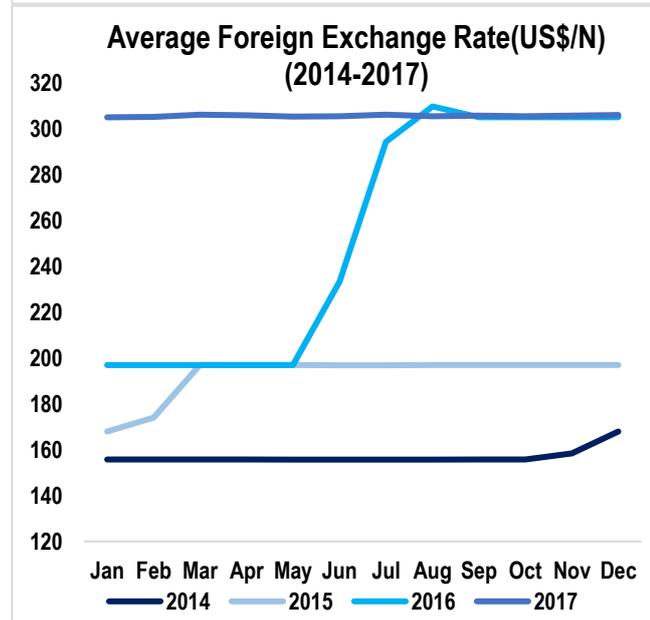
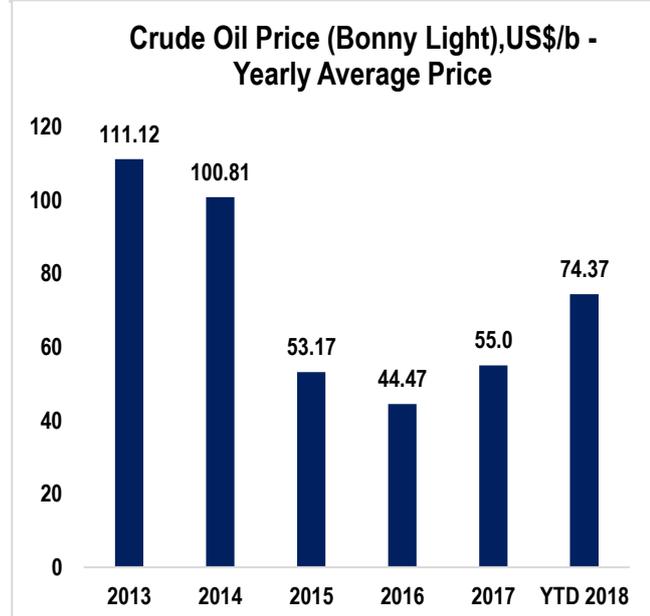
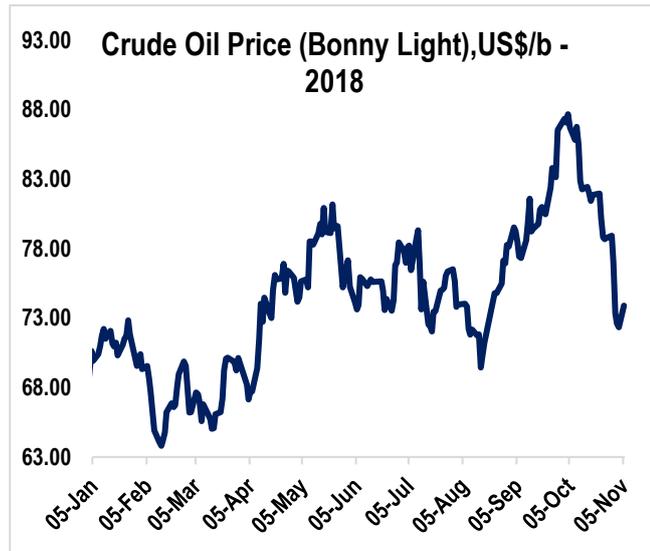


What if Crude Oil Prices Continue to Drop? FSDH Research Discusses Possible Implications for the Nigerian Economy

FSDH Research notes the significant drop in the price of crude oil in October 2018 and highlights implications on the Nigerian economy should the price continue to fall. According to data obtained from the US Energy Information Administration (EIA) Short-Term Energy Outlook (STEO) in its report for November 2018, crude oil prices declined in October at a faster rate than in any month since July 2016. Brent spot crude oil price declined by US\$10/b in October to close at US\$75/b. Similarly, Bonny Light crude oil price declined by 16.01% in October to close at US\$73.34/b. The price of Bonny Light crude oil dropped further to US\$71.31/b as at 7 November 2018. This represents a drop of US\$16.35/b from the highest price of US\$87.66 recorded in October 2018.

