Nigeria's operating landscape

December 2017

pwc

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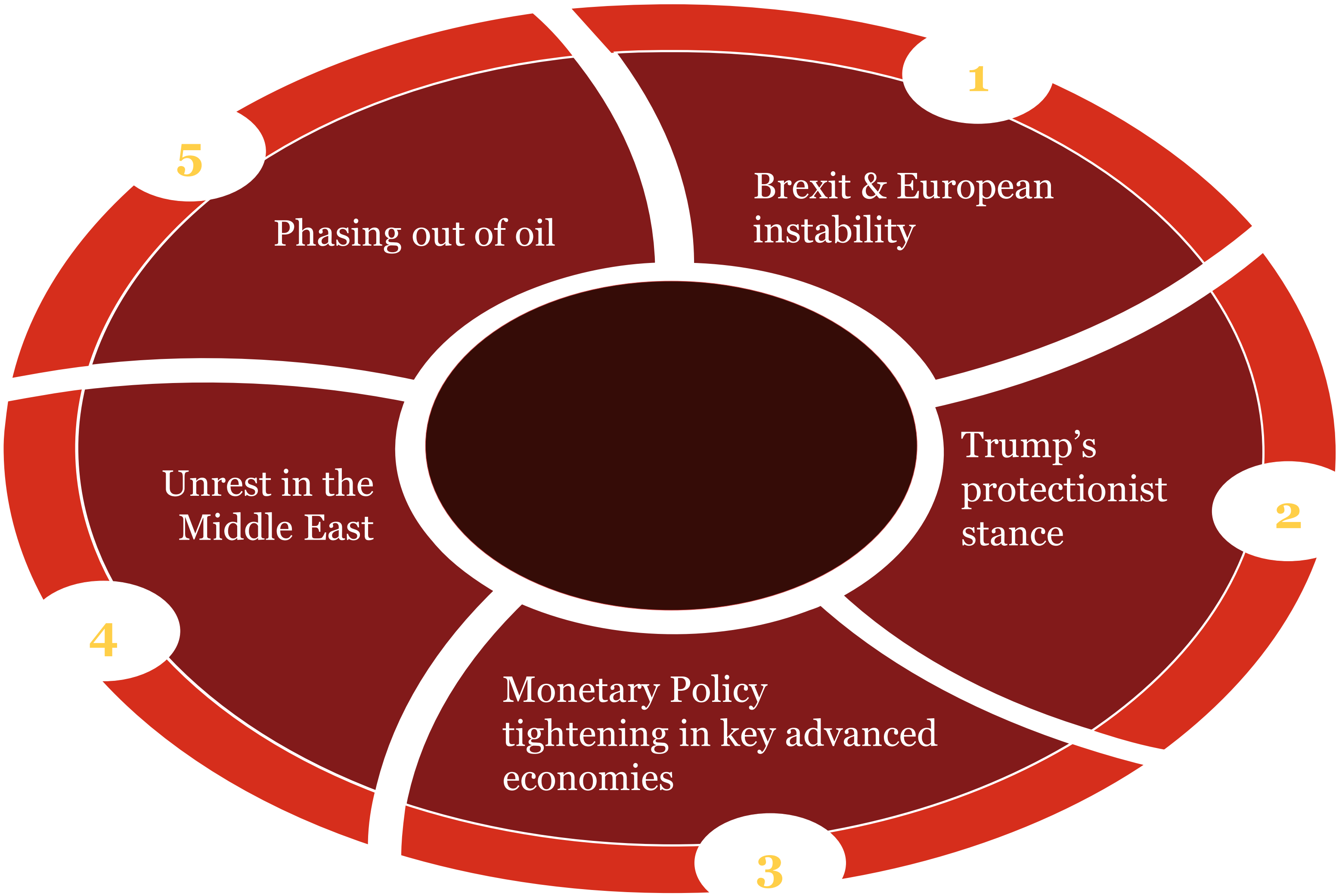
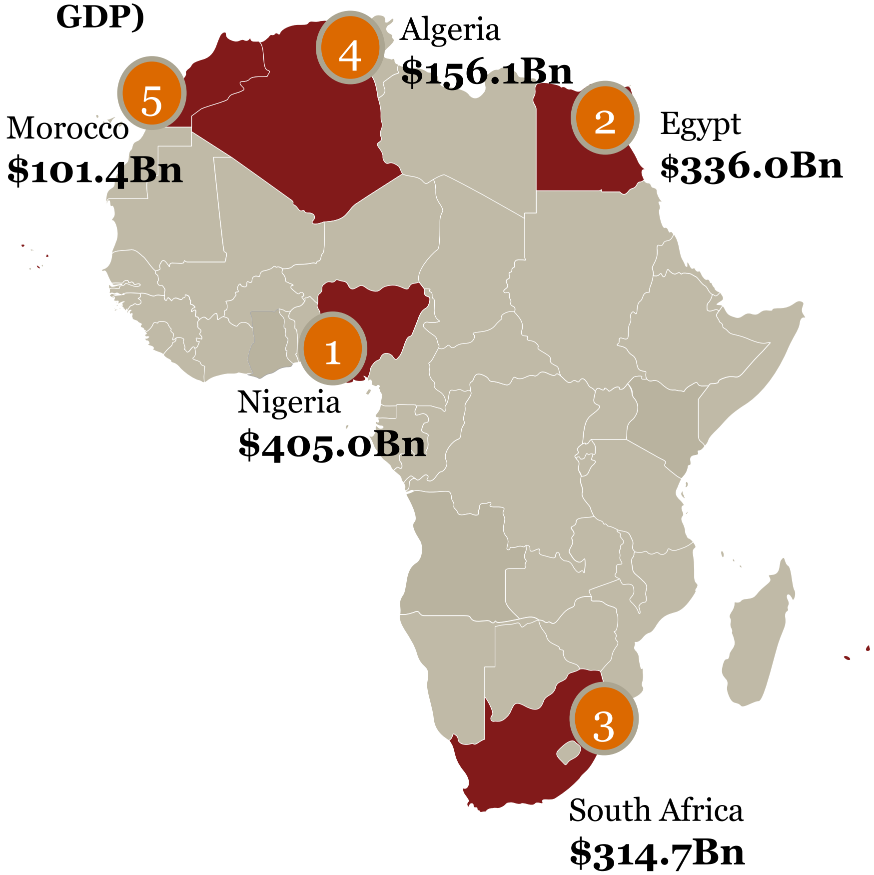
Economic Context

Five global themes to consider in 2018

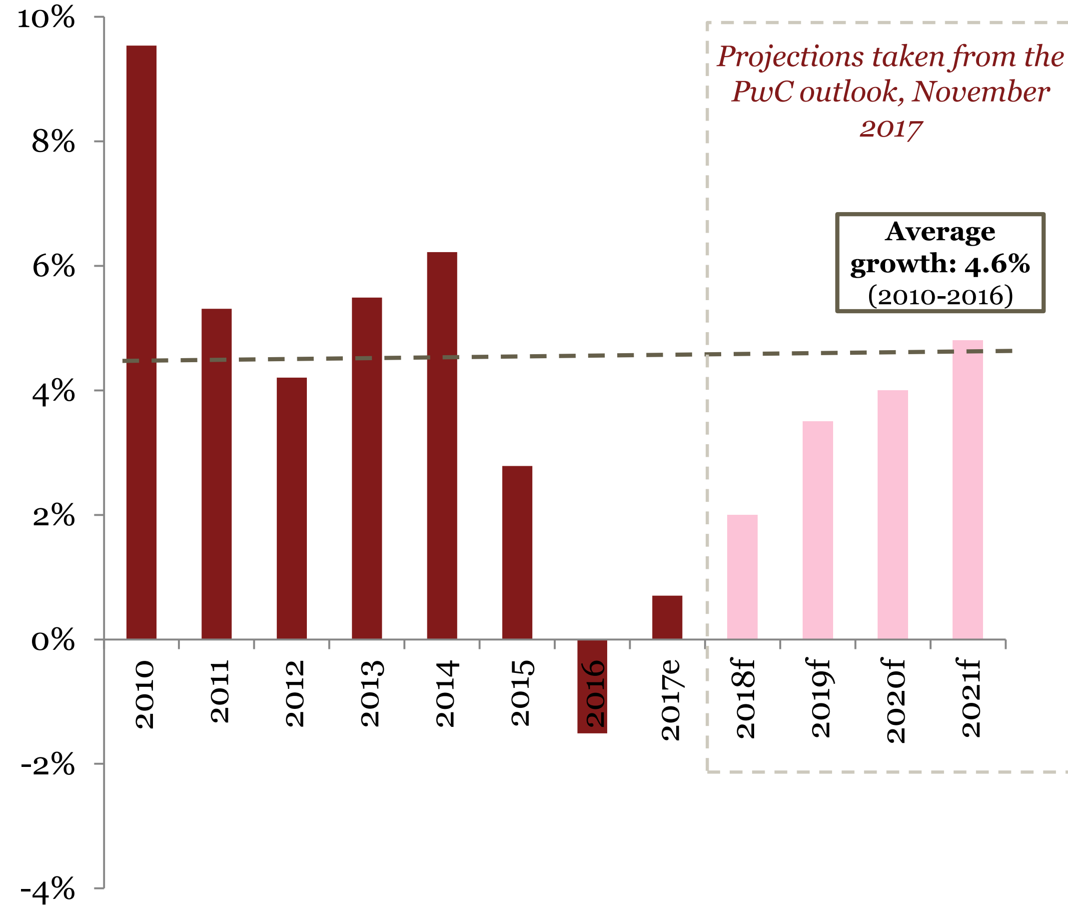


Nigeria is the largest economy in Africa. However, growth has fallen sharply since 2010, with the economy falling into recession in 2016 due to an oil-induced crisis

Top 5 Africa Economies by 2016 (Nominal GDP)



Annual Real GDP Growth (%)



Source: IMF World Economic Outlook October 2014, World Bank

With a quickly-expanding population, technology adoption and rising investment, by 2050 the nation is expected to become the first African nation to become a top 15 global economy

