

# Nigeria: The Outlook

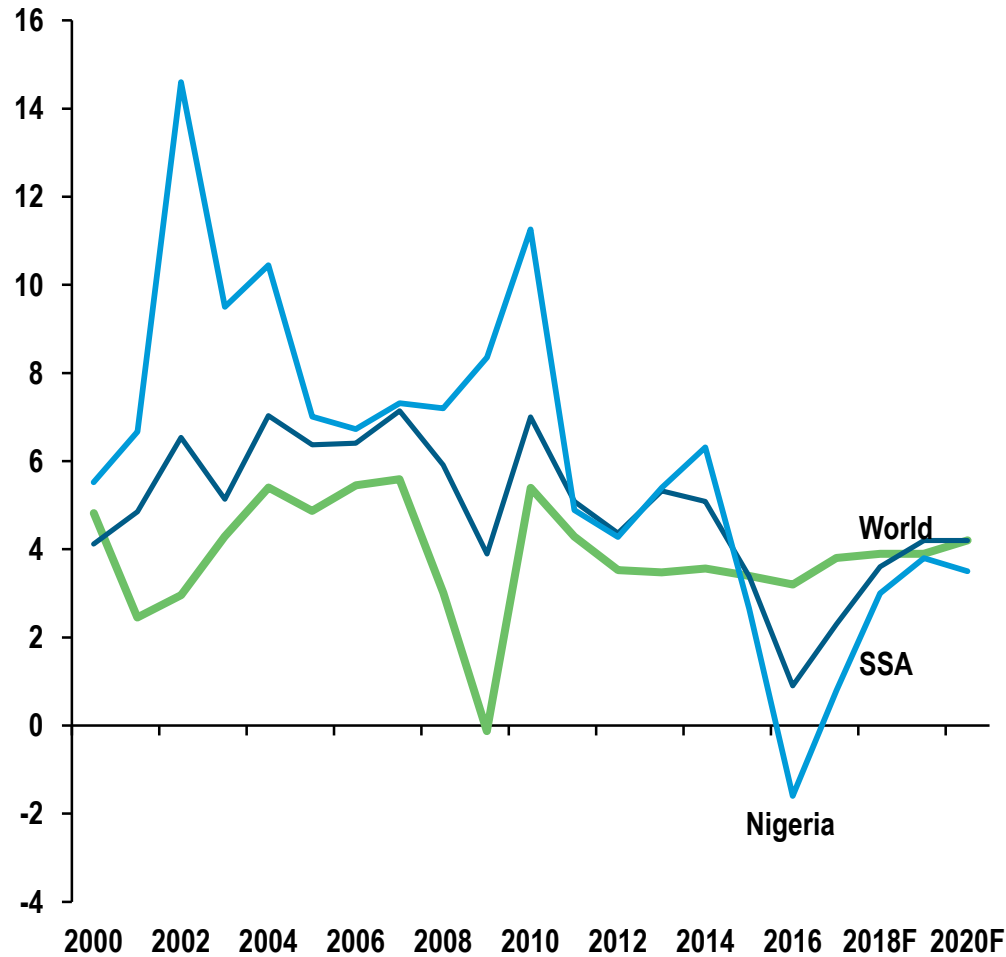
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Economist, Africa

May 2018

# Recovery time

## Africa macroeconomic forecasts

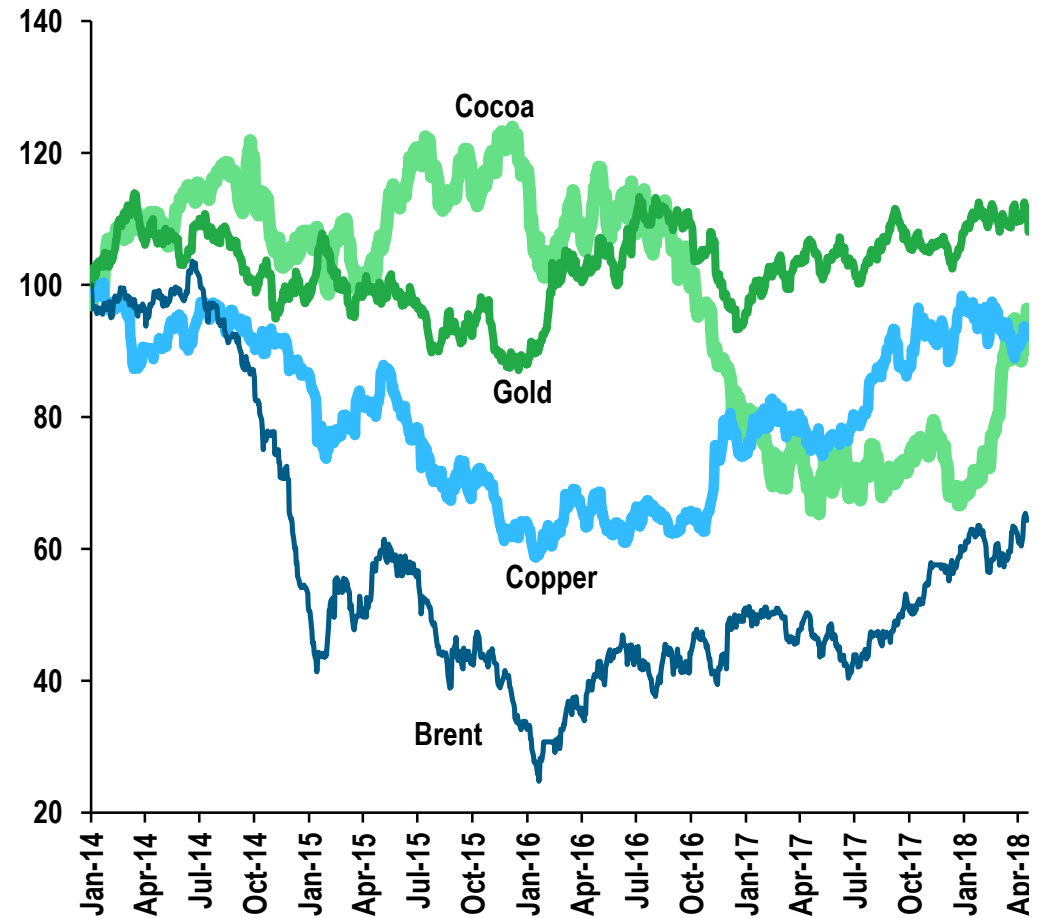
GDP growth, % y/y, Standard Chartered forecasts



