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NIGERIA Economic Update

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PwC -World in 2050

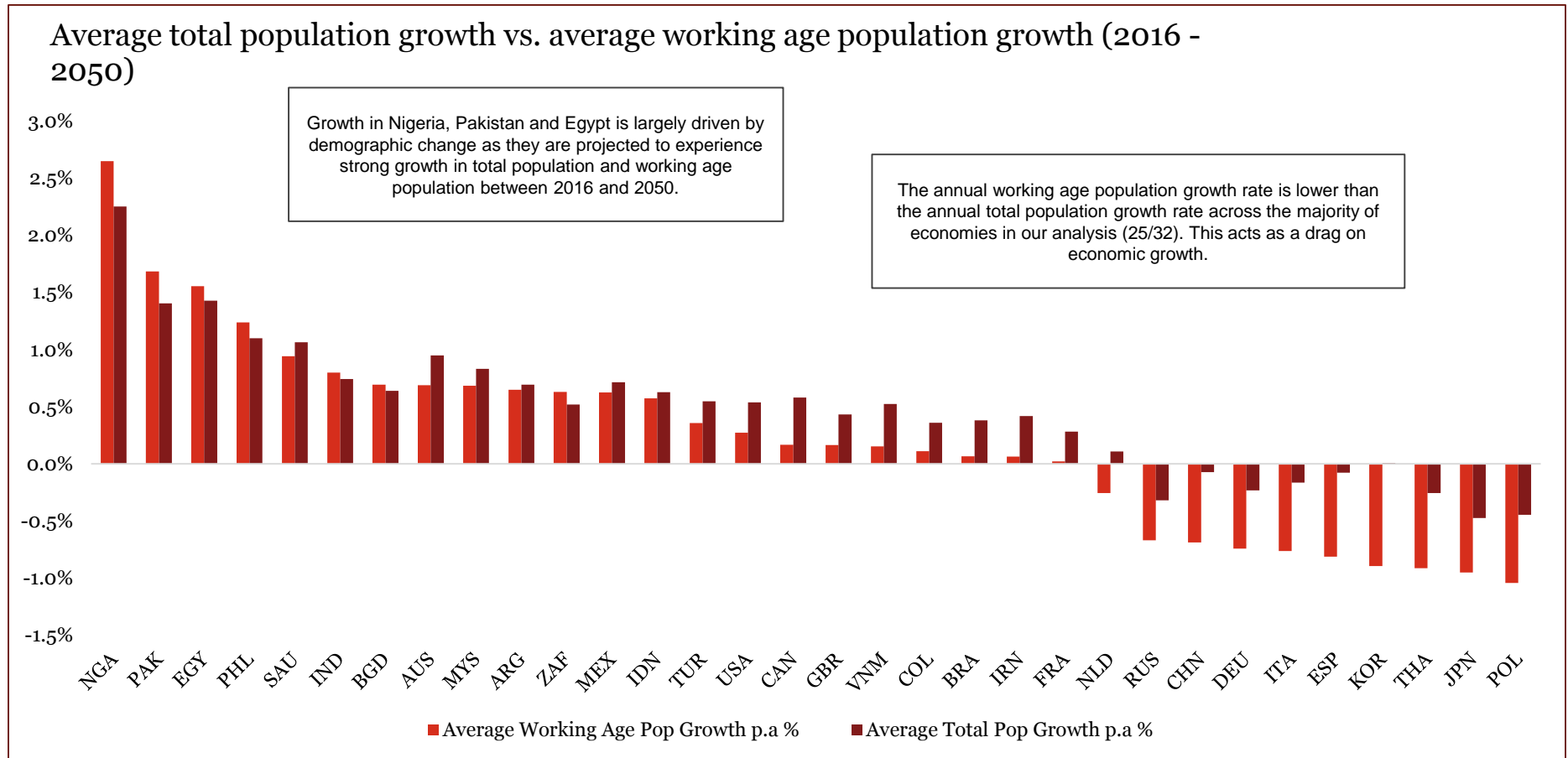
Executive summary: key findings

- We project the world economy to grow at an average of just over 2.5% per annum in terms of real GDP per capita at purchasing power parity (PPP) in the period 2016 – 50, doubling in size by 2042.
- But we expect a slowdown in global growth after 2020, as the rate of expansion in China and some other major emerging economies moderates to a more sustainable long-term rate, and as working age population growth slows in many large economies.
- The global economic power shift away from the established advanced economies in North America, Western Europe and Japan will continue over the next 34 years. India is projected to become the second largest economy in the world by 2038 in PPP terms (third in MER terms) and China is expected to be the world's largest economy in both PPP and MER terms by 2030.
- Emerging economies such as Mexico and Indonesia are projected to be larger than the UK and France by 2030 (in PPP terms) while Vietnam could become larger than Italy and Canada.
- Vietnam is projected to record the highest annual average real GDP per capita growth over the period 2016 – 2050 at 4.5%, while Bangladesh and India are forecast to achieve growth levels of around 4%.
- ***Growth in other emerging economies such as Nigeria, Pakistan and Egypt is largely driven by demographic change as they are projected to experience strong increases in total population and working age population between 2016 and 2050.***
- But for the majority of economies in our analysis, annual working age population growth is slower than annual total population growth and this acts as a drag on GDP per capita.
- While the emerging economies are projected to experience the highest real GDP growth rates, they still lag well behind the G7 in terms of GDP per capita levels in 2050.

Source PwC Analysis

2016: Average total population growth vs. average working age population growth (2016 - 2050)

Nigeria, Egypt, Pakistan and the Philippines are projected to have the highest average annual population and working age population growth rates



Source PwC Analysis

2016: GDP at PPP rankings

We project that India could have the potential to overtake the US as the world's second largest economy by 2050 in PPP terms

GDP PPP rankings	GDP MER rankings	2016 rankings			2030 rankings			2050 rankings		
		Country	GDP at PPP	GDP at MER	Country	Projected GDP at PPP	Projected GDP at MER	Country	Projected GDP at PPP	Projected GDP at MER
1	2	China	21269	11392	China	38008	26499	China	58499	49853
2	1	United States	18562	18562	United States	23475	23475	India	44128	28021
3	7	India	8721	2251	India	19511	7841	United States	34102	34102
4	3	Japan	4932	4730	Japan	5606	5468	Indonesia	10502	7275
5	4	Germany	3979	3495	Indonesia	5424	2449	Brazil	7540	6532
6	12	Russia	3745	1268	Russia	4736	2111	Russia	7131	5127
7	9	Brazil	3135	1770	Germany	4707	4347	Mexico	6863	5563
8	16	Indonesia	3028	941	Brazil	4439	2969	Japan	6779	6779
9	5	United Kingdom	2788	2650	Mexico	3661	2143	Germany	6138	6138
10	6	France	2737	2488	United Kingdom	3638	3530	United Kingdom	5369	5369
11	15	Mexico	2307	1064	France	3377	3186	France	4705	4705
12	8	Italy	2221	1852	Saudi Arabia	2755	1407	Saudi Arabia	4694	3495
13	11	South Korea	1929	1404	South Korea	2651	2278	Turkey	4542	3622
14	19	Saudi Arabia	1731	638	Turkey	2625	1511	Nigeria	4348	3282
15	14	Spain	1690	1252	Italy	2541	2278	Egypt	4333	2990
16	10	Canada	1674	1532	Iran	2354	1005	Pakistan	4236	2831
17	18	Turkey	1670	736	Spain	2159	1863	Iran	3900	2586
18	23	Iran	1459	412	Canada	2141	2030	South Korea	3539	3539
19	13	Australia	1189	1257	Egypt	2049	908	Philippines	3334	2536
20	24	Thailand	1161	391	Pakistan	1868	776	Vietnam	3176	2280
21	25	Egypt	1105	340	Nigeria	1794	875	Italy	3115	3115
22	22	Nigeria	1089	415	Thailand	1732	823	Canada	3100	3100
23	21	Poland	1052	467	Australia	1663	1716	Bangladesh	3064	2263
24	28	Pakistan	988	284	Philippines	1615	871	Malaysia	2815	2054
25	20	Argentina	879	542	Malaysia	1506	744	Thailand	2782	1995
26	17	Netherlands	866	770	Poland	1505	1015	Spain	2732	2732
27	27	Malaysia	864	303	Argentina	1342	967	South Africa	2570	1939
28	26	Philippines	802	312	Bangladesh	1324	668	Australia	2564	2564
29	29	South Africa	736	280	Vietnam	1303	624	Argentina	2365	2103
30	30	Colombia	690	274	South Africa	1148	557	Poland	2103	2103
31	31	Bangladesh	628	227	Colombia	1111	586	Colombia	2074	1591
32	32	Vietnam	595	200	Netherlands	1080	1007	Netherlands	1496	1496

Note: GDP at PPP is in constant 2016 international \$, GDP MER is in US\$

World in 2050

Five ways in which Nigeria can support inclusive growth (1/2)

	Issues	Recommended Actions
<p><i>Between now and 2050, over half of global population growth will occur in Africa so that there will be 2.4 billion Africans in 2050, more than three times Europe's population.</i></p> <p><i>Nigeria's population alone is estimated to be around 400 million in 2050, equivalent to around 56% of Europe's population, making it the third most populous country in the world.</i></p> <p><i>Hence, the challenge over the next few years is ensuring output growth keeps pace with population growth while the country transitions from an oil economy to a non-oil economy.</i></p>	Improving tax collection	<ul style="list-style-type: none"> ❑ Nigeria is a low-taxed economy, the second lowest in Africa and the fourth lowest in the world. Excluding oil and gas revenues, tax receipts are estimated at just 3% of GDP. If these could be increased to the Sub-Saharan African economies' average of 18% of GDP, Nigeria could potentially raise its tax revenues to around \$104 billion, the equivalent of Morocco's total GDP in 2013 ❑ Higher tax revenues would reduce government borrowing and encourage financial institutions to offer fund at lower interest rates, thereby boosting the real economy
	Economic diversification	<ul style="list-style-type: none"> ❑ Nigeria's potential advantages for future growth include a large consumer market, a strategic geographic location as a hub for Africa, and a young and entrepreneurial population ❑ The first step in harnessing this opportunity requires deliberate efforts to improve value-adding activity in the non-oil economy, particularly in agriculture and the services sectors
	Corruption	<ul style="list-style-type: none"> ❑ If Nigeria reduces corruption, there is a significant opportunity to boost GDP levels. For example, if corruption in Nigeria could be reduced in the long-run to estimated levels in Malaysia, we estimate that annual GDP could rise by over \$500 billion by 2030 ❑ Deliberate efforts to reduce corruption will complement the Nigerian government's diversification drive

World in 2050

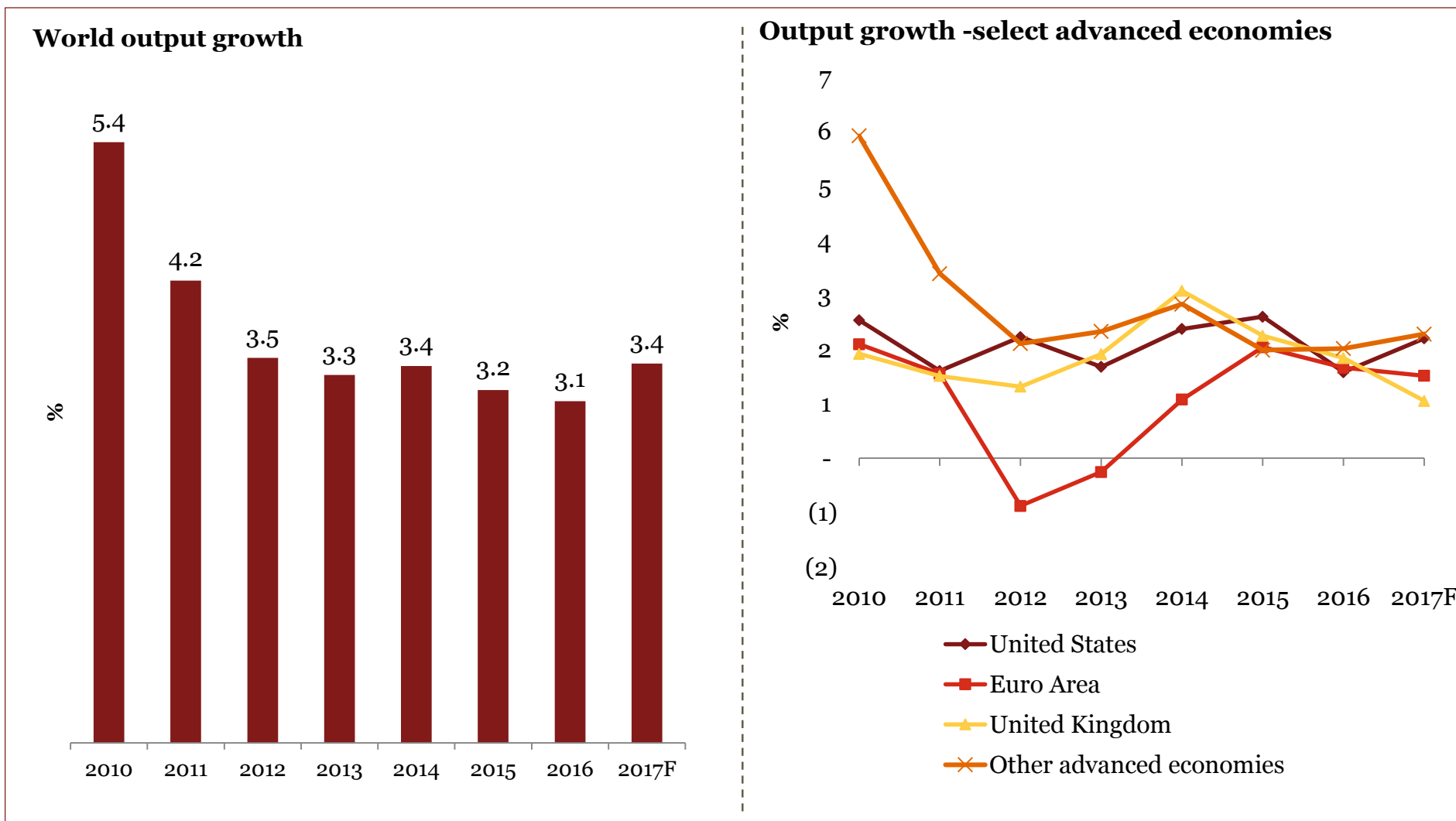
Five ways in which Nigeria can support inclusive growth (2/2)

