Nigeria Economic Snapshot H2, 2017

Trade & Investment SWOT

Strengths	Weaknesses
Investors in consumer-centric industries benefit from a large domestic market.	Bureaucratic and ineffective government institutions and inefficient administrations of key regulatory activities,
Relatively low taxation levels improve the competitiveness of firms operating in the country.	Significant infrastructure gap still a major challenge especially as it relates to power and transportation
Banking sector is well developed in a West African context.	Excessive state bureaucracy affects the ease of doing business, although recent improvements resulted in an improved ranking in the World Bank Doing Business 2017 report.
The stock market is relatively liquid and well capitalised, creating opportunities for portfolio investors as well as companies looking to raise capital.	Vulnerability to commodity price movements: lower global oil prices in 2014-2015 resulted in the oil-dependent Nigerian economy falling into recession
Opportunities	**Threats**
The government offers a wide range of incentives, including tax breaks, to certain approved investments in select sectors	High levels of corruption raise legal risks and deter foreign investment.
Government efforts at economic diversification are creating investment opportunities in various sectors of the economy including agriculture, mining and manufacturing	Weak enforcement of court rulings, contractual agreements and intellectual property rights exposes businesses to significant losses.
Progress made with reforms and initiatives to improve the business environment and reduce red tape could lower the burden of bureaucracy and reduce cost of doing business	Local content requirements may impede businesses due to the dearth of adequate domestic capacity – however, 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 firms.	Potential heightened socio-political risks (including increased Niger Delta militancy) as the next election cycles approaches

Source: Business Monitor International (BMI), KPMG research

Economic structure - The primary sector remains the base of the Nigerian economy as agriculture provides the main source of livelihood for most residents. Nigeria is the continent's largest 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.

Recent economic developments – Foreign direct investment (FDI) inflows declined to 0.6% of gross domestic product (GDP) in 2015, improving somewhat to 1% of GDP in 2016. The firmer oil price, relaxation of the administrative constraints and the implementation of the Investors and Exporters (I&E) window of the foreign exchange market stimulated a higher level of FDI inflows and confidence amongst investors from the second quarter of 2017. S&P Global Ratings affirmed Nigeria's sovereign credit rating at "B" in September 2017 with a stable outlook. The agency believes that oil sector improvements "will support higher economic growth, fiscal revenues and higher current account receipts over the next 12 months." After five quarters of declining GDP, economic activity expanded by 0.72% y-o-y and 1.40% y-o-y in the second and third quarters of 2017, respectively. Oil production increased by 26% y-o-y during the July-September period to 2.03 million barrels per day, which compensated for a 0.76% y-o-y decline in activity in the non-oil sector. The International Monetary Fund (IMF) said in August it believes a stronger push for front-loaded fiscal

Mega trends

Population	2017	Total: 182.20 million; female: 94.09 million; male: 0.1 million; age 0-14: 43.84% of total; age 15+: 56.16% of total; age 65+: 2.75% of total
Population growth rate	2015	2.62%
Life expectancy at birth	2015	Total: 52.98 years; female: 53.76 years; male: 52.24 years
HIV/AIDS	2016	Total number of people living with HIV: 3.2 million; total adult prevalence: 2.9%; HIV AIDS orphans (age 0-17): n/a
Adult literacy rate	2015	Total population: 85.12%; female: 80.57%; male: 89.75%
Urbanisation	2016	Urban population: 48.6% of total; annual urban population growth: 4.32%; rural population: 51.4% of total
Population below $1.90/day poverty line	2009	53.47%
Unemployment rate	2017	14.2%
Employment	2017	Agriculture: 27.9% of total; industry: 14.7% of total; services: 57.4% of total
Labour participation rate	2017	Total (ages 15+): 56.53% of total population
Business languages	n/a	English
Telephone & internet users	2010; 2016	Fixed telephone subscriptions: 0.15 million (2016); wired internet subscriptions: 0.2 million (2010); cell phone subscriptions: 154.3 million (2016)
Quality of infrastructure (1 = underdeveloped, 7 = developed)	2017	2.32

Sources: UNESCO Institute for Statistics, World Telecommunication/ICT indicator database, World Bank, UNAIDS, International Labour Organisation, Analyse Africa consolidation - through a sustainable increase in non-oil revenues - would be needed to create space for infrastructure spending. Inflation decreased from 16.01% y-o-y in August 2017 to 15.98% y-o-y in September 2017 after reaching a high of 18.72% y-o-y in January 2017.

