KPMG

Economic Snapshot H1, 2017

Nigeria

Inflation overview – Headline inflation decreased from 17.8% year-on-year (y-o-y) in February to 17.3% y-o-y in March. The central bank's Monetary Policy Committee (MPC) held rates constant for the fourth consecutive meeting. Finance minister Kemi Odeosun has publicly called for lower interest rates in order to stimulate the economy, though the Central Bank of Nigeria (CBN) has refused this.

Growth summary – Nigeria will return to positive real GDP growth in 2017 following and a contraction in 2016. The sluggish growth last year is attributed to the inadequate supply of foreign currency, foreign exchange restrictions targeted at a list of 41 imports, cuts to oil production due to security challenges in the Niger Delta and the impact of lower oil prices on employment in the hydrocarbon sector.

Economic policy – The federal government launched its Economic Recovery and Growth Plan (2017-2020) during April. The scheme will act as a roadmap for security improvements, the war against corruption and economic revitalisation, and includes sectoral plans for agriculture, energy, transport, industrialisation and social investments. An economic growth goal of 7% has been set for 2020.

Trade & Investment SWOT

Strengths	Weaknesses
Investors in consumer-centric industries benefit from a large domestic market.	The tax administration is highly inefficient and is among the most uncompetitive bureaucracies in the world.
Relatively low taxation levels improve the competitiveness of firms operating in the country.	The government's strict import controls and the shortage of foreign currency in the market is putting a strain on import-dependent businesses and deterring foreign investment.
Banking sector is well developed in a West African context	Excessive state bureaucracy affects the ease of doing business
The stock market is relatively liquid and well capitalised, creating opportunities for portfolio investors as well as companies looking to raise capital.	Weak global energy prices have resulted in the oil-dependent Nigerian economy falling into recession – highlighting its vulnerability to commodity price movements.
Opportunities	**Threats**
The state offers a wide range of incentives, including tax breaks, to certain approved investments.	High levels of corruption raise legal risks and deter foreign investment.
State efforts at economic diversification are creating investment opportunities in other sectors of the economy.	Weak enforcement of court rulings, contractual agreements and intellectual property rights exposes businesses to significant losses.
Initiatives to reduce red tape could lower the burden of bureaucracy and reduce operational costs.	Local content requirements impede businesses due to the dearth of adequate domestic factory capacity – a waiver period has been launched to enable the fast-tracking of local content development.
Greater integration of the Economic Community of West African States (ECOWAS) will create a bigger market for domestic manufacturers and traders.	There is high risk of high taxation by the federal and state governments and double payments of poorly defined fees owing to an opaque taxation system.

Source: Business Monitor International (BMI), KPMG research

Mega trends

Population	2017	Total: 182.20 million; female: 94.1 million; male: 97.7 million; age 0-14: 43.8% of total; age 15 +: 56.2% of total; age 65+: 2.75% of total
Population growth rate	2015	2.63%
Life expectancy at birth	2014	Total: 52.75 years; female: 53.1 years; male: 52.43 years
HIV/AIDS	2015	Total number of people living with HIV: 3.5 million; total adult prevalence: 3.1%; HIV/AIDS orphans (age 0-17): 1.8 million
Adult literacy rate	2015	Total population: 59.57%; female: 49.68%; male: 52.43%
Urbanisation	2015	Urban population: 47.78% of total; annual urban population growth: 4.39%; rural population: 52.22% of total
Population below $1.90 per day poverty line	2009	53.5%
Unemployment rate	2017	Total: 5.4%; female: 6.3%; male: 4.8%; youth (15 - 24): 8.5%
Employment	2013	Agriculture: 39.7% of total ; industry: 10.8% of total ; services: 49.5% of total
Labour participation rate	2017	Total (ages 15+): 56.72% of total population
Business languages	n/a	English
Telephone & Internet users	2015	Fixed telephone subscriptions: 0.19 million; wired internet subscriptions: 86.1 million; cell phone subscriptions: 150.8 million

Sources: UNESCO Institute for Statistics, World Telecommunication/ICT indicator database, World Development Indicators, UNAIDS, International Labour Organisation

Human Development Index (HDI) 2015		Index of Economic Freedom 2016		Global Competitiveness Index (GCI) 2016		Doing Business 2017		Corruption Perceptions Index 2016	
152nd	out of 188 countries	116th	out of 179 countries	127th	out of 148 countries	169th	out of 189 countries	136th	out of 177 countries