	Issues	Recommended Actions
<p><i>Between now and 2050, over half of global population growth will occur in Africa so that there will be 2.4 billion Africans in 2050, more than three times Europe's population.</i></p> <p><i>Nigeria's population alone is estimated to be around 400 million in 2050, equivalent to around 56% of Europe's population, making it the third most populous country in the world.</i></p> <p><i>Hence, the challenge over the next few years is ensuring output growth keeps pace with population growth while the country transitions from an oil economy to a non-oil economy.</i></p>	Easing the constraints to business	<ul style="list-style-type: none"> ❑ A weak business environment is holding back Nigeria's economic growth potential and slowing down the pace of development ❑ Nigeria will need to particularly focus on improving electricity, simplifying the tax collection process, and improving trading across borders so as to leverage its position as the hub of West Africa
	Increasing labour productivity	<ul style="list-style-type: none"> ❑ Nigeria has the advantage of a large workforce of over 70 million, but the majority are under-skilled. Average productivity of a worker in Nigeria is very low at US\$3.24/hr relative to US\$19.68/hr in South Africa and US\$29.34/hr in Turkey ❑ Improvements in productivity will require investments to ensure a broad availability of good quality education as well as relevant vocational training to improve value-added activity across key sectors such as manufacturing and services.

Source PwC Analysis

Global Outlook

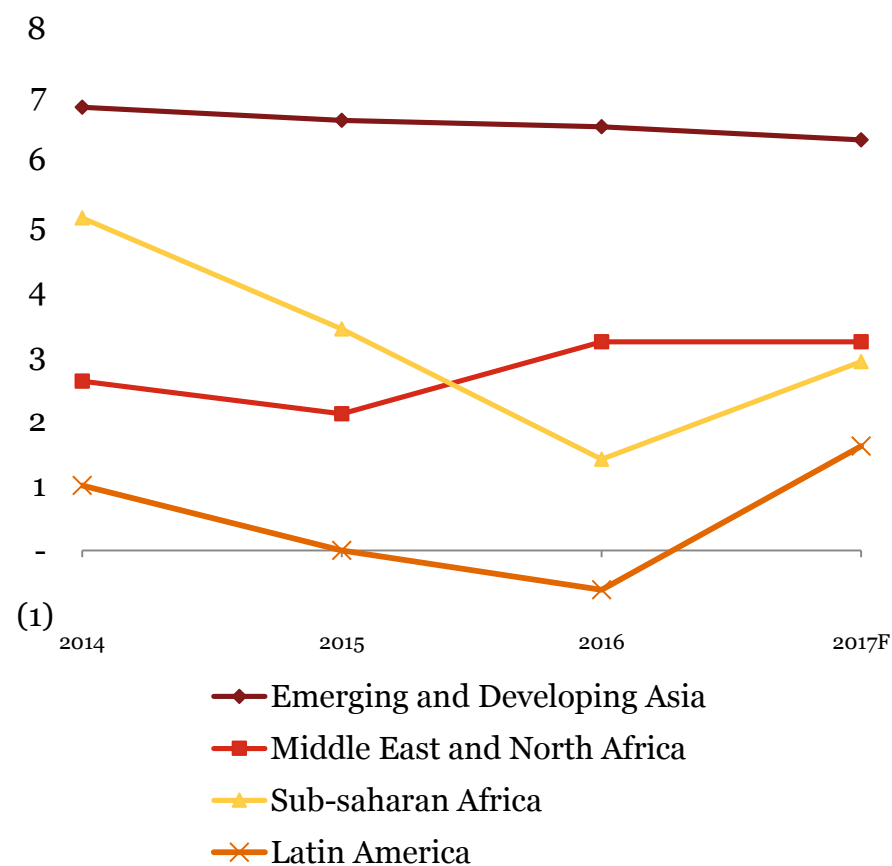
Global growth recovery subdued by downside risks from Brexit and weaker-than-expected growth in the United States



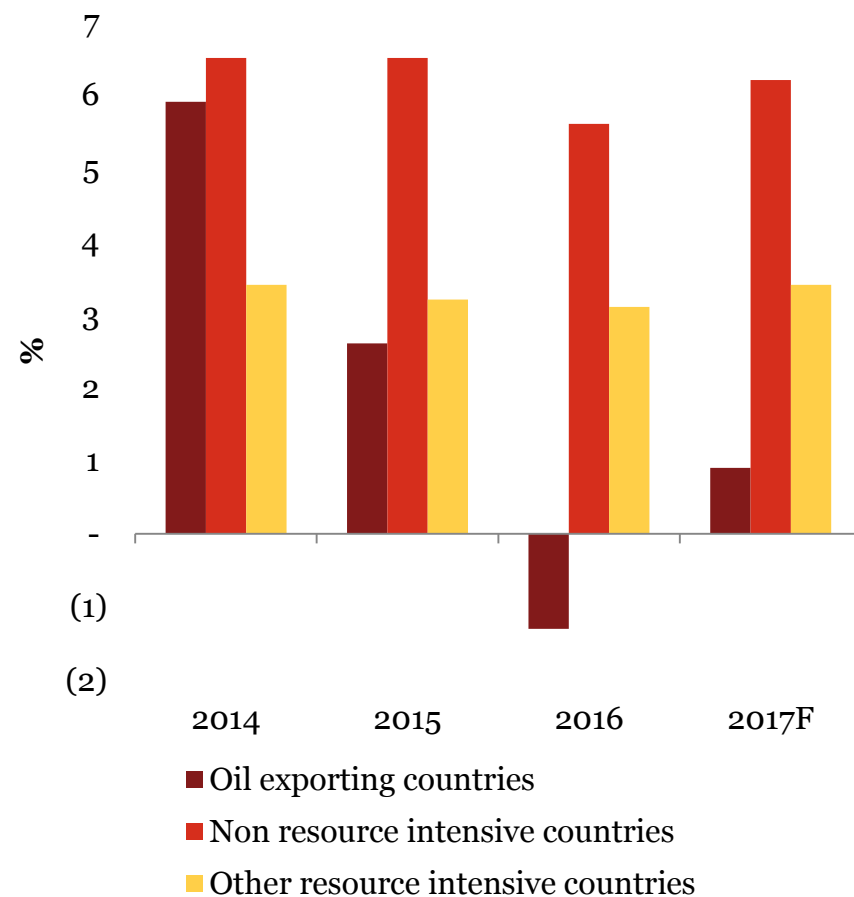
Source: IMF World Economic Outlook

Recovery in commodity prices and reduced concerns about China's near term prospects provides boost to EM growth