Business Environment

Human Development Index (HDI) 2015		Index of Economic Freedom 2017		Global Competitiveness Index (GCI) 2017-18		Doing Business 2018		Corruption Perceptions Index 2016	
152nd	out of 188 countries	115th	out of 180 countries	125th	out of 137 countries	145th	out of 190 countries	136th	out of 176 countries

Source: World Bank, The Heritage Foundation, World Economic Forum (WEF), Transparency International

Economic policy – The federal government launched its Economic Recovery and Growth Plan (ERGP) 2017-2020 to act as a roadmap for security improvements, the war against corruption and economic revitalisation. An economic growth goal of 7% has been set for 2020.on the back of strong non-oil sector growth anchored on agriculture and food security, energy, transportation and industrialisation. According to the Ministry of Budget and National Planning, the ERGP differs from previous plans in several ways, namely: 1) implementation is more focussed; 2) bold new initiatives are outlined; 3) it builds on existing sectoral strategies; 4) signals a changing relationship between the public and private sector based on a closer partnership; and 5) a strong link exists with the fiscal budget due to finance and national planning being merged into a single ministry. The principles behind the ERGP are: 1) focus on tackling constraints to growth; 2) leverage the power of the private sector; 3) promote national cohesion and social inclusion; and 4) allow markets to function.

Sovereign Risk Ratings

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

Source: Trading Economics

S&P Global Ratings affirmed Nigeria's long-term foreign sovereign credit ratings at "B" in September 2017 with a stable outlook. The agency believes that oil sector improvements "will support higher economic growth, fiscal revenues and higher current account receipts over the next 12 months." It noted that oil production had accelerated and that the government and financial institutions were better able to access external financing. However, with this assertion, S&P also warned that it could lower the country's rating if external financing gaps become larger and more difficult to fund, if government debt accumulation accelerates or "if foreign exchange restrictions remain in place for an extended period." The agency is of the view that "political decision-making in Nigeria can be unpredictable, and that government institutions are weak. This results in "mixed messages being promoted in relation to policies, such as the appropriate exchange rate regime for the country."

Fitch Ratings affirmed its "B+" rating for Nigeria in August 2017 and retained a negative outlook on the assessment. The negative outlook is based on downside risks from rising government indebtedness, the possibility of a reversal of recent improvements in foreign currency liquidity and a faltering of the still fragile economic recovery. The country's economic recovery from a five-quarter recession will be dependent on increased foreign currency availability to the non-oil economy. This, in turn, will support overall economic activity and improve fiscal conditions, which should help limit an increase in the government's debt stock. While debt obligations are low by "B+ standard, government debt is high compared to fiscal revenues. Fitch expects general government debt to rise from an equivalent 227% of revenue at end-2016 to 325% in 2017.

Moody's Investors Services affirmed its "B1" long-term issuer rating of Nigeria in July 2017 with a stable outlook. In a statement during May on foreign currency shortages in Sub-Saharan African (SSA) countries, the agency commented that rationing of US dollars, currency devaluations and foreign currency borrowing by the Nigerian and governments has stemmed the fall in foreign exchange reserves, although "this has been to the detriment of the non-oil economy". Moody's warned that the banking sector is adversely affected by currency shortages due to the economy's high reliance on US dollars, with banks' foreign currency deposits being depleted. Admittedly, pressures are receding as the CBN injects US dollars into the economy and currency markets. Nonetheless, Moody's warned in May that US dollar constraints are likely to persist for the foreseeable future as oil prices are unlikely to return to a level of $100 per barrel.

