, providing equipment and storage as well as supporting the development of commodity exchanges. The Federal Government in December 2016 signed an agreement with Morocco to revive the production of fertilizer in Nigeria. It is expected that by the end of the first quarter of 2017, this program, which aims at import substitution for heavily imports agricultural produce, would create thousands of jobs. In addition, the implementation of sectoral initiatives such as the 2016-2020 Agriculture Promotion Policy (APP) which builds on the progress of the 2011-2015 Agriculture Transformation Agenda (ATA) would boost import substitution and agriculture export earnings.[17] This can only materialize through increased credit expansion to farmers, higher tariffs on imported produce, or subsidised inputs.

[17] https://www.proshareng.com/news/Nigeria%20Economy/Nigeria-Macro-Outlook-for-2017---Policy-in-the-Limelight/33451

## 4.2 Construction sector

***Slow implementation of the 2016 budget and dwindling government revenues significantly constrain construction sector performance in Q4.***

The real GDP growth in construction remained negative in 2016Q4. There was however a marginal improvement by 0.1 percentage points over the previous 2016Q3. Compared with 2015 Q4, real GDP growth in construction was 5.68 percentage points lower *(Figure 22)*. The slowdown in performance in construction is attributed to slow implementation of the 2016 budget; which in itself is a result of significant shortfalls in government revenues at all levels. In essence, the sector being largely public sector driven has suffered from dwindling government revenues.

It is important to note that while the contribution of the sector to total real GDP for 2016 Q4 increased by 0.31 percentage points from 3.09 per cent in 2016Q3 *(Figure 23)*, this may not particularly be a product of improved performance in the sector but rather a reflection of relatively poorer performance in other sectors compared with construction. Meanwhile, compared with 2015Q4, the contribution of construction to overall real GDP of the economy was 0.18 percentage points lower *(Figure 23)*.

*Figure 22: Construction Sector Real GDP Growth Rate (%)*

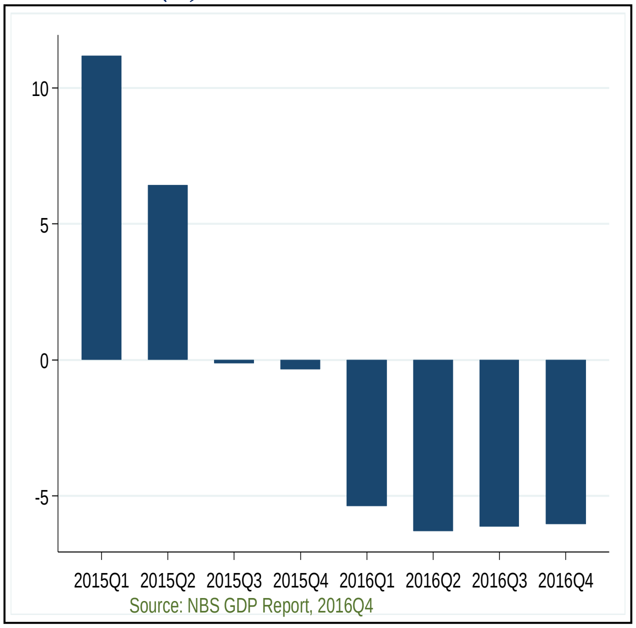
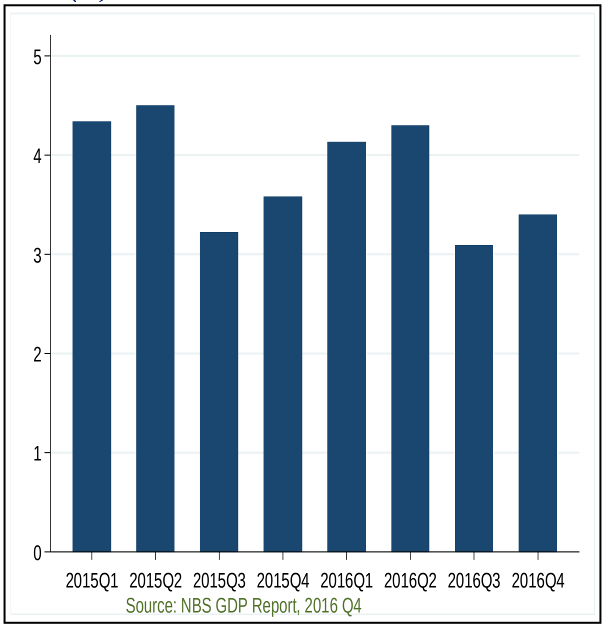



*Figure 23: Contribution of Construction Sector to GDP (%)*




Although, the construction sector has been making marginal improvements in its growth rate in the last two consecutive quarters, this rebound is still constrained by the challenges encountered since the beginning of 2016. The effect of government's monetary and fiscal policies on the availability of credit, deprecation of the foreign exchange, delay to the implementation of an expansionary 2016 budget, significant reduction in investment inflows, and declining oil production still remain relevant issues undermining the performance of the construction sector[18].

Looking forward, it is expected that the early implementation of the 2017 budget and review of government's monetary and fiscal policies on access to credit and foreign exchange would see the construction sector picking up in 2017. Drawing lessons from the late passage and implementation of the

[18] http://www.bmiresearch.com/articles/construction-recession-before-growth-returns-q4-2016

2016 budget, the federal government has its focus on collaborating with the public and private sectors both in projects financing and actualisation, in addition to delivering strategically targeted infrastructural development projects spanning roads, power, railways and social intervention[19]. Although the progress of these new initiatives is challenged by the reduction in government revenue, it is expected that effective implementation will stimulate growth in construction, and facilitate economic diversification and inclusion across all sectors of the Nigerian economy.

## 4.3 Financial Sector

***The financial sector is slowly adjusting to the shocks and challenges of the macroeconomic environment***

The financial sector continued to experience positive growth of about 2.68 per cent in 2016Q4 - a marginal improvement of 0.04 per cent from 2016Q3. This is after recovering in 2016Q3 from negative growth in the first and second quarters of 2016 *(Figure 24)*. However, quarter-on-quarter comparison shows that the real GDP growth was 3.73 percentage points lower than recorded in 2016Q3. Meanwhile, the contribution of the financial sector to real GDP, declined marginally by 0.02 percentage points in 2016 Q4 *(Figure 25)*.