The decline in oil prices is attributed to two major factors: the indication of a global economic slowdown, and the higher-than-expected global crude oil supply. The International Monetary Fund (IMF) revised its global economic growth rate forecasts for 2018 and 2019 down by 0.2%; this revised forecast was published in the IMF's October edition of the World Economic Outlook (WEO). Additionally, the expected drop in the global crude oil supply due to US sanctions on Iranian crude oil may not materialise, as a number of other countries are making arrangements to buy the Iranian crude oil.

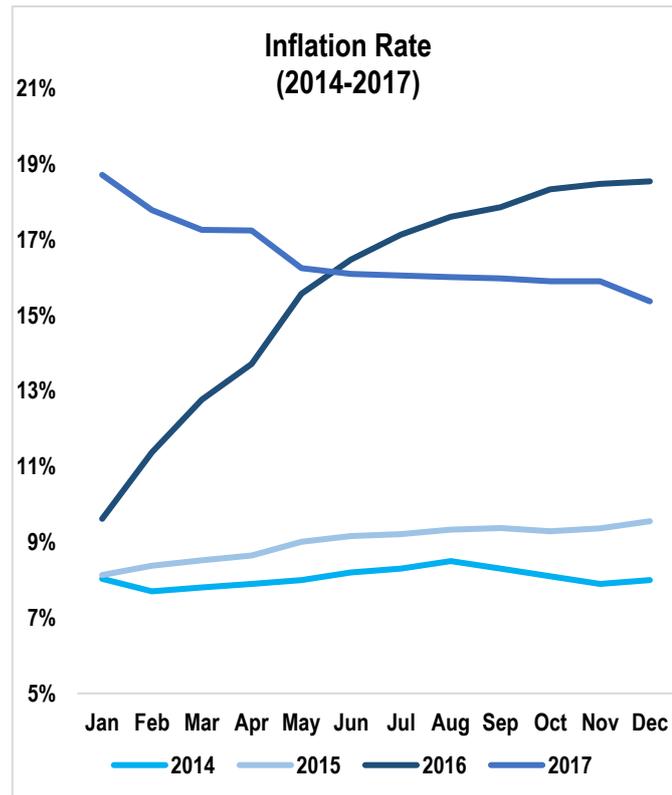
Crude oil is important to the Nigerian economy as the major source of revenue for the Government and the largest supplier of foreign exchange to the country. A significant drop in either the price of crude oil or production will directly have a negative impact on the fiscal position of the country. It will also cause major macroeconomic instability, particularly in the exchange rate and inflation rate. FSDH Research analysis of the HY1 2018 Foreign



Trade Statistics released by the National Bureau of Statistics (NBS) shows that crude oil exports accounted for 80% of total exports. This follows a historical trend as, on average, crude oil exports between 2015 and 2017 accounted for 78% of total exports.

Oil revenue represents a significant proportion of Nigeria’s revenue. Lower revenue will mean the government may not be able to undertake necessary capital expenditure and will hinder economic growth. It may also lead to a devaluation of the currency because of a drop in the foreign exchange supply. A rising inflation rate will be associated with currency devaluation; and naturally, the monetary policy response to a rising inflation rate is to increase interest rates. These likely scenarios will lead to an increase in finance costs for both companies and government. An economic recession is not far from these developments. These were the events that happened in Nigeria from 2014 through to 2017.

FSDH Research notes that the crude oil market developments in 2018 and 2019 appear better than in 2017. The average price of Bonny Light crude oil in 2017 stood at US\$55/b, the average year till date in 2018 is US\$74.37/b. The EIA’s forecast price of Brent crude oil indicates that Bonny Light crude oil should trade above US\$70/b in 2019. Despite these fairly positive developments, we are aware that the crude oil market is very volatile, therefore it is crucial to learn from the events that happened in 2014 through to 2017 in order to take proactive measures against unwarranted economic crisis in Nigeria. Government at all levels must intensify efforts to implement policies that will grow the non-oil sectors of the economy.



Sources: National Bureau of Statistics (NBS), Thomson Reuters, Central Bank of Nigeria and FSDH Research

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