

### KEY POINTS



- It is often argued that during election years, inflation tends to rise because of increased campaign and fiscal spending.
- Exchange rate may rise (depreciation) due to inflationary pressures and demand for dollar as a hedge asset by both domestic and foreign investors.
- In lieu of this, the tightening stance of monetary policy will likely continue. CBN will increase its intervention in the foreign exchange market to stabilize the exchange rate.

## How Would 2019 Elections Affect Nigeria's Economy: Looking Through Histories

Elections are major political events that affect a number of sectors of the economy. As the 2019 general elections which is slated to hold in February approaches, and the widespread campaigns and advertisement intensify, variations in the economic conditions are being felt. Democracy involves conception of election as the means of selecting political decision makers and representatives. In Nigeria, just like in many other places, elections are accorded much attention, both in terms of the manner in which they are conducted and their likely impact on some key economic variables.

For instance, it is often argued during election years that inflation tends to rise because of increased campaign and fiscal spending, that exchange rate may rise (depreciation) due to inflationary pressures and demand for dollar as an hedge asset by both domestic and foreign investors, that foreigners' investment may decline because of the uncertainty and that the stock market performance may fall because of foreigners' divestment, domestic investors' apathy and politicians selling down to obtain cash for election. Towards the general elections of February 2019, many analysts and commentators are already using these arguments to expound and give an outlook on the economy.

However, it is imperative to examine whether these arguments are valid for Nigeria, having previously conducted 5 similar elections in 1999, 2003, 2007, 2011 and 2015. Therefore, this write-up describes the trends of inflation, exchange rate (parallel), net foreign portfolio investment in the equities market and the stock market All Share Index. The analysis is done for 6 months before (-6) and 6 months after (+6) the election months (0).

As seen in Table 1, in the 1999 elections, inflation rate which was 7.30%, 6 months before elections rose to 14.40% in the election month after which it declined drastically to 0.80%, 6 months after election. Inflation rate rose from 5.40%, 6 months before the 2003 general elections to 8.30% in the election month but unlike in 1999, inflation continued to increase beyond the election month. The 2007 election year experienced a decline in inflation from 6.10% to 4.20% in the month of election beyond which the rate experienced stability. Similarly, an average of 12.33% which was recorded 6 months before 2011 election year dropped to 11.29% in the election month and average of 10.36% was obtained 6 months after the election month. In the 2015, marginal increases were observed in the inflation rate in the 6 months before election and the rate rose steadily after the election month.

Months	1999	2003	2007	2011	2015
-6	7.3	5.4	6.1	13.4	8.5
-5	7.0	12.2	7.8	12.7	8.3
-4	9.0	12.2	8.5	11.8	8.0
-3	10.9	10.6	8.0	12.0	7.9
-2	11.9	7.3	7.1	11.1	7.9
-1	14.3	5.9	5.2	12.7	8.1
0	14.4	8.3	4.2	11.2	8.3
1	13.5	8.7	4.6	12.3	8.4
2	11.6	14.0	6.4	10.2	8.6
3	11.4	12.9	4.8	9.4	9.0
4	8.3	12.4	4.2	9.3	9.1
5	4.0	18.4	4.1	10.3	9.2
6	0.8	23.6	4.6	10.5	9.3

From Table 2, steady increase was documented for the exchange rates 6 months before all the years of elections except in the 2007 election year. Exchange rate which was N86.93 rose to N89.80 in 1999 election month, exchange rate which was N136.25 increased to N138.40 in 2003 election month, in 2007 there was marginal decrease from average value of N129.81 to N129.00. Exchange rate also increased from N153.98 to N157.09 and N260.12 to 274.79 in 2011 and 2017 respectively. It was however observed that exchange rates increased continuously beyond the election months except in 2007 where it declined.