Output growth - Emerging and Developing economies

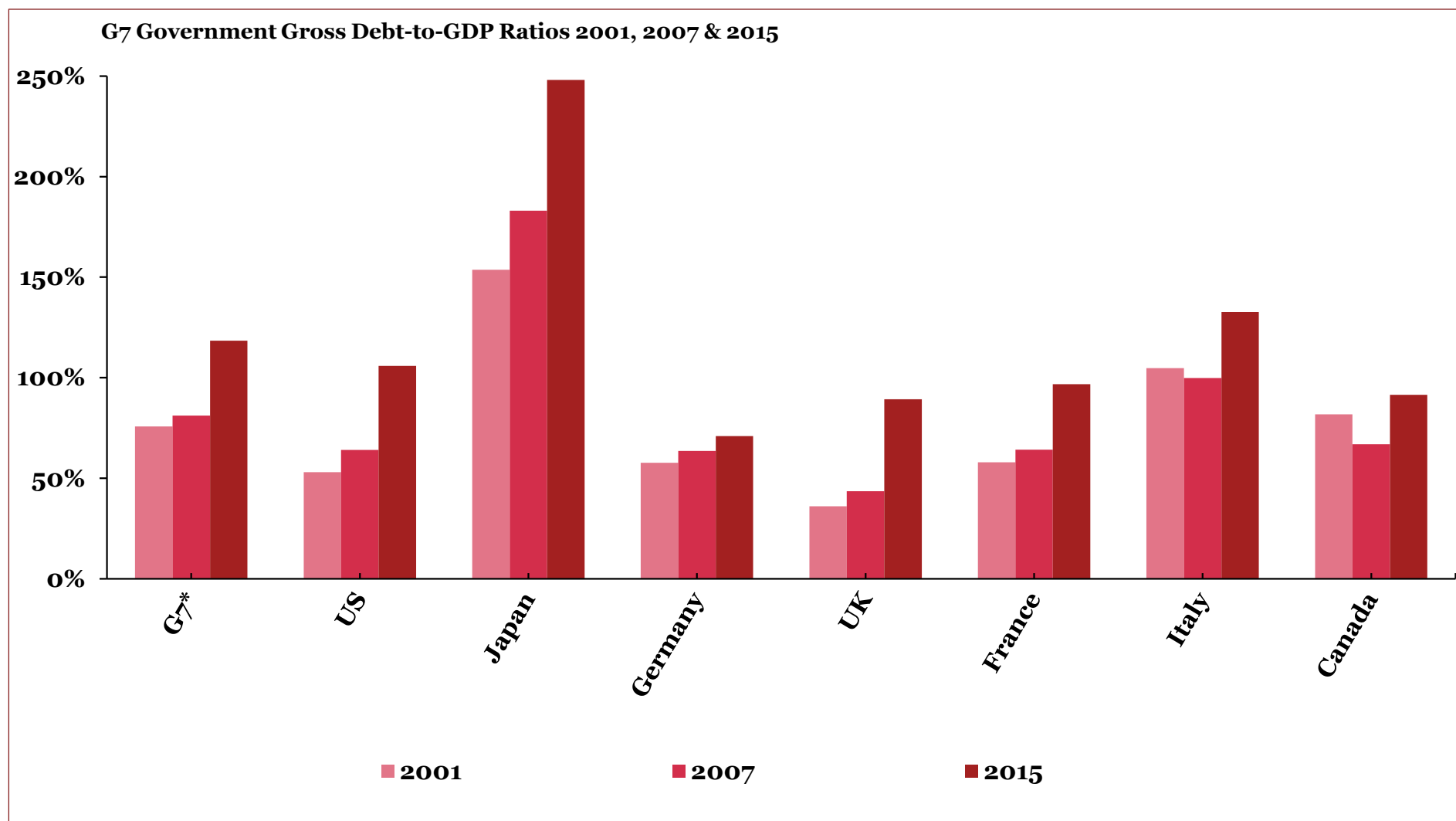


SSA real GDP growth



Source: IMF World Economic Outlook

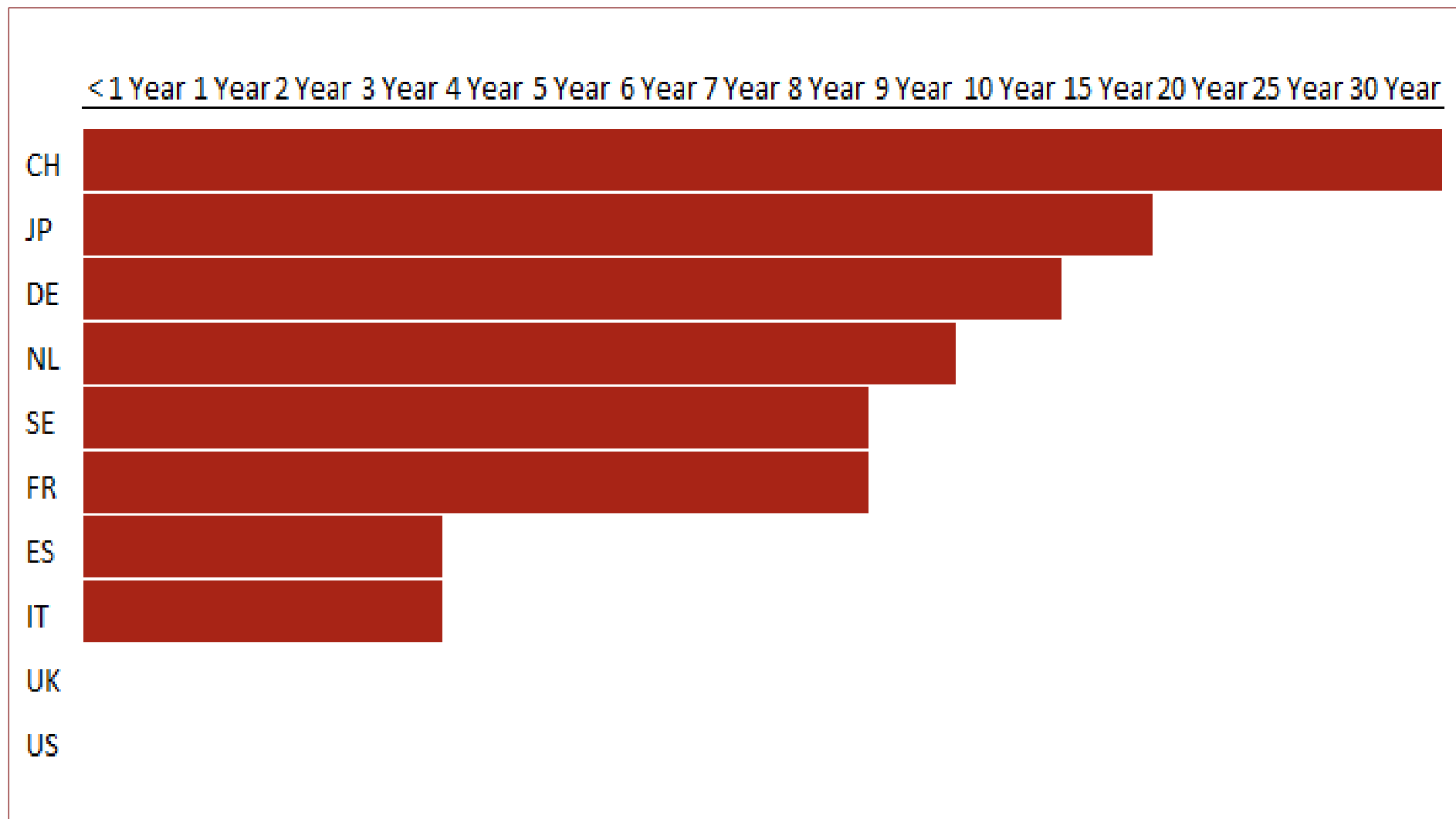
Financial Crisis Watch



Source: IMF World Economic Outlook

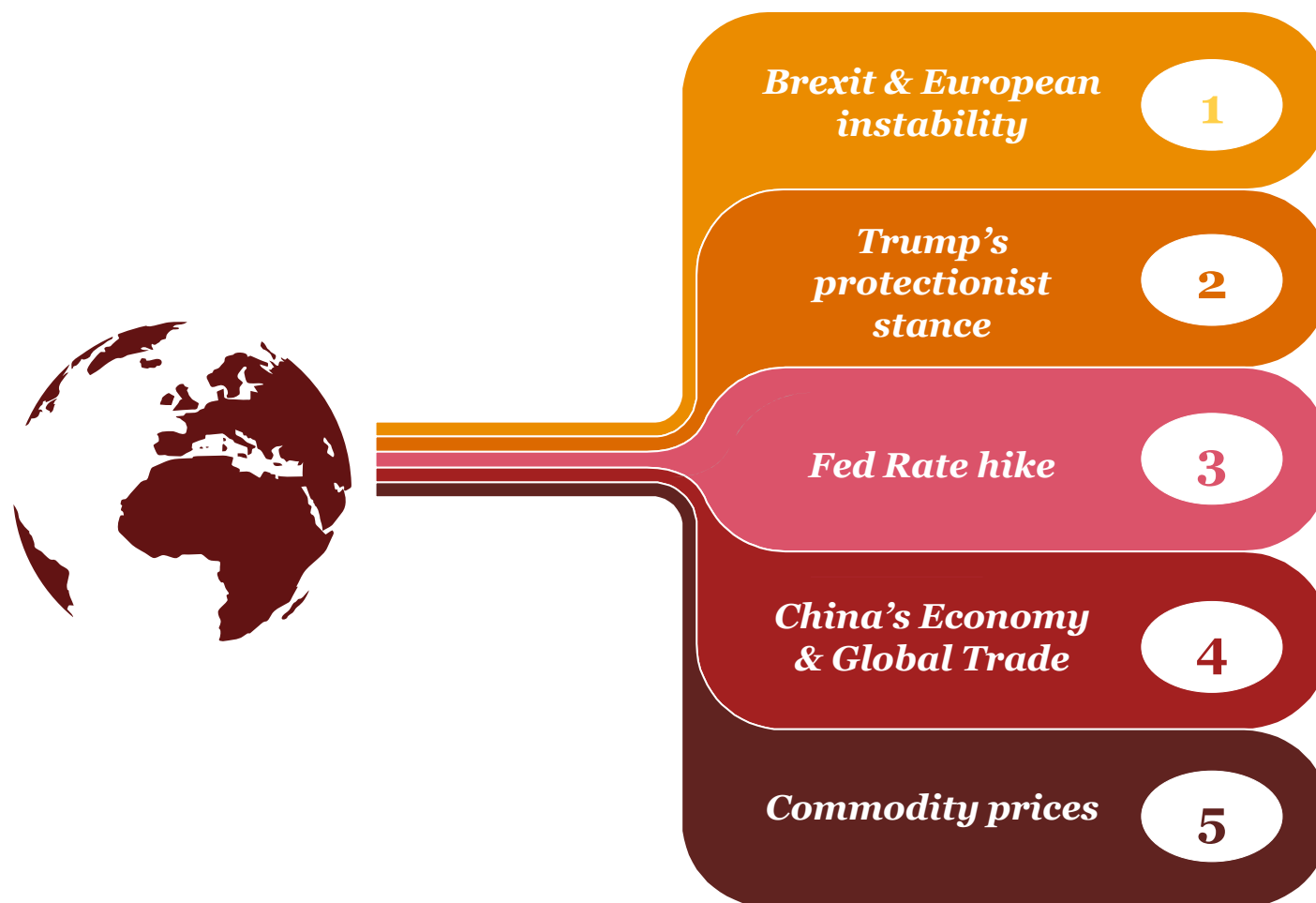
Are we going to see the next Financial Crisis – soon?

Negative interest rate securities by country



Source: IMF World Economic Outlook

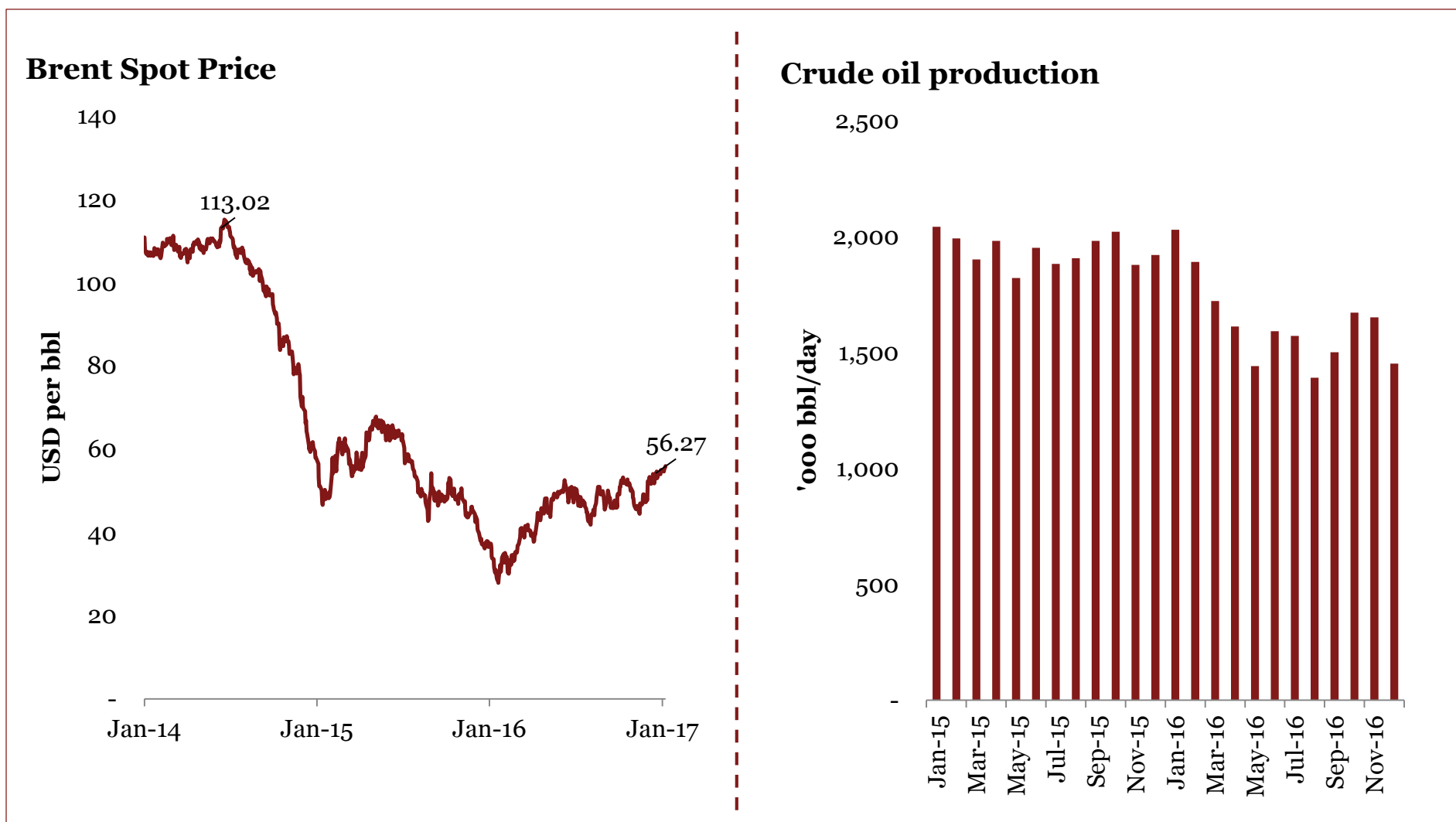
Five critical issues to consider in 2017