*Figure 24: Financial Services Real GDP Growth Rate (%)*

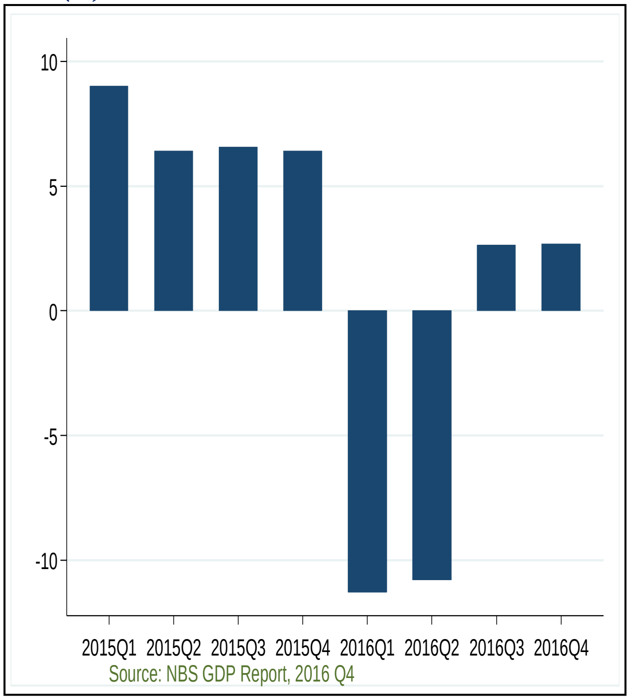
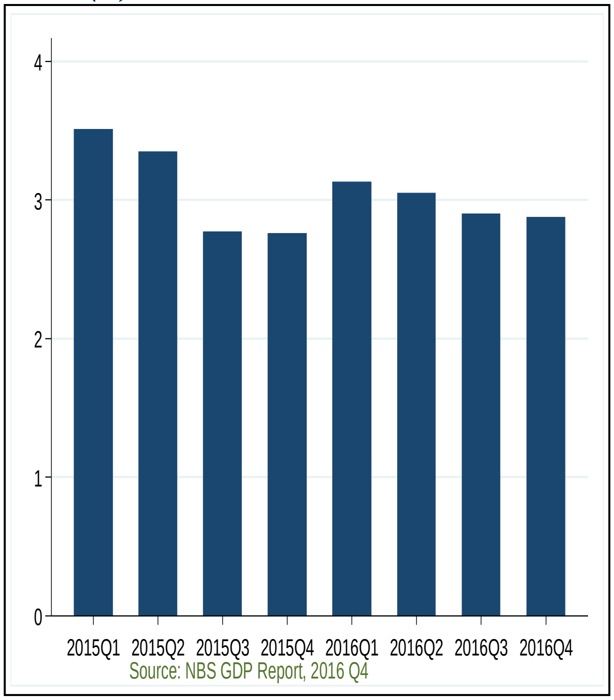
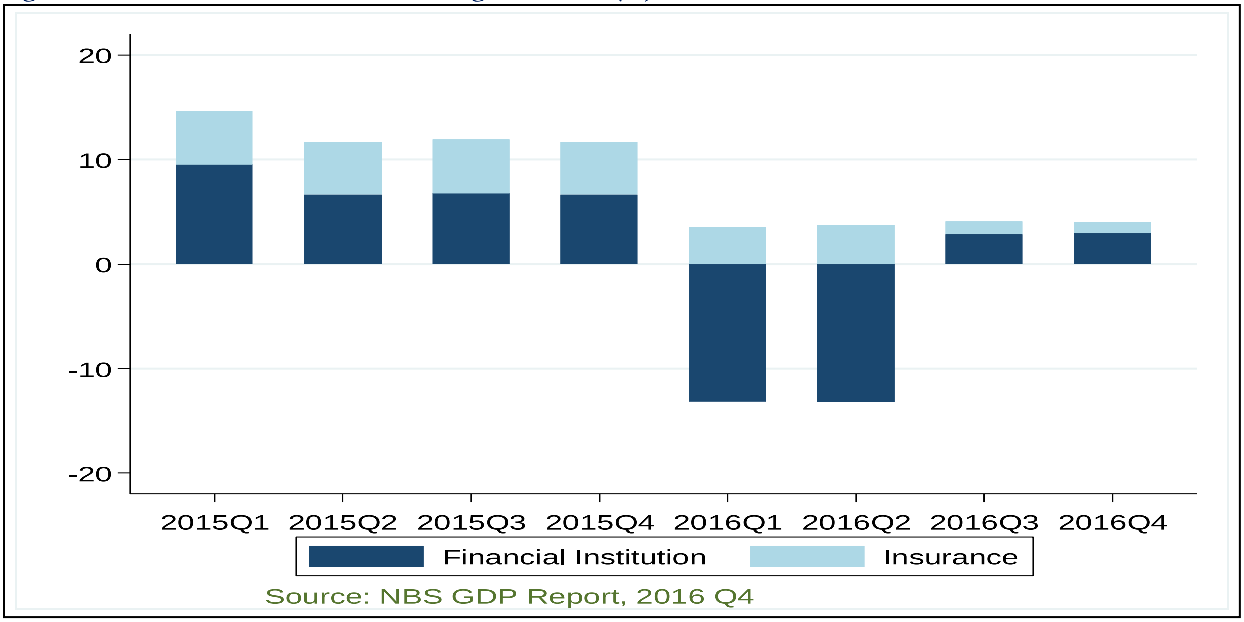



*Figure 25: Financial Services Contribution to GDP (%)*




[19] http://www.blueprint.ng/budget-2017-and-nigerias-elusive-infrastructure/

*Figure 26: Financial Sub-sectors real GDP growth rate (%)*




The relatively minute improvement in the performance of the financial sector can be attributed to the marginal increase of 0.07 percent in the banking/financial institution in Q4 *(Figure 26)*. The insurance sector continued to experience a significant decline in its performance which according to stakeholders is a result of adjustment in response to the recession. The insurance sector witnessed very low patronage during the year; even with the 'no premium no cover' regime, premium payment still suffered major setbacks[20].