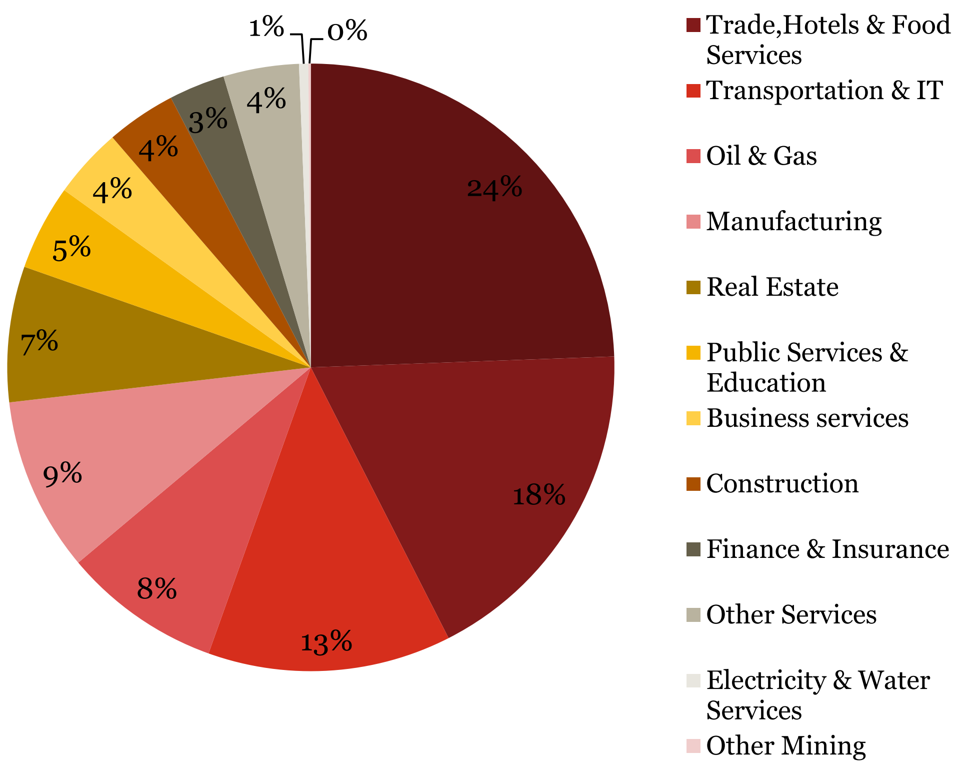
GDP PPP rankings	GDP MER rankings	2016 rankings			2030 rankings			2050 rankings		
		Country	GDP at PPP	GDP at MER	Country	Projected GDP at PPP	Projected GDP at MER	Country	Projected GDP at PPP	Projected GDP at MER
1	2	China	21269	11392	China	38008	26499	China	58499	49853
2	1	United States	18562	18562	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

Source: PwC: The World In 2050 (February 2017 analysis)

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

A third of the economy is based on primary industries of agriculture, mining and quarrying (which includes the large oil sector)

2016 Real GDP - Industry Split



Source: NBS, PwC Analysis

Note: Sum of sectors may not equal 100% due to rounding

2016 Real GDP breakdown	NGN'BN	%
Agriculture	16,607	24%
Trade, Hotels & Food Services	12,288	18%
Transportation & IT	8,814	13%
Oil & Gas	5,725	9%
Manufacturing	6,302	9%
Real Estate	4,904	7%
Public Services & Education	3,088	5%
Business services	2,551	4%
Construction	2,521	4%
Finance & Insurance	2,028	3%
Other Services	2,733	4%
Electricity & Water Services	335	0%
Other Mining	87	0%

Nigeria's economy has returned to positive growth in 2017, but the non-oil sector performance remains weak

Top performing sectors	Q3'17	Share of GDP
Crude petroleum	25.8% y/y	10.0%
Livestock	4.0% y/y	1.6%
Crop production	3.2% y/y	26.9%
Broadcasting	1.6% y/y	1.2%
Food, Beverage, Tobacco	0.6% y/y	3.9%

Worst performing sectors	Q3'17	Share of GDP
Financial institutions	-6.5% y/y	2.3%
Road transport	-6.3% y/y	0.9%
Telecommunications	-5.7% y/y	7.4%
Real estate	-4.1% y/y	6.8%
Trade	-1.7% y/y	15.9%

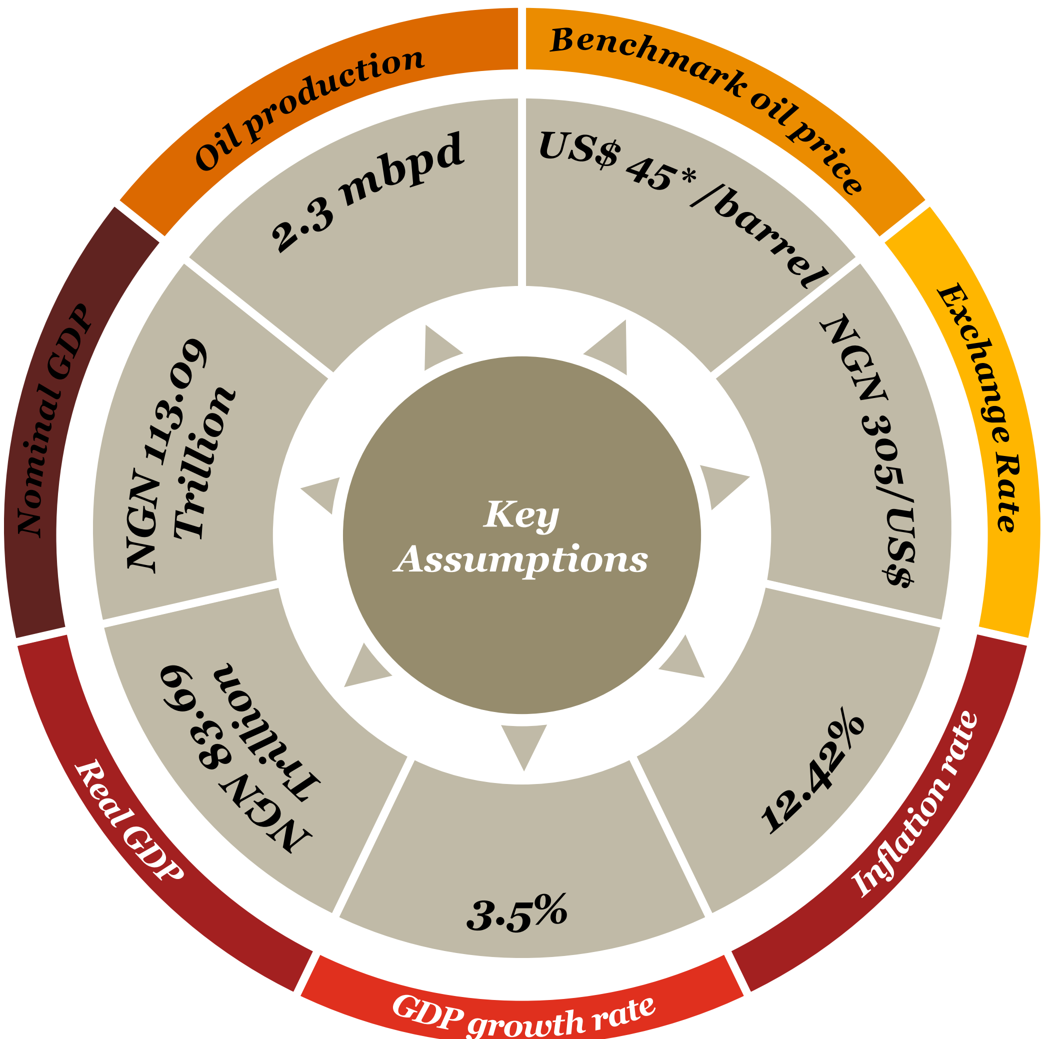
Source: NBS, PwC Analysis

- *The non-oil sector growth slowed in Q3'17 to -0.76% y/y (Q2'17: 0.5% y/y)– the lowest on record, driven mainly by weak performance in telecommunications, trade, real estate and financial services. However, agriculture expanded 3.06% y/y*
- *The slowdown in telecommunications deepened to -5.6% y/y in Q3'17 (Q2'17: -1.7% y/y), perhaps reflecting weak telephone and internet subscription (NCC data for August & September)*
- *Broadly, the contraction in the services sector by -2.6% y/y in Q3'17, the worst on record, is reflective of weak consumer purchasing power*
- *This suggests that the recovery in the non-oil sector will remain sluggish in the immediate term. However, we expect a modest recovery in 2018, driven by exchange rate stability and increased investment*