Source: PwC Analysis

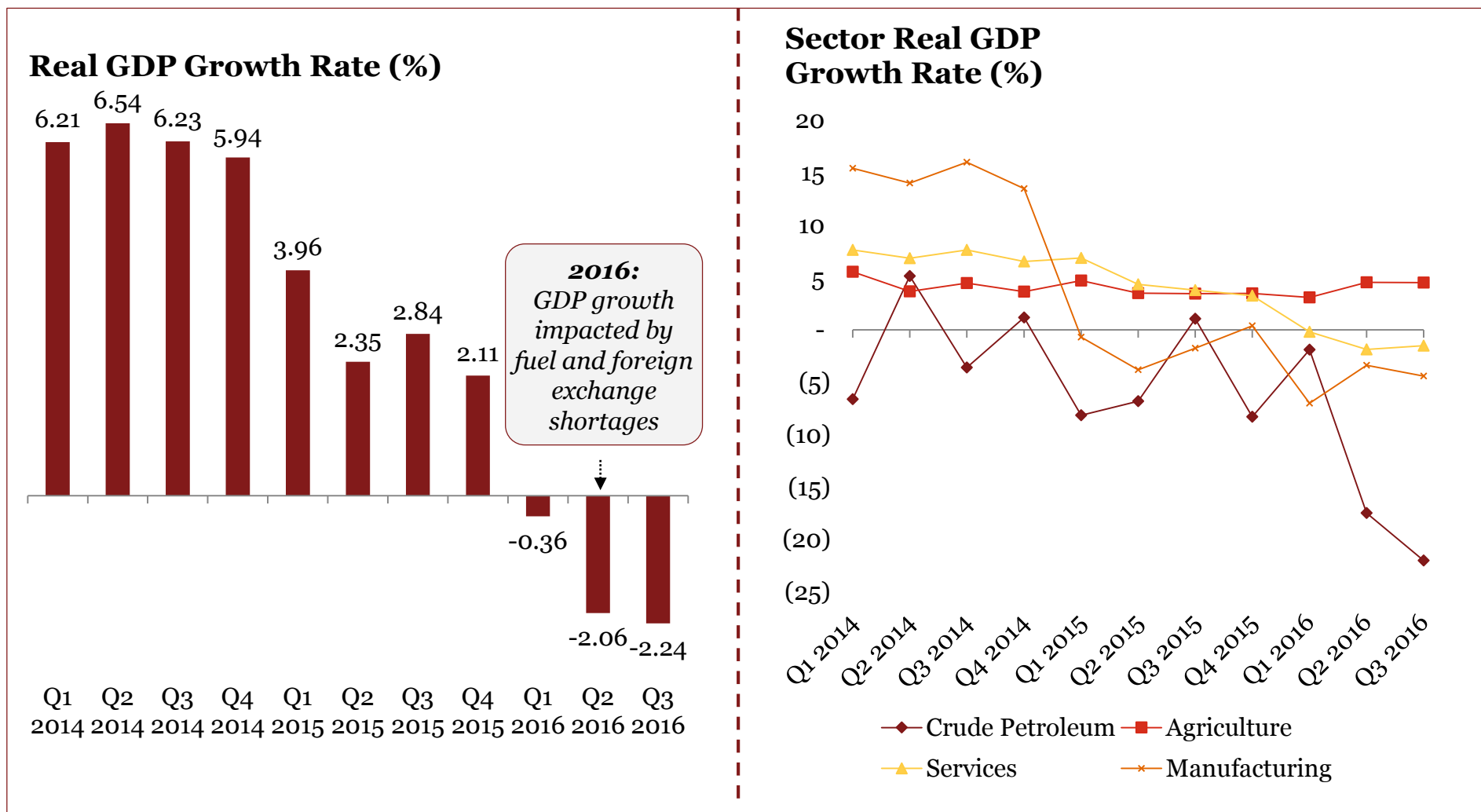
Nigeria: Economic Context

The Nigerian economy continues to suffer from the impact of low oil prices and significant production shortages



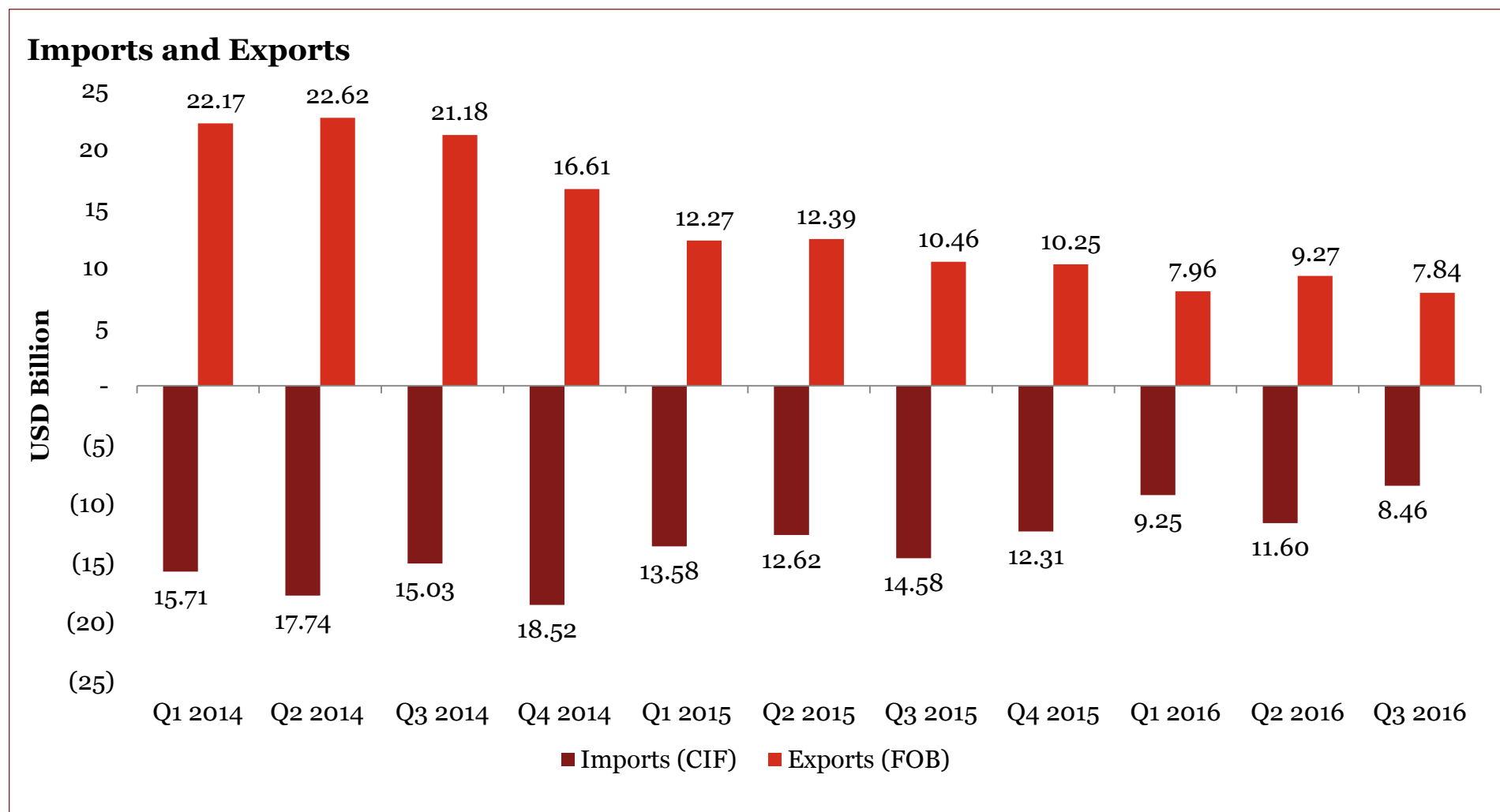
Source: NBS Report: OAGF, Appropriation Act

The economy entered a recession for the first time in recent years, as the services, manufacturing and crude petroleum sectors declined sharply



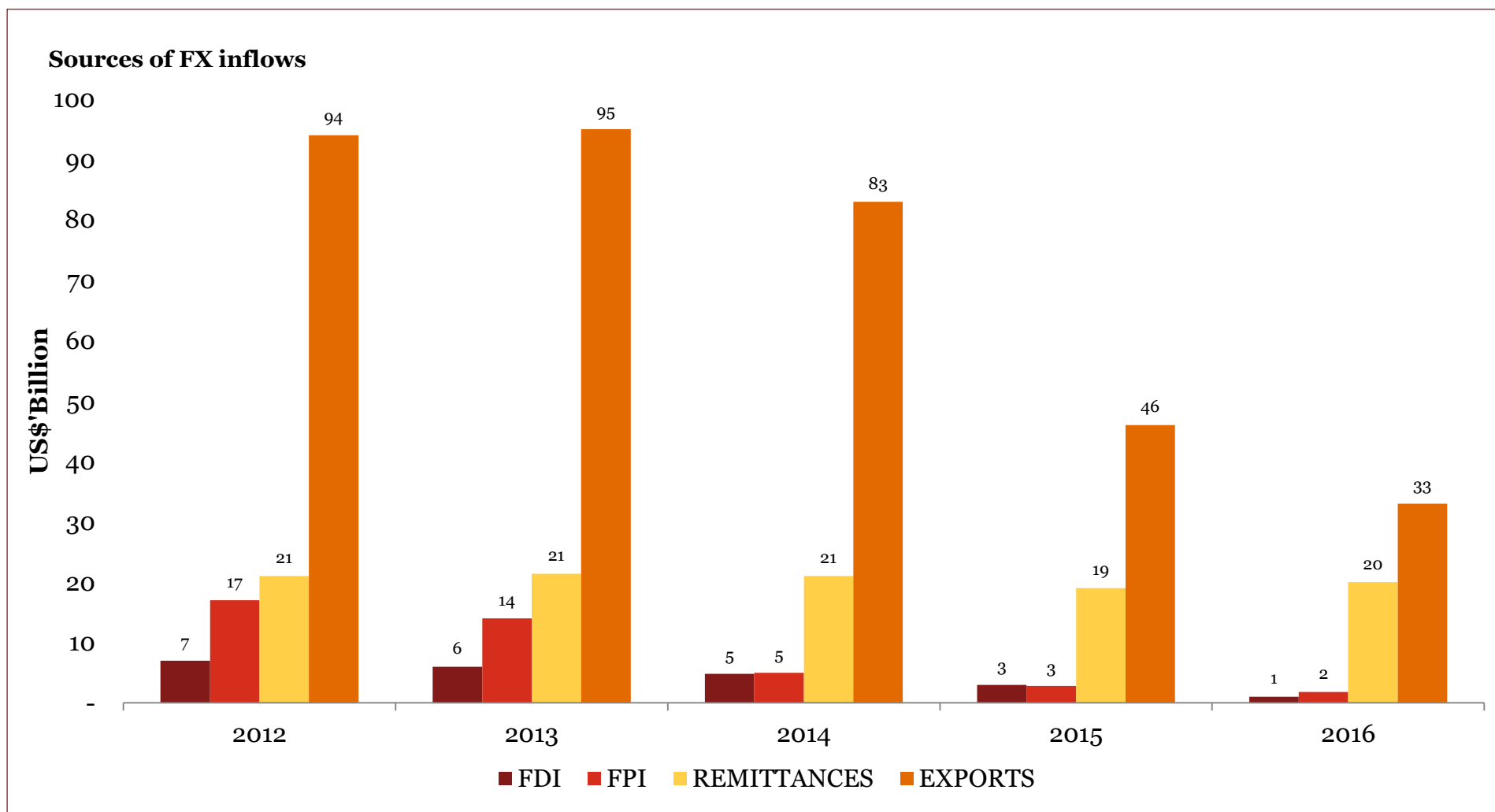
Source: NBS Report: OAGF, Appropriation Act

Exports and imports have declined sharply following the drop in oil production volumes and price



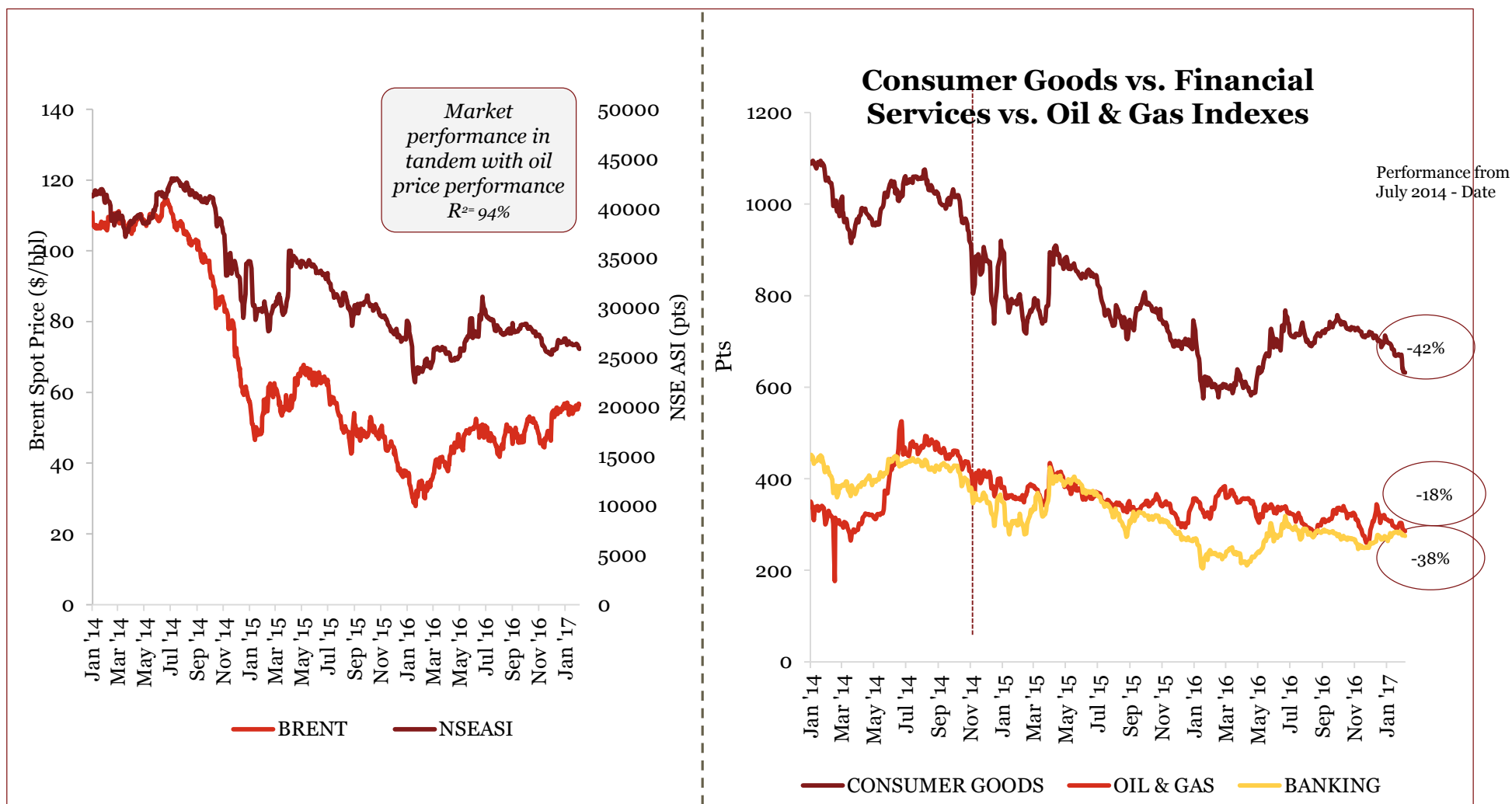
Source: Central Bank of Nigeria; PwC Analysis

