CHAPTER 6

ECONOMIC OUTLOOK

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6.1 Introduction

..pace of recovery in global output in the second half of 2010 was generally slow.....

The pace of recovery in global output growth during the second half of 2010 accelerated though constrained by the knock-on effects of the crisis in the Euro Area sovereign debt markets and problems with bank balance sheets in most industrial countries[1]. The speed of recovery differed across regions, due to differences in initial economic conditions and the policy response by countries. These developments further weakened the recovery and increased the risks in the global financial system.

On the domestic front, the positive effects of the various reforms in the financial sector complemented by supportive fiscal stance evidenced in substantial government expenditure on power sector, enhanced growth prospects at comparatively high levels. Consequently, the economy was expected to sustain the trend and consolidate the gains realized in the near to medium term.

6.2 Global Output

Growth in global output in the second half of 2010 dipped to 4.7 per cent from the 5.0 per cent level in the first half of 2010.

Growth in global output in the second half of 2010 declined to 4.7 per cent from 5.0 per cent recorded in the first half and by 4.5 per cent in the corresponding period of 2009. Following the dominance of risks associated with the sustained sovereign debt crisis in the Euro area, rising food and energy prices and the unstable political environment in the Middle East and North Africa, the global output growth was expected to weaken further to about 4.4 per cent in 2011 (Table 6.1).

Growth in the industrial economies was steady at 2.7 per cent in the second half of 2010 but was expected to decline to about 2.5 per cent in 2011. The projected deceleration in growth was premised on expected continuous adjustments and winding down in some countries of the fiscal and monetary stimuli introduced to contain macroeconomic

[1] *IMF World Economic Outlook (WEO), January 2011*

imbalances arising from the global financial and economic crises.

In the US, real GDP grew at an average of 2.5 per cent in the second half of 2010 and was expected to improve to 3.0 per cent in 2011, buoyed by strong growth in household domestic demand and declining unemployment rate traced to the effect of the fiscal stimulus.

Growth in the emerging and developing economies averaged 7.0 per cent in the second half of 2010 but was projected to decline to an average of 6.5 per cent in 2011, due largely to slack in demand for primary commodities by the emerging market economies in Asia.

During the second half of 2010, growth in the Middle East and North Africa (MENA) as well as Sub-Saharan Africa averaged 3.9 per cent and 5.0 per cent, respectively. However, while growth may dip in the former, if the political tensions arising from high unemployment persisted, in Sub-Saharan Africa, growth was expected to improve to about 5.5 per cent in 2011. Growth in the MENA and the sub-Sahara African countries was expected generally to be influenced by rising commodity prices. For sub-Saharan Africa, an additional pro-growth factor was the sustained rise in domestic demand, especially in Nigeria, Kenya and South Africa.

...outlook for 2011 is that advanced economies, emerging and developing economies.......would move from recovery to sustained growth....

Growth in developing Asia as well as Latin American and Caribbean countries was 9.3 per cent and 5.9 per cent, respectively, during the second half of 2010, but was projected to slow down in 2011 to 8.4 per cent and 4.3 per cent, respectively (Table 6.1). This was attributable to inflationary concerns, withdrawal of stimulus packages and the tightening of fiscal policies.

Overall, the outlook for 2011 suggested that the economies of the industrial, emerging and developing as well as those of sub-Sahara African countries would move from recovery to sustained growth, while the developing Asia and Latin America and Caribbean countries would witness a slowdown in growth.

6.3 Global Inflation

Global consumer prices moderated significantly in the second half of 2010

Global inflation moderated significantly in the second half of 2010, as the risk to inflation was largely subdued. This was attributed to the generally weak consumer demand. For example, inflation in the advanced economies averaged 1.4 per cent in the second half of 2010, and was projected to improve marginally to 1.3 per cent in 2011. Similarly, the US inflation rate of 1.9 per cent in second half of 2010 was projected to decline to 1.6 per cent in 2011. Inflationary pressure in the sub-Sahara African countries was likely to persist, owing to strong domestic demand and exchange rate misalignment.