Source: IMF, Standard Chartered Research

## Commodity prices are looking better

Rebased, Jan 2014 = 100

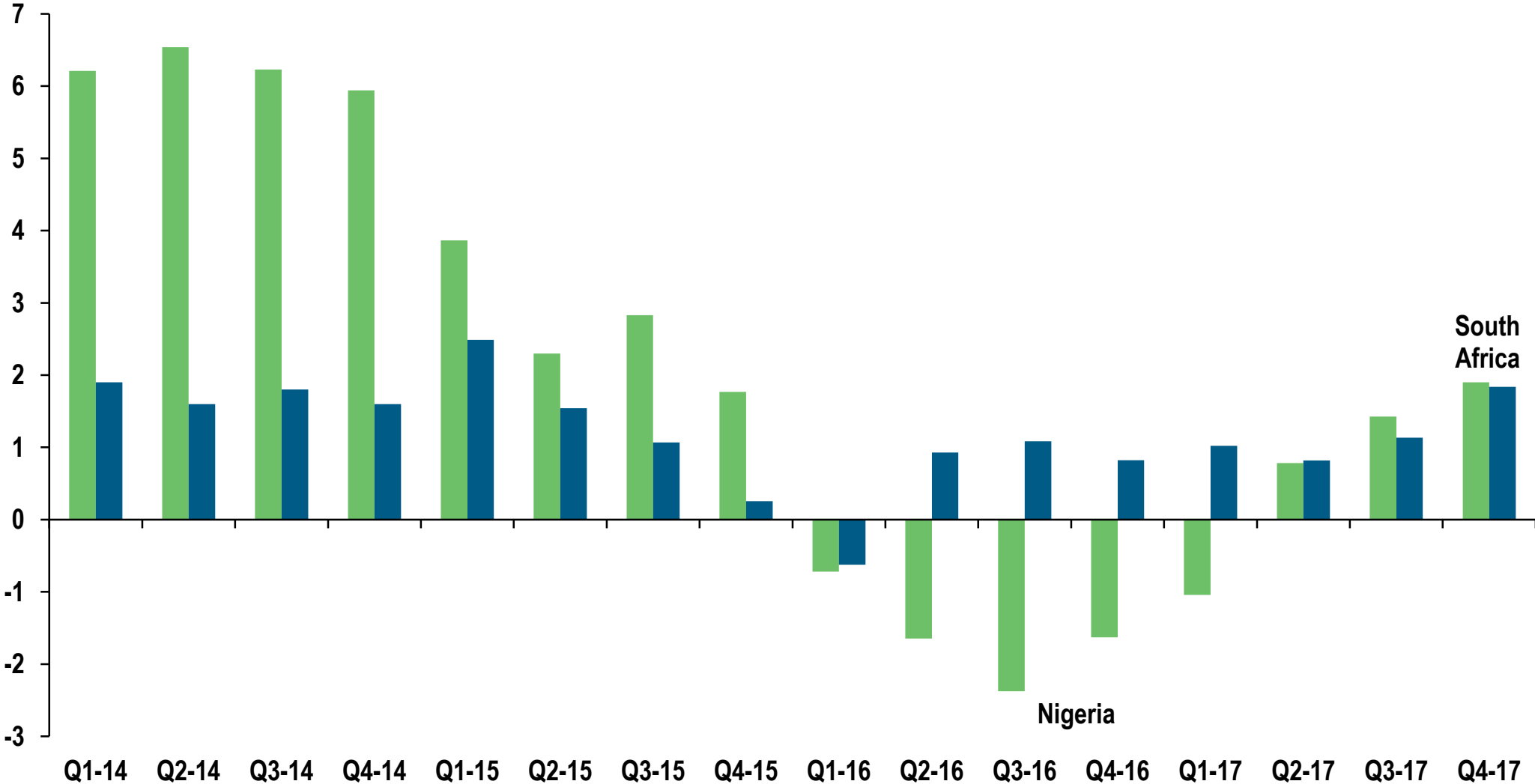


Source: Thomson Reuters Datastream, Standard Chartered Research

# Weakness is largely due to South Africa and Nigeria

## SSA's two largest economies saw modest growth improvements in 2017

GDP growth, % y/y



Source: NBS, STATS SA, Standard Chartered Research

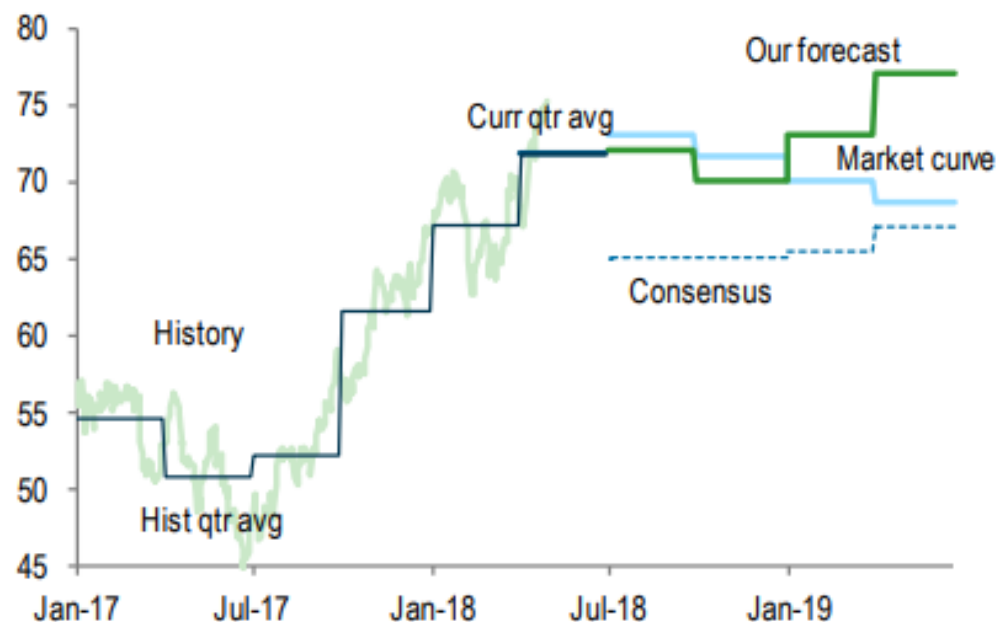


# Nigeria

# Crude oil: long-term fundamentals strong

- **OPEC market discipline has brought down inventories**
  - Crude inventory overhang vs. five year average removed in late March-18
  - OPEC compliance remains high, helped by Venezuela
  - OPEC likely to over-tighten the market in 2018 and possibly into 2019
- **Market more pragmatic about US shale production growth**
  - Concerns about Permian off-take constraints and other bottlenecks
- **Supply-demand balance for oil in 2018 & 2019 supportive of higher prices**
  - Oil demand growth to outpace non-OPEC supply growth in 2018 & 2019
  - Global oil demand to increase by 1.82mb/d to 100.4mb/d
  - Lost years of investment in conventional long-cycle plays
- **Geopolitics now key driver in a market with less inventory cover**
  - Positioning remains long, but not overly long by historical standards

Standard Chartered Brent price forecast, consensus and historical actuals (USD/bbl)



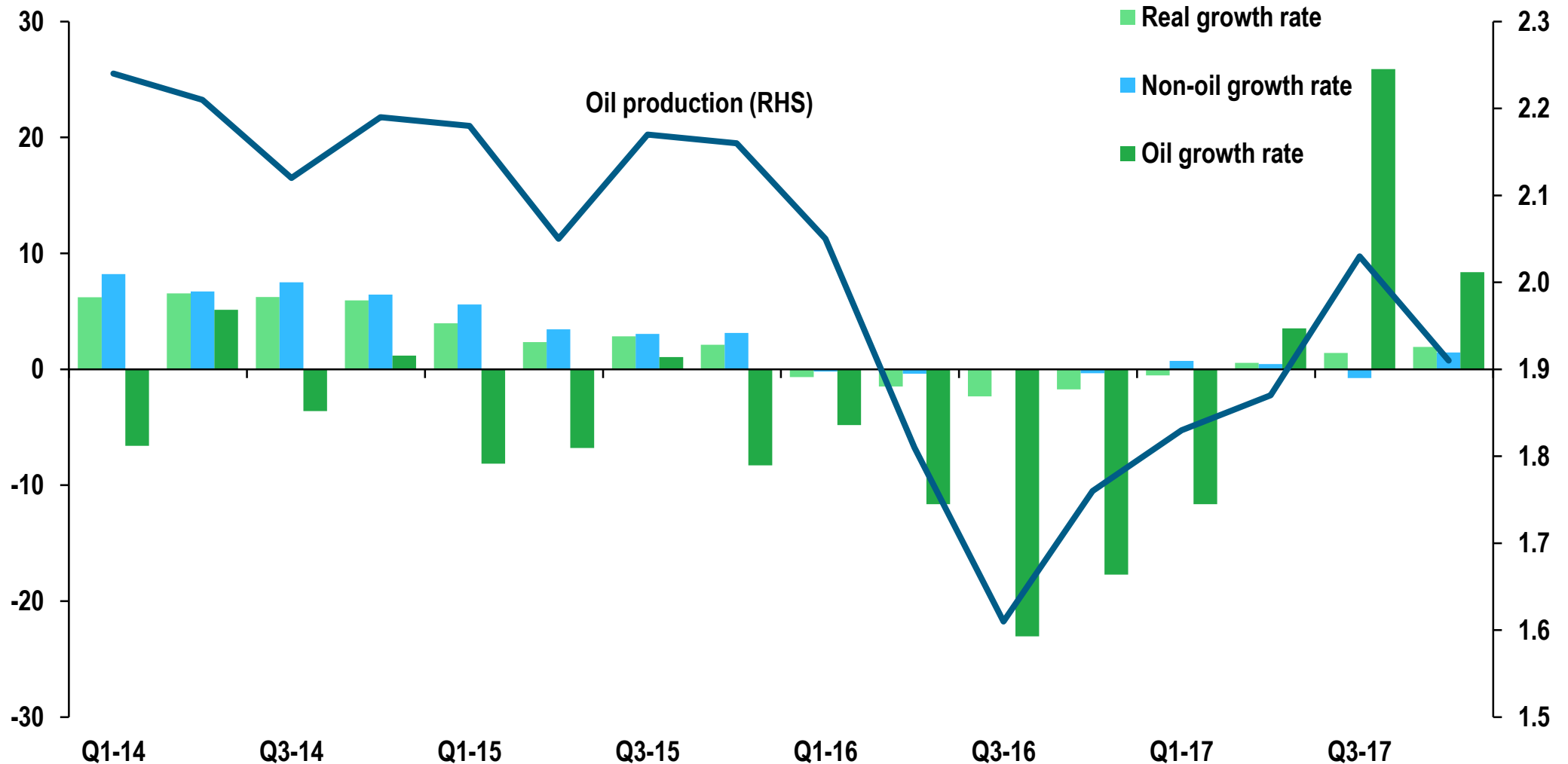
Standard Chartered commodity price forecasts: Brent & WTI (USD/bbl)