Source: Transparency International, Doing Business, World Economic Forum, UN Human Development Report, The Heritage Foundation

Sovereign Risk Ratings		
S&P Global Ratings	**Fitch Ratings**	**Moody's Investors Service**
B/Stable	B+/Negative	B1/Stable

S&P Global Ratings affirmed Nigeria's long-term foreign sovereign credit ratings at "B" in March 2017, with a stable outlook. Economic growth is expected to improve amid increasing oil production. The country's low level of economic wealth, real GDP per capita below its peers and the highly centralised political environment has constrained Nigeria's rating to a certain extent. Low general government debt and modest fiscal deficits supported the ratings. S&P may lower the sovereign's ratings if the fiscal and external accounts deteriorate further or if the financial sector undergoes greater stress than expected. The sovereign's ratings may be raised if economic growth increases more than expected and if forex controls on current and capital account transactions are eased, which enhances monetary flexibility.

Fitch Ratings revised the outlook on Nigeria's ratings from stable to negative in January 2017, while affirming its "B+" rating. The changed outlook came amid concerns that a lack of foreign exchange will hamper the economy. Currently the spread between the official rate and the parallel market rates for forex is large, and until the Central Bank of Nigeria (CBN) can bring this spread down and simultaneously establish the credibility of the interbank forex market, forex will remain severely restricted.

Moody's Investors Services affirmed its "B1" long-term issuer rating of Nigeria in December 2016, with a stable outlook. The key drivers behind this affirmation was that the country's medium term growth prospects remained robust despite the challenging environment currently being experienced, and that the government's balance sheet remains strong in comparison to its peers and resilient to the contractionary environment. Positive pressure on Nigeria's rating could occur via the successful implementation of structural reforms by the Buhari administration, a strong improvement in institutional strength (with respect to corruption and government effectiveness and the rule of law), and through the rebuilding of large-enough financial buffers to shelter the economy against an oil price and production volatility period. The "B1" issuer rating could be revised downwards in the event of a larger-than-expected deterioration in the government's balance sheet or lower-than-expected growth in the medium term.

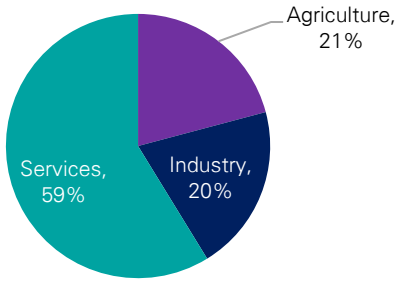
Quality of infrastructure	Economic diversity	Banking sector	Continuity of economic policy	GDP growth	Fiscal / current account balances	Foreign investment	Socio-economic development	Forex reserves
Weak	Dominated by oil industry	22 commercial banks	Recent successes in policy reforms	Recession in 2016	Fiscal deficit, current account surplus	Recent downward trend	Low	Remains under pressure

Stock market	Listed companies	Liquidity	Market capitalisation	Largest sector	Weekly trading volume
Nigeria Stock Exchange (NSE)	180	Very liquid in an African context	$26.4 billion Source: African Alliance	Financials, consumer goods, industrial goods	$27 million Source: African Alliance
Capital market	**Level of development**	**Liquidity**	**Maturity range**	**Municipal bonds**	**Corporate bonds**
Yes	Advanced in an African context	Very liquid in an African context	91 days to 20 years	Yes	Yes

Macroeconomic overview

Economic structure - The primary sector remains the base of the Nigerian economy as agriculture provides the main source of livelihood for most Nigerians. According to the Food and Agricultural Organisation (FAO), Nigeria is the continent's larger producer and consumer of rice, with this crop generating more income for Nigerian farmers than any other cash crop in the country. The secondary sector produces the oil that Nigeria is known for: it is the largest crude producer on the continent and holds reserves of 37 billion barrels. Oil production generates around 95% of export revenues and around 70% of government revenue. The country's largest manufacturers produce cement, food products and consumer and household goods. The tertiary sector has big retail, transport, telecommunications and finance components. The continent's most populous nation has seen robust growth in mobile communication as competition and regulatory measures lowered prices in the mobile sector. Retail spending is under pressure at present from high inflation and unemployment.

