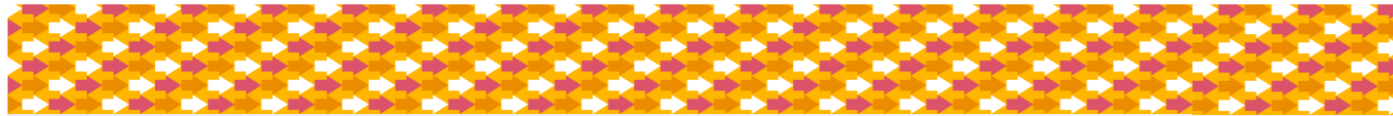


Nigeria Economic Outlook

Top 10 themes for 2019





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Global Economic conditions



Global economic outlook in 2019

The World Bank forecasts global growth to slow to 2.9% in 2019 from initial growth forecast of 3.5%



Global growth is forecast to plateau, while some major nations including the US and China are on track to see marginally slower rates of growth



Risks on the horizon from rising protectionism as the US imposes import tariffs on goods, as well as the rise of populist politicians in other countries



The World Bank predicts growth in Sub-Saharan Africa to grow to 3.4%, due to improved investment in large economies and continued robust growth in non-resource intensive countries



A surge or sudden drop in the price of crude could pose problems for the World economy

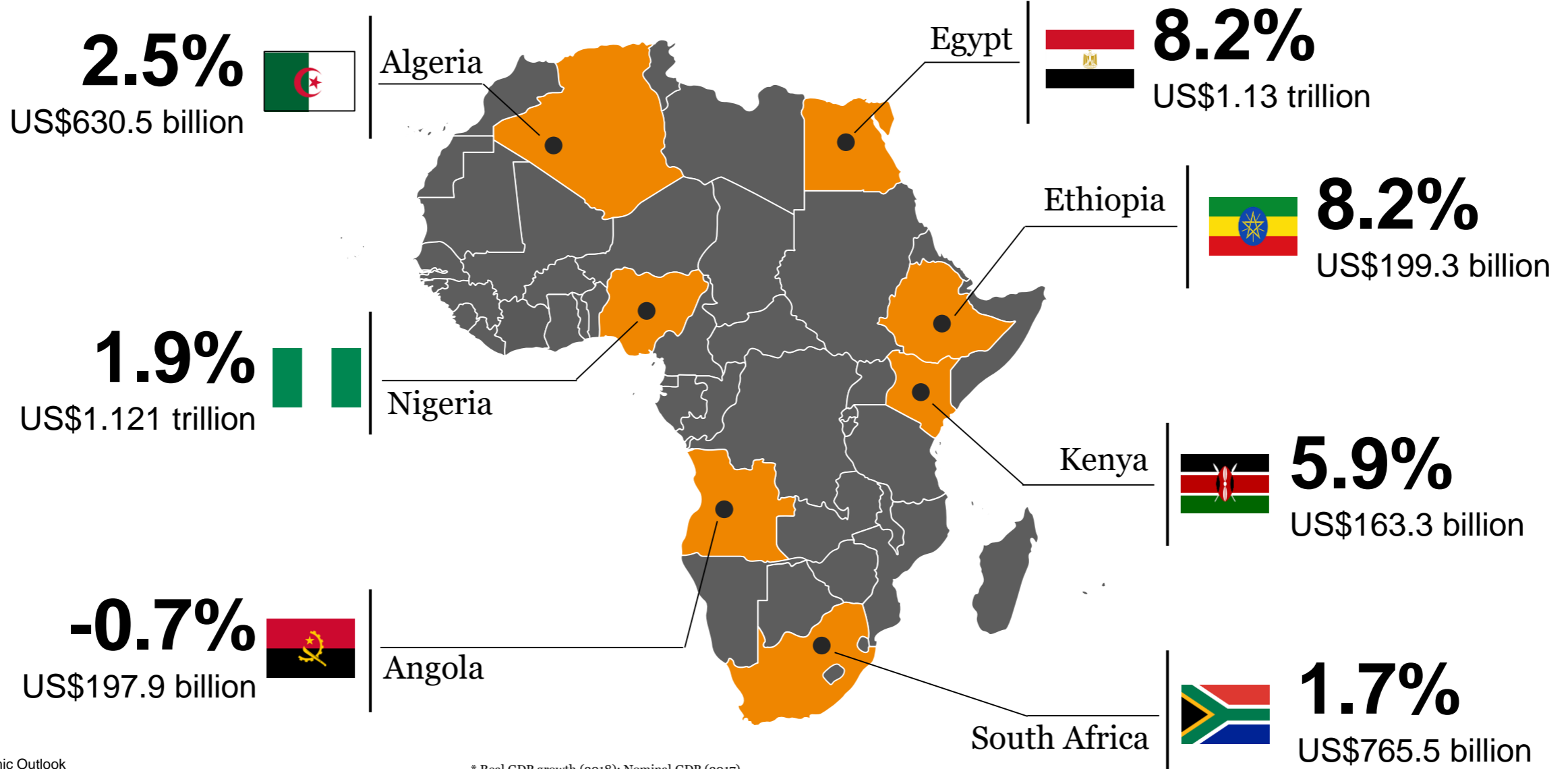


Geopolitical risks could also resurface, including an escalation of tensions of the Middle East

Besides the risks from Brexit, the US-China trade war and fears of the US Fed hiking rates, several other risks linger on the sidelines for the World economy









Top 10 Economies in Africa in 2018





Nigeria not among the fastest growing economies in Sub-Saharan Africa (SSA) by percentage growth in GDP

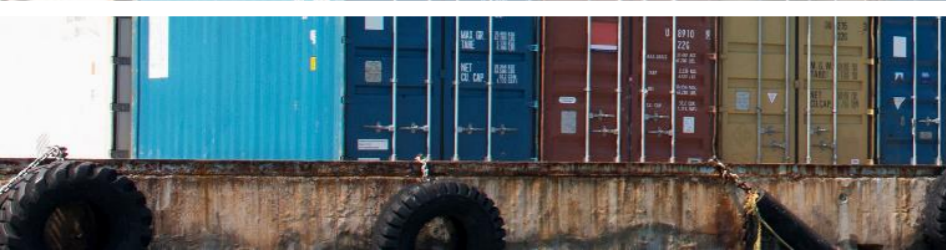
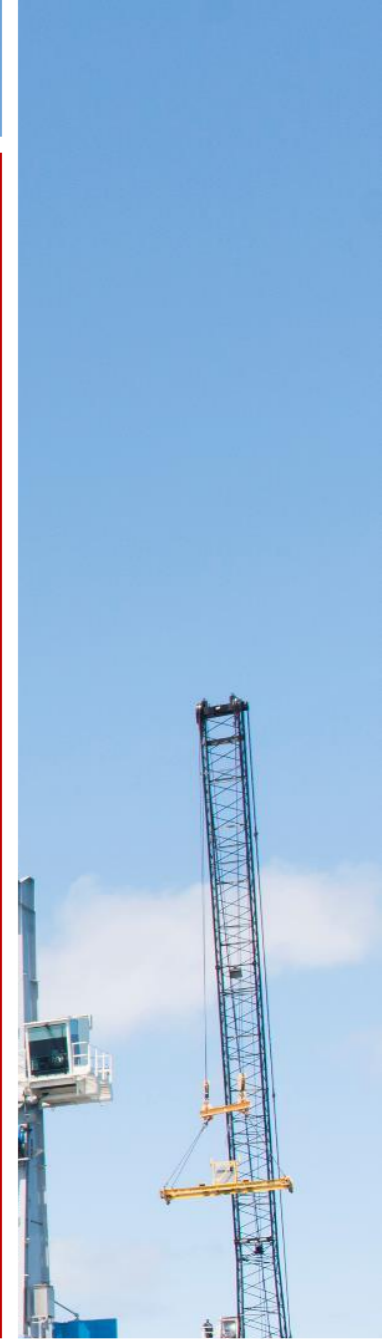
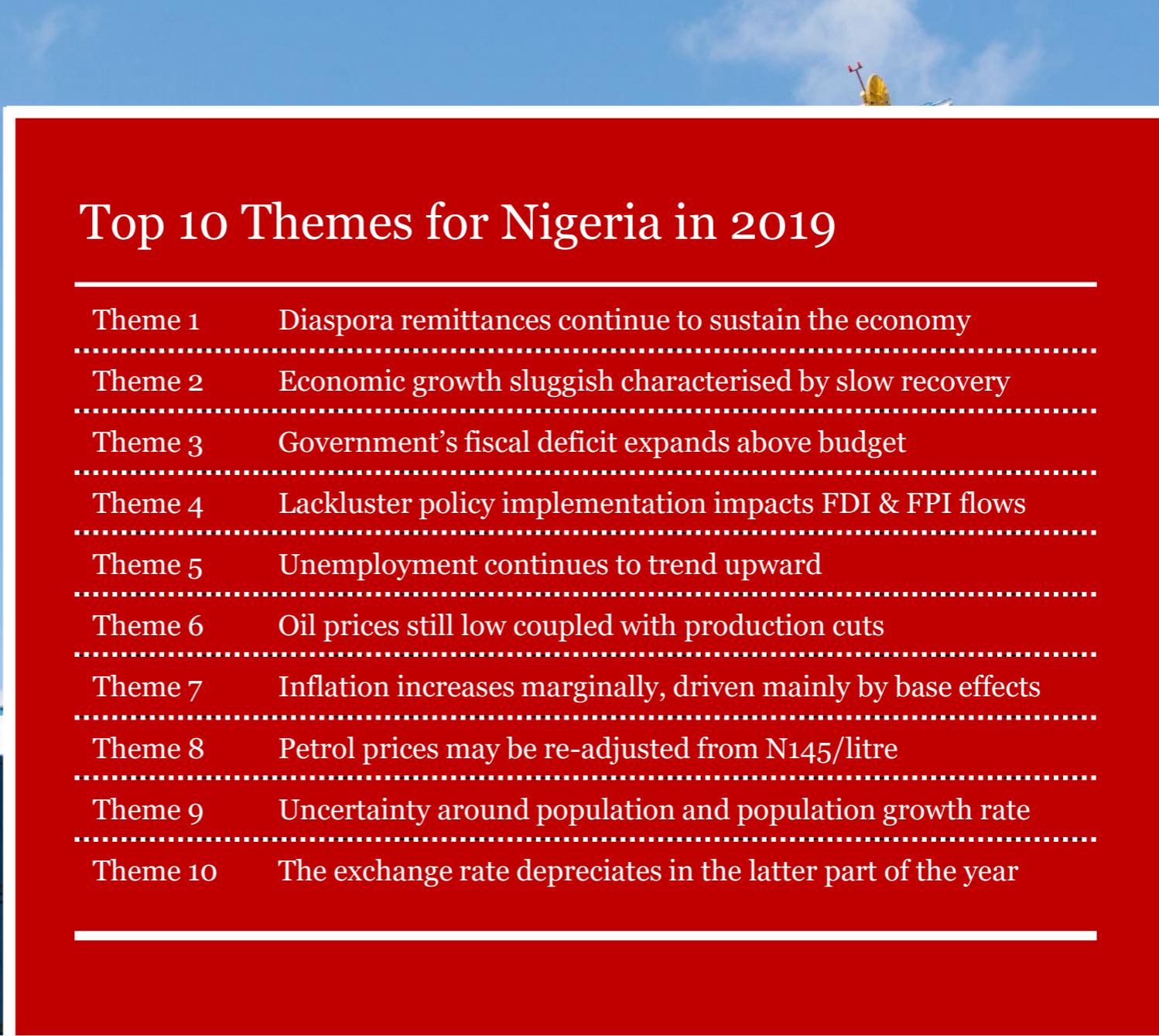
The largest economies in Sub-Saharan Africa offer opportunities for business growth, particularly when considering an expansion into new regions