	Q2-18	Q3-18	Q4-18	2018	2019	2020
ICE Brent	74	72	70	71	75	78
NYMEX WTI	71	69	67	68	71	74

# Increased optimism, insufficient reform

## Oil recovery to boost growth

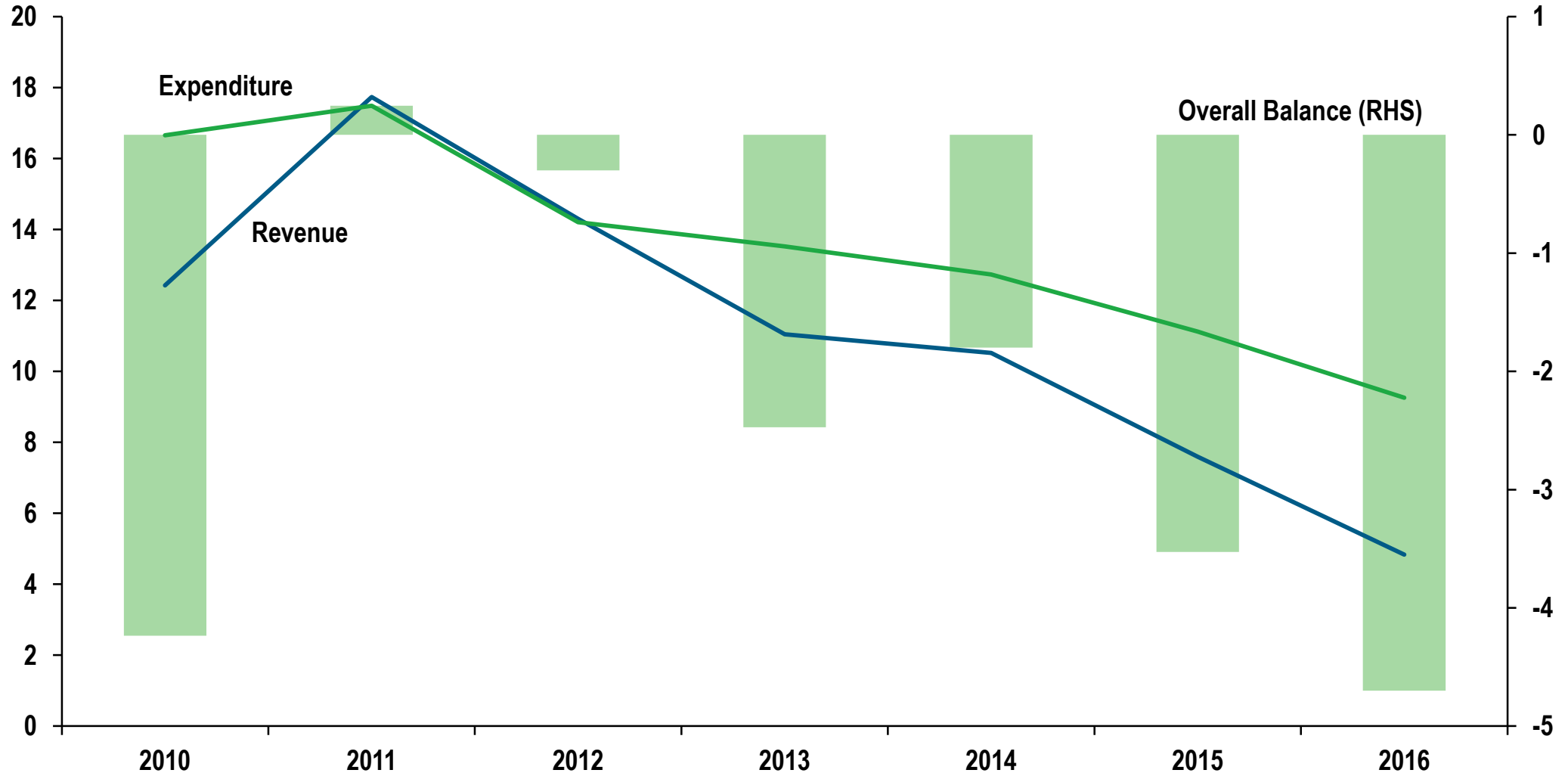
Growth rate, % y/y (LHS); oil production, mb/d (RHS)