Table 6.1
World Economic Outlook

	2008	2009	2010	2011
A. World Output				
World Output	**2.8**	**-0.6**	**5.0**	**4.4**
Advanced Economies	**0.2**	**-3.4**	**3.0**	**2.5**
USA	0.0	-2.6	2.8	**3.0**
Euro Area	0.5	-4.1	1.8	**1.5**
Japan	-1.2	-6.3	4.3	**1.6**
UK	-0.1	-4.9	1.7	**2.0**
Canada	0.5	-2.5	2.9	**2.3**
Other Advanced Economies	1.7	-1.2	5.6	**3.8**
Emerging & Developing Economies	**6.0**	**2.6**	**7.1**	**6.5**
Central and Eastern Europe	3.0	-3.6	4.2	**3.6**
Commonwealth of Independent States	5.3	-6.5	4.2	**4.7**
Developing Asia	7.7	7.0	9.3	**8.4**
Latin America and the Caribbean	4.3	-1.8	5.9	**4.3**
Middle East and North Africa	5.0	1.8	3.9	**4.6**
Sub-Saharan Africa	5.5	2.8	5.0	**5.5**
B. Commodity Prices (US' Dollars)				
Oil	36.4	-36.3	27.8	**13.4**
Non-fuel	7.5	-18.7	23.0	**11.0**
C. Consumer Prices				
Advanced Economies	3.4	0.1	1.5	**1.6**
Emerging & Developing Economies	9.2	5.2	6.3	**6.0**

Sources: World Economic Outlook: Jan. 2011

6.4 Global Commodity and Energy Prices

World crude oil prices averaged US$79.80 per barrel in the second half of 2010, representing a price increase of 4.19 per cent over the average price of US$76.59 per barrel observed in the first half of the year. Oil prices were projected to rise above US$90 in 2011, due largely to strong global demand, sluggish supply response and political crises in the MENA countries.

6.5 Outlook for the Domestic Economy

..outlook for the domestic economy for 2011 looks fairly optimistic ...

The growth outlook for the domestic economy in 2011 was fairly optimistic. The resumption of oil production activities in the Niger Delta, following the successful implementation of the Federal Government Amnesty Programme, the adoption of the Road-map on Power Reforms by the Federal Government and the commencement of operations by the AMCON in 2010 were expected to impact positively on output growth, which according to staff estimates, was projected at 7.4 per cent in 2011. Reforms in the Nigerian Stock Exchange by the Securities and Exchange Commission (SEC), the directive to banks by the CBN to recapitalize by end-2011 and the withdrawal of the universal banking licenses in 2010 were also expected to positively impact on output.

Table 6.2
Outlook for Key Macroeconomic/Monetary Indicators

	2010*	2011**
Inflation	11.8	12.0
Real GDP	7.84	7.40
M2 Growth (%)	6.70	13.75
Income Velocity	2.6	2.8
Reserve Money (₦'billion)	1,803.92	1,936.0
Credit to Govt. (%)	67.83	29.29
Credit to Private Sector (%)	-4.92	23.34

2010* Actual, 2011CBN Staff Estimates**
Source: Central Bank of Nigeria

6.5.1 Domestic Output Growth

Data from the National Bureau of Statistics (NBS) indicated that real Gross Domestic Product (GDP) grew by 8.01 per cent in the second half of 2010, up from the 7.55 per cent in the first half of 2010. Overall, GDP grew by 7.85 per cent in 2010 up from 6.96 per cent achieved in 2009. The non-oil sector was expected to remain the main driver of growth in 2011. The implication of slow growth in the US and Euro area economies (due to protracted sovereign debt crisis) and falling domestic aggregate demand in those countries may affect Nigeria's export of crude oil.

6.5.2 Inflation

Inflationary pressures persisted throughout 2010 and the trend would remain within the lower end of double digit in 2011.

Inflationary pressures persisted throughout 2010 and the current forecast suggested that the trend would continue but, remain within the lower double digits in 2011. Liquidity management was expected to be challenging to the monetary authorities, reflecting the impact of election-related expenditure for the April 2011 general elections, the upward review of worker's salary/new minimum wage and the crystallization of the quantitative easing initiatives introduced since 2009. Consequently, monetary policy was expected to be contractionary in order to reign in inflation expectations.