	Country	GDP growth rate	Africa Rank	World Rank
	Ethiopia	10.3%	7 th	67 th
	Ghana	8.1%	11 th	86 th
	Cote d'Ivoire	7.7%	13 th	91 st
	Tanzania	7.1%	10 th	80 th
	Senegal	7.2%	21 st	117 th
	Djibouti	7.0%	47 th	174 th

Source: World Bank, PwC analysis

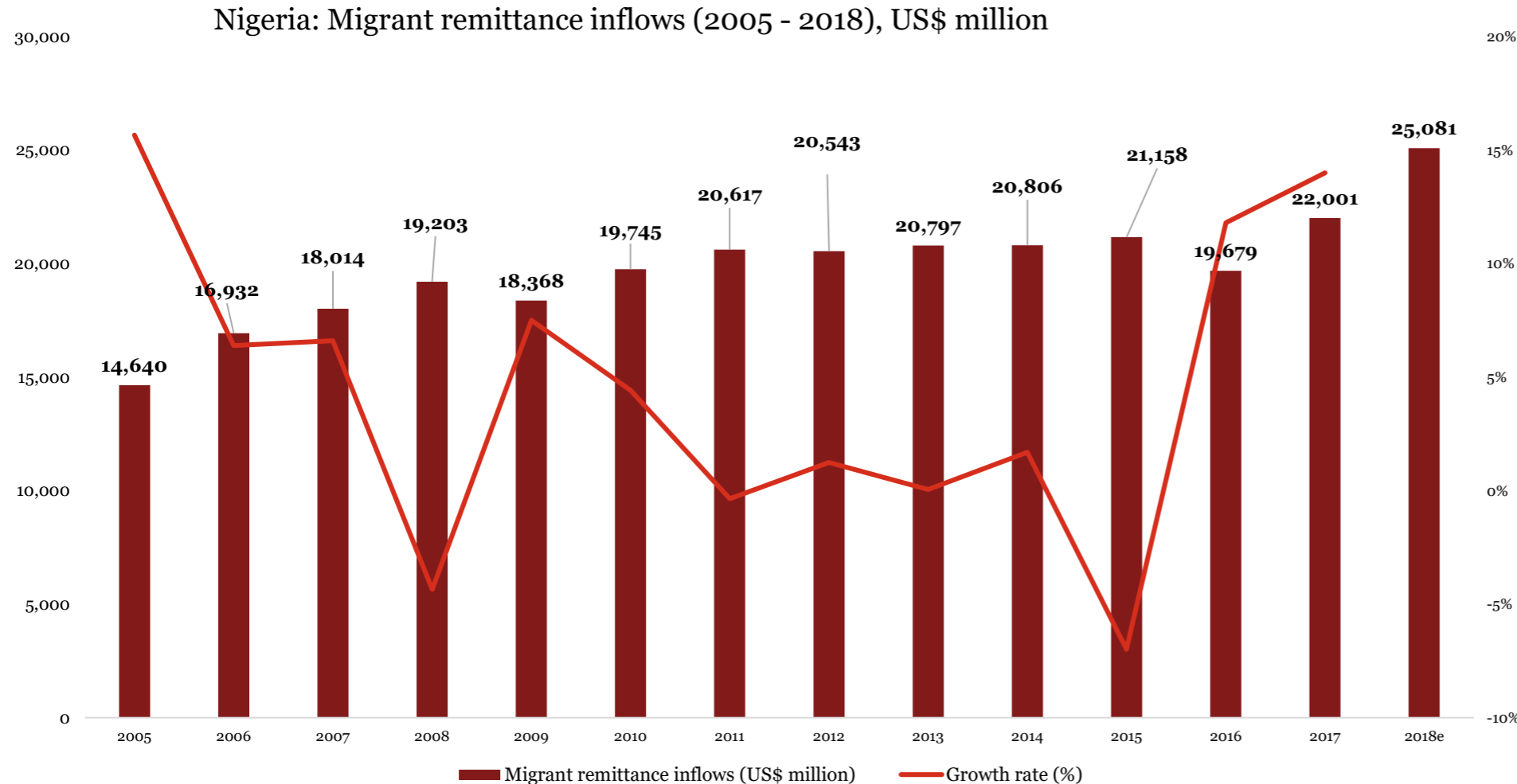
Top 10 Themes for Nigeria in 2019

- Theme 1 Diaspora remittances continue to sustain the economy
- Theme 2 Economic growth sluggish characterised by slow recovery
- Theme 3 Government's fiscal deficit expands above budget
- Theme 4 Lackluster policy implementation impacts FDI & FPI flows
- Theme 5 Unemployment continues to trend upward
- Theme 6 Oil prices still low coupled with production cuts
- Theme 7 Inflation increases marginally, driven mainly by base effects
- Theme 8 Petrol prices may be re-adjusted from N145/litre
- Theme 9 Uncertainty around population and population growth rate
- Theme 10 The exchange rate depreciates in the latter part of the year





Diaspora remittances continues to support the economy...



Source: KNOMAD, PwC analysis

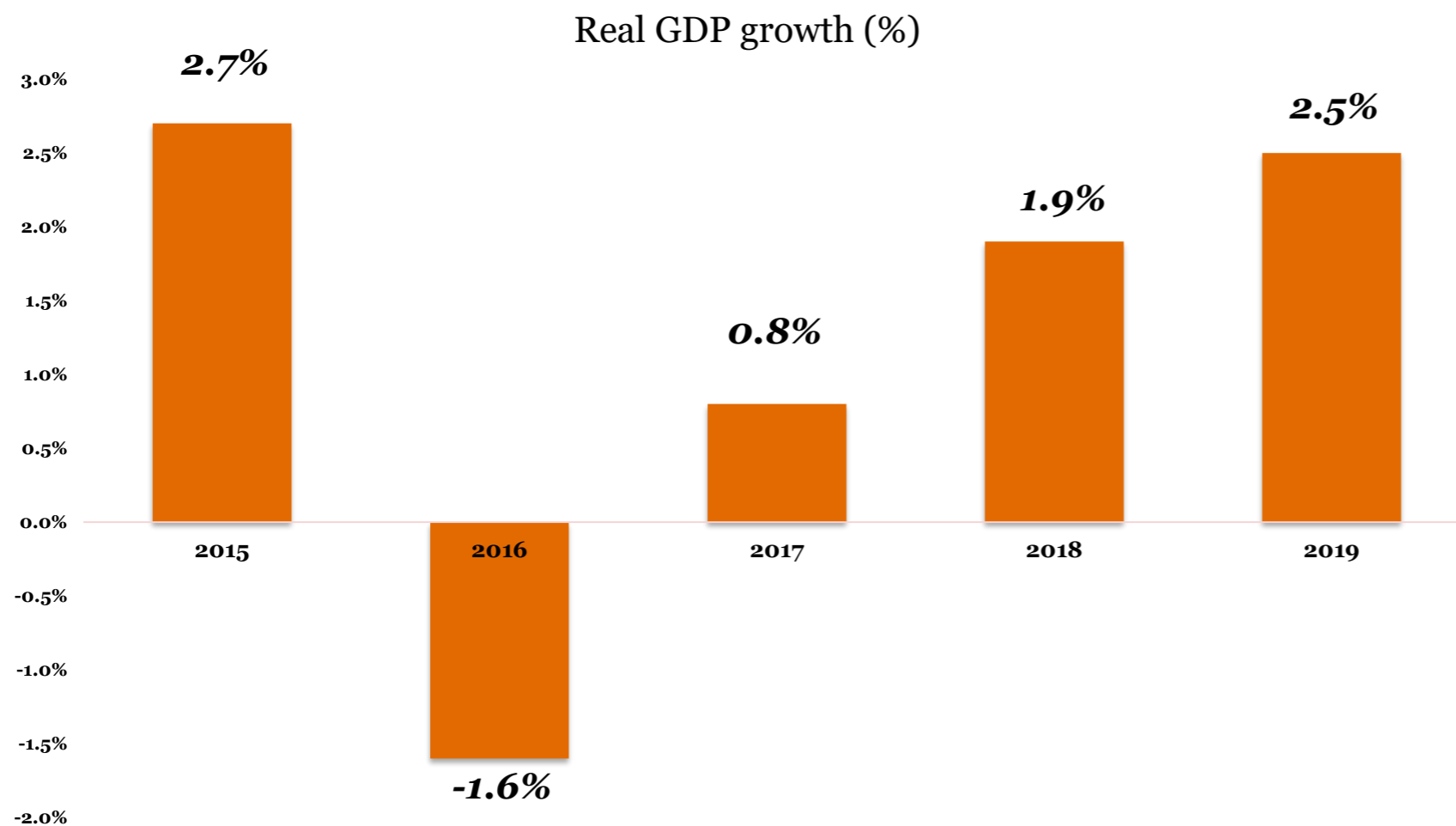
Nigeria: Economic Outlook

- The Nigerian diaspora sent an estimated US\$25 billion in remittances to the country in 2018, representing 6.1% of GDP
- This figure translates to 83% of the Federal Government budget in 2018 and 11 times the FDI flows in the same period
- Nigeria's migrant remittance inflows was also 7 times larger than the net official development assistance (foreign aid) received in 2017 of US\$3.359 billion

Leading countries worldwide by value of migrant remittance outflows comprise the United States, Switzerland, Germany, Russia and China...