In the last quarter of 2016, although the financial sector seemed to be slowly adjusting to the shocks and challenges of the macroeconomic environment, it still faced significant challenges occasioned by shortfalls in the foreign exchange market. The interbank and parallel market rate continued to widen and this had a dribbling effect on businesses and other sectors of the economy. Going forward, modifications by the Central Bank of Nigeria (CBN) to foreign exchange policy in a way that improves the liquidity situation in the foreign exchange market will go a long way to enhance the performance of the sector.

## 4.4 Information and Communication Technology Sector

***There was weak performance in the ICT sector in 2016Q4, primarily as a result of countervailing macroeconomic factors***

Marking a change from over eight consecutive quarters of downward trend in real GDP growth rate, the Information and Communications Technology (ICT) sector experienced slight improvement in the fourth quarter of 2016. Real GDP growth rate in the sector was 1.38 per cent – 0.27 percentage points higher than the growth experienced in Q3. This was however 2.83 percentage points less than the growth recorded in the sector in 2015 Q4 *(Figure 27)*. The sector contributed 11.57 per cent to real GDP in the quarter; also marking an increase in its contribution to economy wide real GDP quarter-on-quarter and compared with the same quarter a year ago (increase of 1.43 per cent and 0.31 per cent respectively) *(Figure 28)*.

[20] http://afoonline.com.ng/insurance-sector-records-mixed-performance/

*Figure 27: ICT Real GDP Growth Rate (%)*

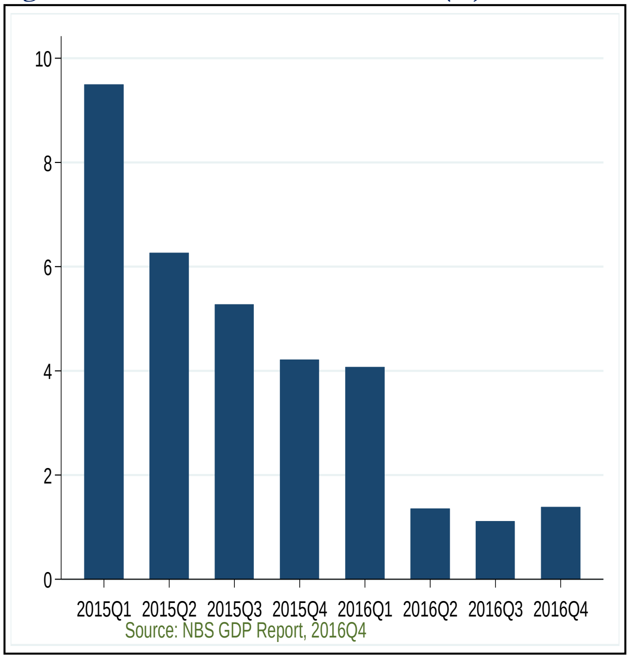
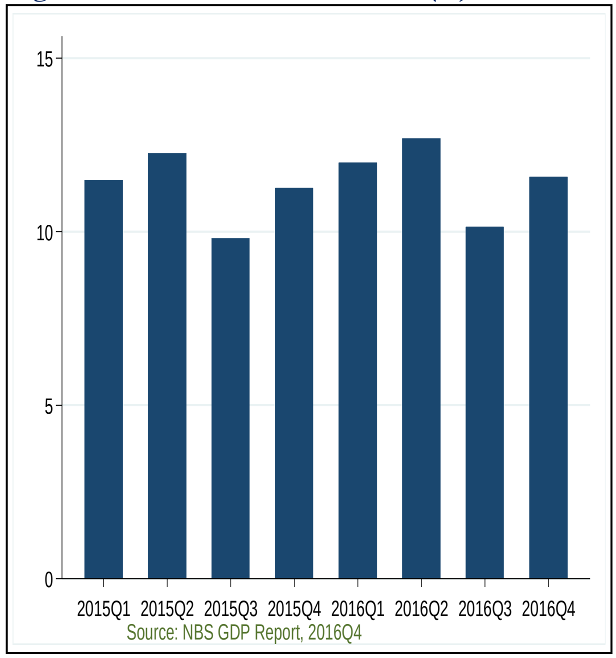
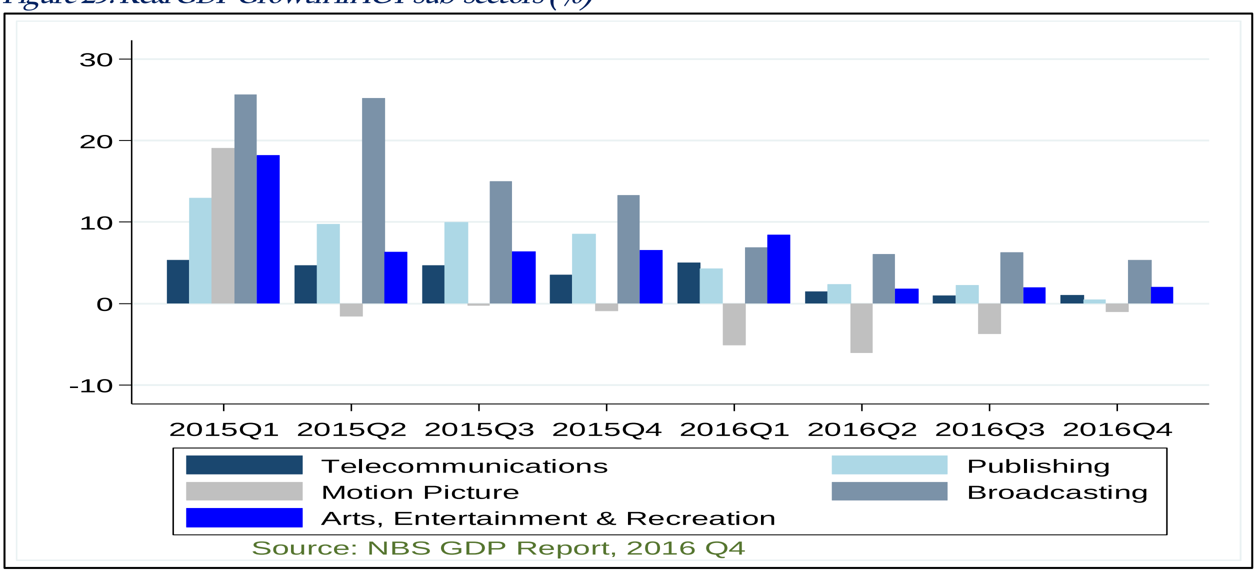