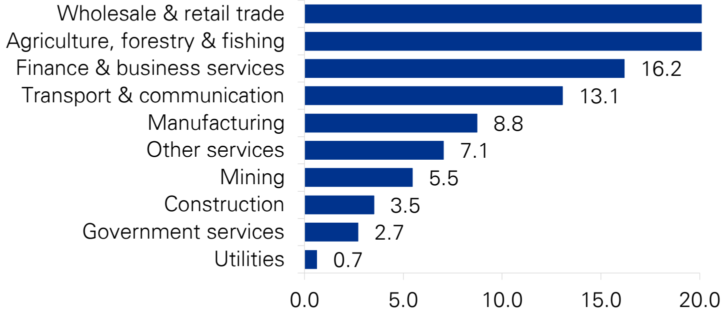
Finance & Banking

Central bank	Number of commercial banks*	Bank branches per 100 000 adults	ATMs per 100 000 adults	Deposit accounts per 1 000 adults
Central Bank Nigeria (CBN)	31	4.94	16.73	661.89
Stock market	**Listed companies**	**Market capitalisation****	**Largest sectors**	**Weekly trading value****
Nigeria Stock Exchange (NSE)	172	$33.3 billion	Financial services, food, beverages, industrial goods	$37 million
Capital market	**Level of development**	**Maturity range**	**Municipal bonds**	**Corporate bonds**
Yes	Advanced in an African context	91 days to 20 years	Yes	Yes

Sources: World Bank, African Alliance, Analyse Africa, KPMG research
**Includes merchant banks*
***Week ending 27 October 201*

Macroeconomic overview

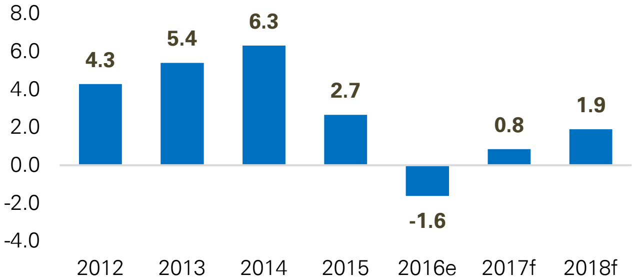
Economic structure (% of GDP), 2016



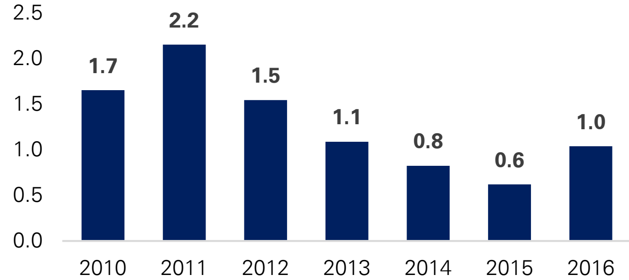
Source: African Economic Outlook (AEO)

Economic growth – GDP growth is slowly recovering after the contraction seen in 2016. After five quarters of declining GDP, economic activity expanded by 0.72% y-o-y and 1.40% y-o-y in the second and third quarters of 2017, respectively. Oil production increased by 26% y-o-y during the July-September period to 2.03 million barrels per day, which compensated for a 0.76% y-o-y decline in activity in the non-oil sector. Consumer and business confidence indicators remained in negative territory during the second and third quarters which continued to have an adverse impact on the non-oil economy – thereby limiting the speed of the country's economic recovery. Higher oil production and firmer oil prices are expected to result in economic growth of 0.8% in 2017 and 1.9% in 2018. Risk to this outlook include conflict in the Niger Delta and the lead up to the 2019 elections.