Economic growth still sluggish characterized by lackluster recovery



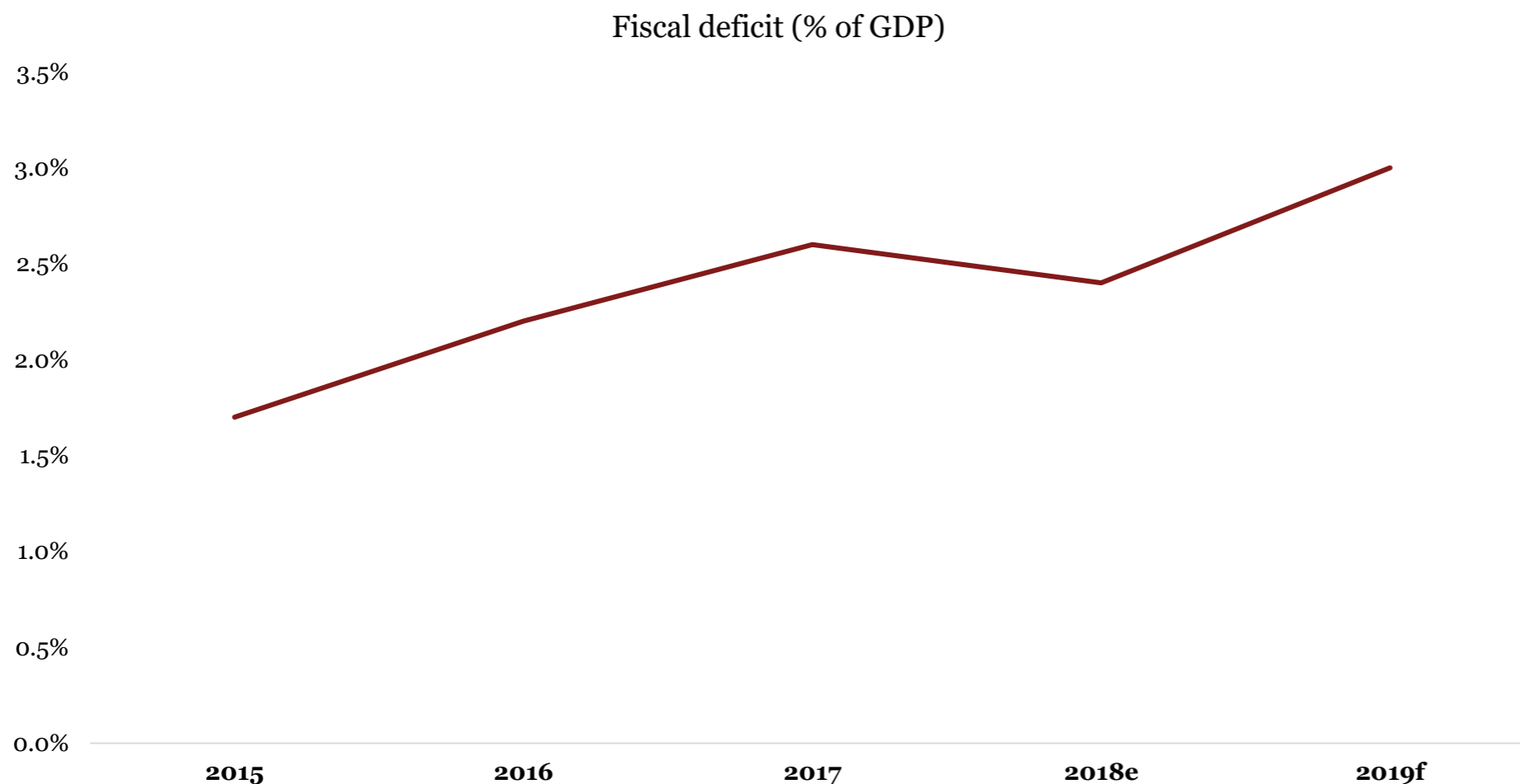
Source: NBS, PwC Estimates

Nigeria: Economic Outlook

- Real GDP growth expected to grow slightly to 2.5%/y/y on moderate improvements in net exports and domestic demand
- Depressed oil demand coupled with production supply cuts and price fluctuations will impact the economy's growth trajectory
- The investment climate will also be dampened in the short-term by uncertainty usually associated with the pre and post-election cycles in the country



Government's fiscal deficit expands above budget



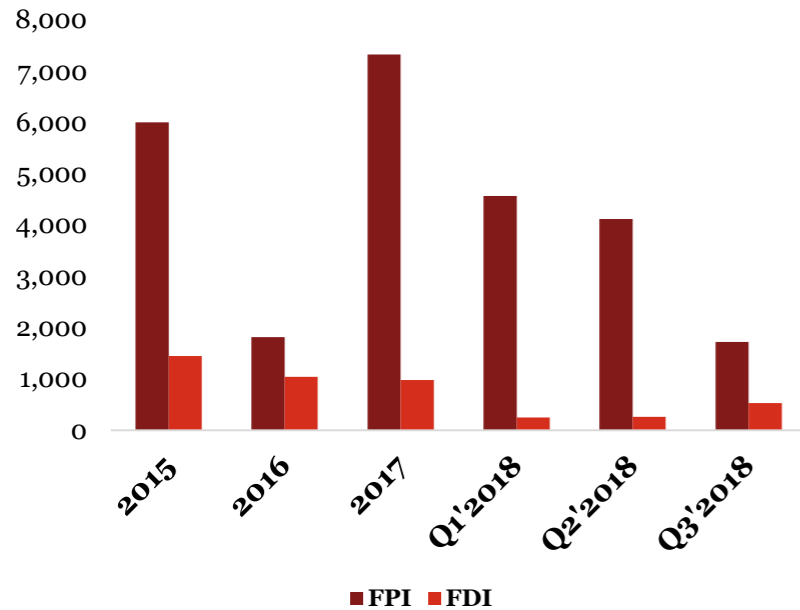
Source: Budget Office, IMF, PwC Analysis

- We expect revenues to underperform budget by c.27% as a shortfall in oil supply offsets the impact of oil price growth scenarios
- Consequently, debt service to revenue expands higher than the projected 31% in the budget
- Fiscal deficit widens by 79% to NGN4.55 trillion (3% of GDP). We expect that the deficit will be funded by an increased issuance in the domestic bond market



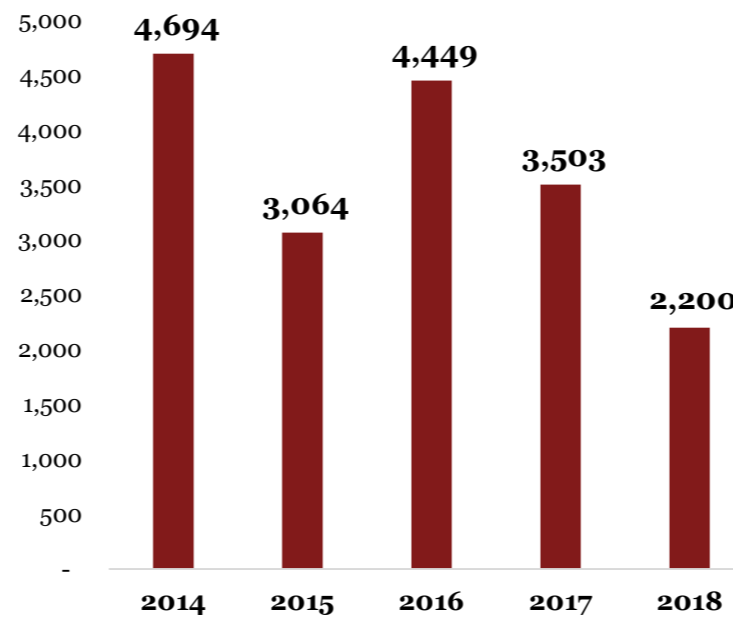
Election uncertainty coupled with lackluster execution of policy reforms impacts FPI and FDI inflows

Foreign Investment, 2015 - Q3'2018
(USD'million)



Source: NBS, PwC estimates

FDI flows (US\$ 'millions)



Source: UNCTAD, PwC analysis

Key Considerations

1

In 2018 we predicted a moderate increase in FPI and a slowdown in by HY'18, driven by uncertainty ahead of the elections. We expect FPI growth in HY'19 to remain low and lower than pre-2018 level

2

We expect FDI flows to be dampened by lackluster implementation of policy reforms