# Fiscal deficit widened on low oil prices and reduced production

## Fiscal deterioration persists

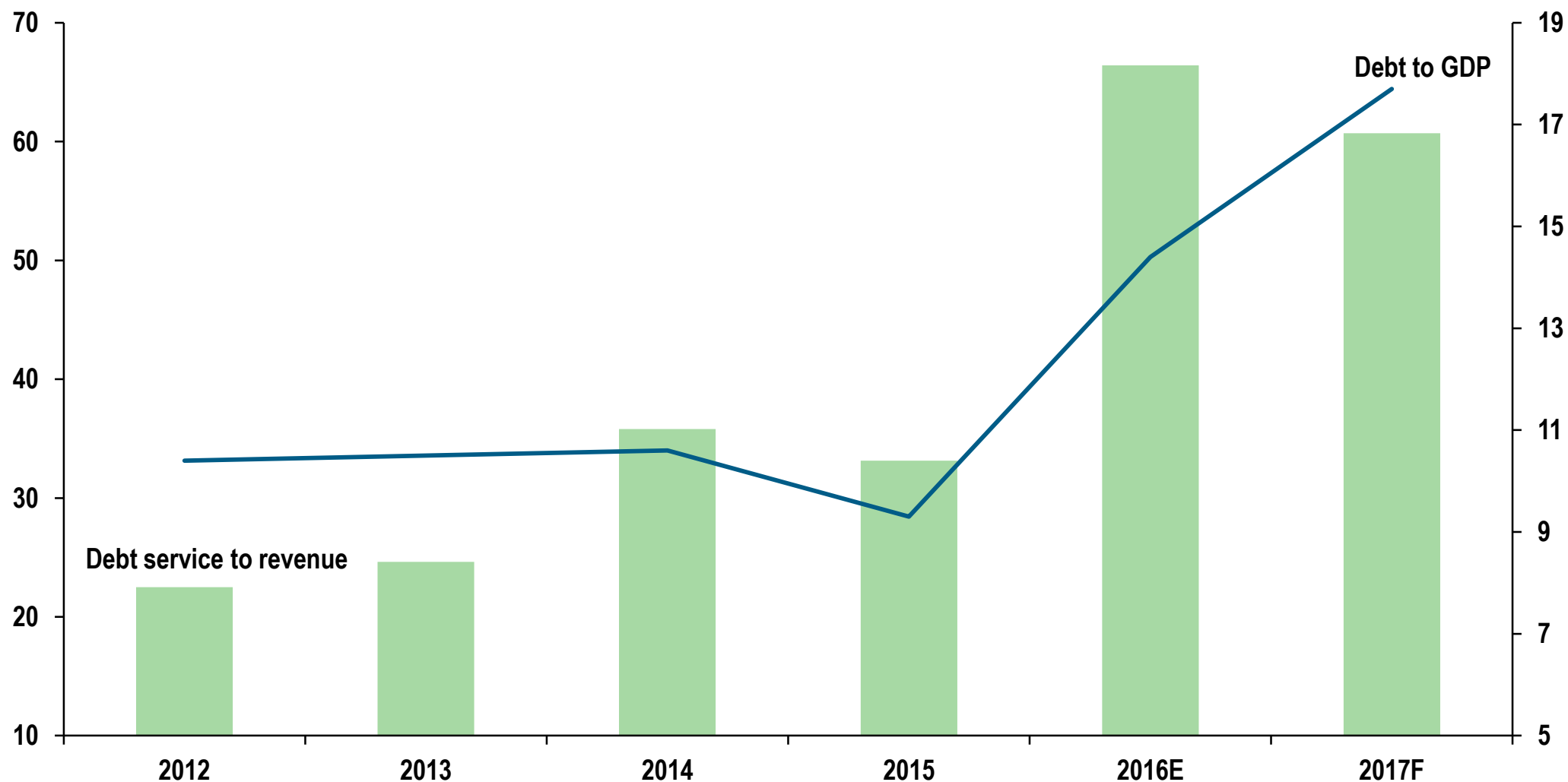
Revenue and expenditure (LHS), % of GDP; Overall balance (RHS), % of GDP



# High debt service costs have restricted fiscal space

## Debt levels rising on fiscal stimulus and revenue underperformance

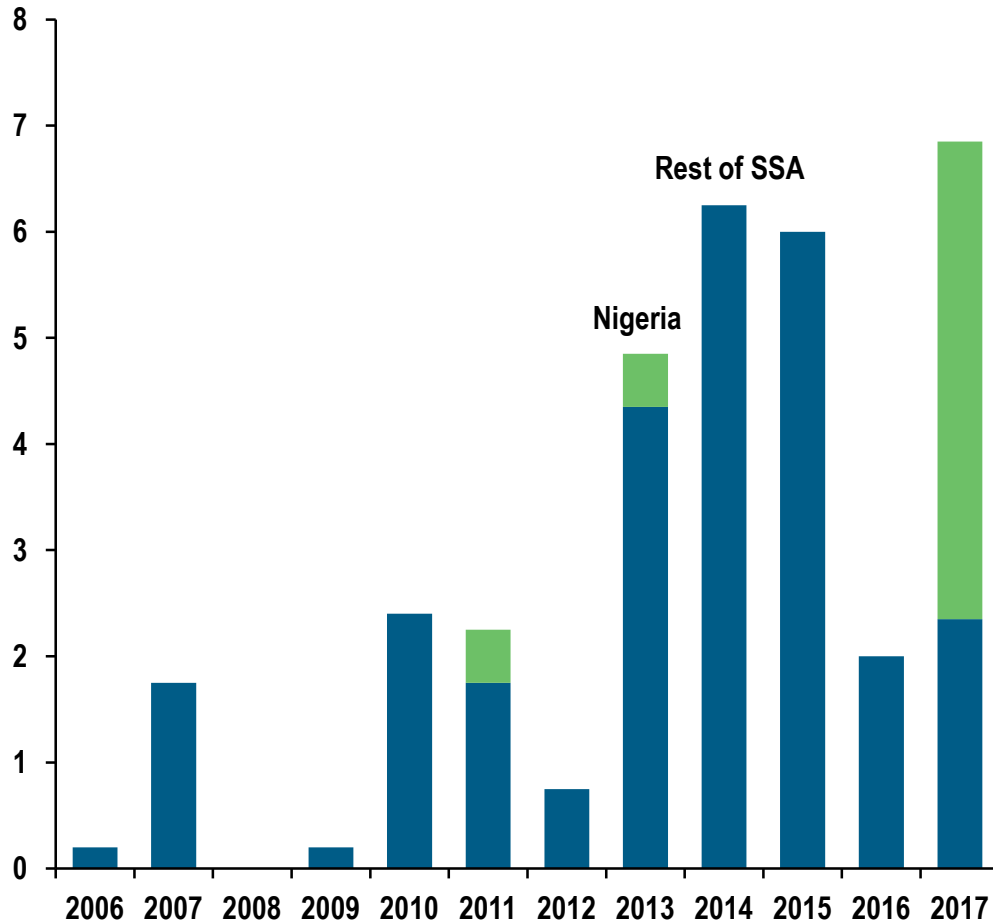
Debt service to revenue (LHS), %; Debt to GDP, %





