Nigeria Economic Outlook
Top 10 themes for 2019
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Global Economic conditions
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

1. Egypt - 8.2% growth, US$1.13 trillion
2. Ethiopia - 8.2% growth, US$199.3 billion
3. Kenya - 5.9% growth, US$163.3 billion
4. Algeria - 2.5% growth, US$630.5 billion
5. Nigeria - 1.9% growth, US$1.121 trillion
6. South Africa - 1.7% growth, US$765.5 billion
7. Angola - -0.7% growth, US$197.9 billion

* Real GDP growth (2018); Nominal GDP (2017)
* Nominal GDP based on PPP
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.

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

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...

- 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

- 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

Source: NBS, PwC Estimates
Government’s fiscal deficit expands above budget

- 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.

Source: Budget Office, IMF, PwC Analysis
Election uncertainty coupled with lackluster execution of policy reforms impacts FPI and FDI inflows

Key Considerations

1. In 2018 we predicted a moderate increase in FPI and a slowdown in FDI 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

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

Source: NBS, PwC analysis
Oil prices still low coupled with production cuts

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

- 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

Source: World Bank
Nigeria: Economic Outlook
PMS Deregulation scenarios: petrol prices may be re-adjusted from NGN145/litre despite subsidy...

### How much could Nigerians pay for petrol?

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

- 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 - Full Deregulation

- **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

- 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)

Source: NBS, PwC Estimates
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

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.

Source: UN, PwC analysis

Nigeria: Economic Outlook
Recent history suggests that election cycles are associated with decreased external reserves and increased foreign exchange demand.

External Reserves (USD’ billion)

- A sharp 24% decline between January 2010 and May 2011
- A sharp 30% decline between January 2014 and May 2015

Interbank Rate (NGN/USD)

- A mild 4% depreciation between January 2010 and May 2011
- A significant 23% depreciation between January 2014 and May 2015

Note: The extent of depreciation in the exchange rate depends on the broad macroeconomic environment during the election season.
2019 Election season underway...three horse race...?

What we know...

President 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

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?

Which states will swing in 2019?

2011 Presidential Election

2015 Presidential Election

Note: CPC and ACN merged into APC in 2013

PwC Analysis

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

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

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

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

<table>
<thead>
<tr>
<th>Risks</th>
<th>Description</th>
<th>Potential impact</th>
<th>Likelihood of occurrence</th>
<th>Time horizon</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oil production disruption</td>
<td>Attacks on oil and gas facilities by militant groups in the Niger Delta region</td>
<td><img src="#" alt="Red" /></td>
<td><img src="#" alt="Yellow" /></td>
<td>Short to medium term</td>
</tr>
<tr>
<td>Political risk/Heightened insecurity</td>
<td>Election uncertainties could elevate political tensions, and leadership succession could hamper policy continuity Continuous insurgency in the Northern region</td>
<td><img src="#" alt="Red" /></td>
<td><img src="#" alt="Yellow" /></td>
<td>Short to medium term Medium term</td>
</tr>
</tbody>
</table>

PwC Analysis
A stable political environment key to sustaining Nigeria’s economic recovery

Real GDP growth (%)

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

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

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

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