3

Key risks to foreign investment include

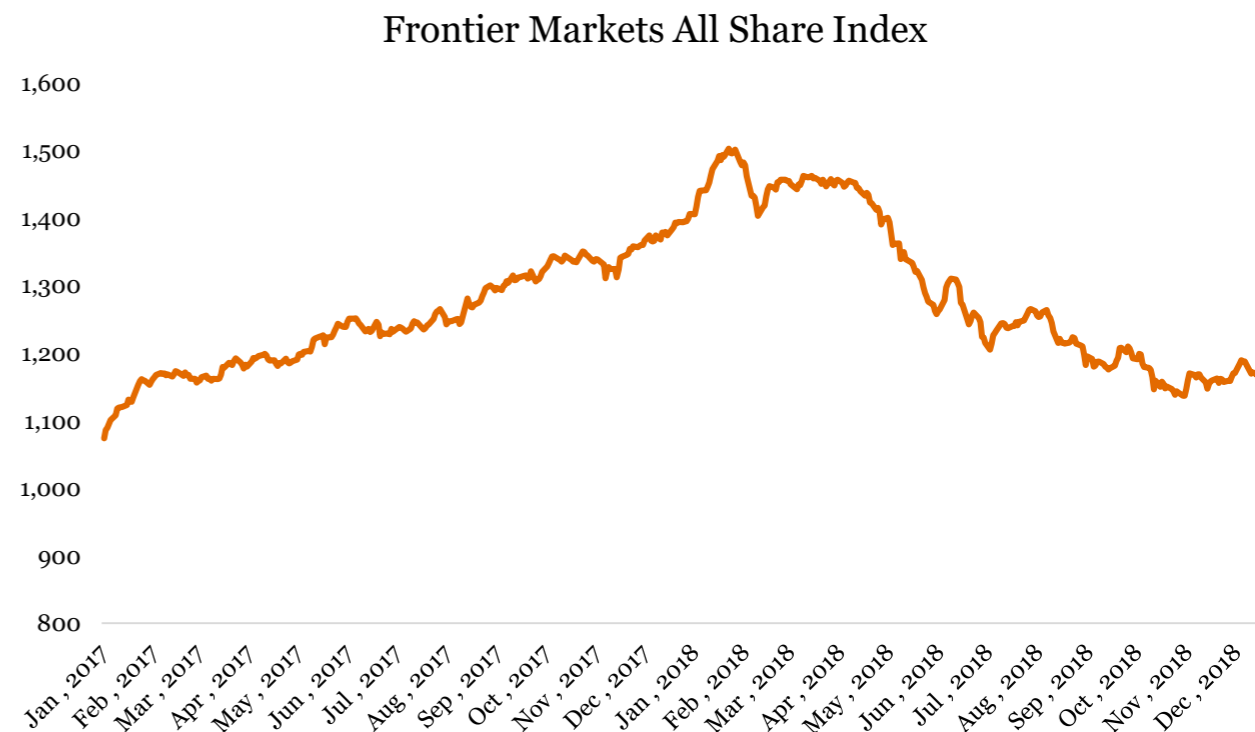
- Declining interest rate differentials as advanced economies continue to tighten policy rates
- Political instability following the 2019 elections
- Unfavourable investment climate
- Broad macroeconomic instability

PwC estimates that Nigeria would need an investment rate of at least 26% of GDP to achieve a growth of 7%

Global FDI flows fell by 19% in 2018. However, 2018 FDI flows to Africa increased by 6% from US\$38 bn to US\$40 bn. South Africa grew by 446%; Egypt by 7%. Nigeria, on the other hand, fell by 36% (to US\$2.2 bn) and was overtaken by Ghana with US\$3.3 bn



Uncertainty about the 2019 election outcomes, policy implementation slowdown & sell-offs by foreign investors in 2018 expected to slow growth in the stock market in HY' 2019 amidst monetary tightening by members of the frontier markets



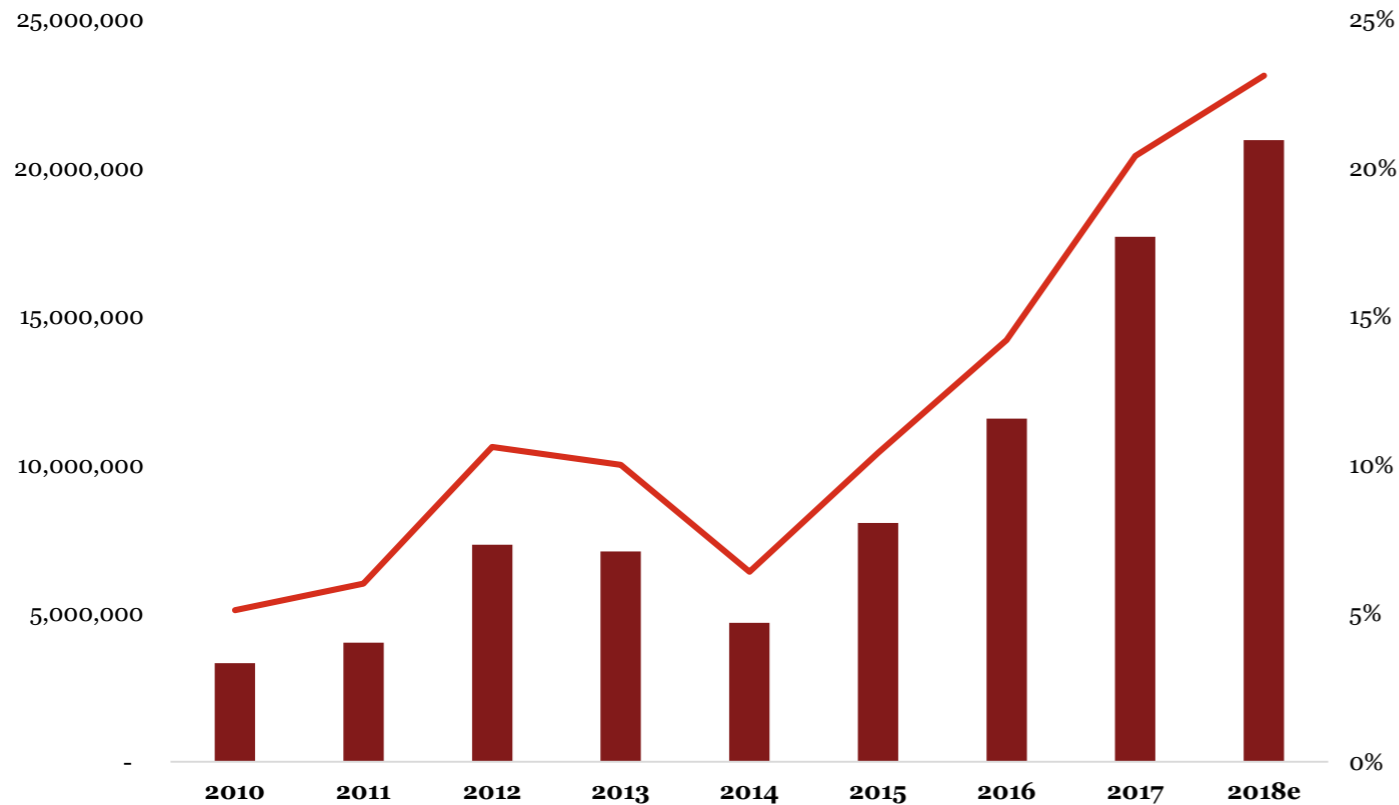
Source : CBN

Overall, key drivers for the market from HY'2019 include: commodity prices, exchange rate movement and stability; and inflation rate

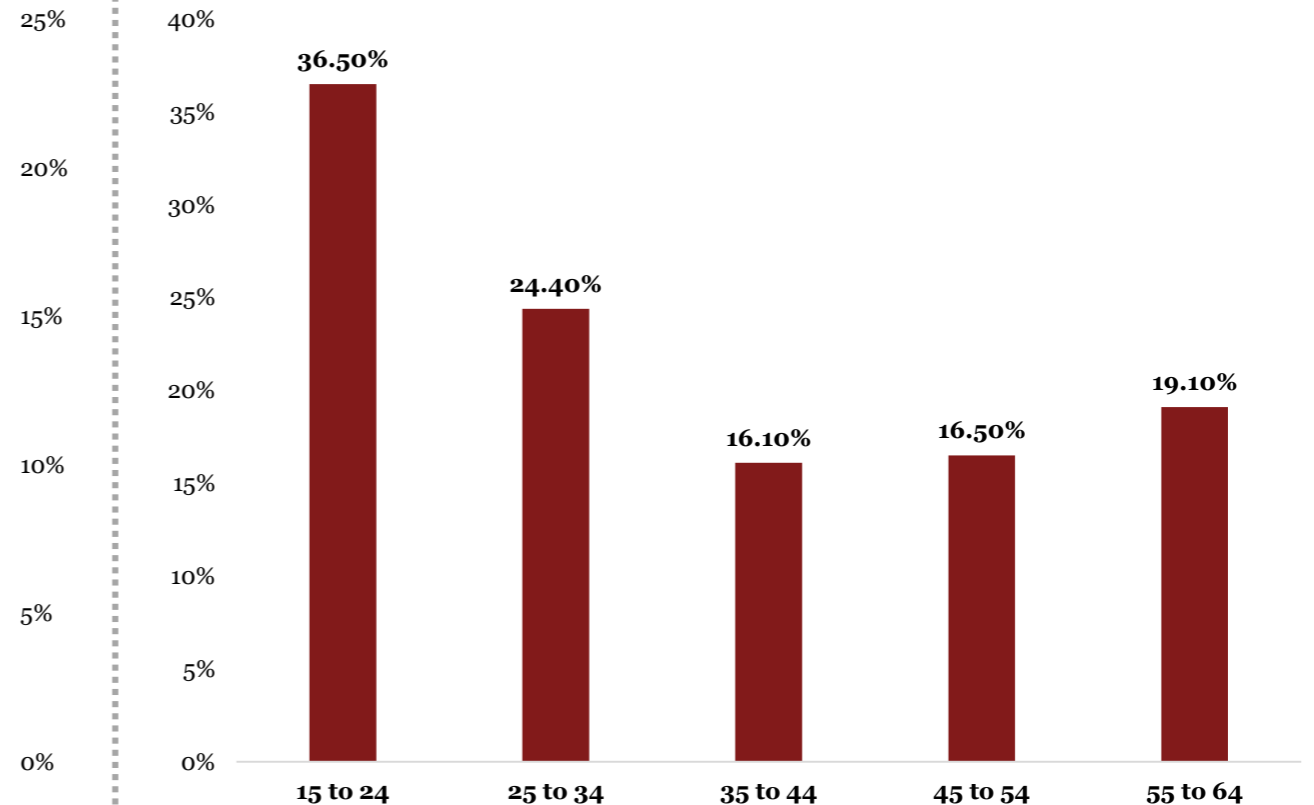


Unemployment rate continues to trend upward even as the youth population expands rapidly with more than half of the population under the age of 30