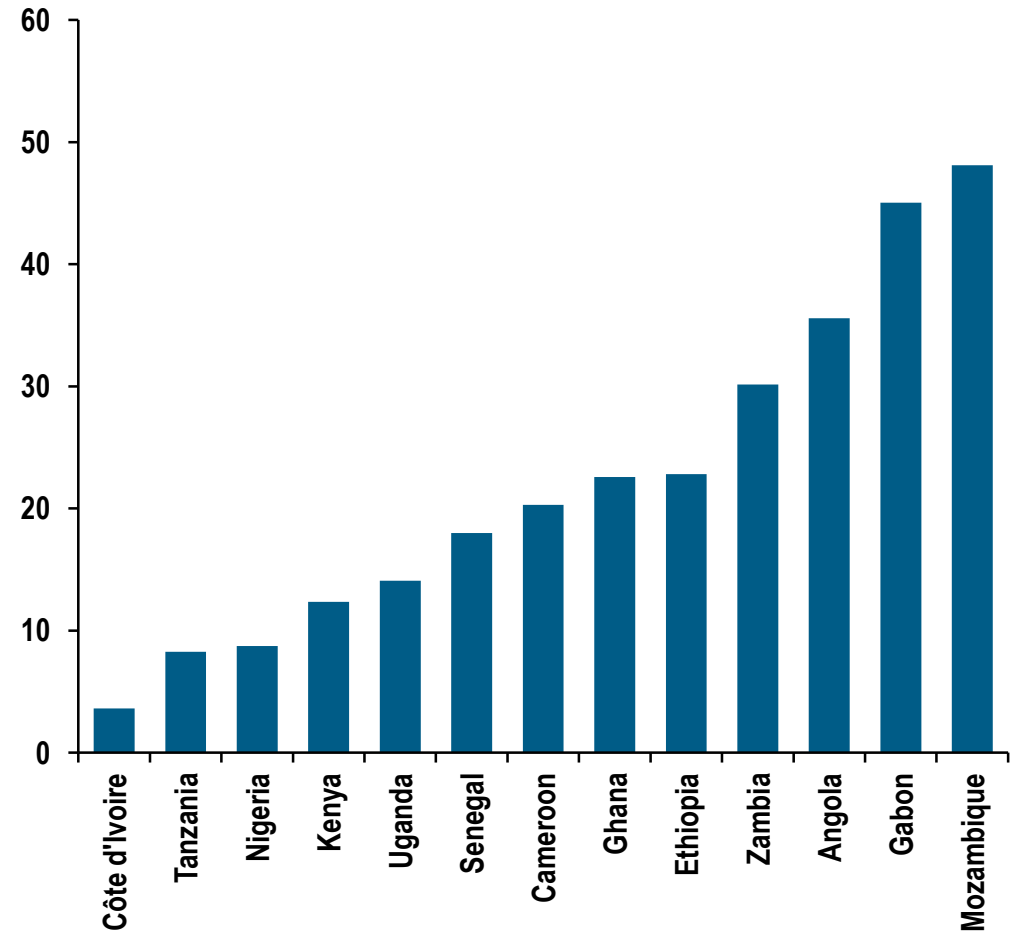
# Debt-to-GDP ratios rising

## Eurobond issuance recovers SSA Eurobond issuance, USD bn



Source: Bloomberg, Standard Chartered Research

## Debt-to-GDP ratios on the rise Increase in debt-to-GDP, 2012-17, ppt of GDP



Source: IMF WEO, Standard Chartered Research

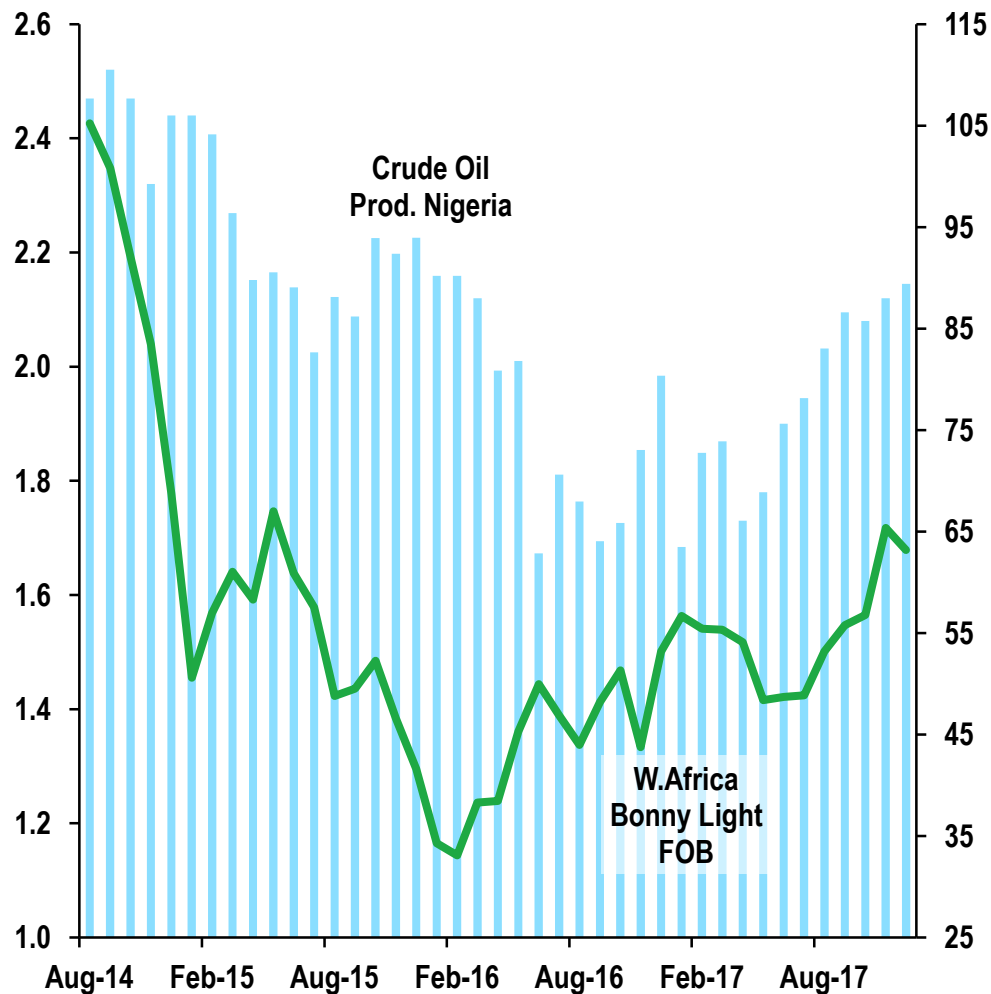
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The outlook is looking better

