

# PwC Nigeria

## Economics Flash note



### *Brexit uncertainty: What implications for Nigeria?*

Brexit has caught the world unawares, and we have all seen the immense market turmoil of the last week, with some \$3Tr wiped out equity valuations, and the GBP falling to a 30+ year lows.

So how will this impact Nigeria? PwC believes there will be both short term and medium term impacts.

In the short term:

- Brexit is bad timing for Nigeria. Just as we have addressed the fuel subsidy and FX regime issues – setting us up for a rebound following the massive reduction in oil prices – Brexit creates market turmoil;
- When there is this much uncertainty, there is always a flight to safety, with capital flowing into USD, Yen, gold or other safe haven assets, and out of emerging markets. So though Nigeria is not involved in Brexit, we will feel the impact.

What that means is it could take a longer time for the flexible exchange rate market to take off because the market was banking on Foreign Portfolio Investments (FPIs) as liquidity suppliers. Right now, the Central Bank of Nigeria (CBN) remains the major liquidity provider through interventions and that has implications for foreign reserves (US\$26.3 billion, -9%YtD).

Relatedly, Brexit may cause a possible delay in Nigeria's capital raising plans. There is a Eurobond issuance in the pipeline which should be very attractive because of yield and Nigeria's superb fiscal position at the Federal level, but Brexit could derail investors' short-term appetite, meaning that if Nigeria wants to keep to the original timetable, the pricing will increase.

Similarly, with the USD strengthening, crude prices have been declining, putting further pressure on the economic rebound. If production returns to normal, Nigeria can do fine with oil in the \$45-50 range, but if it drops out of this range to \$30s (or worse), it will further delay our recovery.

Looking at the medium-term, the biggest risk to Nigeria is if corporations and portfolio managers focus on the Brexit issue and stop paying attention to Nigeria and Africa. Foreign Direct Investments (FDIs) as at 2015 had declined 66% from a peak of US\$8.6 billion in 2009, reaching its lowest level in the past 11 years. With the implementation of the flexible exchange rate regime, we had expected a rebound of interest in investing in Nigeria, albeit lagged. Though we rank 169th in ease of Doing Business, the reality is our size and future demographics make Nigeria perhaps the last untapped large opportunity for international companies seeking growth. This interest is essential to help in the rebound, and bring us back to growth rates in excess of 5%. So just as we were generating interest on the basis of diversification into many other sectors (beyond oil), we may find it harder to get their attention right now.

But overall, we do not think the Brexit uncertainty will derail the positive trajectory we believe Nigeria is on; the country is turning the corner and even if a little delayed, the prospects for Nigeria are bright.

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