Unemployment rate (%) and total number of unemployed



Breakdown of unemployment by age group

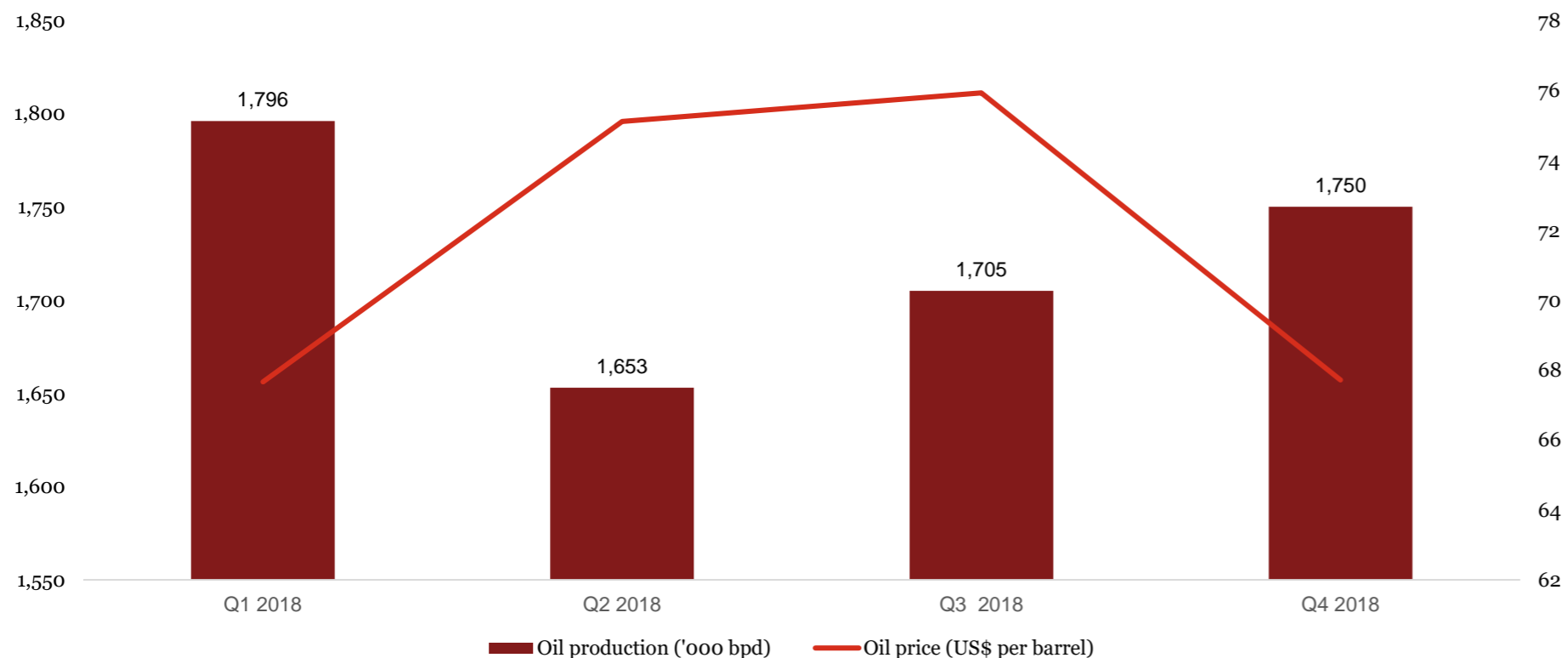


Source : NBS, PwC analysis



Oil prices still low coupled with production cuts

Nigeria, crude oil production vs price (quarterly)



- Fluctuating prices leave Nigeria's oil-driven economy vulnerable to external shocks
- The oil production curve continues to slope downward and below the 2 mbpd average target set by the central government
- OPEC has lowered Nigeria's oil production level to 1.685 mbpd. We expect this cut coupled with fluctuations in oil price and potential supply disruptions to impact the 2019 budget implementation

Rising oil prices will not be sustained in the long term as oil production increases globally and demand stagnates.



PMS Deregulation scenarios: petrol prices may be re-adjusted from NGN145/litre despite subsidy...

How much could Nigerians pay for petrol?

Exchange rate (NGN/USD)	Oil price (USD/bbl.)			
	50	60	70	80
285	144	164	184	205
325	160	183	206	229
365	176	202	228	254
405	192	221	250	278

- The grey area in the table are the possible retail prices of petrol per litre, given changes in exchange rate and oil price
- Note: The estimates are based on PPPRA's previous petrol pricing template as at May 2016, margins are held constant

	Current administered price
	Estimated retail price of PMS under a full deregulation scenario

Source: PPPRA, PwC estimates

Scenario A

Fuel subsidy

- NNPC continues to be the sole importer of petrol. Intermittent scarcity in the supply of petrol persists.
- Impact on headline inflation is marginal. Estimate remains at **13% y/y** in 2019, in line with our projection

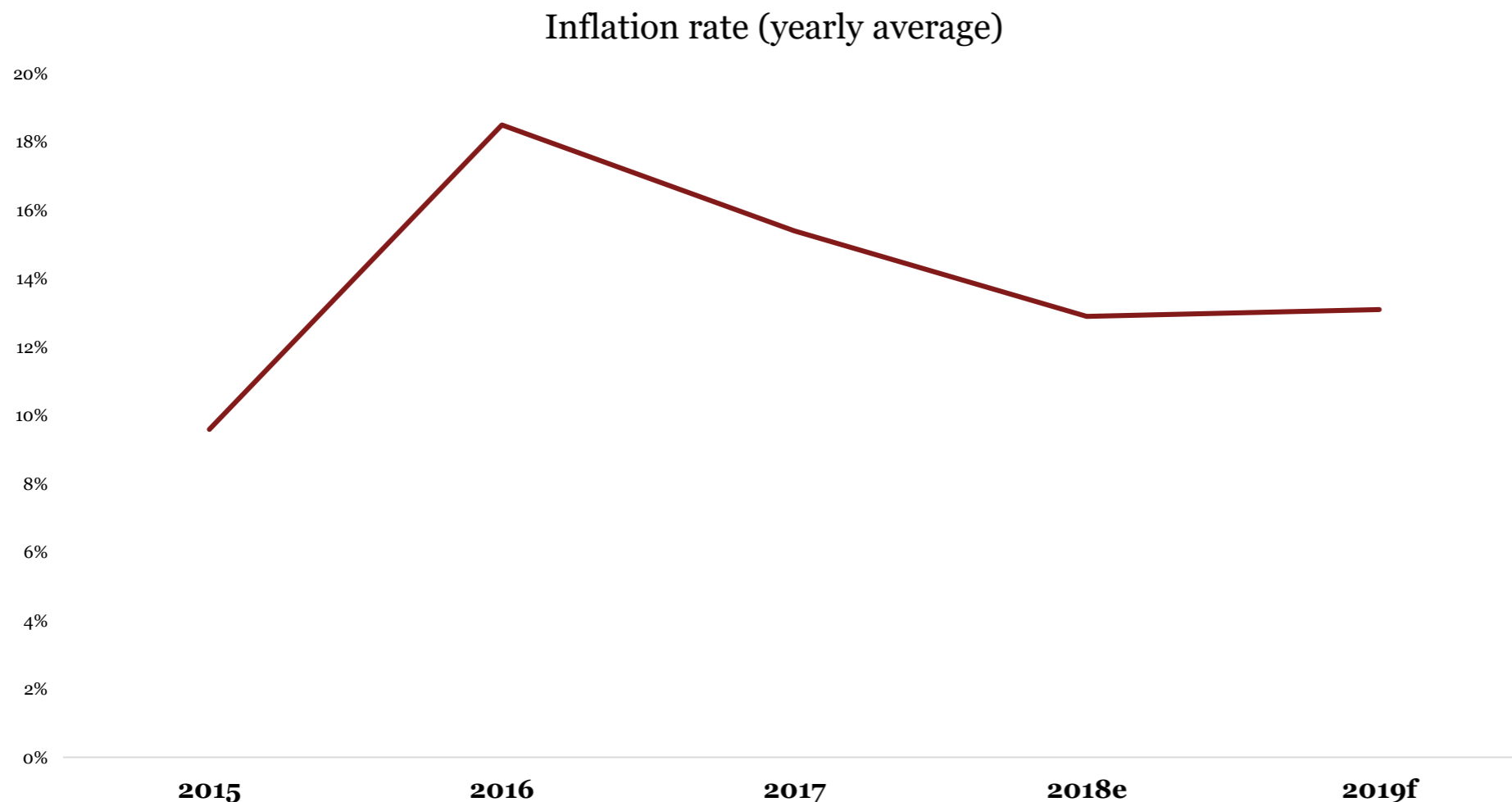
Scenario B

Full Deregulation

- The exchange rate assumption is marked to NAFEX; petrol prices increase by at least 57%
- Marketers resume importation of petrol, with improved supply
- Headline inflation accelerates to **15.0% y/y** in 2019, 210 bps above our baseline estimate