# Fiscal: A recovery in oil output and price should improve disbursements

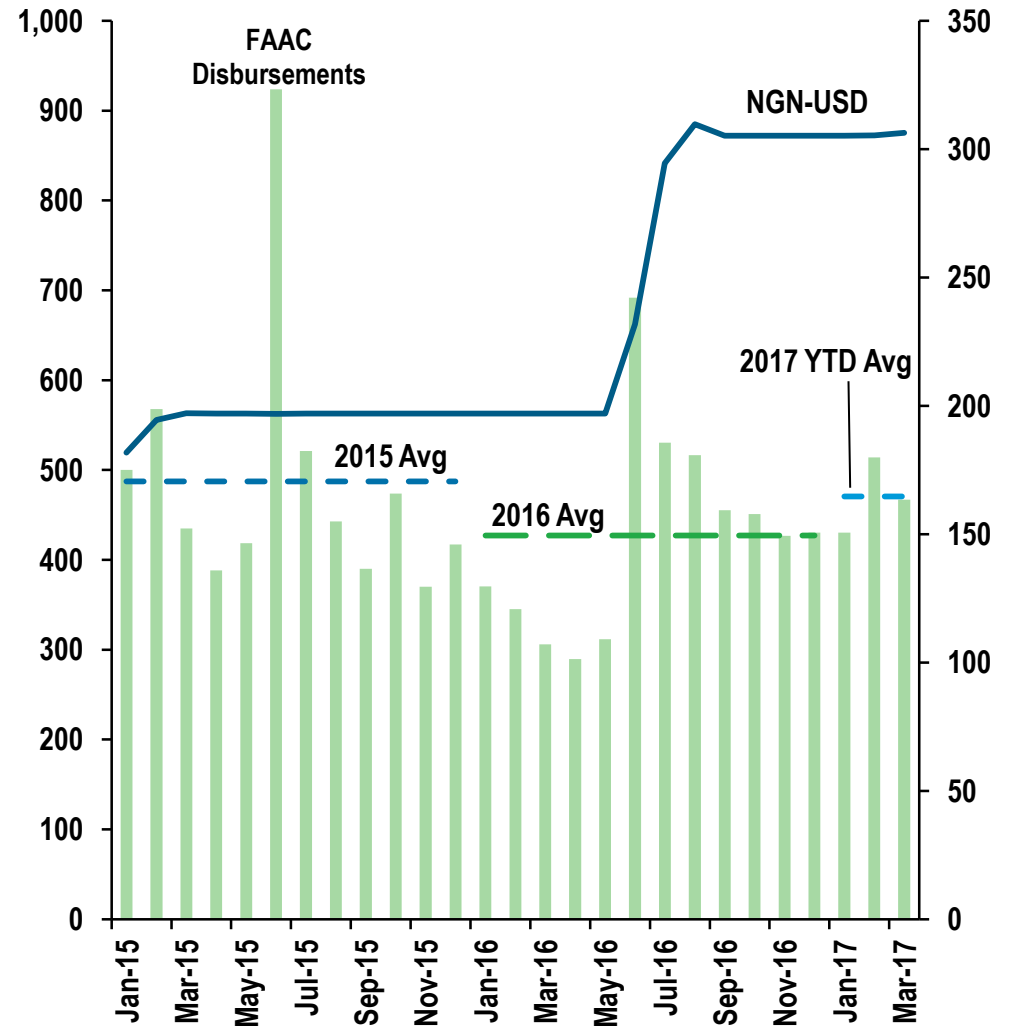
## Oil prices have recovered

Crude oil production (LHS), bpd mn; Bonny Light (RHS), USD



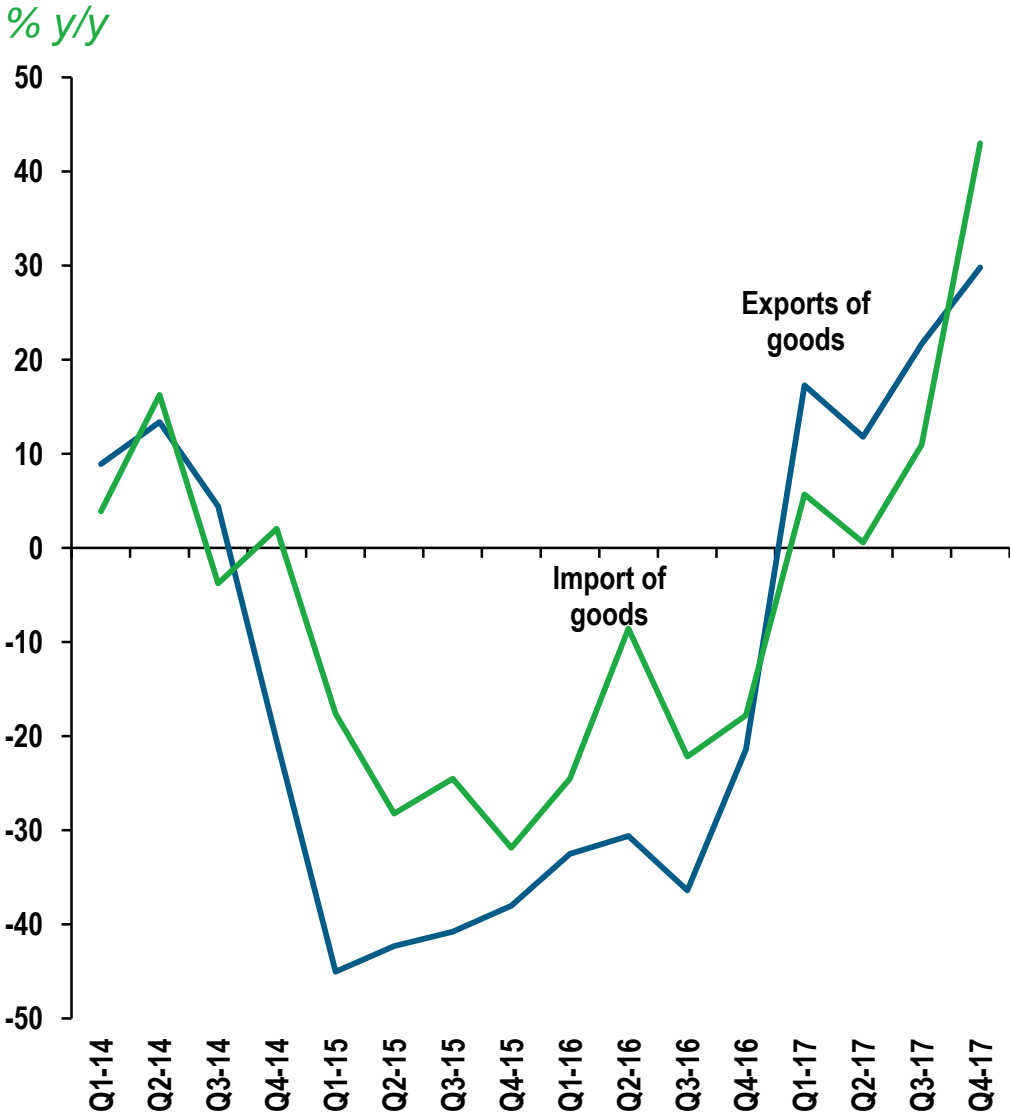
## A weaker currency boosted disbursements

FAAC Disbursements (LHS), NGN bn; NGN-USD (RHS)