Months	1999	2003	2007	2011	2015
-6	86.9	136.2	130.3	153.9	260.1
-5	87.1	136.5	129.8	153.1	254.0
-4	87.4	136.9	129.3	154.5	250.2
-3	87.6	137.2	130.0	156.0	249.9
-2	87.9	137.6	130.0	155.1	262.8
-1	88.8	138.0	129.3	157.0	254.3
0	89.8	138.4	129.0	157.0	274.7
1	90.7	138.7	129.1	158.0	295.6
2	91.7	139.1	128.3	158.3	294.2
3	92.6	139.5	127.5	163.7	304.7
4	93.6	139.9	127.4	163.1	306.0
5	94.5	140.2	126.5	158.2	306.4
6	95.5	140.6	126.5	161.3	307.2

The Net Foreign Portfolio Investments (NFPI) presented in Table 3 reveals that NFPI in 2003 declined from N0.09bn, 6 months before election to -N0.24bn in the election month and further declined afterwards at an average value -0.16. 2007 election experienced increase from 6 months before (3.02) to the election month (22.93) and on the average, recorded a further increase (24.86) 6 months after the election. In 2011, successive increase and decrease trend was observed in NFPI 6 months before election to the election month which continued beyond election. NFPI which was N101.22bn, 6 months before 2015 election declined to 49.5 in the election month and continued to decline.

Months	2003	2007	2011	2015
-6	0.09	3.0	39.1	101.2
-5	0.08	2.4	25.5	116.5
-4	0.07	2.6	26.8	53.3
-3	-0.08	8.5	68.3	51.0
-2	-0.26	10.3	35.6	81.6
-1	-0.18	15.8	38.1	52.4
0	-0.24	22.9	64.0	49.7
1	-0.19	21.1	34.5	41.7
2	-0.16	38.6	67.3	26.9
3	-0.15	16.4	20.7	58.8
4	-0.16	26.4	29.6	48.0
5	-0.12	29.7	43.0	40.0
6	-0.18	16.7	40.8	28.6

Stock market activities which is proxied by All Share Index (ASI) experienced decreases between 6 months before election year and the election month in all the years of election as seen in Table 4. The decreasing trend continued after the election in 1999, 2011 and 2015. In 2003 and 2007,

there were increases in ASI indices between election months and 6 months after the election.

Table 4: ASI					
M	1999	2003	2007	2011	2015
-6	5795.7	11451.5	32643.7	25042.1	41532.3
-5	5697.7	11622.7	32632.5	24764.6	41210.1
-4	5671.0	12137.7	33189.3	24770.5	37550.2
-3	5688.2	13298.8	36784.5	26830.6	34543.0
-2	5672.7	13668.8	40730.7	26016.8	34657.1
-1	5494.8	13531.1	43456.1	24621.2	29562.0
0	5376.5	13488.0	47123.9	25041.6	30103.8
1	5456.2	14086.3	49930.1	25866.6	31744.8
2	5315.7	14565.5	51330.4	24980.2	34708.1
3	4916.2	13962.0	53021.6	23826.9	34310.3
4	5977.9	15426.0	50291.0	21497.6	33456.8
5	4964.4	16500.5	50229.0	20373.0	30180.2
6	4946.2	18743.5	50201.8	20934.9	29684.8

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From the trend exhibited by the economic variables presented in the tables, we expect inflation rate to increase marginally towards election month and continue in the same trend

after the election month then stabilize, exchange rate to increase consistently towards the election month, and rise further, 6 months after the election. In consonance to general belief and as being already experienced NFPI will decrease towards the election period and afterwards rise. Similarly, ASI will decrease towards election month and afterwards increase even until 6 months after election.

In lieu of this, the tightening stance of monetary policy will likely continue. CBN will increase its intervention in the foreign exchange market to stabilize the exchange rate as much as Nigeria's reserve will accommodate, otherwise marginal depreciation may be allowed. In addition, Portfolio outflow will likely continue but this gives opportunity for patient investors to come in and take profit when market booms months after election.

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