Inflation increases marginally, driven mainly by base effects



Source: NBS, PwC Estimates

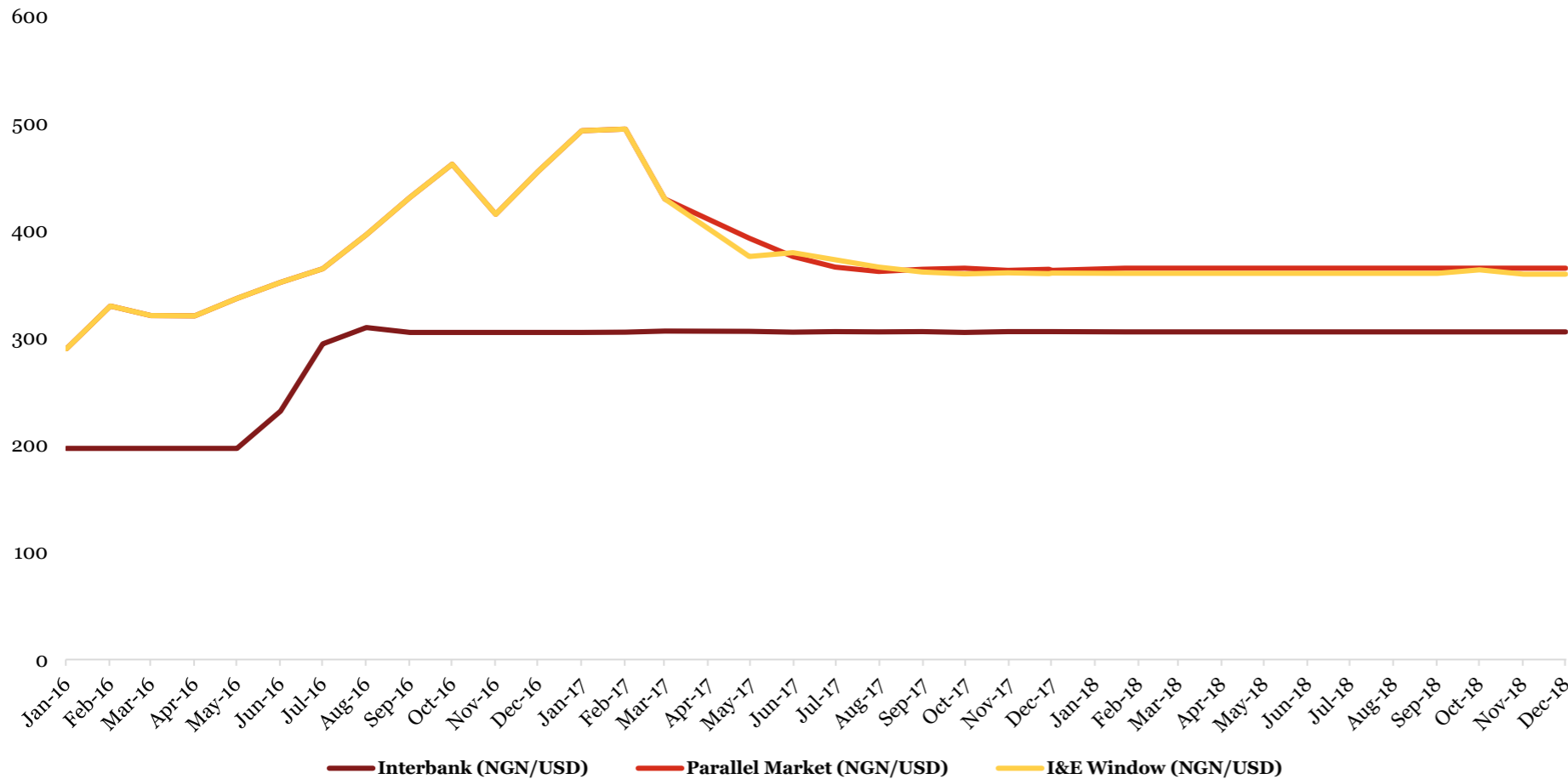
Nigeria: Economic Outlook

- Headline inflation accelerates from 2018 estimate of 11.2% by an average of 2 basis points to 13% y/y, driven by base effects
- Food inflation rises to 15.0% y/y - a reflection of food security challenges due to climate change and conflicts in the major food-producing regions
- Core inflation grows to 11%y/y due to moderately stronger consumer demand (increase in minimum wage bill) and higher transport costs (average increase in the price of PMS)



Exchange rate depreciates in the latter part of 2019

Exchange rate



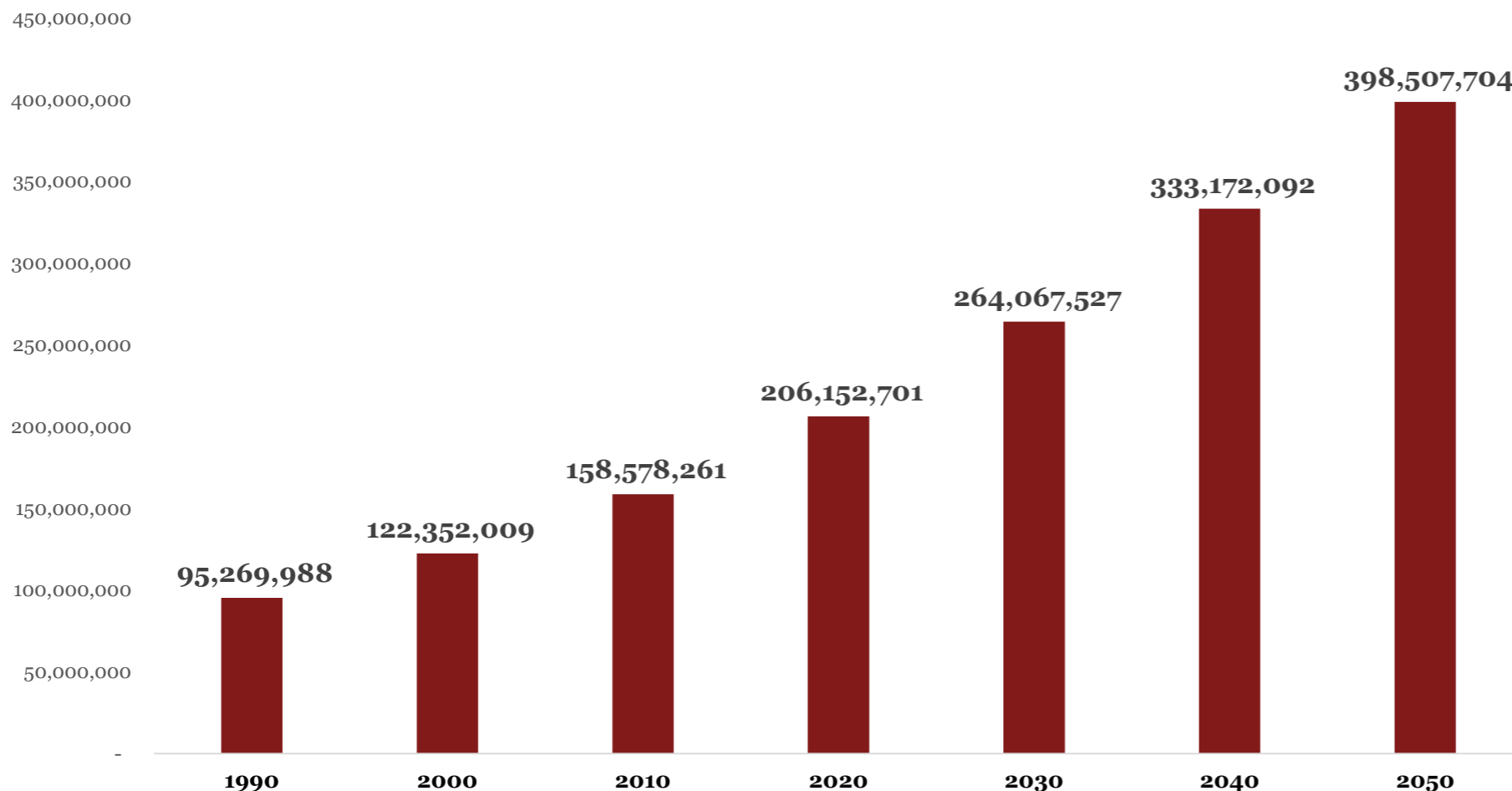
Source: CBN

- Early 2019, we expect the forex market to remain largely stable, however volatility in the oil market may cause depreciation that could range from about N390 to N415 per US\$ by year-end 2019
- In the bid to sustain its policy of exchange rate stability amidst sustained demand pressures, the Central Bank of Nigeria (CBN) increased dollar injections into the foreign exchange market by 87 percent to \$40 billion in 2018.