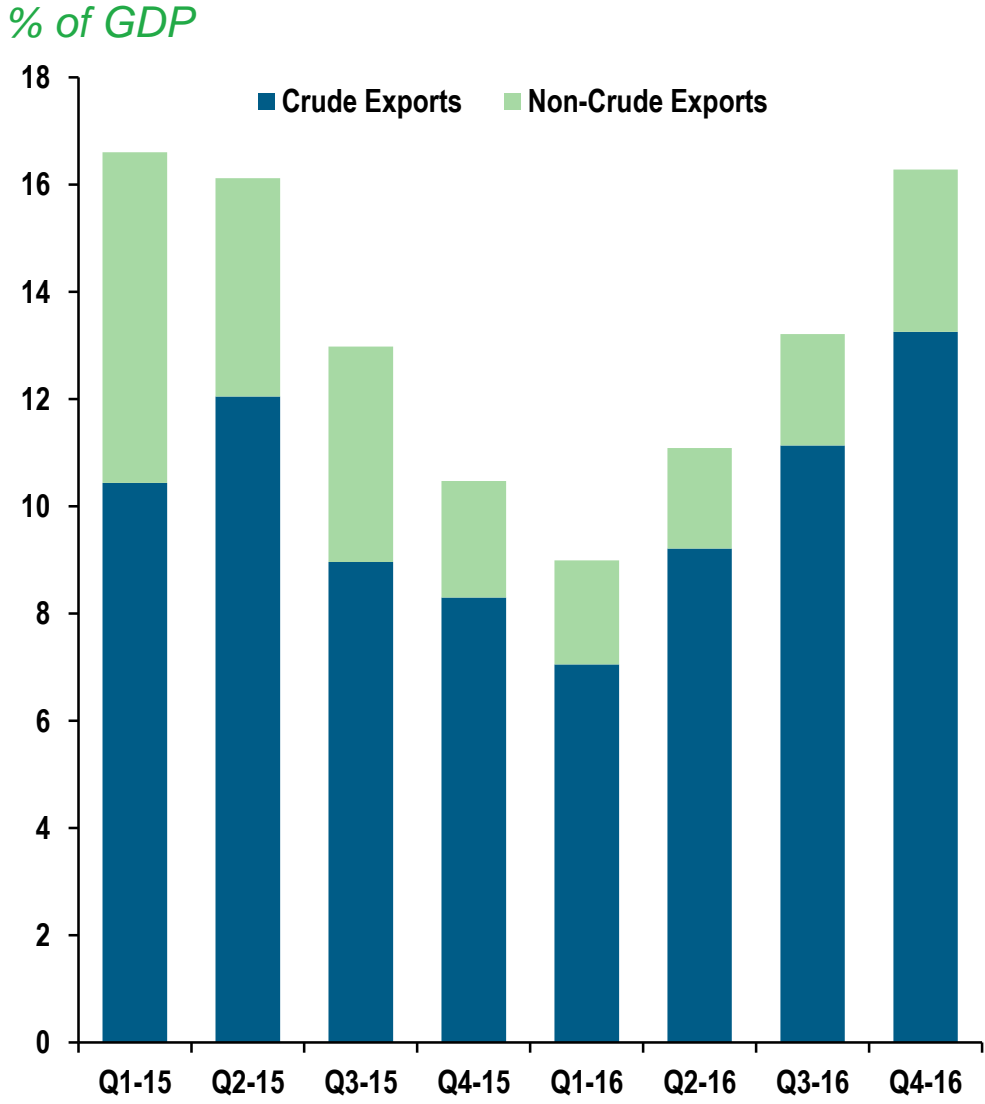


# Trade: External trade growth is picking up

## International trade has accelerated



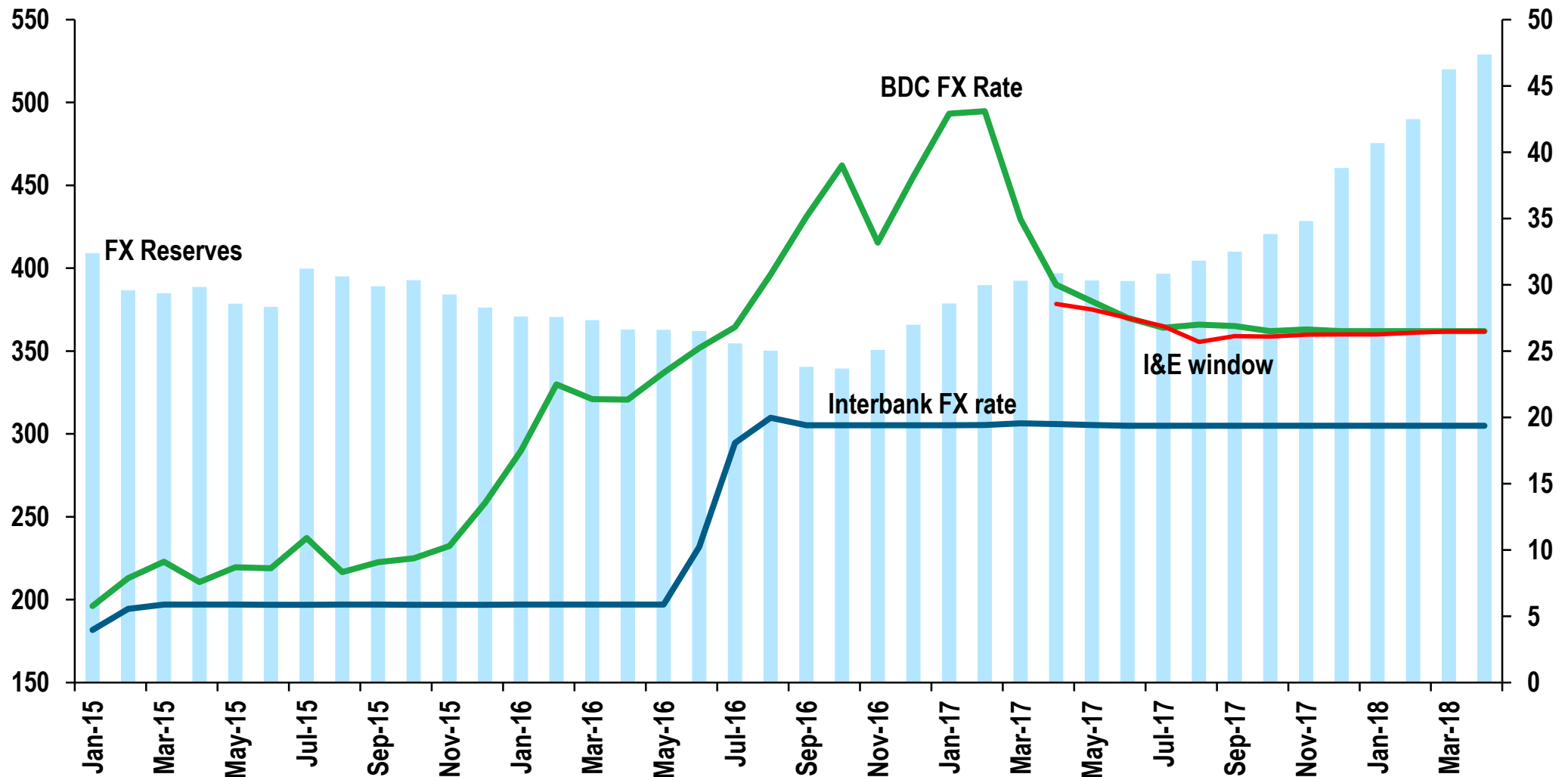
## Oil exports



# FX: Gap with the parallel market has closed

The parallel market rate has declined on improved FX supply

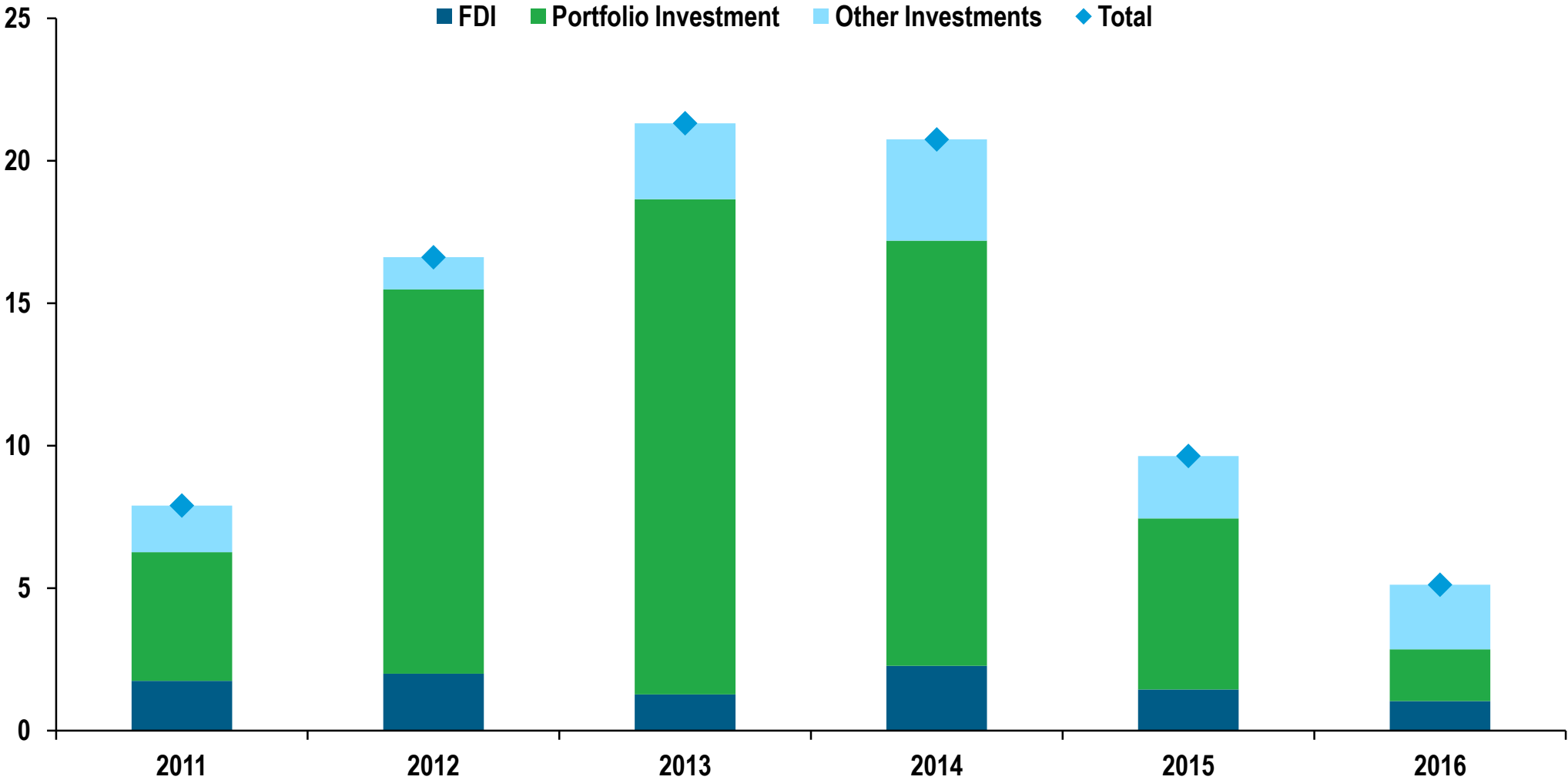
FX Reserves (RHS), USD bn; BDC and Interbank FX rates (LHS), NGN-USD