Source: National Bureau of Statistics and PwC estimates

Fiscal accounts

Key assumptions of the 2018 budget



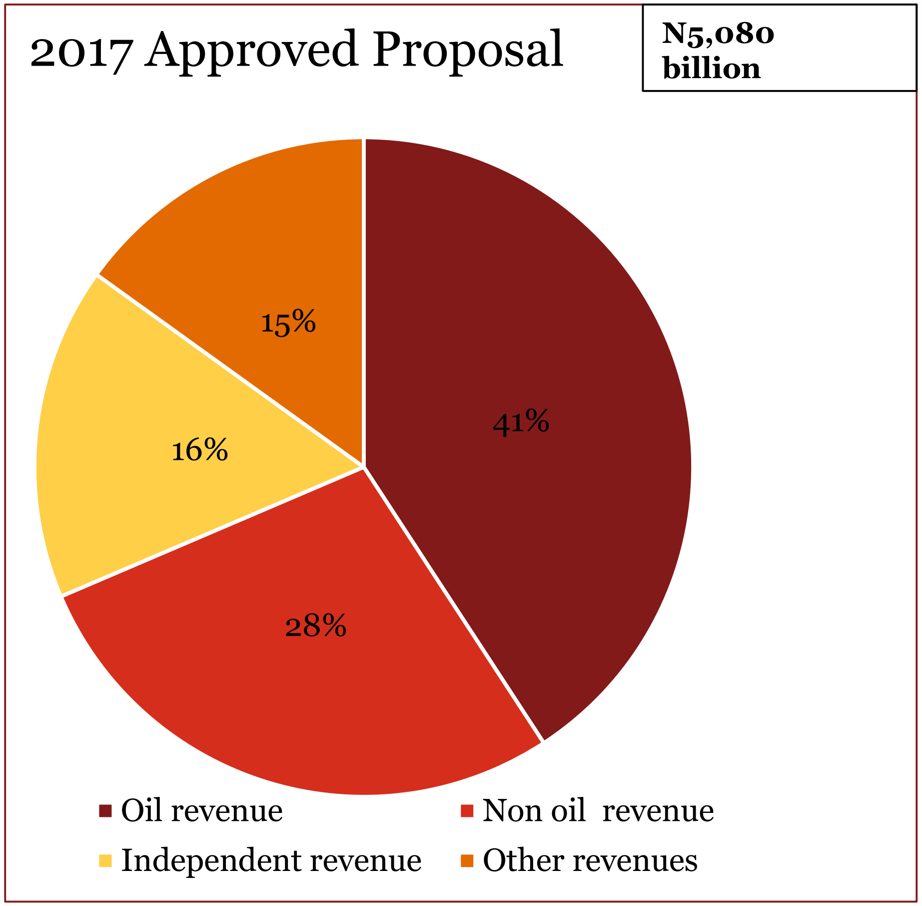
Source: Budget Office, PwC Analysis

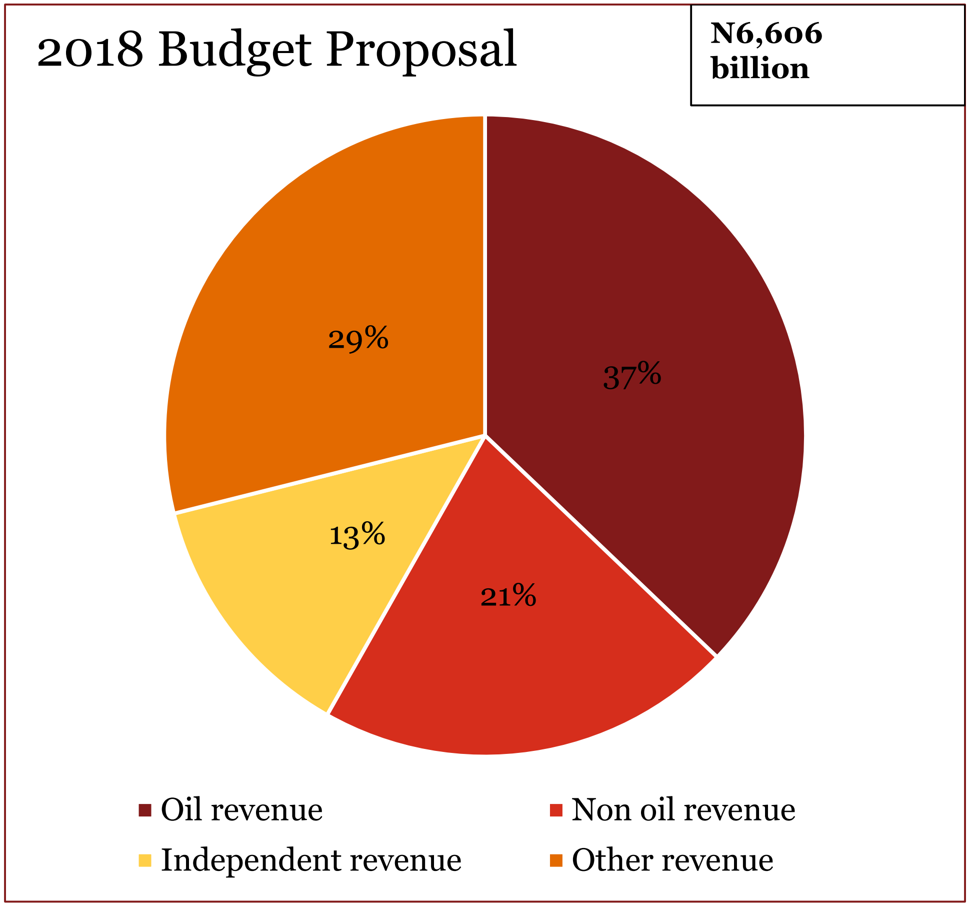
Financing the deficit

- *Overall projected budget fiscal deficit of NGN2.0 trillion for 2018, which is about 1.7% of GDP*
- *The budget deficit is to be financed mainly by borrowings projected at NGN1.70 trillion*
- *NGN850 billion (50.0% of this borrowing) is intended to be sourced externally, while NGN850 billion will be sourced domestically*
- *The debt service to revenue ratio is projected to be about 30.5% in FY2018*

*Nigeria's parliament recently adjusted the oil price assumption to U$ 47/bbl in the process of approving the 2018-2020 expenditure framework. This could impact the overall revenue projections, as well as the fiscal deficit for the 2018 budget

2018 budget revenue proposals – Where the money is coming from?

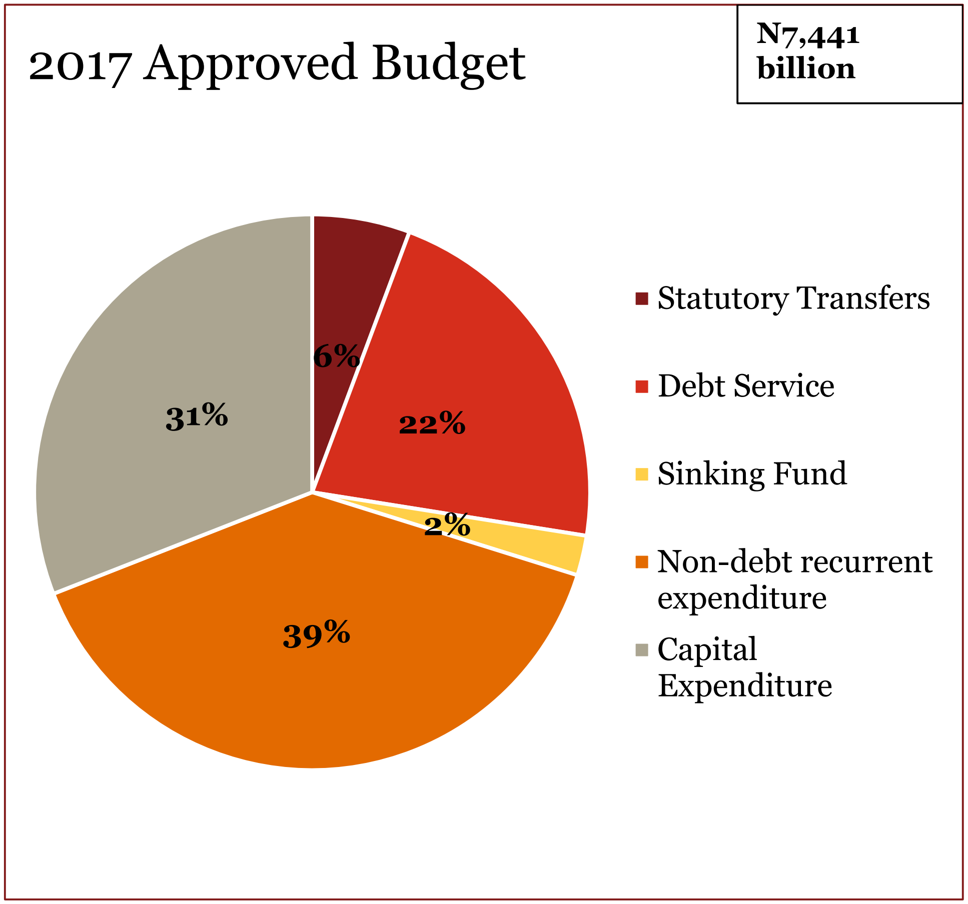


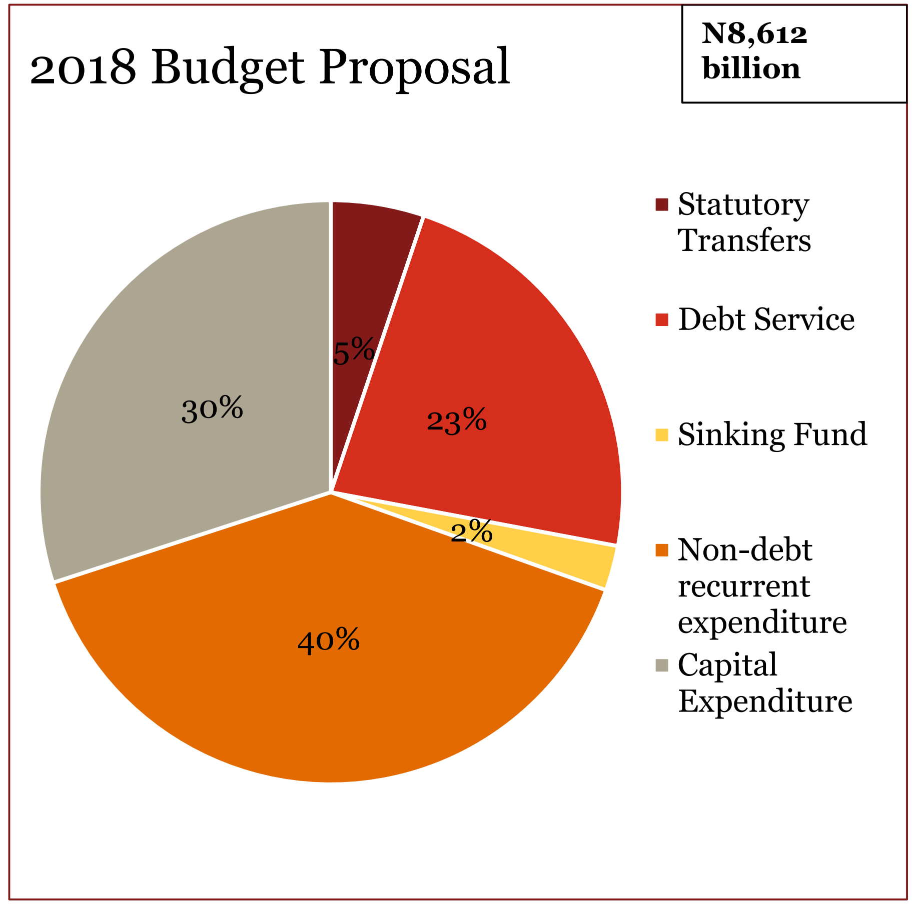


Note: Other revenues include tax amnesty, recoveries, signature bonus, JV equity restructuring, and grants & donor funding

Source: Budget Office, PwC Analysis

2018 budget expenditure proposals – Where the money going to?