Uncertainty around population and population growth rate

Population growth in Nigeria (1990 - 2050)



Source: UN, PwC analysis

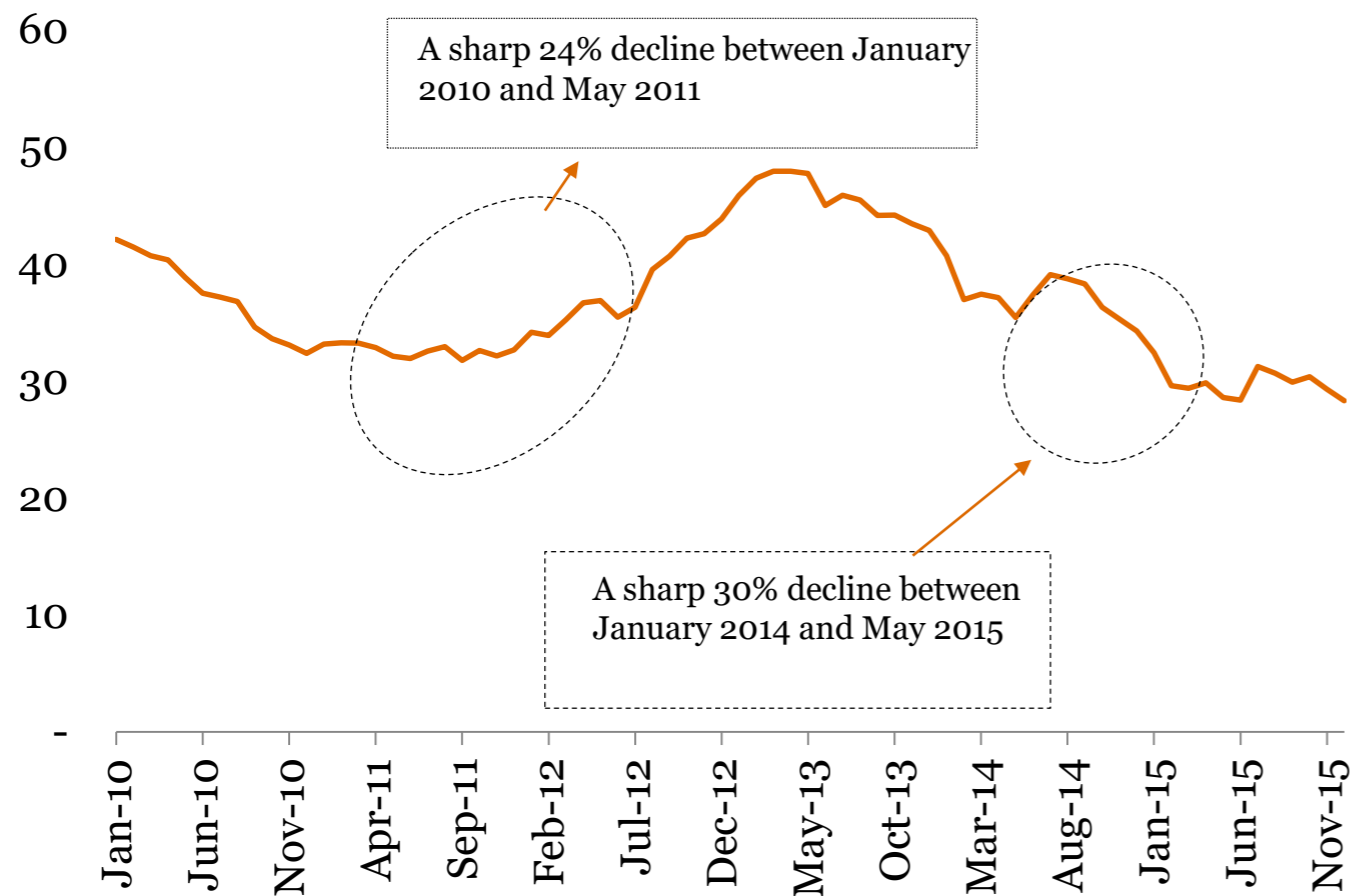
Nigeria: Economic Outlook

- Nigeria is projected to add no fewer than 200 million people to its current population of 196 million between 2018 and 2050. The country is also expected to surpass the United States, currently ranked the 3rd most populous in the world by 2050
- The last population census in Nigeria was held in 2006, over a decade ago. Assessing Nigeria's current growth rate necessitates the occurrence of another major census to gauge the actual growth rate and enable critical strategic decisions to be made regarding population-related issues such as housing, food supply, employment, among others

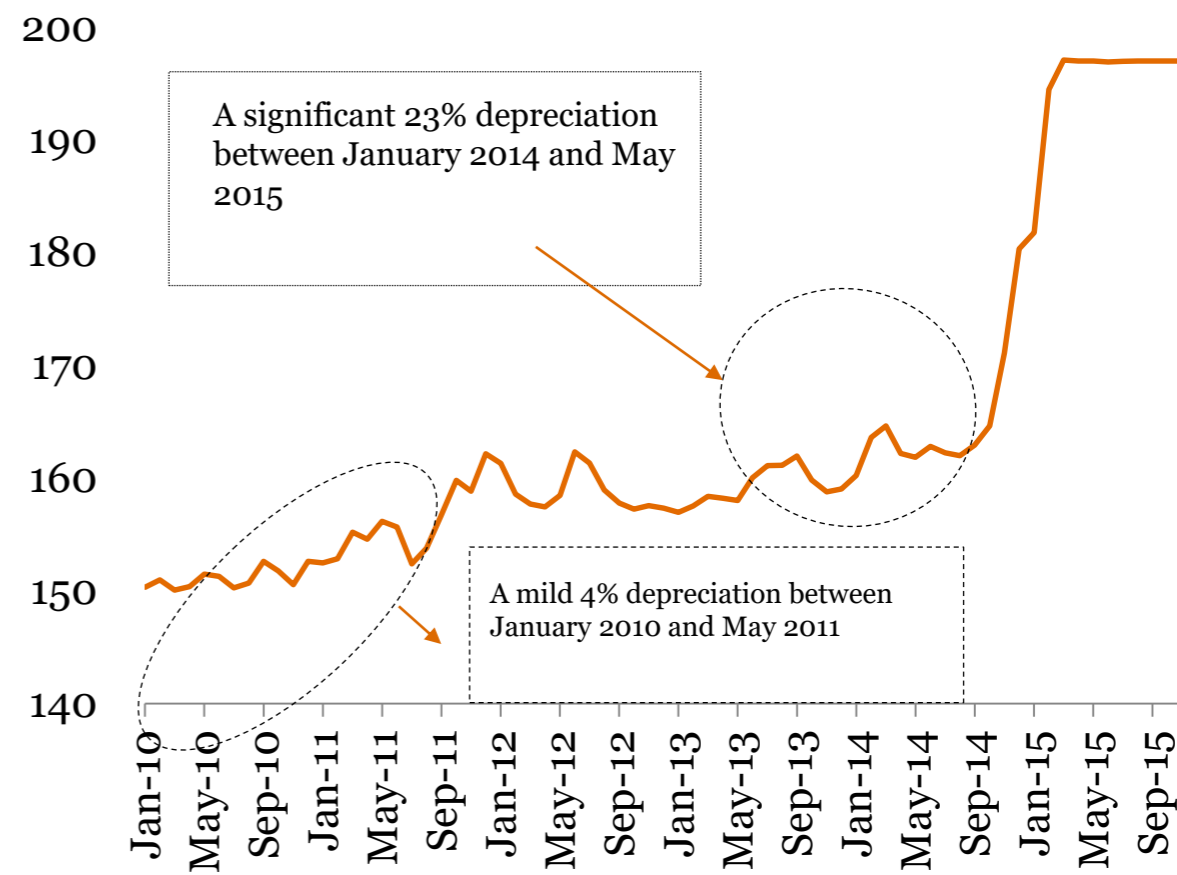


Recent history suggests that election cycles are associated with decreased external reserves and increased foreign exchange demand

External Reserves (USD' billion)



Interbank Rate (NGN/USD)



Source: CBN, PwC Analysis

Note: The extent of depreciation in the exchange rate depends on the broad macro-economic environment during the election season



2019 Election season underway...three horse race...?

What we know...

Presidential elections:
16 February 2019

*No of
Parties:
91

Three horse race?

**All Progressives
Congress**



**Peoples
Democratic Party**



Dark horse?

?

New political parties and alliances have emerged to challenge the dominance of the APC and PDP

Source: NBS, PwC estimates

Unwritten rule

The zoning principle

- Zoning implies the sharing or rotation of public office based on region, ethnicity or religion aimed at reducing domination or marginalization of a group(s) of people

What does historical data tell us?

- Reviewing election results from the past 2 presidential election cycles, we observed a shift in the voting pattern of voters in the South-West and the North-Central states in the 2015 elections
- The question is, which states will swing in 2019?

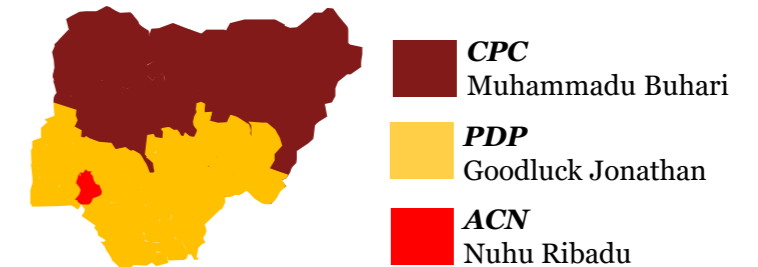
PwC Analysis

Total number of registered voters as at August 15, 2018 = 84,004,084

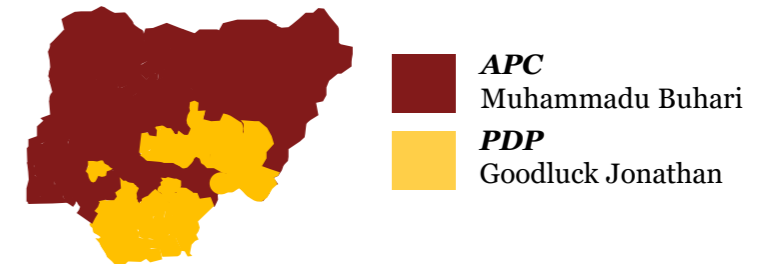
Source: INEC

Which states will swing in 2019?