Administrative controls on forex and the uncertainty in the business environment have resulted in a reduction in FDI and FPI



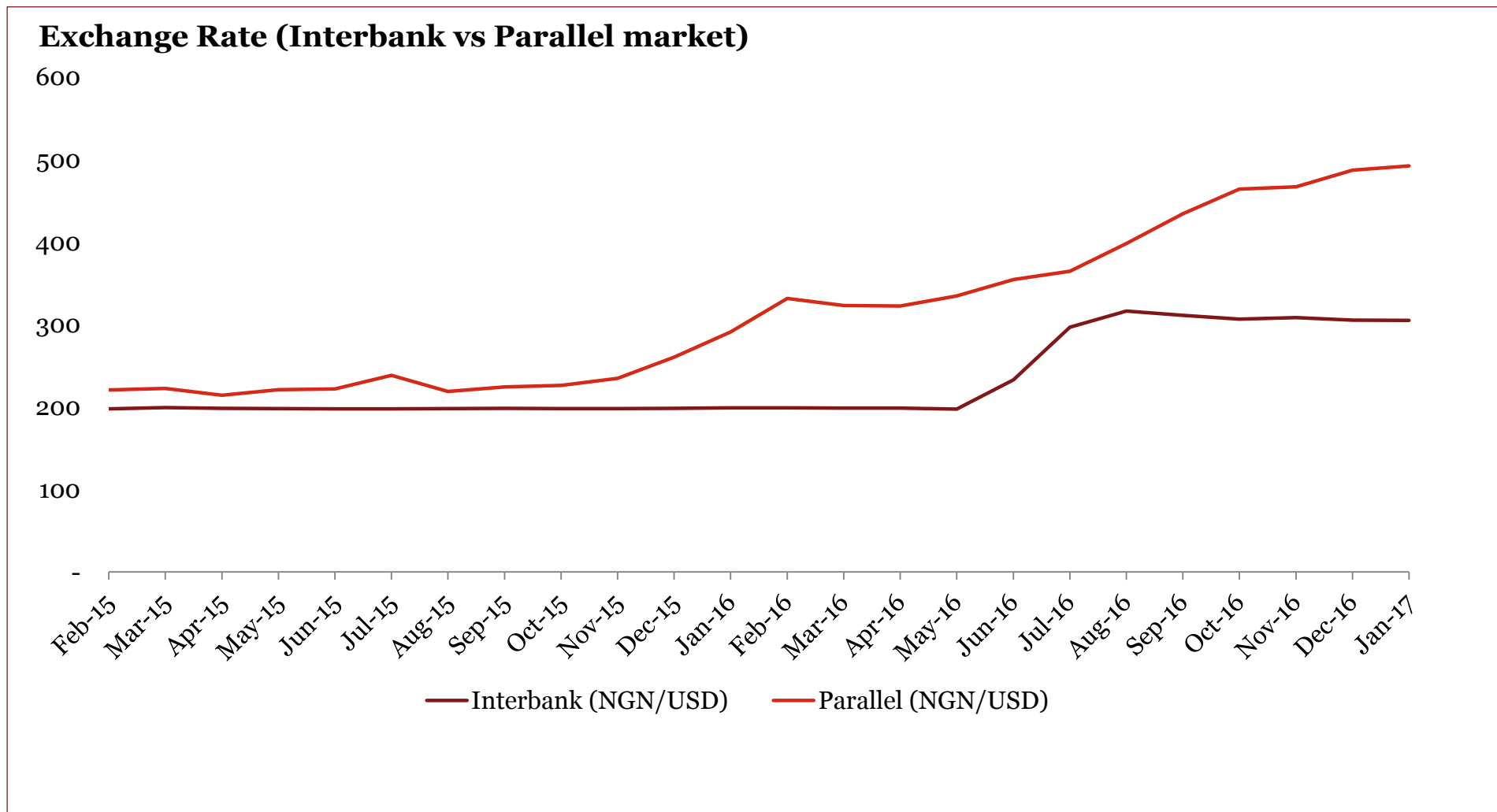
Source: Central Bank of Nigeria, NBS; PwC Analysis

Stocks fall sharply as impact of lower oil receipts weighs on market sentiment; the financial services sector has been severely hit



Source: NSE, Bloomberg; PwC Analysis

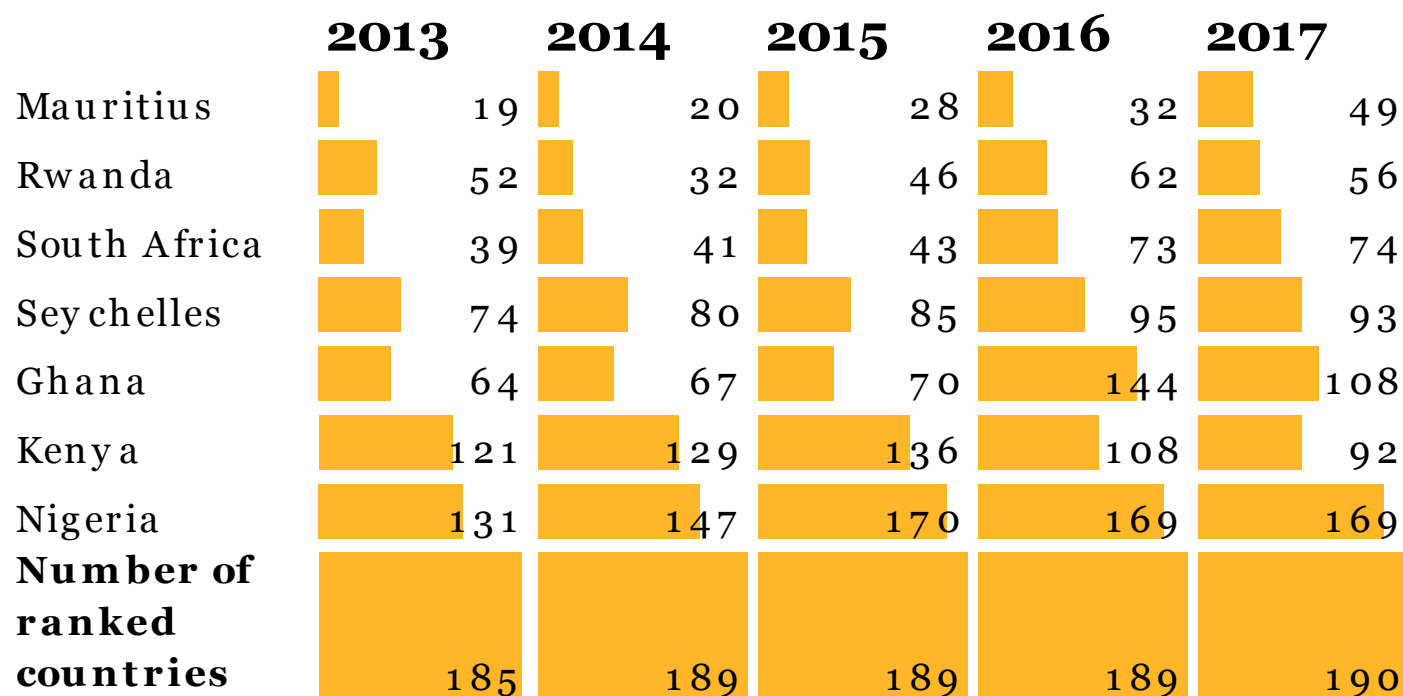
Tighter regulation on demand in the official market resulted in a significant widening of spread between the official and parallel market rates



Source: Central Bank of Nigeria; PwC Analysis

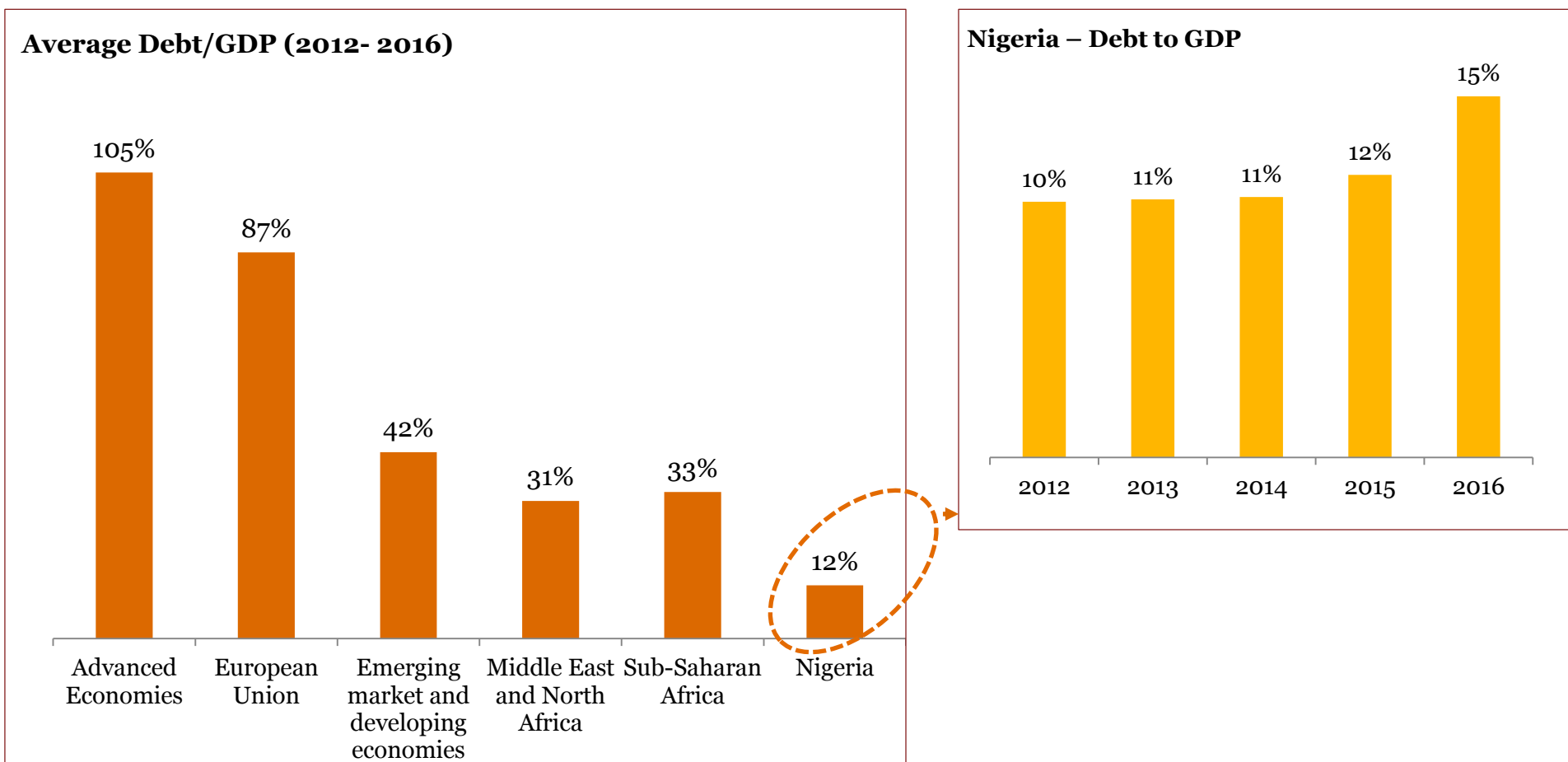
The constraints to doing business in Nigeria remain high