*Figure 28: ICT Contribution to GDP (%)*




The telecommunications sub-sector continues to dominate the sector in which it accounts for over 70 per cent of its output[21]. Also, in the quarter under review, the telecommunications, Arts, entertainment & recreation, and motion pictures sub-sectors experienced slight improvements, while the growth of the publishing and broadcasting sub-sectors, which were the highest performing sectors in 2015 Q4, contracted *(Figure 29)*.

*Figure 29: Real GDP Growth in ICT sub-sectors (%)*




Telecommunications sub-sector has continued to be a reference point for the success of privatisation in Nigeria. Although the momentum in the sub-sector appears to be waning recently, the potentials for

[21] NBS reports for several periods

expansion remains viable for the sector. The key challenges for operators within the telecommunication sub-sector comes from increasing scrutiny by the regulatory agencies. In this regard, there would be a need to continually engage relevant agencies to obtain clear guidance around a new service opportunity to ensure certainty and sustainability when dividends begin to roll in. Also, the digitization of broadcasting in Nigeria – which was set rolling by the federal government by the launch of the Abuja phase of the Digital Switch Over (DSO) in December 2016[22] is expected to inject some fresh stimulus into the sub-sector, with significant positive impacts across the ICT sector.

## 4.5 Transport and Storage Sector

***The year 2016 ended on a bleak note for the transport and storage sector as foreign exchange crisis and high cost of fuels continue to bite hard.***

In the fourth quarter of 2016, the transportation and storage sector experienced a significant drop in its growth rate, quarter-on-quarter and compared with 2015Q4 by 6.04 and 9.71 percentage points respectively. This comes after the sector had recovered from a 136 per cent real GDP growth rate decline in 2016 Q2 (from 14.73 per cent Q1 to -5.37 per cent in Q2) to experience a slightly positive growth of 0.72 per cent in 2016 Q3 *(Figure 30)*.

Real GDP growth in the various sub-sectors of the transport and storage sectors was also poor as they all experienced decline in real GDP growth rate compared to the same period in 2015, and only two of the five sub-sectors experienced marginal growth in real GDP quarter-on-quarter i.e. water transport and rail transport & pipelines. Furthermore, quarter-on-quarter analysis shows that the sector contributed 0.05 percentage points less to economy wide real GDP *(Figure 31)*. It is remarkable to note that the poor performance of the sector in the fourth quarter compared to the third quarter was not salvaged by the usual year-end-festivities induced increase in activities in the sector. Worse hit by the general slowdown in activities recorded across the transport sector are the air transport, post & courier services subsectors and road transport sectors for which real GDP growth rate declined in excess of 320 per cent, 1900 per cent and 435 per cent respectively (*Figure 32*).

[22] http://www.premiumtimesng.com/business/business-news/218702-nigeria-launches-digital-broadcasting-abuja-residents-get-30-free-tv-channels.html