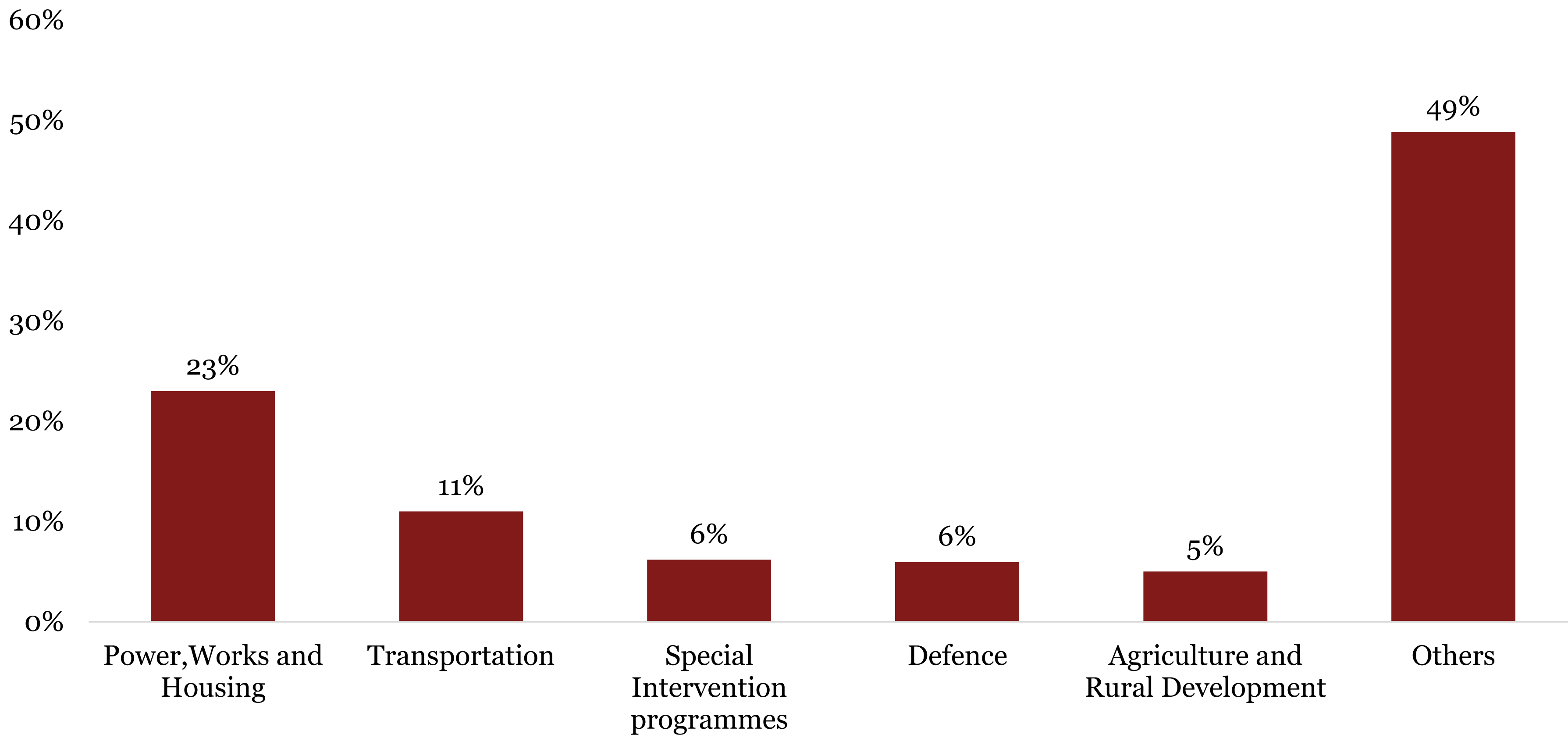


Source: Budget Office, PwC Analysis

Capital expenditure in the proposed 2017 budget

Allocating ~30.8% of the 2018 budget to capital expenditure at NGN2.428 trillion

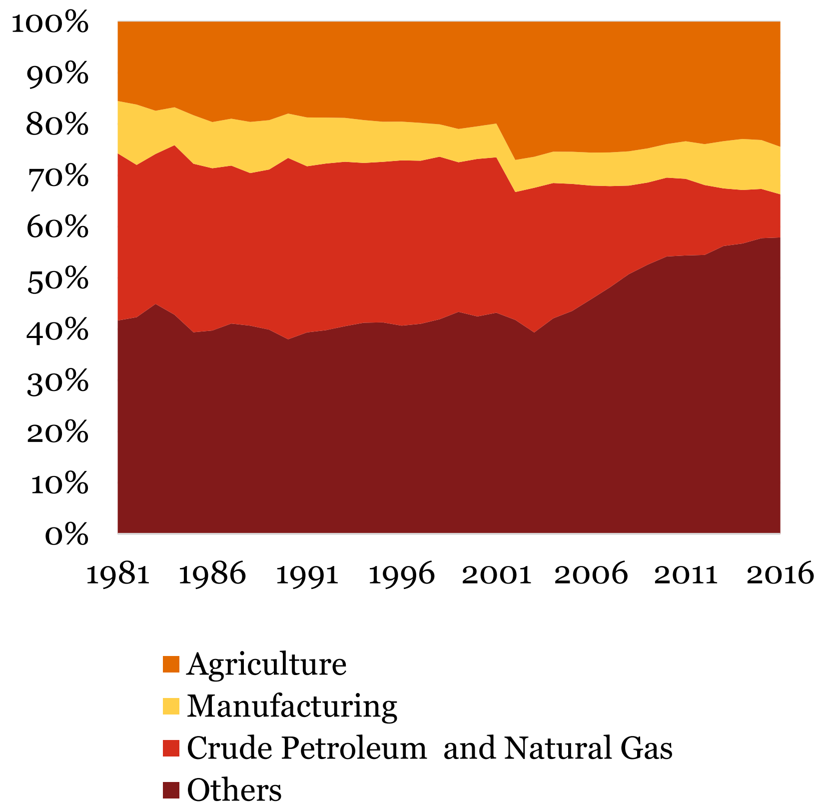
Key sectoral capital allocations



Source: Budget Office, PwC Analysis

The oil sector remains the main source of export earnings and government revenues though its contribution to GDP has declined

Sectoral contributions to GDP (1981-2016)



In 2017, Oil is estimated to account for:

96% of Nigerian export revenues

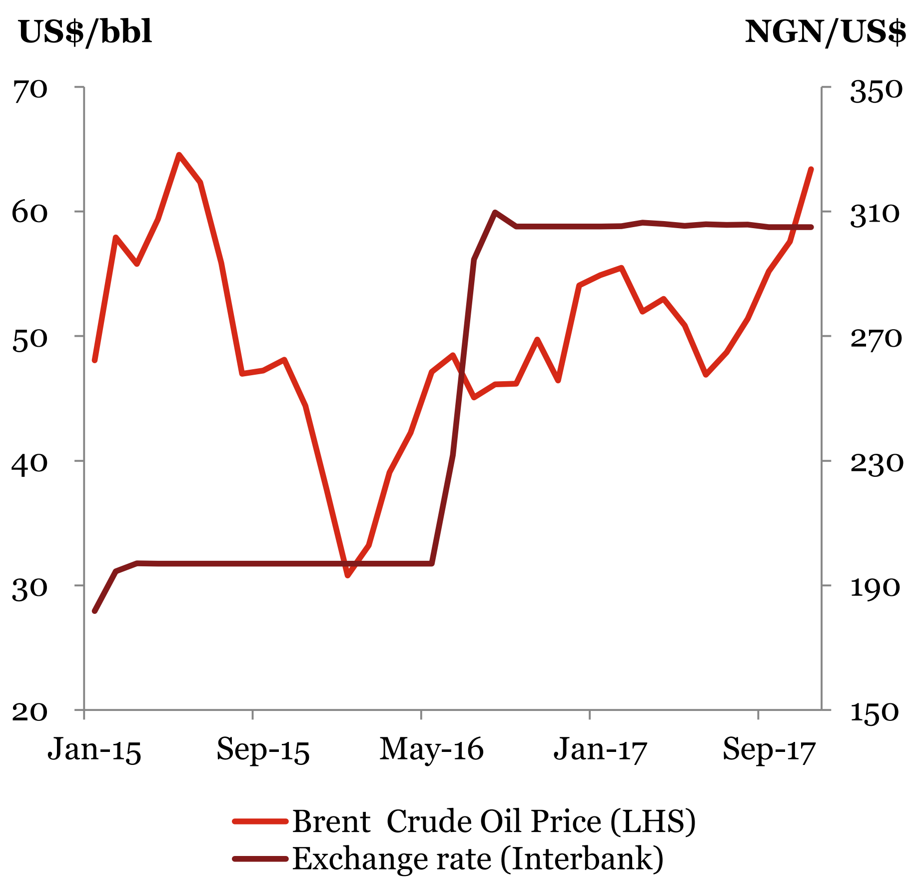
48% of Nigeria's government income

10% of the Nigerian GDP

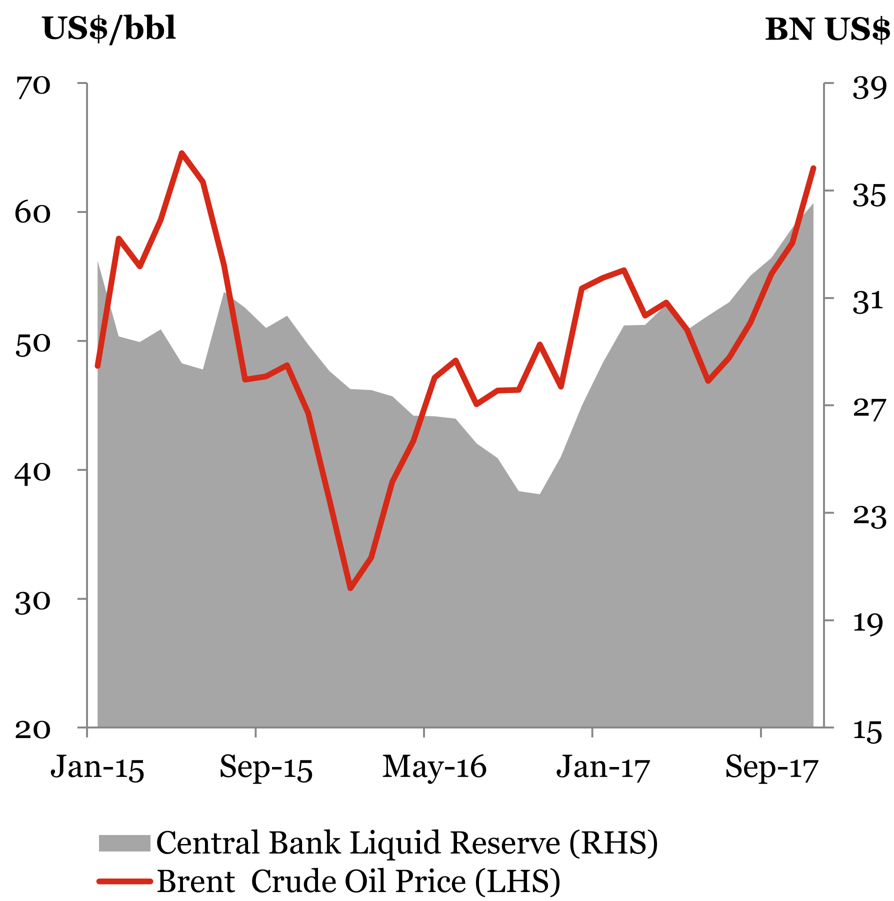
Source: NBS, PwC Analysis

However, the low oil price has placed significant pressure on the currency and government earnings

Oil price vs. Exchange rate



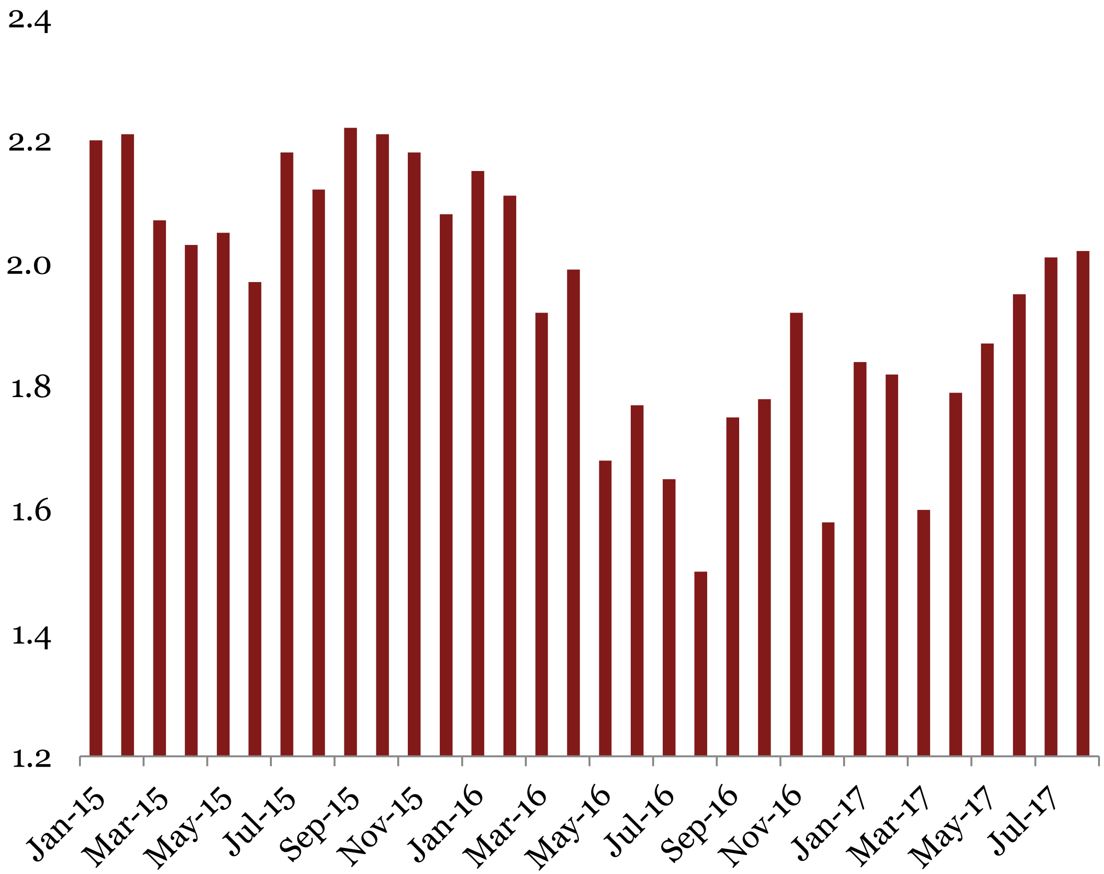
Oil price vs. FX reserves



Source: CBN, FMDQ, PwC Analysis

Oil prices are not the only concern – production failures, spillages and high bunkering and theft rates affected volumes. However, volumes have increased recently due to lower incidence of attacks on facilities

Crude Oil Production (mbpd)



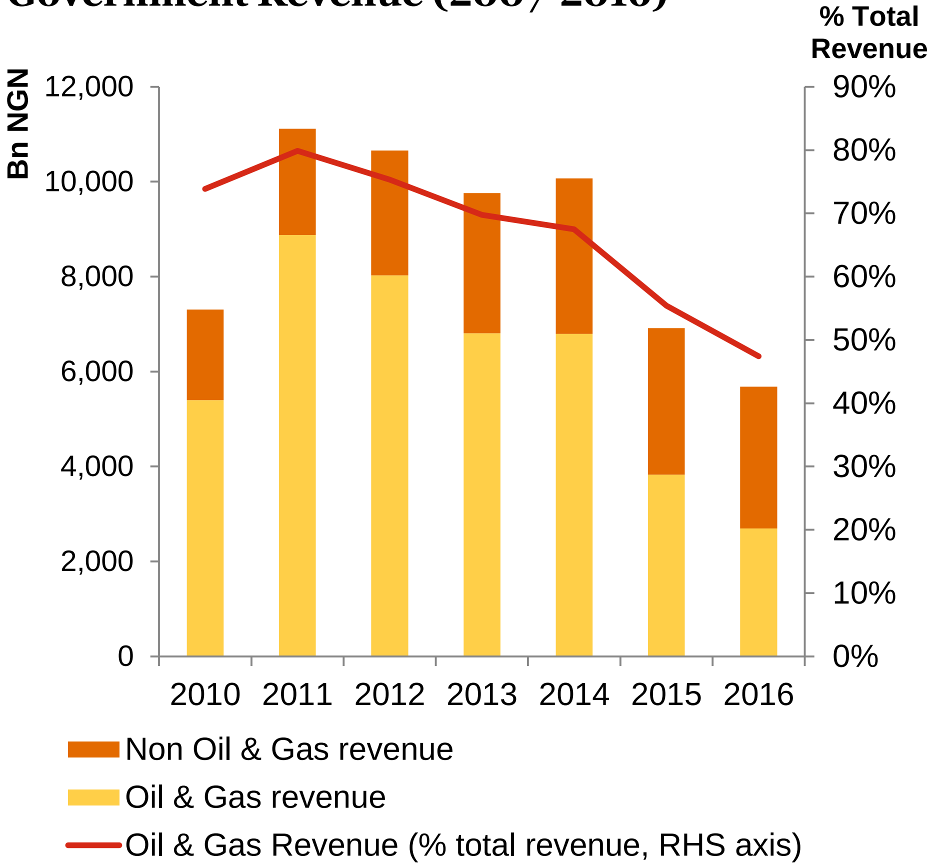
Source: NNPC monthly bulletin, PwC Analysis

Oil theft in Nigeria amounts to more than "**$5Bn** per year – an amount sufficient enough to fund universal access to electricity for all Nigerians by 2030"- IEA, 2014

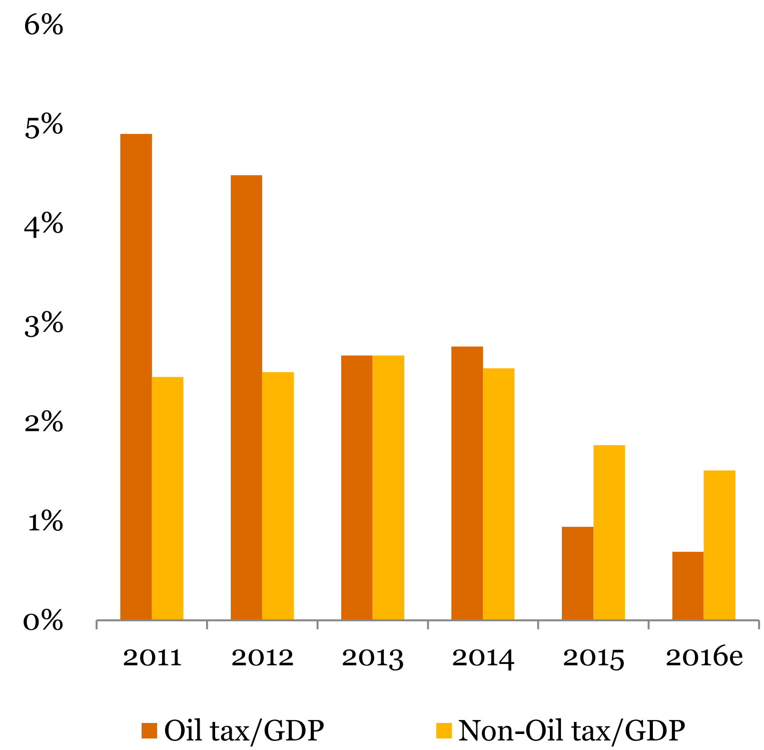
In 2016, oil production fell sharply due to militant attacks on oil and gas facilities. However, production has improved, rising from 1.5mbpd in August 2016 to 2.0mbpd in August 2017, as attacks moderated. Nonetheless, production fluctuation remains a major risk in the oil sector