Ease of Doing Business Rankings



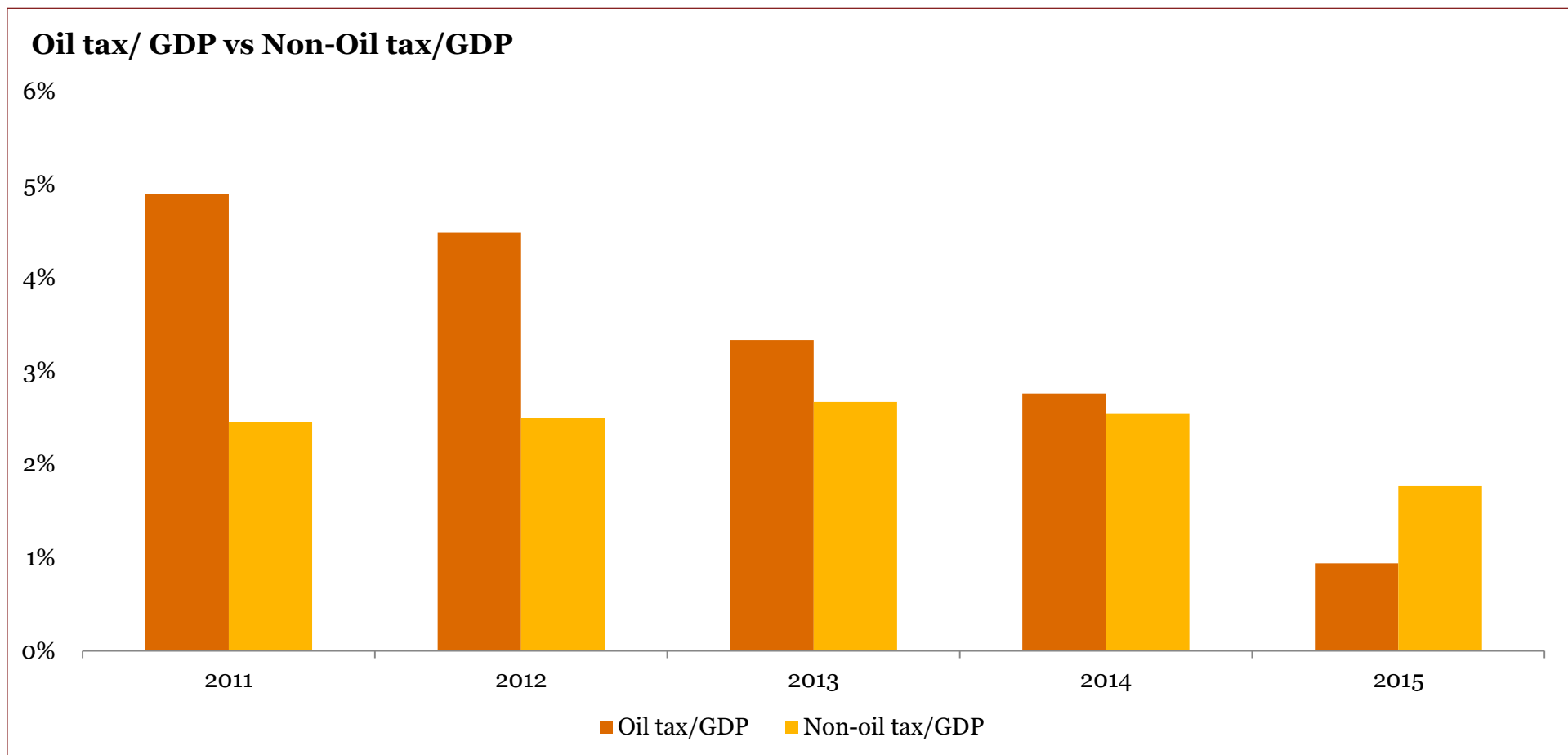
Source: World Bank Ease of Doing Business rankings

On the bright side, debt to GDP remains comparatively low which gives Nigeria room to borrow to fund developmental activities



Source: IMF World Economic Outlook October 2016

Historically low tax collection also provides headroom to improve revenue collection

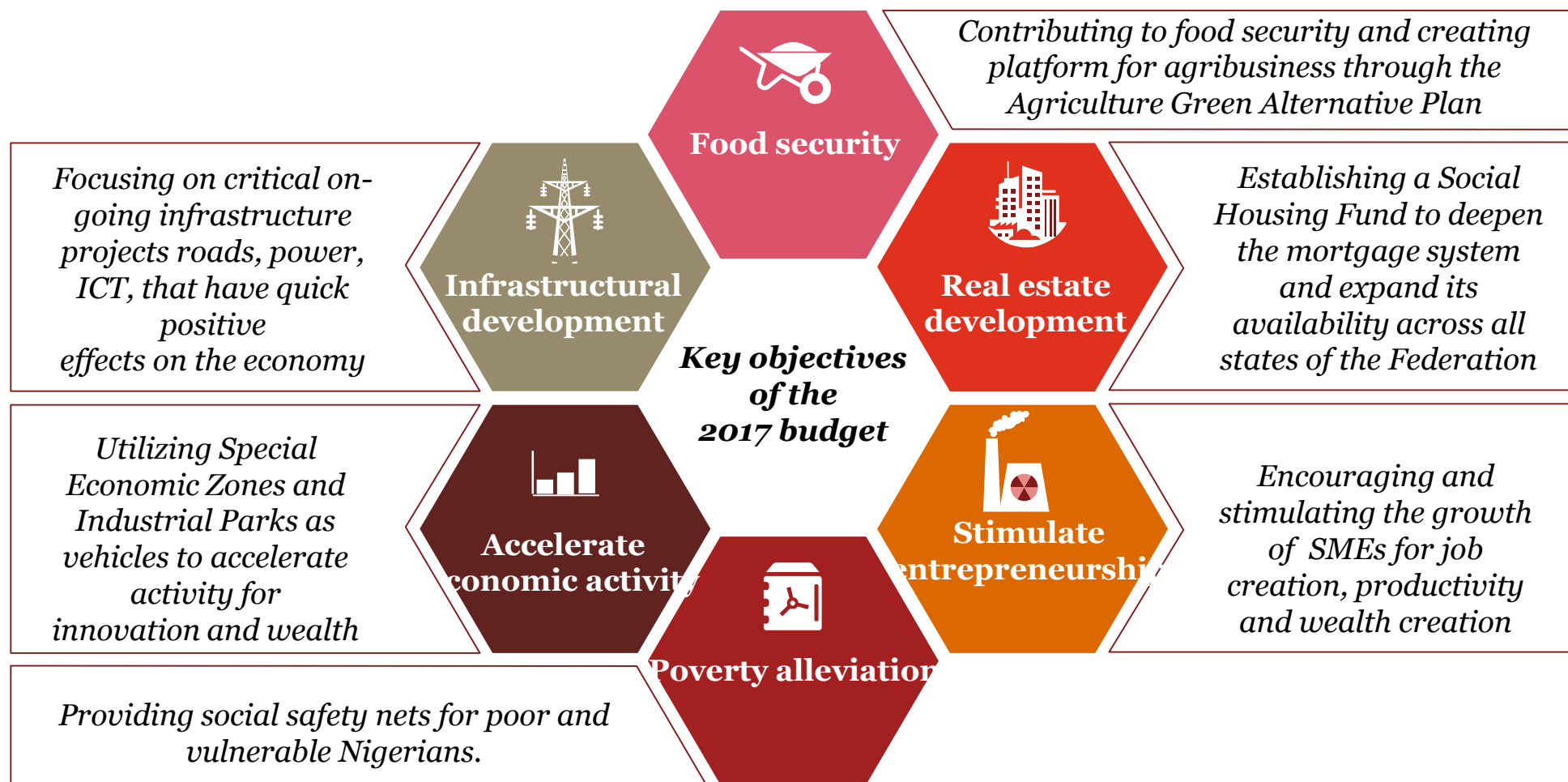


Source: FIRS, CBN, PwC Analysis

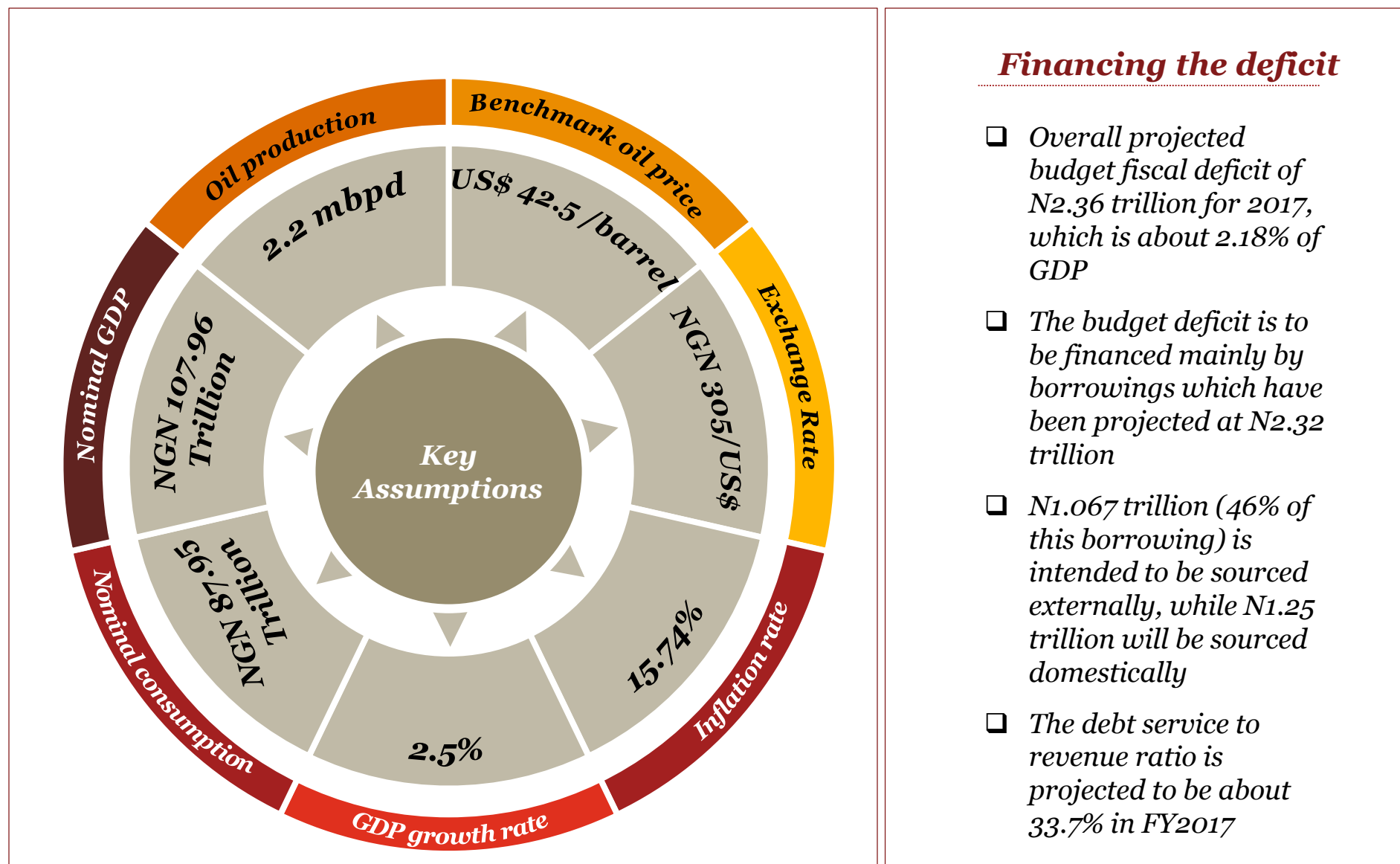
2017 budget in focus

Approach to the 2017 budget

The 2017 budget is designed to expand partnership between public and private sectors, including development capital to leverage and catalyse resources for growth.