Real GDP growth (%)



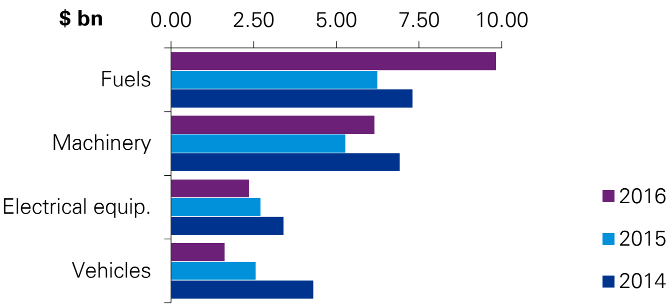
FDI inflows (% of GDP)



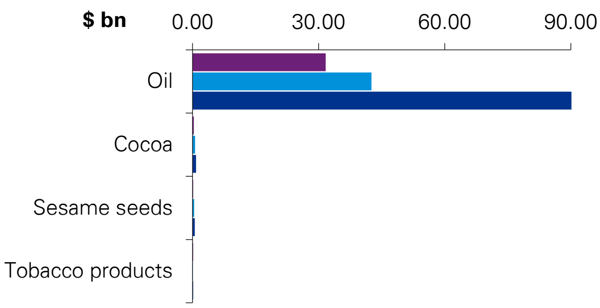
Sources: International Monetary Fund (IMF), United Nations Conference on Trade and Development (UNCTAD)

Foreign investment – FDI inflows declined from 2.2% of GDP in 2011 to 0.6% of GDP in 2015. The CBN implemented administrative exchange rate intervention when the oil price decreased rapidly during 2015 – the decline limited inflow and outflow of capital and adversely affected foreign investment. However, the firmer oil price, relaxation of the administrative constraints and the implementation of the Investors and Exporters (I&E) window of the foreign exchange market stimulated a higher level of FDI inflows and confidence amongst investors from the second quarter of 2017. From a financial market perspective, the NSE reported that Foreign Portfolio Investment (FPI) into the Nigerian bourse increased by almost 60% y-o-y to N430 billion during the first half of 2017. It is expected that consolidating the multiple exchange rate system into a more flexible single exchange rate will further attract foreign investment into the economy.

Main imports



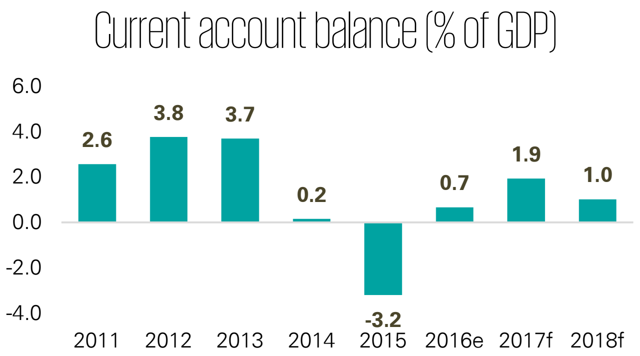
Main exports

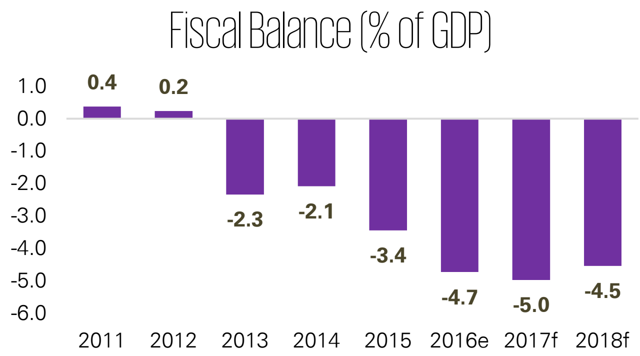


Main Imports: % share of total	2014	2015	2016	Main Exports: % share of total	2014	2015	2016
Fuels	16.4%	18.5%	28.0%	Oil	90.8%	87.9%	96.4%
Machinery	15.5%	15.6%	17.5%	Cocoa	0.8%	1.3%	0.9%
Electrical equipment	7.6%	8.0%	6.7%	Sesame seeds	0.5%	0.7%	0.4%
Vehicles	9.7%	7.6%	4.6%	Tobacco products	0.1%	0.2%	0.4%