Although rising oil prices may be accompanied by higher oil exports (especially if the crises in the MENA countries persist), high global food, energy and commodity prices may increase the level of imported inflation in the economy. Non-oil exports are generally expected to resume their upward trend beyond the April general elections, leading to higher capital inflows. The rising oil receipts and increased non-oil capital inflows may translate into higher reserve buildup leading to an appreciation of the naira. The appreciation of the exchange rate may tamper the upward trend in domestic prices.

6.6 Lagged Impact of Policy Initiatives

Growth in aggregate demand observed in 2010 was expected to strengthen in 2011 as the impact of the policy initiatives of the previous period fully crystallized. The cleaning of the balance sheets of the DMBs through AMCON operations as well as the expected mergers and acquisitions of some banks would engender the emergence of stronger and more competitive financial institutions with capacity to extend more credit to the private sector. In addition, improvement in power delivery, increased access to finance by the deprived segment of society and the interventions in aviation and manufacturing were expected to further stimulate domestic economic activity. The level of foreign exchange earnings from oil exports may stimulate higher growth than projected for 2011.

6.7 The Financial Markets

6.7.1 The Capital Market

The capital market witnessed increased activities in second half of 2010......

The capital market witnessed increased activities in the second half of 2010, with the listing of Dangote Cement Company and Unity Bank shares on the floor of the Nigerian Stock Exchange. This resulted in disproportionate movements in Market Capitalization and All Share Index when compared with the performance in the first half of the year. With the reform measures introduced by the SEC and the purchase of the non-performing loans of the DMBs by AMCON, the upward movement in major market indices was expected to accelerate in 2011.

With the expected improvement in power supply in 2011, a number of companies were likely to resort to the capital market to raise funds through the issuance of corporate bonds. These actions were expected to deepen the market and heighten the tempo of activities in both the capital market and the banking sector.

6.7.2 The Foreign Exchange Market

The foreign exchange market witnessed sustained pressure especially towards the end of the second half of 2010

The foreign exchange market witnessed sustained demand pressure, especially towards the end of the second half of 2010, resulting in the depreciation of the naira in all segments of the market. The surge in demand experienced in the market was related to the financing of the importation of petroleum products and other consumables in preparation for the Christmas and New Year festivities. It was projected that sustained high international oil prices would result in external reserves buildup in 2011.

6.7.3 The Money Market

Money market interest rate stabilized at the low end throughout the second half of 2010

Money market interest rates crashed and stabilized at the low end up to the third quarter of 2010 before assuming a modest upward movement in the fourth quarter. The relative interest rate stability was attributable to the de-risking of the market through the CBN guarantee of interbank placements, and the injection of liquidity by the Bank to support selected sectors of the economy.

The various reforms by the CBN to make the banking sector more resilient and promote good corporate governance in the industry as well as the take-off of AMCON in the last quarter of 2010 would sustain lending to the real sector and stabilize short term interest rates in 2011.

However, the expected withdrawal of CBN guarantee of foreign credit lines and interbank money market transactions in June 2011 was expected to raise short term interest rates, at least in the short to medium term. It was however, reassuring that the successful issuance and oversubscription of the US$500.0 million FGN Euro bond facility represented a strong indication of the confidence of international investors in Nigeria's macroeconomic management.

6.8 The Monetary Sector

The primary goal of monetary policy in 2011 would remain the maintenance of price and financial sector stability. Bank lending to the real sector was expected to rebound, leading to increased production activity while growth of major monetary aggregates would exceed their levels in 2010. The actions of the monetary authorities in 2010 were to ensure a balance between the goals of banking system liquidity and maintenance of price stability. However, Monetary policy would focus on curbing inflationary threats in 2011, arising from expected high aggregate demand.

Lending to the real sector is expected to rebound, leading to increase in economic activities.......

In general, credit to government was estimated to drop by 38.54 percentage points in 2011 from its level of 67.83 per cent in 2010. On the other hand, credit to the private sector was expected to increase by 28.26 percentage points from -4.92 per cent in 2010. Thus, broad money (M2) was estimated to grow by about 13.75 per cent over its level in 2010. Income velocity is expected to rise by 0.2 percentage point over its level in 2010 to 2.8 per cent. Overall, outlook for the domestic economy looked largely optimistic and growth prospect for 2011 was high.