*Figure 30: Transport and Storage Sector Real GDP*

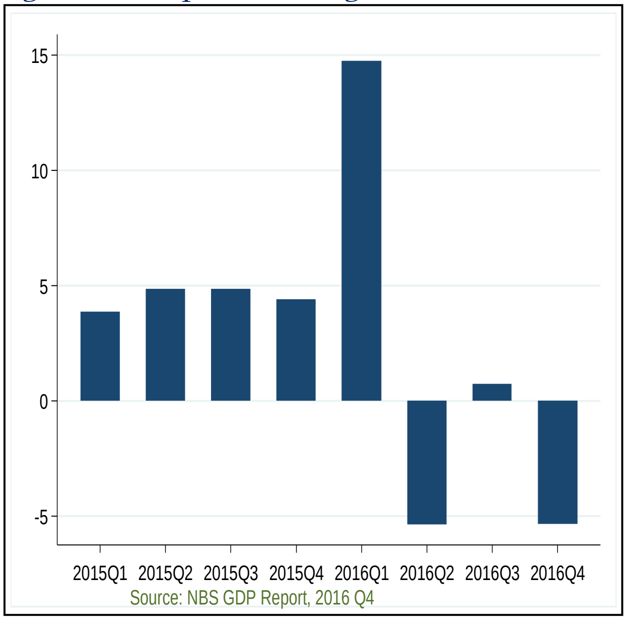



*Figure 31: Transport Sector Contribution to GDP*

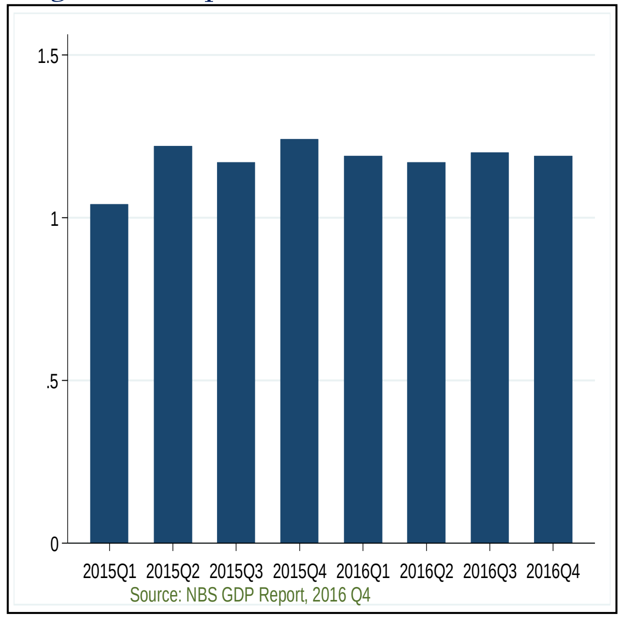
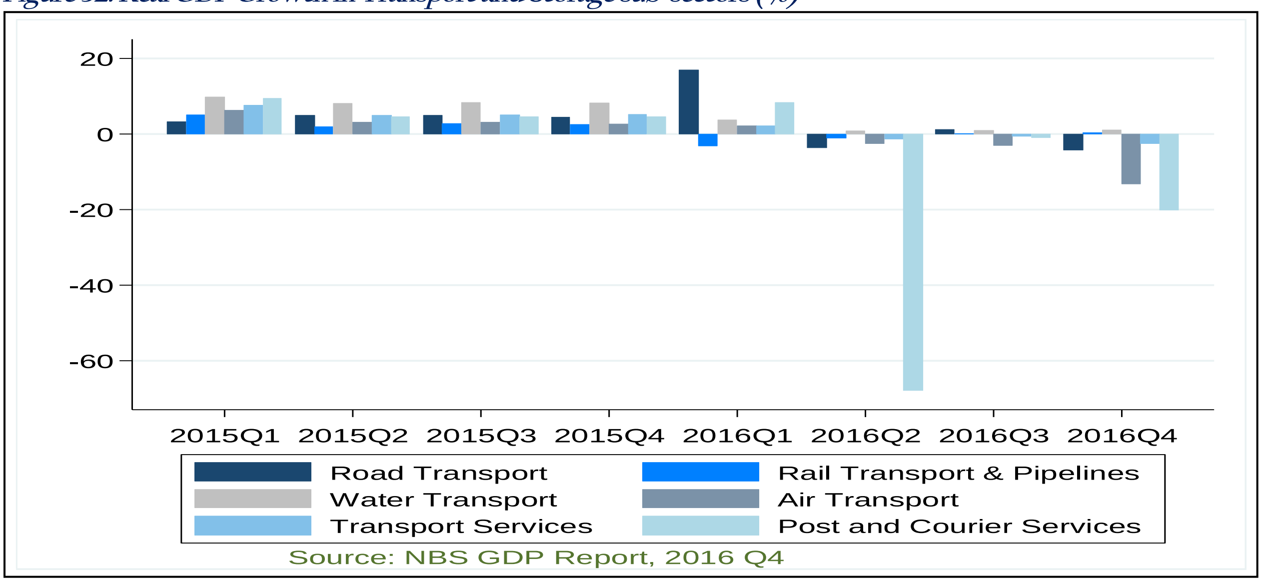



*Figure 32: Real GDP Growth in Transport and Storage sub-sectors (%)*




The aviation sub-sector has continued to experience what many have referred to as a "crisis". Persistent foreign exchange shortages, scarcity of Jet A1 aviation fuel and reduced passenger activity saw several airline operators cut capacity and a number of operators pull out of the Nigerian aviation market. Meanwhile, the outlook for aviation industry in the first half of 2017 remains significantly bleak as most of the constraint factors continue unabated. Also particularly telling will be the closure of the Abuja airport (the second busiest in the country) in the first quarter of 2017 to allow for major maintenance and renovation of the facilities at the airport.

Going forward, considering the high level of investments required for the physical components of the sector, government needs to embrace and encourage increasing private sector activity in the sector by putting in place the necessary policies, particularly by giving concessions for the construction, operation and maintenance of critical transport infrastructure. Also, government needs to be more deliberate in borrowing to finance infrastructure by tying its borrowings to particular infrastructure projects across the country.

## 4.6 Manufacturing sector

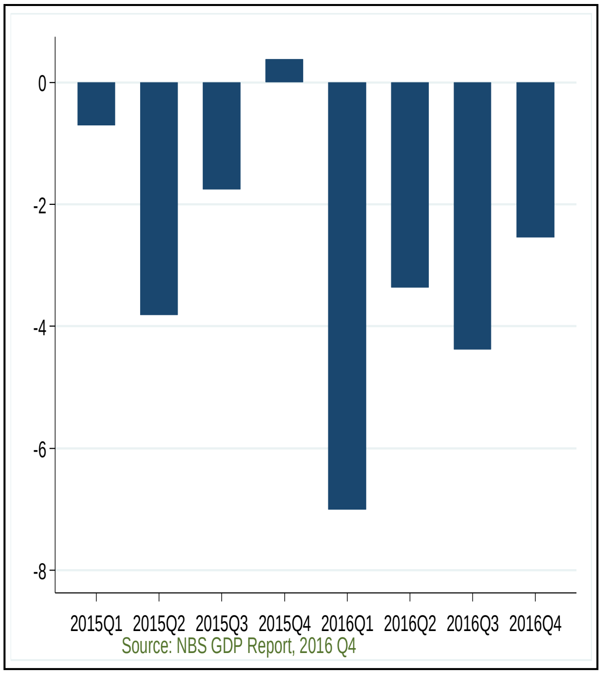
***Despite slight improvements, adverse macroeconomic environment continues to hamper productivity in the Manufacturing sector.***

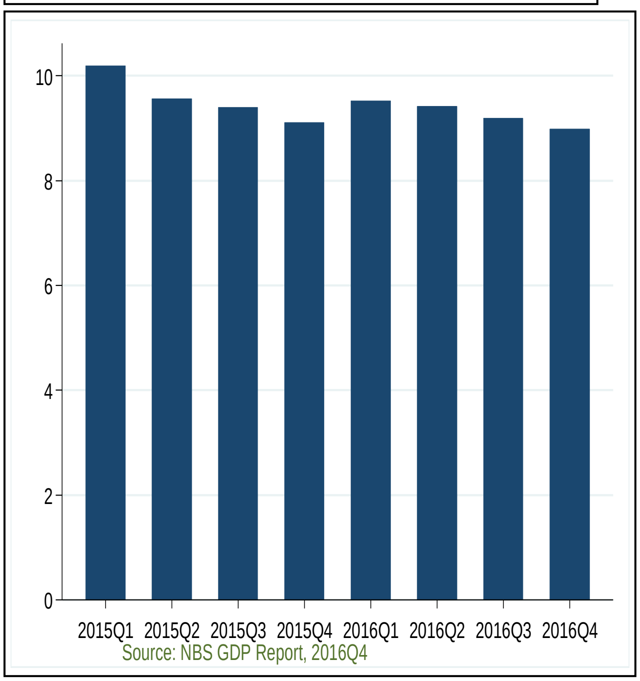
The manufacturing sector in Nigeria has been one of the sectors severely affected by the economic recession. Although the trend of negative real GDP growth in the manufacturing sector continued in 2016 Q4, it improved by 1.89 percentage points quarter-on-quarter (*Figure 33*). Also, the contribution sector to real GDP declined by 0.2 percentage points between 2016 Q3 and 2016 Q4 *(Figure 34)*.