2011 Presidential Election



2015 Presidential Election



Note: CPC and ACN merged into APC in 2013



Emerging risks pose a threat to policy continuity, economic recovery and macro-economic growth, as well as socio-political stability

<i>Risks</i>	<i>Description</i>	<i>Potential impact</i>	<i>Likelihood of occurrence</i>	<i>Time horizon</i>
Lower oil prices	Failure of OPEC members to comply with production cuts agreement and increasing shale production	●	●	Short to medium term
Slowdown in key economies	Slowdown in economies with strong trade relations with Nigeria, particularly China, the UK , the US and India	●	●	Short to medium term
Monetary policy normalisation	Ongoing monetary policy normalisation in the US could lead to a reversal of foreign capital and restrict further flows	●	●	Short to medium term
High inflation	Election spending	●	●	Short to medium term
	Adjustment of petrol prices and power tariff	●	●	



Low



Medium



High



Lower oil prices, disruptions to crude oil production, and political instability are the major near term risks

<i>Risks</i>	<i>Description</i>	<i>Potential impact</i>	<i>Likelihood of occurrence</i>	<i>Time horizon</i>
Oil production disruption	Attacks on oil and gas facilities by militant groups in the Niger Delta region	●	●	Short to medium term
Political risk/Heightened insecurity	Election uncertainties could elevate political tensions, and leadership succession could hamper policy continuity	●	●	Short to medium term
	Continuous insurgency in the Northern region	●	●	Medium term



Low



Medium

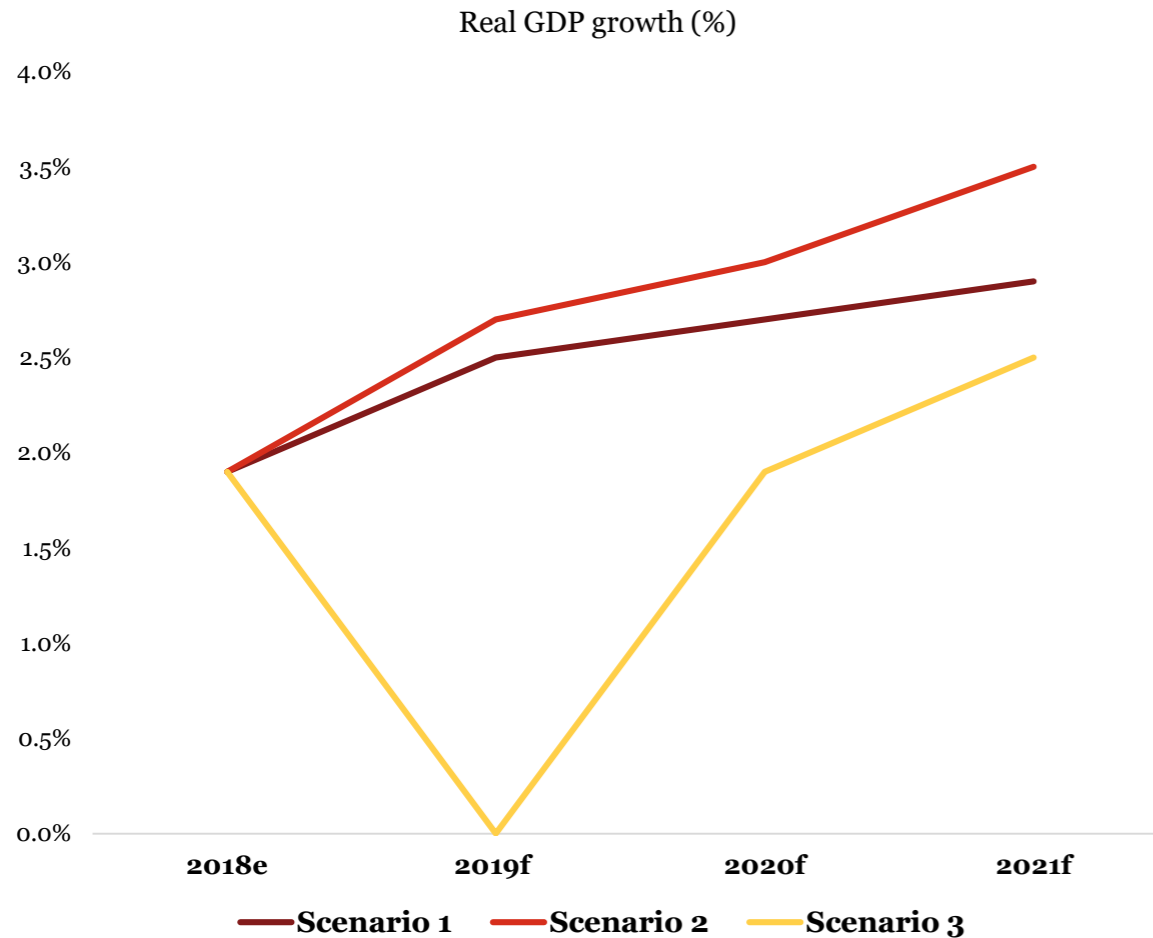


High

PwC Analysis



A stable political environment key to sustaining Nigeria's economic recovery



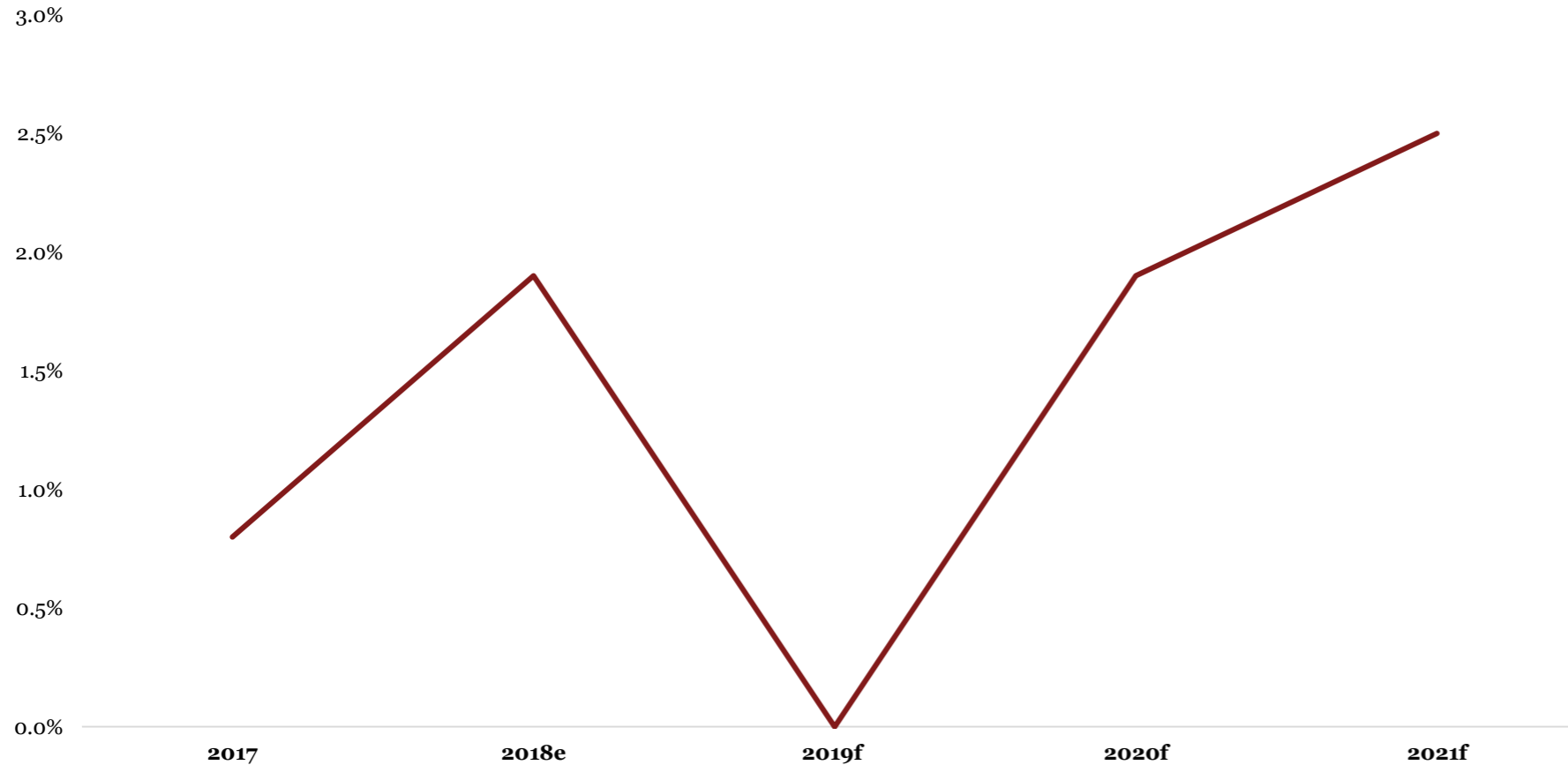
Our Assumptions	Oil price (USD/bbl.)	Oil Production (mbpd)	Structural reforms
Scenario 1: Incumbent returns to power	60	1.7	Policy continuity with all the reform policies intact and the economy continues its recovery albeit at a slow pace
Scenario 2: New government emerges	60	1.9	New policies are formulated or potential re-adjustment to existing policy with focus on deepening the recovery of the economy
Scenario 3: Heightened political risk	60	1.4	Political tension accelerates in the wake of the 2019 general elections, negatively impacting policy implementation with significant security risks across parts of the country

Source: PwC estimates



Uncertain post-election outcomes could accelerate political tensions and leadership succession could hamper policy continuity and the economy

Real GDP growth (%)



A mix of political and security shocks in scenario 3 bring about a significant decline in revenues resulting in no growth (zero percent) in 2019.



Abbreviations

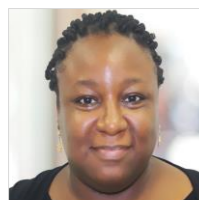
APC	All Progressives Congress
ACN	Action Congress of Nigeria
BBI	Barrel of Crude Oil
CBN	Central Bank of Nigeria
CPC	Congress for Progressive Change
FDI	Foreign Direct Investment
FPI	Foreign Portfolio Investment
GDP	Gross Domestic Product
I&E	Investors and Exporters Window
MPC	Monetary Policy Committee
MPR	Monetary Policy Rate
NAFEX	Nigerian Autonomous Foreign Exchange Rate Fixing
NBS	National Bureau of Statistics
NGN	Nigerian Naira
NNPC	Nigerian National Petroleum Corporation
OMO	Open Market Operation
PDP	People's Democratic Party
PPPRA	Petroleum Products Pricing Regulatory Agency
USD	United States Dollar



Contacts



Andrew S. Nevin
Partner & Chief Economist
PwC Nigeria
andrew.x.nevin@pwc.com



Omosomi Omomia
Senior Industry Associate
PwC Nigeria
omomia.omosomi@pwc.com

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