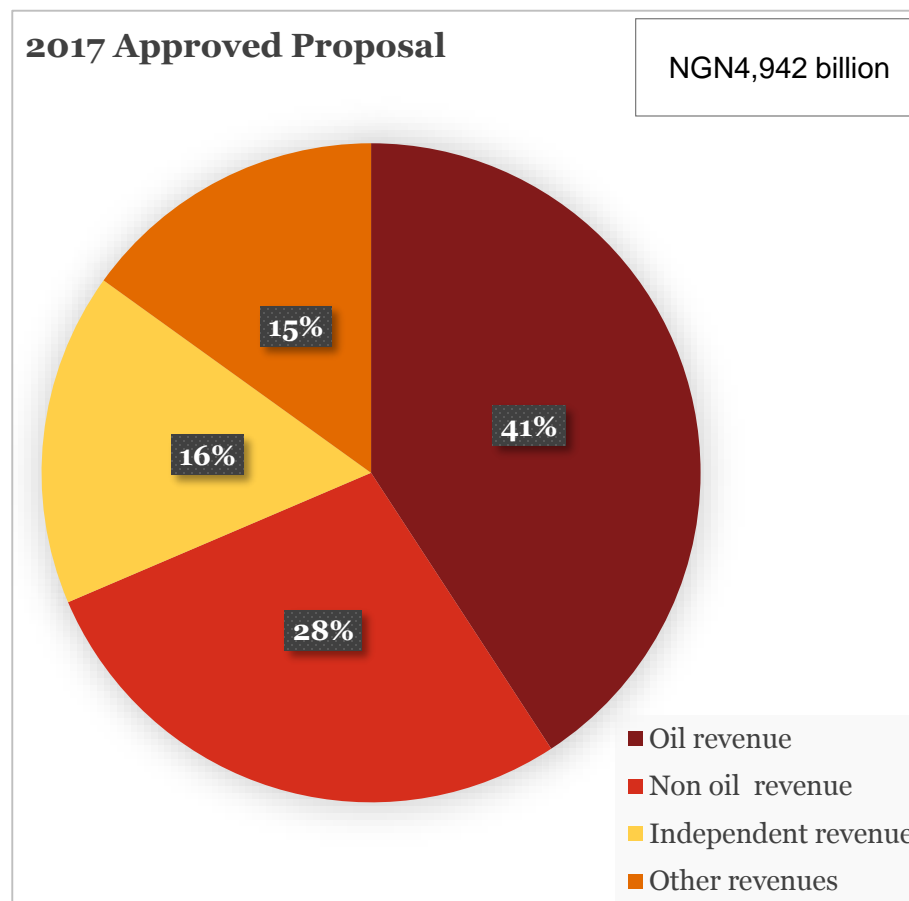
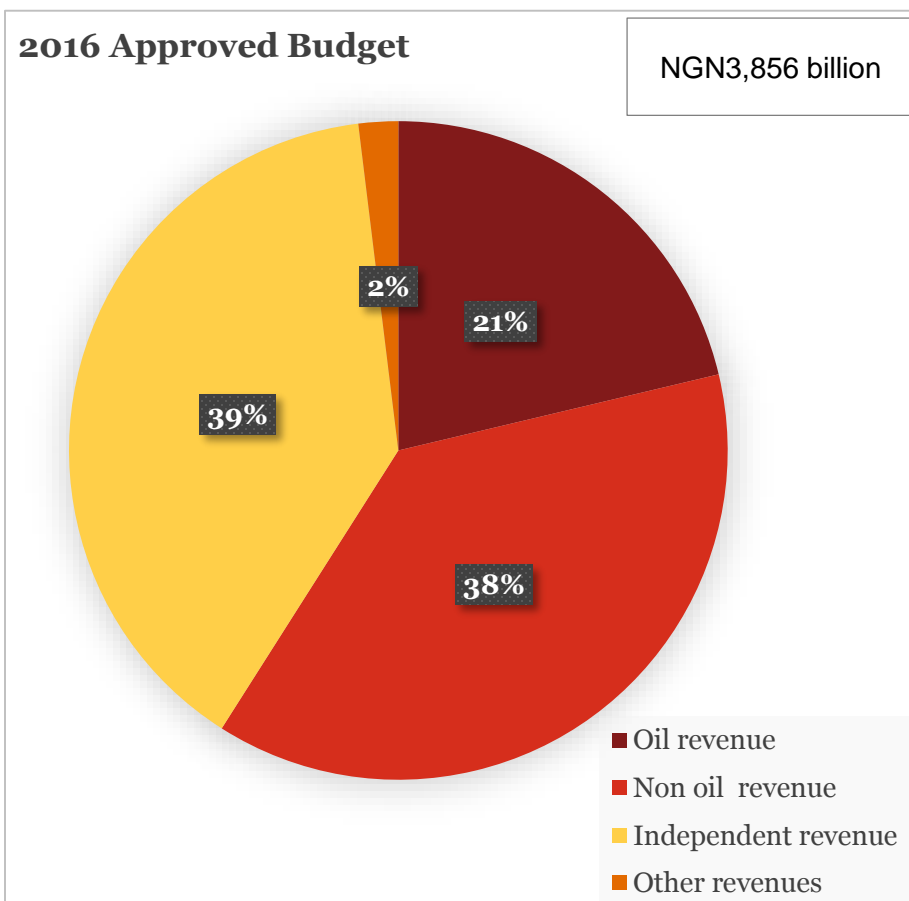
Key assumptions of the 2017 budget



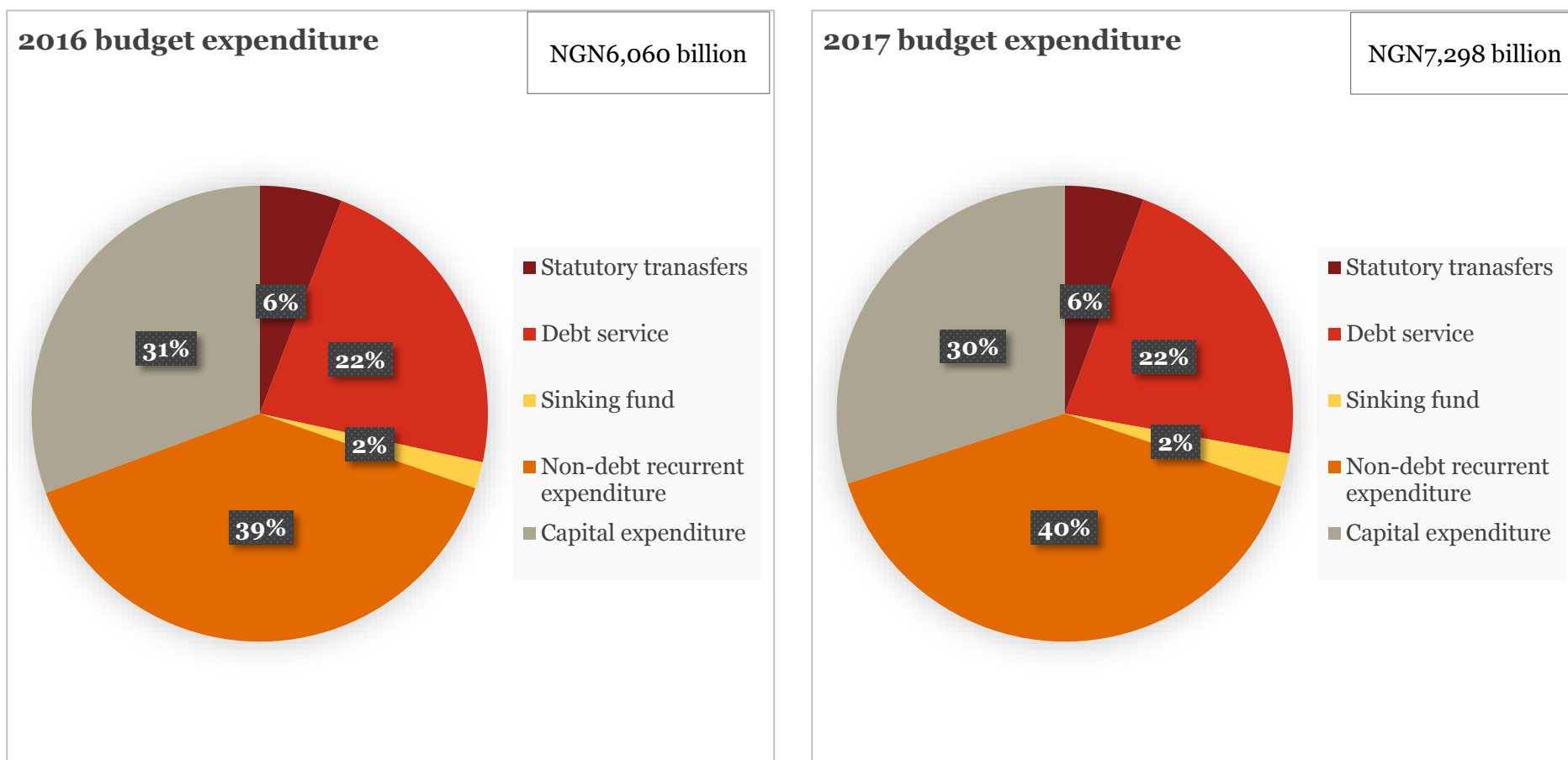
Financing the deficit

- ❑ Overall projected budget fiscal deficit of N2.36 trillion for 2017, which is about 2.18% of GDP
- ❑ The budget deficit is to be financed mainly by borrowings which have been projected at N2.32 trillion
- ❑ N1.067 trillion (46% of this borrowing) is intended to be sourced externally, while N1.25 trillion will be sourced domestically
- ❑ The debt service to revenue ratio is projected to be about 33.7% in FY2017

2017 budget revenue proposals – Where the money is coming from?



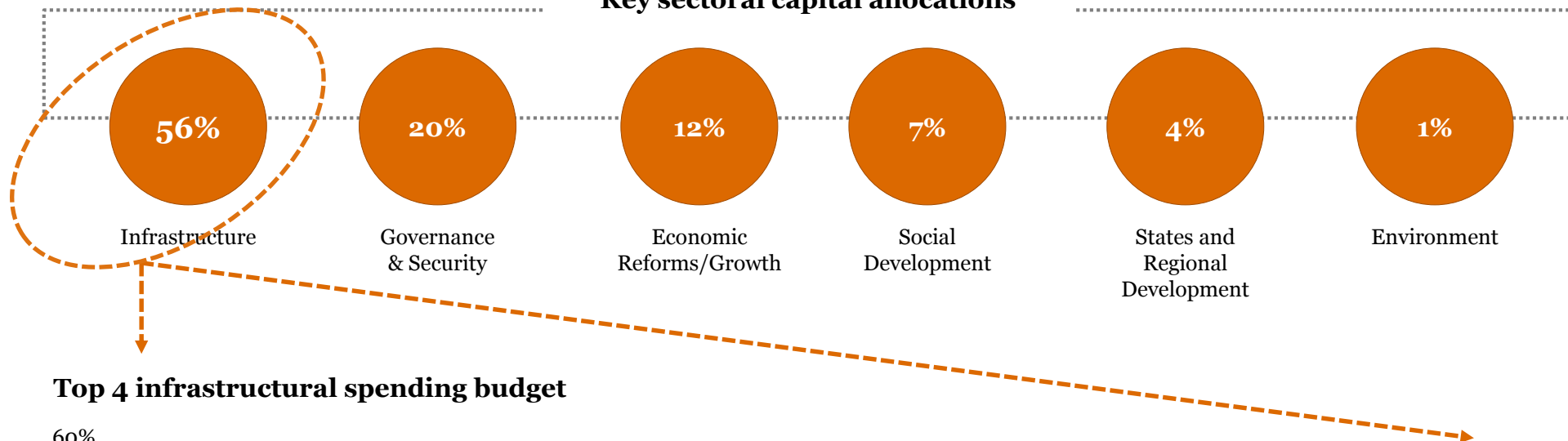
2017 budget expenditure proposals – Where the money is going...



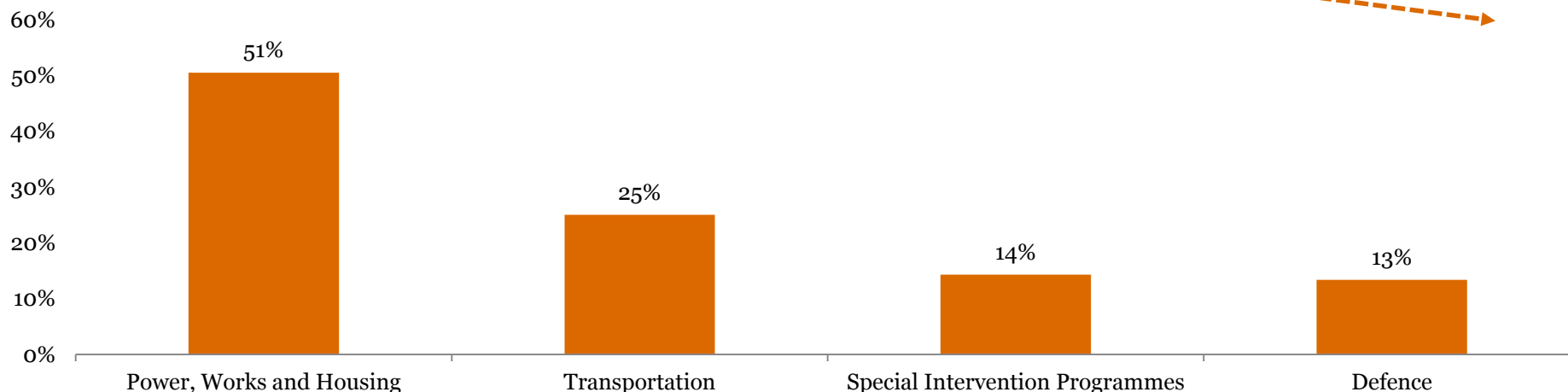
Capital expenditure in the proposed 2017 budget

Allocating ~30% of the 2017 budget to capital expenditure at NGN2.24 trillion

Key sectoral capital allocations



Top 4 infrastructural spending budget



The 2017 budget is an Infrastructure budget and a total of NGN 1.047 trillion is dedicated to key infrastructural spending