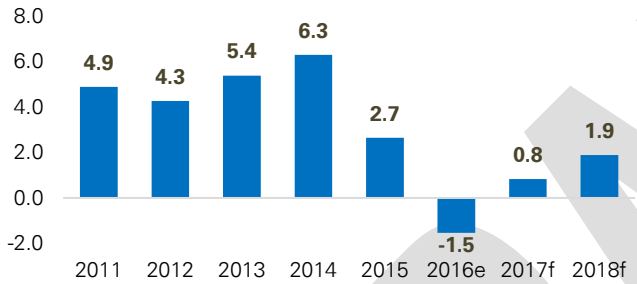
Economic structure as % of GDP 2015



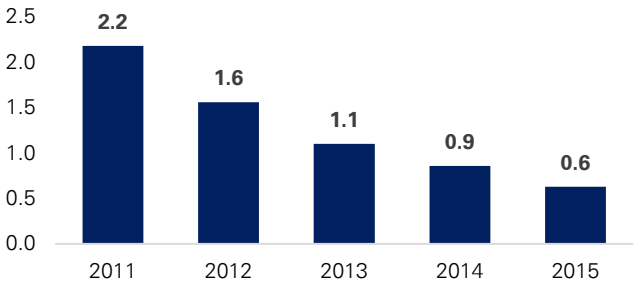
Source: World Bank: World Development Indicators

Economic growth - Nigeria will return to positive real GDP growth in 2017 following slower growth in 2015 and a contraction in 2016. The sluggish growth is mainly attributed to the inadequate supply of foreign exchange, foreign currency restrictions targeted at a list of 41 imports, cuts to oil production due to security challenges in the Niger Delta and the impact of lower oil prices on employment in the hydrocarbon sector. Furthermore, lower oil prices and disruptions to local production hurt the oil sector, on which Nigeria relies heavily. The oil price fell from an average of $99.50/bbl in 2014 to $56.30/bbl in 2015 and $41.10/bbl in 2016. The forecast improvement in economic growth in 2017 is still far from the growth previously seen in Nigeria.

Real GDP growth (%)



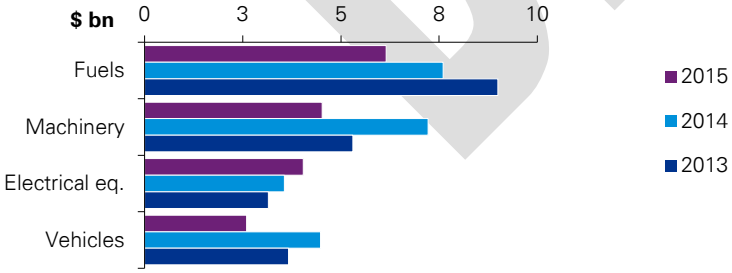
FDI inflows (% of GDP)



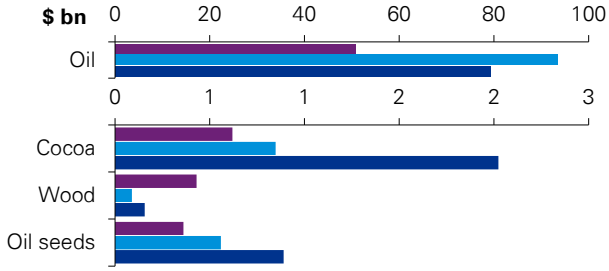
Sources: International Monetary Fund (IMF), United Nations Conference on Trade and Development (UNCTAD)

Foreign investment – The National Bureau of Statistics (NBS) reported recently that total foreign investment inflows dipped by $4.52 billion (47%) to $5.12 billion in 2016 - the lowest in nine years. The NBS declared that foreign direct investment (FDI) declined by a less severe 28% as direct investors often take the long-term outlook into account. This means that Nigeria's recession and currency problems may carry less weight in FDI investment decisions. According to BMI, the value of FDI relative to the size of the Nigerian economy remains low and the country's acute energy, security, and foreign currency liquidity challenges could lead to a significant slowdown in FDI inflows over the medium term.