Source: Trade Map

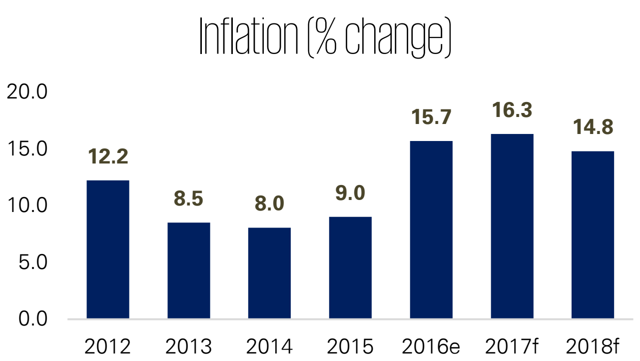
External trade – Nigeria has traditionally recorded a current account surplus that relied on its strong oil export revenues. Crude oil is the main exporting product and accounts on average for more than 90% of Nigeria's exports. The current account balance recovered slightly in 2016 from a deficit of 3.2% of GDP in 2015 to a surplus of 0.7% of GDP. The macroeconomic challenges in Nigeria lead to some controversial policy responses where the government decided to adjust its management of 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 in 2016. The current account position improved only slightly in 2017 to an IMF estimated 1.9% of GDP, remaining in low positive figures as oil revenues started to normalise. However, the surplus is not expected over the next few years to reach the same highs as in 2012-2013. The forecasted increase in imports which will only be off-set by an increase in oil production, are reasons for the forecasted current account surplus of 1% of GDP in 2018. Import cover - the number of months of imports covered by a country's foreign reserves - is projected by BMI to equal 7.5 months in 2018, compared to a global benchmark of at least three months.

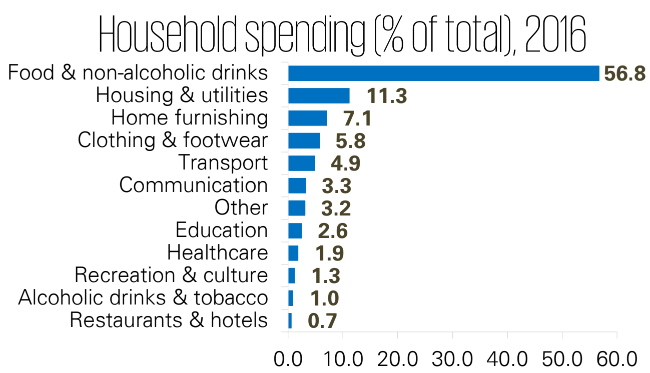




Source: IMF

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 likely reached a turning point in 2017 at around 5% of GDP, and is expected by the IMF to narrow to 4.5% of GDP in 2018. The IMF said in August 2017 that, lacking a significant improvement in FDI, it believes a stronger push for front-loaded fiscal consolidation - through a sustainable increase in non-oil revenues - would be needed to create space for infrastructure spending. As both oil prices and production rise going forward, the government will be able to use fiscal stimulus to help the economy recover. In the meantime, the government is tasked with finding financing for these persistent deficits. High borrowing costs on the domestic market prompted the government to sell $3 billion worth of Eurobonds during November. This sale forms part of the government's debt diversification plans under the Debt Management Strategy 2016-2019 which focusses on rebalancing the mix between domestic and international borrowing. The government is aiming to reduce the 84:16 portfolio split between local and foreign debt to a 60:40 relationship.





Source: IMF, BMI, country statistics agencies

Monetary policy - Headline inflation decreased slightly from 16.01% y-o-y in August 2017 to 15.98% y-o-y in September 2017 after reaching a high of 18.72% y-o-y in January 2017. This is still above the bank's inflation target of 6% - 9%. The expectation is that the CBN will maintain its interest rate at 14% heading into 2018. Government pressure to support growth will prevent any monetary policy tightening. In 2017, Finance Minister Kemi Odeosun publicly called for lower interest rates that will stimulate the economy and make government borrowing cheaper, though the central bank is unlikely to react as such.

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