# Investor appetite: Capital flows receded on sluggish growth and FX restrictions

## Capital inflows have improved following April 2017 FX reforms

USD, bn

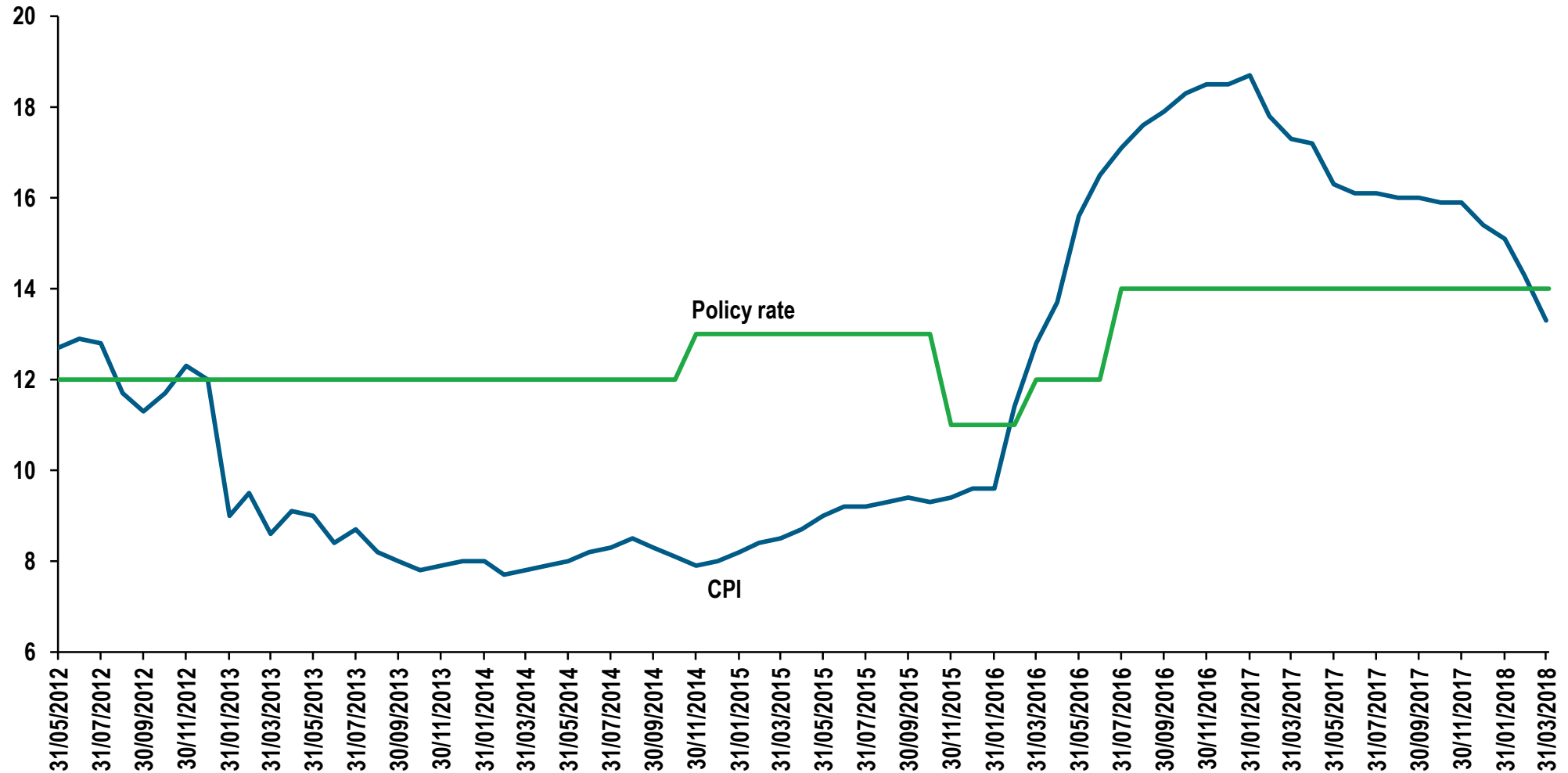




# Nigeria has tightened policy since the oil price shock

## FX stability may enable the CBN to cut rates

CPI % y/y, MPR %



Source: National Sources, Standard Chartered Research

# Nigeria – Still searching for growth momentum

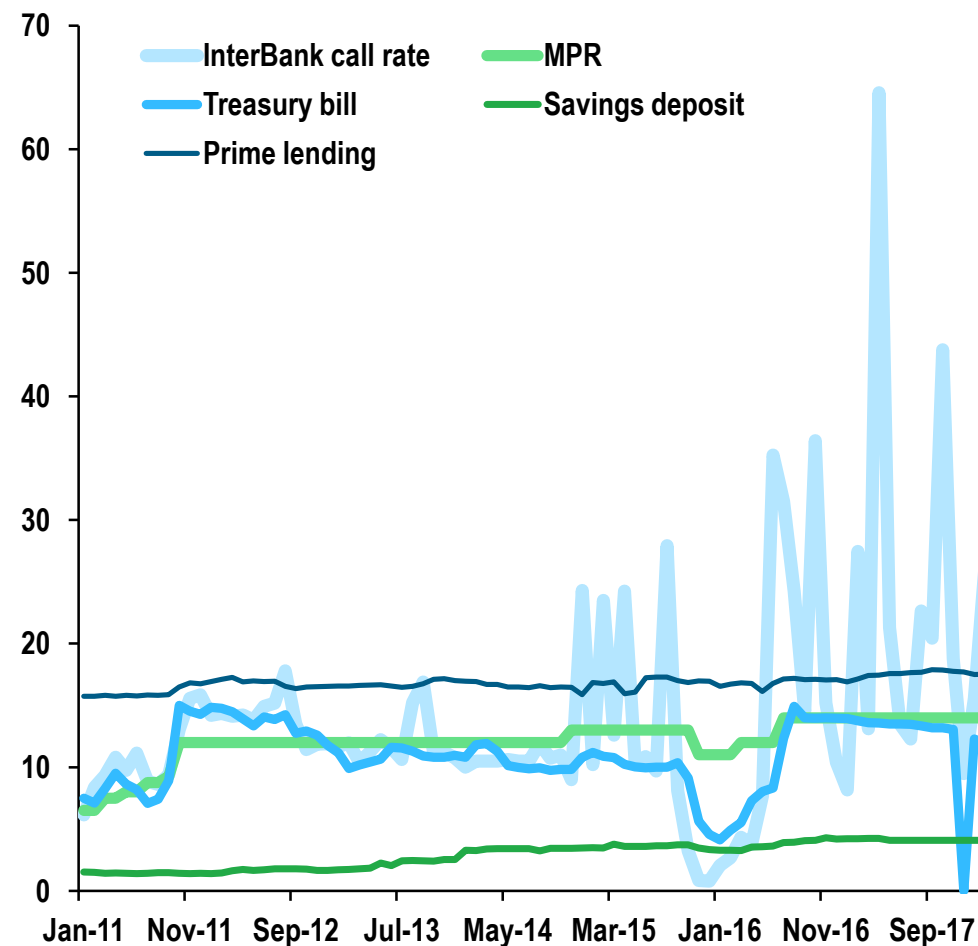
## Nigeria macroeconomic forecasts

	2017	2018	2019
GDP growth (real % y/y)	0.8	3.0	3.8
CPI (% annual average)	16.5	10.2	7.1
Policy rate (%)*	14.00	10.00	10.00
USD-NGN*	360.0	365.0	378.0
Current account balance (% GDP)	2.0	-0.1	-0.8
Fiscal balance (% GDP)	-3.6	-3.2	-4.0

\*end-period; Source: Standard Chartered Research

## MPR exerts little influence on market rates

*Monetary Policy Rate (MPR), other interest rates*



Source: CBN, IMF, Standard Chartered Research

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