Compared with the same period a year ago, real GDP growth in the sector and its contribution to economy-wide real GDP was 4.32 and 0.53 percentage points lesser respectively. This reflects the challenges the sector has faced as a result of several factors such as higher energy cost, persistent power outages, reduction in consumer spending, depreciation in the exchange rate, and other unfavourable macroeconomic policy stance. Furthermore, the CBN is yet to review its decision which exclude 41 commodities from accessing forex. This continues to significantly constrain the productivity of manufacturing firms as some of these products are essential inputs in the production process.

*Figure 33: Manufacturing Sector Real GDP Growth Rate (%)*

*Figure 34: Manufacturing Sector Contribution to GDP (%)*




In 2016 Q4, the following sub-sectors recorded positive real GDP growth: textile, apparel & footwear, chemical & pharmaceutical products, non-metallic products, plastic & rubber products, and basic metal, iron & steel. The remaining sub-sectors namely: oil refining, cement, food, beverage & tobacco, wood & wood products, pulp, paper & paper products, electrical & electronics, and motor vehicles & assembly recorded negative real GDP growth in 2016Q4. It is important to note that the concentration of the Federal Government on solid minerals is reflected in the growth rate of the basic metal, iron & steel sub-sector. It grew by 7.03% in 2016Q4 in comparison to 6.93% in 2015Q4. The motor vehicles & assembly sub-sector seems to be the most adversely affected sub-sector. Its growth rate declined by 3 percent between 2016Q3 and 2016Q4[23]. This is mainly as a result of the depreciation in exchange rate, given that the motor vehicles & assembly sub-sector is import-based.

The Manufacturers Association of Nigeria (MAN) has recommended[24] that to strengthen the performance of the manufacturing sector all barriers such as the indiscriminate changes in the Monetary Policy,[25] which is limiting the growth and competitiveness of the sector, should be eliminated. Also, the government needs to review the exclusion of 41 items from accessing foreign exchange because they constitute essential raw materials needed for production. Lastly, the monetary and fiscal policy stance of the government needs to be synchronized. The underlying effect of these changes is that the sector would become optimally productive and play its expected role of capital mobilization, wealth creation, technology acquisition, and job creation.

In addition, drawing lessons from countries that have successfully recovered from economic recession, reducing company income tax (CIT) for manufacturers would lead to increased investments. Value Added Taxes, and Personal Income Taxes should also be adjusted by the government in response to the recession and dwindling consumption levels resulting from increasing inflation rates.

## 4.7 Oil and Gas Sector[26]

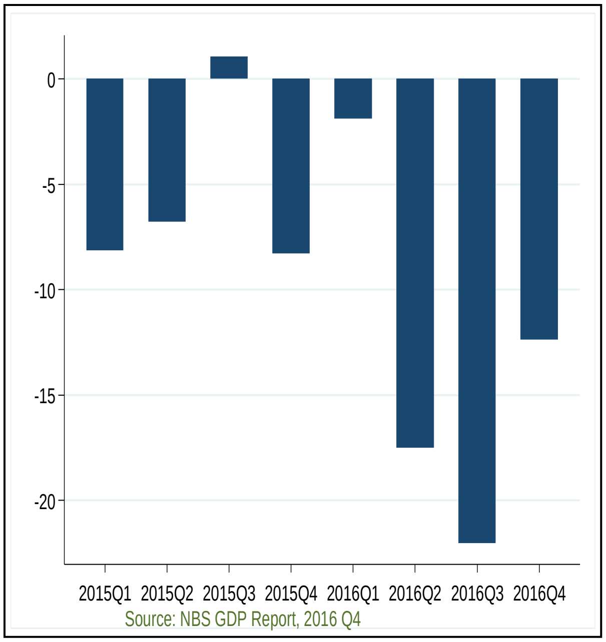
***The oil and gas sector experienced significant improvements as the international price of oil rallied following production cut agreements by OPEC and major oil producing countries***

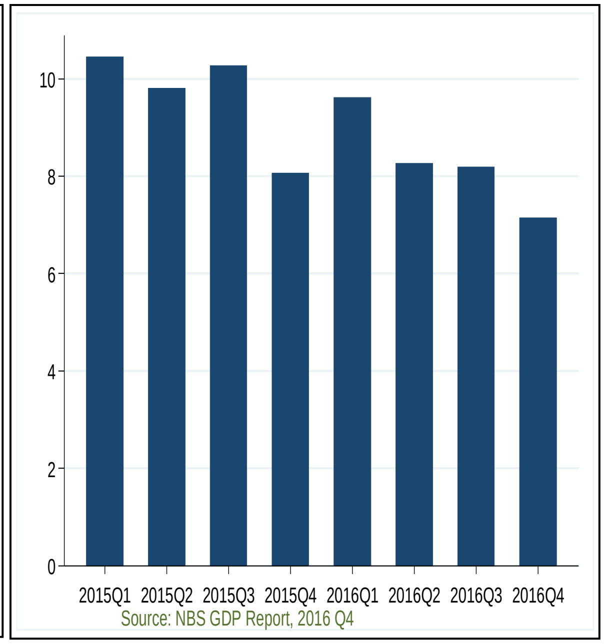
In 2016 Q4, production was estimated at 1.90million barrels per day (mbpd), 0.27mbpd higher than Q3 production levels, but 0.25mbpd lower than the 2.16mbpd output recorded in 2015 Q4. Consequently, in the fourth quarter of 2016, the oil and gas sector real GDP contracted by 12.38 per cent. This was however an improvement of 9.63 percentage points on the previous quarter, but 4.10 percentage point less than was experienced in the fourth quarter of 2015—when the real GDP in the sector contracted by 8.23 per cent *(Figure 33)*. Contribution of the oil and gas sector to real GDP decreased marginally by 1.04 percentage points from 8.19 per cent in 2016 Q3 to 7.15 per cent in Q4. Also the contribution to real GDP was lower than was recorded in 2015Q4 *(Figure 34)*. For the full year 2016, oil production was estimated to be 1.833mb/day, compared to 2.13mb/day in 2015. This reduction has largely been attributed to vandalism in the Niger Delta region.