The tax base is much lower than other economies at a similar level of development. It is also poorly diversified; half of government revenue is dependent on oil

Government Revenue (2007-2016)



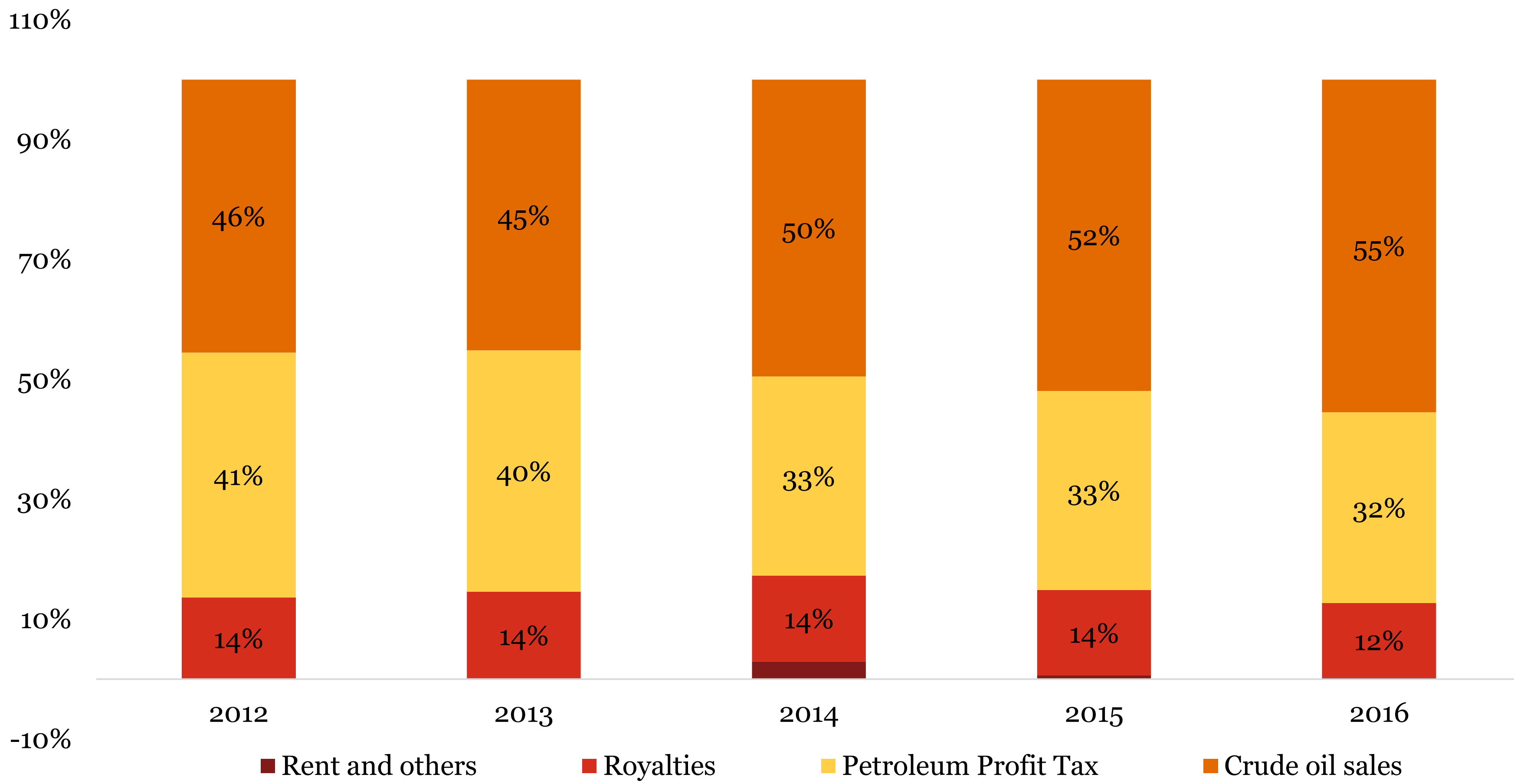
Oil tax/ GDP vs Non-Oil tax/GDP



Source: FIRS, CBN , Nigerian Budget Office, Breakdown of Annual Oil Revenues (2012-2016)

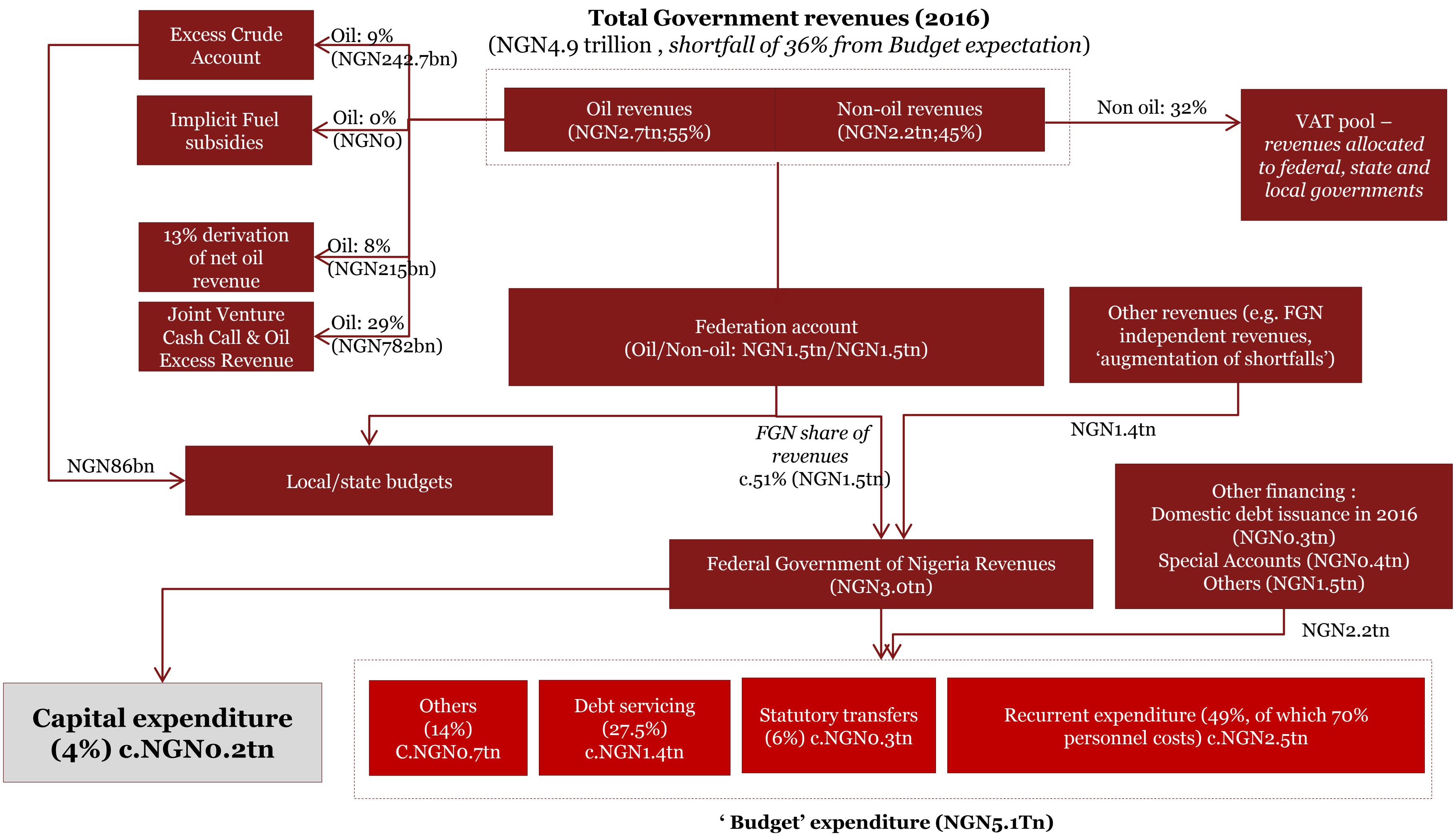
The government also has a limited ability to increase revenues through taxes on oil companies

Composition of Government's oil revenue



Source: Nigerian Budget Office, Breakdown of Annual Oil Revenues (2012-2016)

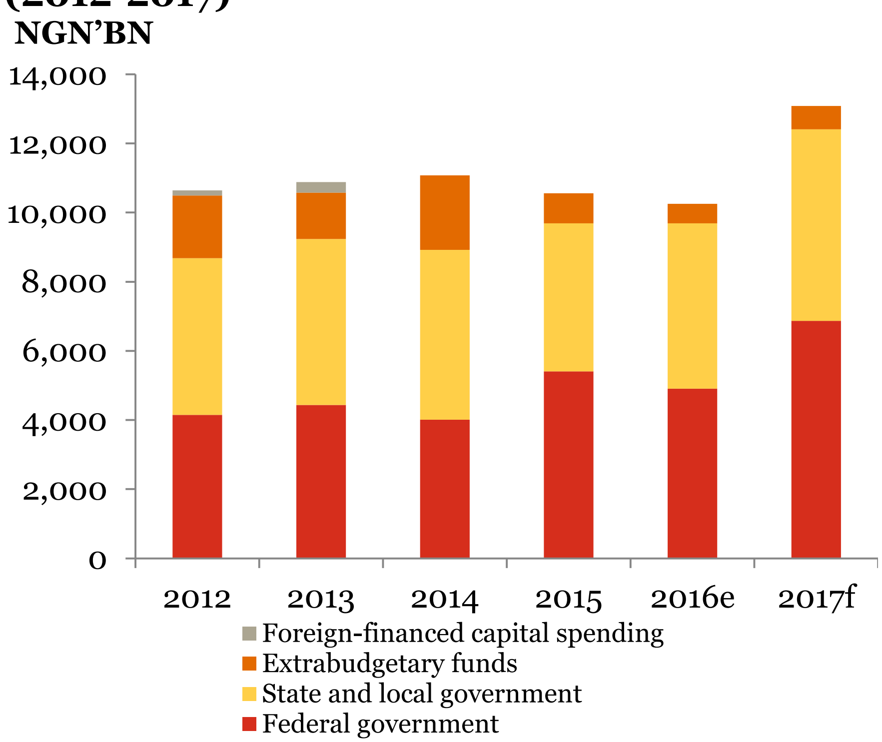
Overall, only a limited portion of the oil revenues may filter through to support the real economy