Main imports



Main exports

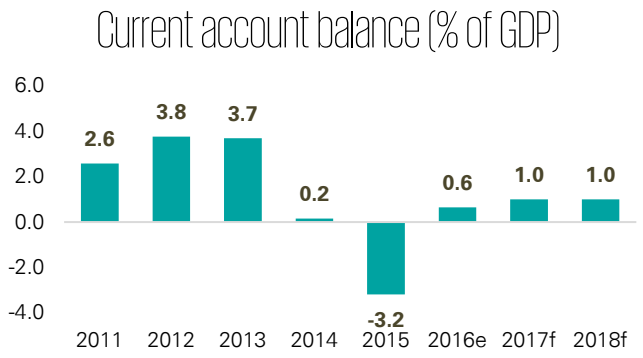


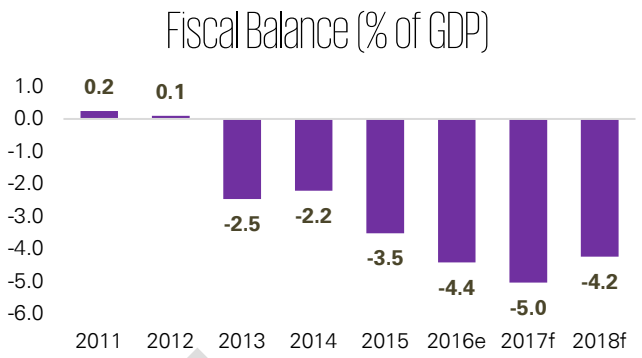
Main Imports: % share of total	2013	2014	2015
Fuels	20.2%	16.3%	15.2%
Machinery	11.9%	15.5%	11.2%
Electrical eq.	7.1%	7.6%	10.0%
Vehicles	8.2%	9.6%	6.4%

Main Exports: % share of total	2013	2014	2015
Oil	87.6%	90.9%	94.3%
Cocoa	2.2%	0.8%	1.1%
Wood	0.2%	0.1%	0.8%
Oil seeds	1.0%	0.5%	0.7%

Source: Trade Map

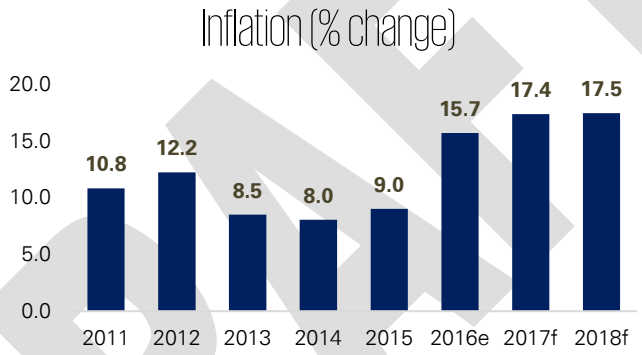
External trade – Nigeria has traditionally recorded a current account surplus that relied on its strong oil export revenues. The current account surplus averaged 8% of GDP in the decade ending 2014. Following the oil price collapse in the second half of 2014, the current account was in a deficit in 2015 for the first time since 2002. The macroeconomic challenges in Nigeria lead to some controversial policy responses where the government decided to maintain the exchange rate peg and impose capital controls – the associated sovereign ratings downgrade caused the delisting of Nigeria's bonds on JP Morgan's Government Bond Index Emerging Markets in 2016. The current account position will improve only slightly in 2017, remaining in low positive figures as oil revenues start to normalise.





Source: IMF

Fiscal policy – Nigeria's fiscal balance changed from a surplus in 2012 to a deficit in 2013, from where it continued on a downward trajectory. However, the deficit is expected to reach a turning point at 5.5% of GDP in 2017. Further devaluation of the naira is essential for a return in foreign investment – yet monetary policy will determine whether this will take place. As both oil prices and production rise, the government will be able to use fiscal stimulus to help the economy recover. Because of this, implementing an expansionary budget in 2017 would have a larger impact than in 2016. Fiscal policy will play and increasingly powerful role in growth recovery in Nigeria form 2017 onwards.



Source: IMF

Monetary policy - Headline inflation decreased from 17.8% y-o-y in February to 17.3% y-o-y in March. The expectation is that the CBN is expected to maintain its interest rate at 14% throughout the rest of 2017: government pressure to support growth will prevent an interest rate hike. In March, the central bank's Monetary Policy Committee (MPC) held rates constant for the fourth consecutive meeting – showing renewed consistency in its approach compared to previous years. Finance minister Kemi Odeosun has publicly called for lower rates that will stimulate the economy and make government borrowing cheaper, but the CBN has publicly resulted this and we do not expect this to change as long as inflation remains at current high levels. High inflation will therefore prevent a rate cut in 2017.

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