***Figure 33: Oil and Gas Sector Real GDP Growth Rate (%)***

***Figure 34: Oil and Gas Sector Contribution to Real GDP (%)***

[23] NBS GDP Report 2016 Q4
[24] http://www.vanguardngr.com/2017/01/2016-review-manufacturing-sector-groans-recession-weight/
[25] For example, MPR has been changed as many as four times between 2014 and July 2016
[26] The oil and gas sector is captured under the mining and quarrying sector. However, the critical play which the oil and gas holds in the Nigerian economy requires that it be given separate treatment in this review.




In 2016 Q4, OPEC crude oil basket averaged US$53.30 per barrel compared to US$44.63 per barrel in Q3. Meanwhile, the pump price for petrol rallied to the N145 upper band set by the Federal government; although with slight price variations across the country. At the end of 2016, the oil and gas sector contributed 8.42 per cent to total real GDP compared 9.16 per cent in at the end of 2015.

Higher oil prices, meanwhile, are expected to provide the biggest boost to growth in Nigeria. Prices have already risen by around 14%, following the decision taken in November by members of the Organisation of the Petroleum Exporting Countries, with the exception of Nigeria and Libya, to cut production by 1.2m barrels per day in January. Analysts expect prices to hover between $50 and $60 per barrel in 2017. To take full advantage of possible crude oil price increases, the federal government needs to hasten efforts to engage with stakeholders in the Niger Delta to resolve ongoing militant crises, to ensure a stable production and improve exports

In conclusion, key sectors of the Nigerian economy underperformed in 2016Q4 on the account of persistent macroeconomic challenges and weak consumer demand, although with slight improvements in oil & gas, manufacturing, ICT and financial sectors over the previous quarter. Forex challenges and the depreciation of the naira continued to constrain the manufacturing, transport and storage, and financial services sectors. Also, while there was a decline in agriculture sector contribution to economy-wide real GDP, it remained the highest contributing sector of the key industry sectors reviewed.

In 2017, the government proposes to continue to engage the agricultural sector as a major channel for the diversification of the economy. To this end, it has allocated N123.44Billion to the Federal ministry of Agriculture in the 2017 budget. This amount which is a 62.82 percent increase over the allocation in 2016, accounts for only 1.76 percent of the total budget. However, strategic allocations have been made for infrastructure investment in transport, power, housing and security all of which are expected to boost productivity in the agriculture sector. In essence, the government seeks to integrate the development of the agricultural sector by facilitating access to inputs, improving market access, providing storage equipment as well as supporting the development of commodity exchanges. The outlook for the transport sector remains bleak. Significant improvements in the sector; if any, will be driven by improvements in the foreign exchange situation as well as the actions of government towards addressing the Nigeria Delta crisis. However, negating these positive prospect, especially in the transportation sector will be the closure of the Nnamdi Azikiwe Airport Abuja[27] in the first quarter of 2017.

Going forward, and considering the negative effects the slow implementation of the 2016 budget had on the economy as a whole, there is the urgent need for government to be more proactive in ensuring that the 2017 budget is presented, passed and the implementation process set in motion in the quickest possible time. The gradual rebound in global oil prices presents an opportunity for the government to consolidate its revenues and facilitate the needed fiscal stimulus in the economy. There is also the need for more concerted efforts at plugging fiscal leakages, while also exploring alternative income sources; such as increased efficiency in tax administration and external borrowing. This will considerably revamp economic activities across all sectors.

The federal government has also identified solid minerals as one way to go in the pursuit of its diversification agenda. However, the success of this rests on the commitment of government to stimulate investment in the solid minerals sector particularly by rolling out regulatory changes and reforms, increasing access to financing, and producing geological maps for the whole country. On the whole, government needs to put in place strategies to make it easier to do business in Nigeria especially by active infrastructure development spending in transportation, and energy (power). Meanwhile, considering the high level of investments required across the various sectors of the economy, government needs to encourage private investment in infrastructure projects. In the transport sector particularly, concessions should be given for the construction, operation and maintenance of critical transport infrastructure. Also, government needs to be more deliberate in borrowing to finance infrastructure by tying its borrowings to particular infrastructure projects across the country. Finally, the Federal Government needs to ensure lasting peace prevails in the Niger Delta region. There is no doubt that the extent to peace is sustained in the region will determine the extent of activities in the oil production and refining subsector and also determine the amount of funds available for implementing the 2017 budget.

[27] The Federal government has proposed to close down the Abuja airport—t he second busiest airport in the country—for a period of six weeks to enable it carryout major maintenance and renovation of the facilities at the airport.

## 5. OUTLOOK AND RECOMMENDATIONS

We expect some stability in crude oil prices in 2017 due to an agreement by oil producers to control supply. Thus, a gradual recovery is expected in Sub-Saharan Africa as commodity prices improve and stabilize. However, uncertainties exist for the region due to possible changes in global financing and aid flows arising from the protectionist bias of the present US administration. The trend towards protectionism and isolationism might inhibit the current recovery of global trade flows and could gradually stall the growth of the global economy.