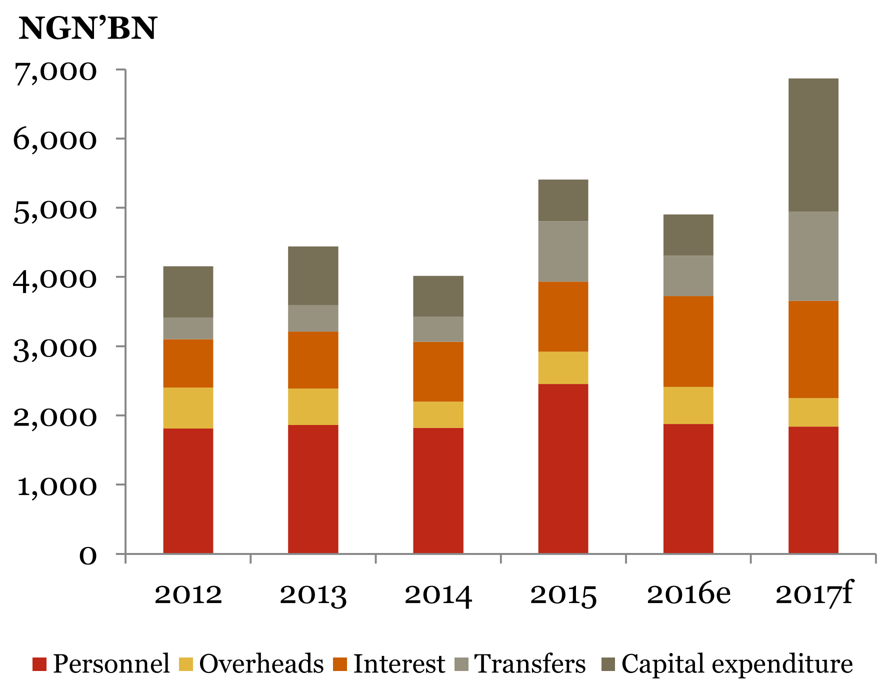
Source: Budget office, PwC Analysis

The biggest portion of federal government expenditure is the public sector payroll, accounting for 1.8% of overall GDP – equivalent to the total size of the livestock industry. There is limited scope to reduce government expenditure without cutting employment or wage levels.

Consolidated Government Expenditure (2012-2017)

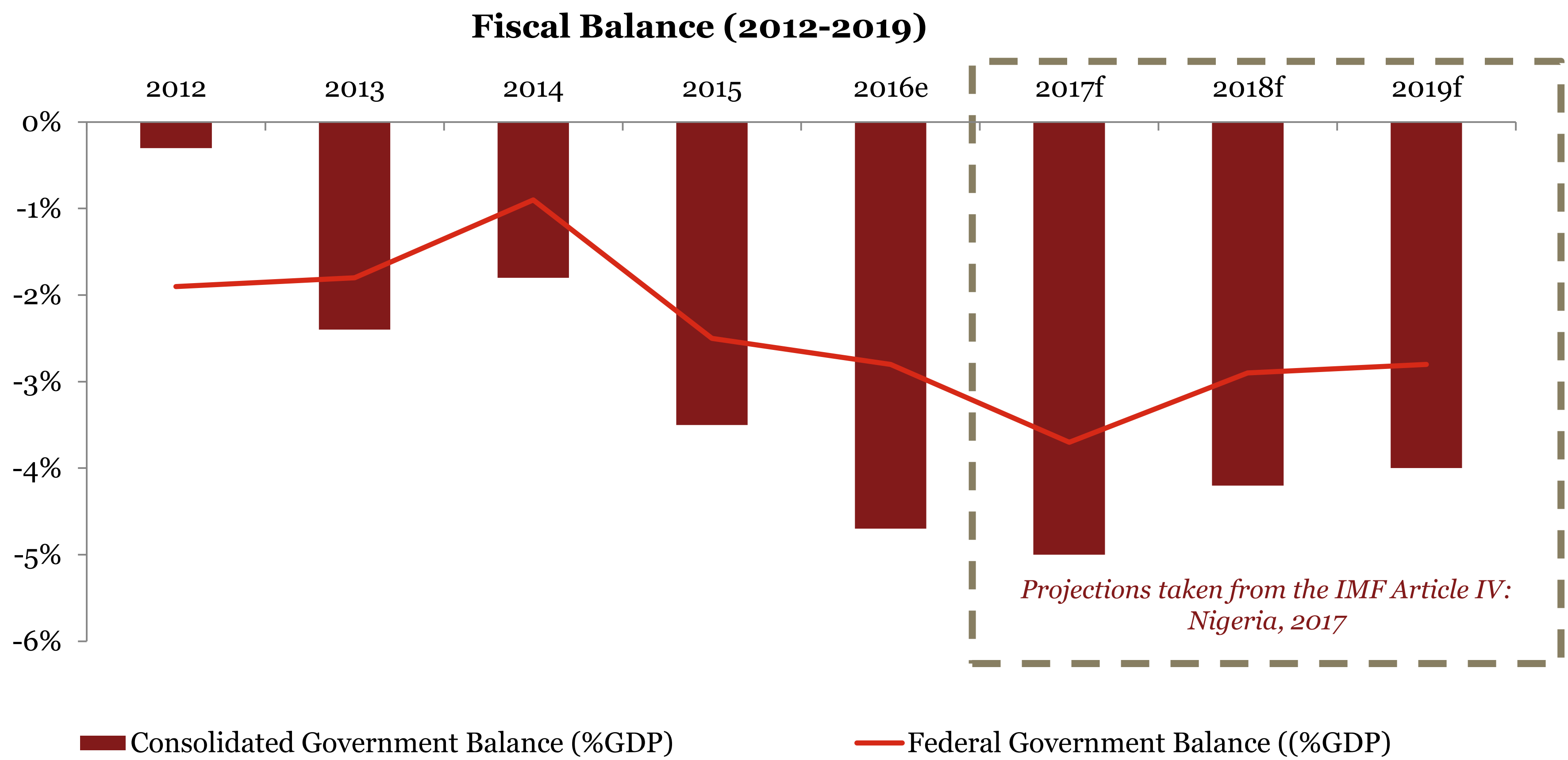


Federal Government Expenditure (2012-2017)



Source: IMF Article IV: Nigeria, 2017

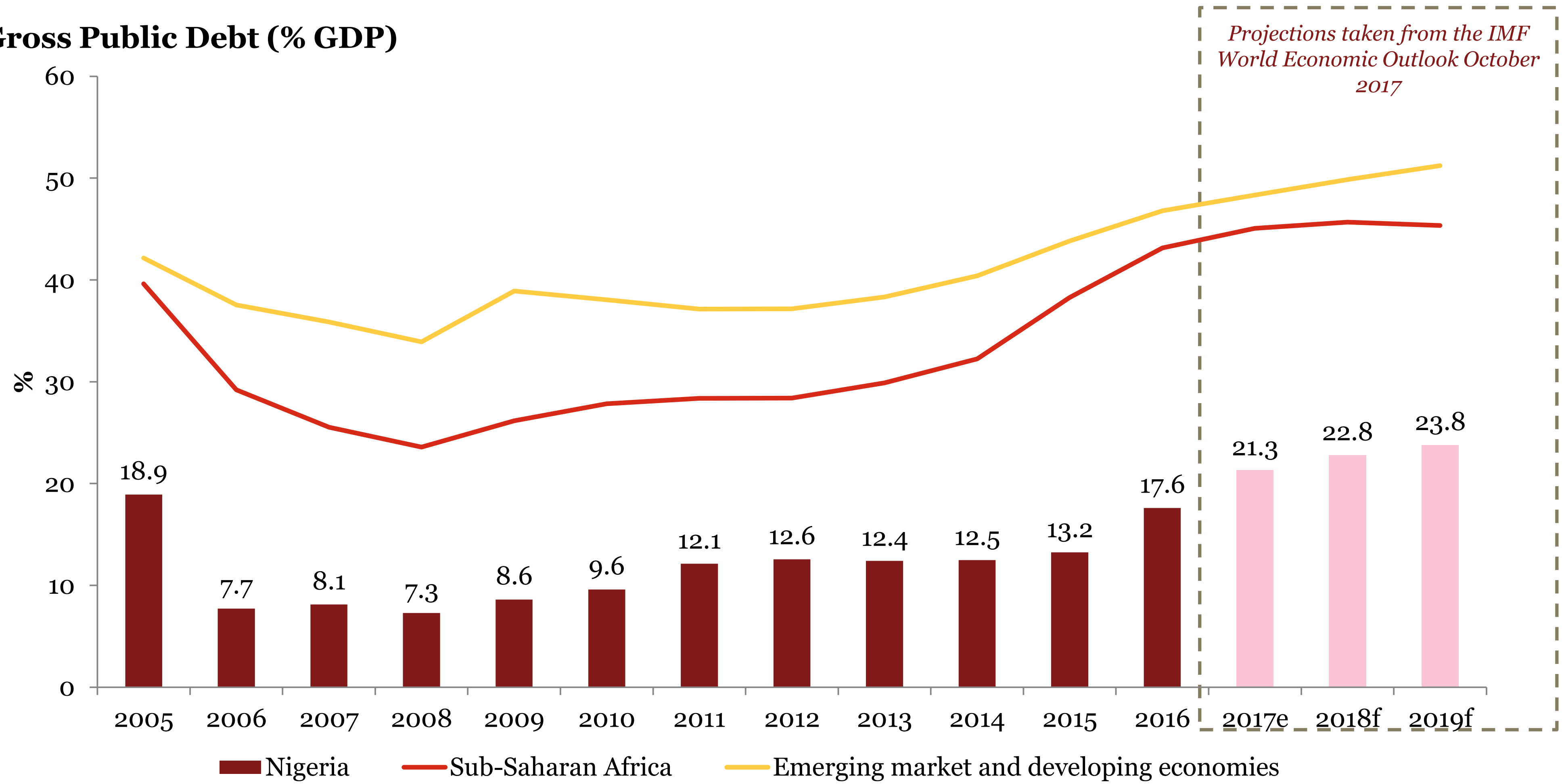
Large levels of public expenditure have opened up a fiscal deficit over the last few years. The deficit is projected to remain elevated due to weak revenue accretion