Sector Outlook

Construction and Industrial goods

Construction

Opportunities

- ❑ Over 60% of the Federal government's CAPEX has been earmarked for construction activities.
- ❑ Infrastructure deficit estimated at over US\$2tn (US\$100 billion p.a.), Provision in 2017 budget at US\$3.2 billion)
- ❑ This creates opportunities for Private Public Partnerships (PPPs) due to the huge funding gap

Threats

- ❑ Limited traditional funding options
- ❑ Bureaucratic challenges in government agencies
- ❑ Limited forex supply can significantly affect the cost of imported raw materials thus distorting project assumptions.
- ❑ Insecurity challenges in some states could deter investments

Opportunities

- ❑ Federal government budget for contribution of NGN100bn towards NGN1 trillion housing programme signals strong demand over the medium term
- ❑ Zero percent tariff on import of machinery and equipment should reduce investment cost

Threats

- ❑ Stiffer industry competition and challenges relating cost control and optimal energy mix
- ❑ Vulnerability to forex volatility as further depreciation of naira and fluctuation in exchange rate may hamper production planning
- ❑ Oil & Gas production distortions in the Niger-Delta threatens access to gas which is a key for production

Industrial Goods

Agriculture and Insurance

Agriculture

Opportunities

- ❑ Increased budget allocation for agriculture infrastructure (NGN91billion in 2017 vs NGN76billion in 2016)
- ❑ Import restriction on key food items (rice and palm oil) with significant supply deficit
- ❑ Improved profitability of export commodities due to currency depreciation
- ❑ Low cost of funding through the CBN and other intervention funds

Threats

- ❑ Focus on the wheat value chain may not translate to economic gains due to climatic challenges
- ❑ Underdevelopment of agriculture value chain limits the number of bankable projects
- ❑ Insecurity in key food-producing areas could impact farm output and route-to-market

Opportunities

- ❑ Increased implementation of the local content policy to benefit insurers
- ❑ Provision of credit to small scale artisans and traders to increase opportunities for micro-insurance
- ❑ Agriculture insurance to receive a boost as government investments and incentives across the Agriculture value chain increase
- ❑ Creation of 500,000 jobs as NCE teachers across the federation should promote HMOs and pension inclusion

Threats

- ❑ Measures to broaden the tax base and more stringent tax policies could reduce discretionary income and thus demand for insurance
- ❑ Knock-on effects from low interest rates, economic slowdown could impact investment portfolios of insurers

Insurance

Banking and FMCG

Banking

Opportunities

- ❑ Credit growth to the Agriculture and solid minerals sectors should improve on the provision of subsidized funding
- ❑ Increased CAPEX spend could provide some boost to loan growth
- ❑ Passage of PIB to open up the upstream Oil & Gas sector for further investments and loan syndication opportunities
- ❑ Loans to market women, artisans and traders could resuscitate intervention funds which will improve credit to the real sector
- ❑ Fiscal incentives to encourage the industrial and manufacturing sector to provide boost for asset creation
- ❑ Long term infrastructure lending will be channeled towards government's plan to complete critical infrastructure

Threats

- ❑ A higher budget deficit implies a higher domestic bond issuance (NGN1.2 trillion) which could push yields higher, resulting in market to market losses
- ❑ Higher macro-risk on the back on slower growth could result in higher NPLs
- ❑ Rapid changes in technological progress towards a digital economy threatens conventional banking approach

Opportunities

- ❑ Import substitution strategy to encourage domestic production of consumer inputs
- ❑ Export expansion grant should promote exporters' competitiveness

Threats

- ❑ Highly vulnerability to exchange rate pressures with negative impact on demand and production costs
- ❑ Stiffer competition and continuous evolution of low-priced substitutes
- ❑ Product demand is quite price elastic. Price adjustments often pose risk to revenue growth

Fast Moving consumer Goods (FMCG)

Oil & Gas, Power & Energy

Oil and Gas

Opportunities

- ❑ Government to expedite action in the consideration and passage of the Petroleum Industry Bill (PIB)
- ❑ Favourable economic policies to attract domestic and foreign investments to the petroleum refinery sub-sector
- ❑ Increasing opportunities for downstream activities as the import substitution strategy gains traction. This creates a strong potential for petrochemical industry

Threats

- ❑ A higher oil price and/or further devaluation in the exchange rate could increase the landing cost of PMS above the administered price
- ❑ Without clarity on the subsidy stance, cost to the government increases if reimbursements have to be made
- ❑ Crude oil production disruptions in the Niger-Delta
- ❑ Lower export proceeds from the government via the NNPC could adversely impact import quota allocations for refined crude - PMS, AGO

Opportunities

- ❑ Investment in gas generation and distribution to improve electricity generation
- ❑ Favourable economic policies to attract domestic and foreign investments to the petroleum refinery sub-sector
- ❑ Encouragement of the Independent Power Producer (IPP) model
- ❑ Expansion of the transmission grid

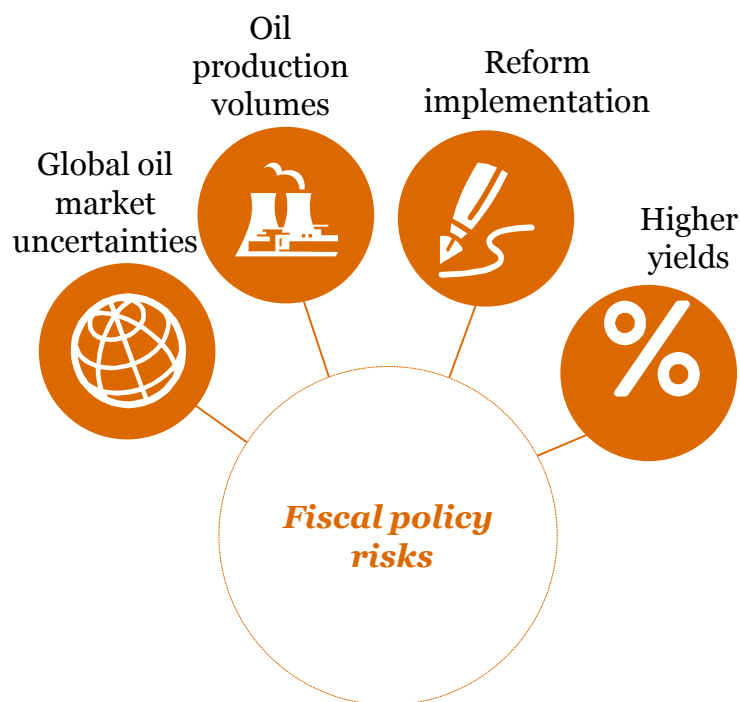
Threats

- ❑ Cash shortfalls in the sector, leading to transaction complexity
- ❑ The CAPEX allocation of NGN50 billion (US\$200 million) to the transmission company relative to an annual investment requirement of US\$1 billion (over the next 5 years) represents a huge funding deficit
- ❑ Gas supply shortages due to disruptions in the Niger-Delta region

Power and Energy

Economic Outlook

Fiscal risks (1/2)



Global oil market uncertainties:

- ❑ Futures markets and consensus forecasts suggest oil price risks are skewed to the upside. Nevertheless, with excess capacity in the market and downside risks to global growth, a further drop in prices remains a possibility

Oil production volumes:

- ❑ Production disruptions owing to the Niger-Delta conflict presents a key risk to revenues. Moreover, the last time oil production volumes in Nigeria hit 2.2mbpd was in 2006 under more benign conditions in the Niger-Delta

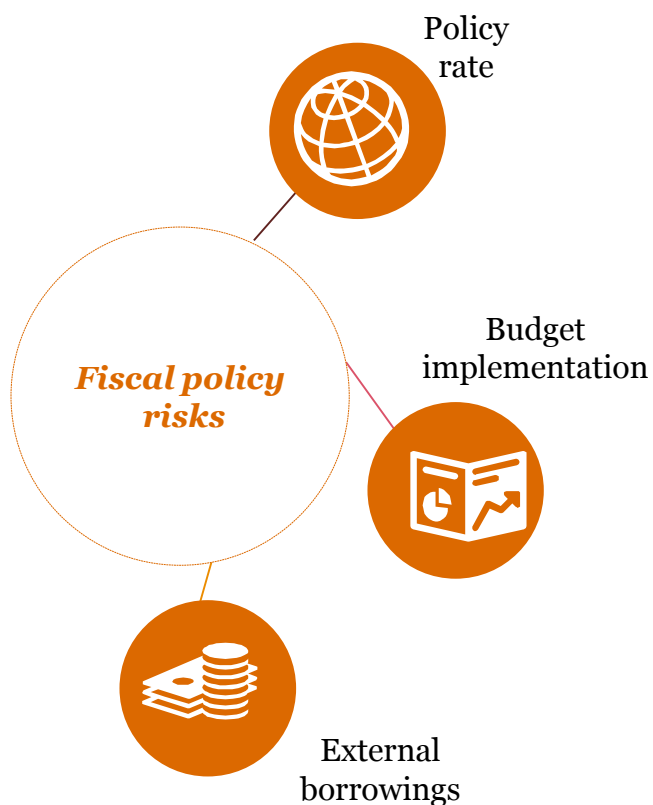
Reform implementation:

- ❑ A failure to implement key reforms in particular, the energy sector and the foreign exchange market could keep investor confidence weak and limit Foreign Direct Investment and Foreign Portfolio flows

Higher yields:

- ❑ A potential increase in the domestic bond issuance pipeline would keep upward pressure on yields, thus increasing domestic financing costs. We estimate the size of bond issuances could increase by as much as 35% to N1.29 trillion (2016: N955.7 billion)

Fiscal risks (2/2)



Policy rate:

- ❑ The need to keep real interest rates positive and improve the Interest Rate Differential (IRD) as global interest rates rise suggest the Monetary Policy Rate (MPR) will remain high

Budget implementation:

- ❑ Inability to meet revenue targets will require an expenditure adjustment. Capital Expenditure is usually the first causality as recurrent (non-debt) expenditure is treated as non-discretionary

External borrowings:

- ❑ More volatile global financial market conditions could constrain external financing, putting additional pressure on reserves, domestic liquidity, and credit. Concessionary borrowing from Development Financial Institutions (DFIs) would usually require an agreement to comply with stringent reforms. Without cheap funding from these sources, Nigeria will need to rely on commercial funding at much steeper rates

Investors, businesses and policy makers should prepare for three potential scenarios unfolding in Nigeria in 2017: (1/3)



Scenario 1 :
Oil production shock deepens along with price decline

Scenario assumptions

- Oil price reverts back to 2016 average of \$45/bbl based on a rebound in production of shale producers and OPEC
- Disruptions in the Niger-Delta heighten and persist through the year 2017
- Crude Oil production drops to 1.4mbpd
- Increase in Electricity Tariff by 30%

Economic and policy outcomes

- A significant contraction in oil sector and falling government oil revenues persist
- Government pushes for more external borrowing as domestic yield environment remains high
- Real output Growth projected at **-3.7%**
- **Pressure on the Naira** leads floating of exchange rate, which could lead to 23.5% depreciation from the current NGN/USD 305
- **Inflationary pressure** persist with a projected average inflation reached **19.01%**.

Source PwC Analysis

Investors, businesses and policy makers should prepare for three potential scenarios unfolding in Nigeria in 2017: (2/3)



Scenario 2: Oil production stabilizes

Scenario assumptions

- Oil price maintained at average of \$55/bbl.
- Disruptions in the Niger-Delta moderate with Crude Oil production 1.7mbpd
- Increase in Electricity Tariff by 30%

Economic and policy outcomes

- The Nigerian economy grows by **0.7%**
- The **pressure on the Naira moderates with slight depreciation in the official rate** by 4.68% to 320
- **Average Inflation rate should moderate to 14.4%**
- CBN strives to narrow exchange rate differential between the parallel and the interbank market by increasing FX supply

Source PwC Analysis

Investors, businesses and policy makers should prepare for three potential scenarios unfolding in Nigeria in 2017: (3/3)



Scenario 3:

Oil price ramps up along with oil production volumes

Scenario assumptions

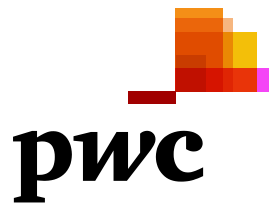
- Oil price ramps up to \$60/bbl.
- Crude oil production reaches 2.0mbpd on the basis of peace agreement with militants in Niger-Delta
- Foreign exchange market is liberalised further

Economic and policy outcomes

- Economy recovers with **2.8%** growth in real GDP
- Consumption and investment should pick up, albeit gradually
- Naira appreciates marginally in the parallel market and stays flat in the interbank space supported by foreign investment flows
- Average Inflation rate moderates to **12.5%**

Source PwC Analysis

Thank you



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