For the domestic economy, 2016 has been a very tough year for the country but it appears that the downturn has reached its trough and have begun showing signs of recovery. Output growth is expected to continue to gradually rise in successive quarters. We expect this growth to driven by a sustained calmness in the Niger Delta region reflecting on rising crude oil production with positive implications for foreign reserves and currency appreciation. In addition global crude oil price will also play a key role. However the downside risks to these outlook include: the possibility of a slower-than-expected rate of global economic activity, fluctuating oil prices, and production shut-ins due to vandalism of oil installations. Going forward, there is need to implement key reforms that enhance the supply-side deficiencies and remove bottlenecks to domestic production; particularly in the agricultural sector (especially grain production) and manufacturing sector. In addition, since the oil-sector remains the main source of government revenue and foreign exchange, the Nigerian government needs to ensure peace in the Niger Delta region in this regard.

In the absence of any unforeseen shocks, we expect domestic inflation to remain at double-digit but level off at around 19 percent by mid-2017. This inflation expectation is based on the assumption of increased agricultural harvest, exchange rate stability orchestrated by improving FX inflows, and continuation of the current tight monetary policy stance of the CBN. However, increase in power tariff as MYTO III (Multi-Year Tariff Order) would likely kick in by the second half of 2017 and could raise inflation rates. Going forward, the CBN should continue to maintain a tight monetary stance while improving exchange rate stability. On the other hand, the fiscal authorities should take action to improve agricultural productivity, through targeted spending in the sector and reforms that support the business activities of farmers.

In terms of fiscal responses, despite the huge shortfalls in the budget for 2016, the proposed 2017 budget presented on 14$^{th}$ December 2016 still assumes optimistic revenue and borrowing targets to finance an even more ambitious expenditure plan aimed at increasing spending by 20.4%. This could be achieved if: oil production and prices continue to rise, and the government secures external loans that are judiciously utilized.

For the monetary policy landscape, given that current MPR which has had 6 months to crystallize, it is expected that the MPC would effect some changes on monetary policy instruments in the first half of 2017. The direction of change would be dependent on the assessment of: fiscal policy responses in 2017; the impact of the last hike in MPR in lowering inflation expectation; the impact of monetary policy tightening the foreign portfolio investments; the improvement or otherwise in foreign exchange market liquidity; and possibly the impact of monetary policy tightening on consumption and private investment demand. These assessments would determine the monetary policy decisions in the first half of 2017. Nevertheless, our outlook is that monetary policy would remain tight in 2017, especially as the government embarks on deficit spending to drag the economy out of it present recession. In addition, major global central banks are expected to draw back on quantitative easing and tighten their monetary policies, which would contribute to capital reversals from emerging market and developing economies. This would compel developing economies, like Nigeria, desirous of attracting capital inflows to keep monetary policy rate tight and at attractive levels.

For the capital markets, it is expected that the Nigerian stock market will continue to underperform until the economy recovers or there is a clear policy plan and action to revive the economy. On the other, bond yields are expected to continue to increase until Nigeria's oil output and general economy recovers to its pre-insurgency levels. Going forward, there is need for coordinated monetary and fiscal policy mechanism to address the rising inflation and underperformance of the capital market. This would entail tightening monetary policy while the government embarks on the needed infrastructure spending guided by a sound policy framework to drag the Nigerian economy out of the recession.

In the external sector, we expect foreign trade and foreign reserve to continue to gradually improve but this is dependent on continued rise or stability in crude oil prices, alongside continued peace in the Niger Delta and investment in oil refineries to boost oil output and reduce importation of refined crude oil. CBN needs to maintain an attractive MPR and truly liberalize the foreign exchange market to improve the inflow of foreign capital into the country.

Lastly, the expectation for 2017 is a gradual rebound of growth across the various sectors of the Nigeria economy. The agricultural sector would remain a major channel for the diversification of the economy and will drive growth to a considerable extent. This expectation is particularly strengthened by the allocation to sector for the development of the agricultural sector particularly by: facilitating access to inputs, improving market access, providing storage equipment as well as supporting the development of commodity exchanges. However, the outlook for the transport sector remains bleak. Any significant improvements in the sector would be driven by the foreign exchange. However, the closure of the Nnamdi Azikiwe Airport Abuja in the first quarter of 2017 may negate this prospect. Going forward, and considering the negative effects the slow implementation of the 2016 budget had on the economy as a whole, there is the urgent need for government to be more proactive in ensuring that the 2017 budget is presented, passed and the implementation process set in motion in the quickest possible time. The gradual rebound in oil prices presents an opportunity for the government to consolidate its revenues and facilitate the needed fiscal stimulus in the economy, but there is the need for more concerted efforts at plugging fiscal leakages, while also exploring alternative income sources; such as increased efficiency in tax administration and external borrowing. This will considerably revamp economic activities across all sectors. On the whole, government needs to put in place strategies to improve the ease of doing business in Nigeria especially by active infrastructure development spending in transportation, and energy (power). Meanwhile, considering the high level of investments required across the various sectors of the economy, government needs to encourage private investment in infrastructure projects. In the transport sector particularly, concessions should be given for the construction, operation and maintenance of critical transport infrastructure.

## 6. CONCLUDING REMARKS

This report presents an overview of the Nigerian economy by examining key internal and external macroeconomic indicators, as well as sectoral performances. The appraisal of these indicators show that 2016 has been a rough year for individuals, firms, and governments alike: from recording unusual dearth in governments oil revenue, to recording its first recession since 2004 and entering double-digit inflation in the first quarter of 2016. These problems have been largely driven by the plunge in crude oil production and prices, as well as the exodus of foreign investment. Nevertheless, it appears that the domestic economy has begun to take off from its trough, as most of the indicators have shown signs of recovery in 2016Q4.

While the Nigerian economy is still in recession, the outlook on the economy is positive for 2017. Maintaining peace in the Niger Delta region remains vital to economic stability in the country even as global crude oil prices gradually rise. More so, investment in refurbishing domestic refineries is also important in reducing pressure on foreign reserves and inflation, creating some employment, and improving trade balance. However, as the Nigerian economy recovers alongside the quick wins from Oil sector growth in 2017, by no means should we return to an era of crude oil dependence. Particularly, the Agricultural and Manufacturing sectors are especially critical to diversifying Nigeria's revenue base, and shielding the domestic economy from future adverse external shocks.

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