Source: IMF Article IV: Nigeria, 2017

Despite this, outstanding government debt is low compared to countries within the region and those at similar levels of development

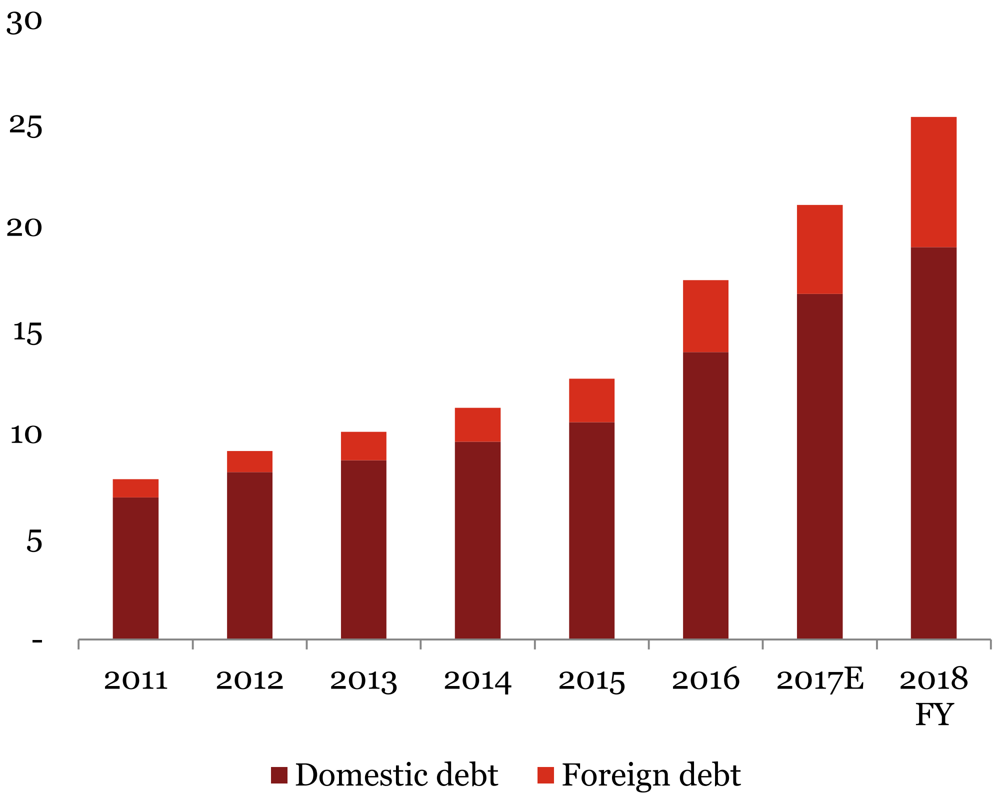
Gross Public Debt (% GDP)



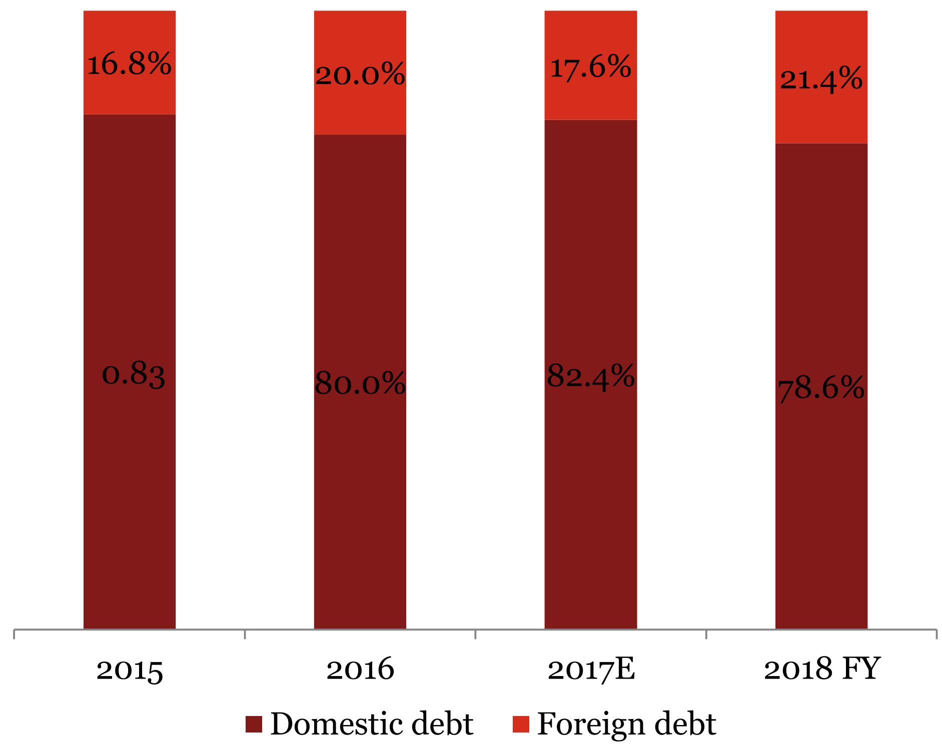
Source: IMF World Economic Outlook October 2017

Of the NGN20.3trillion of outstanding public debt, the majority is denominated in domestic currency. However, the share of external debt is expected to increase, supported by the government's refinancing plan

Outstanding public debt composition (NGN'Trn)

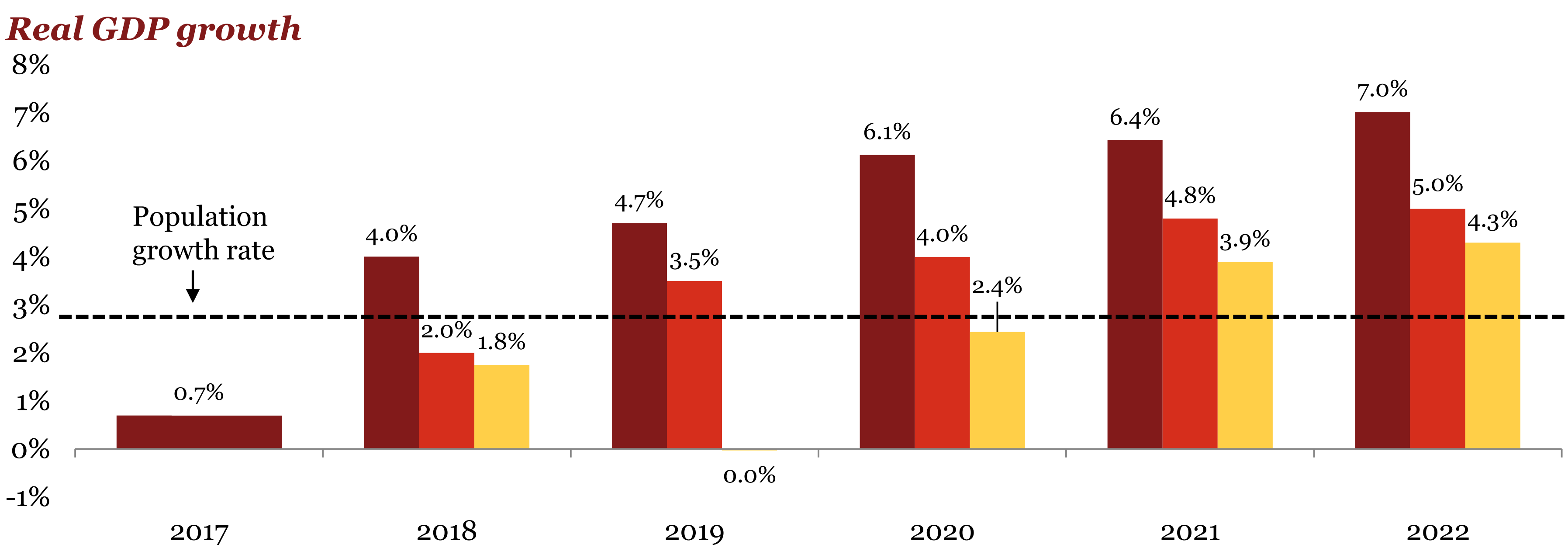


Share of outstanding public debt



Source: Debt Management Office, PwC Analysis

Nigeria's economic recovery: Defining the evolution of economic growth



Sources: PwC Analysis

Our Assumptions	Oil price (USD/bbl.)	Oil production	Structural reforms
Scenario 1: Accelerated Policy reforms	60	2.2	Fast-paced implementation of structural reforms, particularly those related to the business environment
Scenario 2: Weak policy implementation	60	2.2	Sluggish implementation of structural reforms, with the drive for import substitution progressing at a slow pace
Scenario 3: Heightened political risk	60	1.7	Political tension accelerates in the wake of 2019 general elections, negatively impacting policy implementation

Lower oil prices, disruptions to crude oil production, and an unstable FX regime are the major near term risks

Risks	Description	Potential impact	Likelihood of occurrence	Time horizon
Lower oil prices	• Failure of OPEC members to comply with production cuts agreement and increasing shale production	High	Medium	Short to medium term
Slowdown in key economies/ Monetary policy normalization	• Slowdown in economies with strong trade relations with Nigeria, particularly China, the UK , the US and India	Medium	Low	Short to Medium term
	• Ongoing monetary policy normalization in the US could lead to a reversal of foreign capital and restrict further flows	Low	High	
High inflation	• Pre-election and 2018 budget spending	High	Medium	Short to Medium term
Oil production disruption	• Attacks on oil and gas facilities by militant groups in the Niger Delta region	High	High	Short to Medium
Political risk	• Pre-election uncertainties could elevate political tensions, and leadership succession could hamper policy continuity	Medium	Medium	Medium term
	• Referendum in the South-East region	High	Low	Medium term
	• Continuous insurgency in the Northern region	Medium	Medium	Short to Medium term
Deterioration in the Banking sector	• Worsening financial soundness indicators such as high Non-performing loans and low capital adequacy	High	Medium	Short term

High Medium Low

Thank you