

December 11, 2015

Fiscal focus

The 2016-2018 Medium- Term Expenditure Framework (MTEF) proposed N6.04 trillion as budget expenditure for 2016¹. This sum indicates about 18.3 percent (N97 billion) increase from N5.07 trillion expenditure in 2015. The federal government projects total revenue of N3.82 trillion and the projected deficit of 2.22 trillion is to be financed mainly through borrowing. The 2016 budget introduced the zero-based budgeting system, which promotes efficiency by ensuring cost justification and the selection of only programs and projects that are aligned with government development policy at the lowest cost. Despite the current state of the economy which has put the GDP growth rate at 2.84%, the budget proposed to achieve GDP growth rate of 4.37 percent. However, given that the capital expenditure is the highest in recent times, the prospects for growth seem positive especially if the proposed increase in capital expenditure is effectively utilized.



Energy, Oil and Gas

OPEC basket price declined by approximately 14 percent to \$33.7 per barrel between December 1st and 11th 2015². The persistent refusal of the cartel to cut down on production and the declining demand for crude oil, following the rise in the use of energy-efficient vehicles in developed countries, are notable drivers of the continuous fall in prices. The increasing use of renewable energy has also led to a further fall in Natural gas prices from \$2.15 per million Btu to \$2.13 million Btu within the same period. The persistent downward pressure on crude oil price continues to pose challenges on Government revenue, prompting urgent calls for economic diversification.



Inflation

Inflation rate rose slightly to 9.4 percent in November 2015 from 9.3 percent in the previous month. This rise is attributed to price increase in Food and Non-Alcoholic Beverages, and Transportation costs which extends from shortages of petrol across the country³. The food sub-index grew by 0.2 percentage points to 10.1 percent while, the Core sub-index declined by 0.2 percentage points to 8.7 percent within the period. The inflationary up-tick points to the need to curtail the rising food prices by increasing the supply of petrol in the country.



Exchange Rate

The Naira / dollar exchange rate remained stable at N197/\$ at the Official market while it depreciated to N257/\$ at the parallel market as at December 11th 2015⁴. The depreciation of the naira during the period is as a result of the contracted sale of foreign exchange to some Bureau de Change (BDC) operators as a means of enforcing a check on foreign exchange utilization. The on-going foreign exchange restriction by the CBN seems to be driving the continued widening of the gap between the official and parallel market exchange rate.



External Reserve

The External Reserve declined by 1.2 percent (\$36 million) from \$29.88 billion to \$29.52 billion between December 1st and 11th 2015⁵. The depletion of the reserves which is mainly influenced by declining revenue from crude oil is likely to send negative signals on the ability of the economy to withstand external shocks. Further decline may be experienced if the Central bank responds positively to calls for naira devaluation.



Stock Market

The stock market indices declined by 0.16 percent between December 1st and 11th 2015. The All Share Index (ASI) recorded 27269.71 points and the Market Capitalization closed at N9.38 trillion⁶. The decline in the ASI may be connected with the perceived low investors' confidence occasioned by unfavourable macroeconomic performance which was evident in large foreign portfolio investment outflow (the equities segment of the Nigerian Stock Exchange) in recent period⁷. The ongoing exchange rate controls of the CBN which tends to restrict cross-border capital movement may also contribute to under-performance of the market.



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

¹2016-2018 Medium-Term Expenditure Framework And Fiscal Strategy Paper. Federal Republic of Nigeria, 2015.

²OPEC Weekly Oil Price. Accessed December 16, 2015 http://www.opec.org/opec_web/en/data_graphs/40.htm

³NBS CPI Report, November 2015.

⁴Access Bank Rateswatch. Market Analysis and Outlook: Dec 11- Dec 18, 2015.

⁵CBN Statistical database 2015.

⁶NSE (2015) Weekly Market Report. Accessed December 30, 2015 <http://www.nse.com.ng/>

⁷Foreign portfolio investment report of Nigerian Stock Exchange, November 2015.

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