



## Nigeria Macroeconomic Outlook

### Hope springs eternal

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# Nigeria: Post-election focus slowly shifting to growth

## Nigeria macro highlights: Oil sector remains key underpin and helps shape policy response

- **President Buhari won the February presidential elections convincingly.** Despite the election result being challenged by the main opposition, President Buhari's convincing victory limits the risk of a complete reversal of the outcome, in our view. Buhari's victory is also complemented by his political party, the APC, winning a majority in the National Assembly.
- **Post-election, Buhari's government likely will remain focused on anti-corruption, strengthening security and improving the economy.** That said, elevated execution risks to government reform agenda suggests limited upside risks to our 3.0%-3.2% growth forecast for 2019-2020. In fact, potential implementation of the recently approved National Housing Fund which requires a 2.5% and 10.0% contribution from individuals and banks respectively may dampen near term growth prospects.
- **Formalizing accommodative post-election policy stance aimed at fueling economic growth.** The CBN's decision to lower the policy rate by 50bp to 13.5% at the March MPC meeting is in our view an effort to align with effective easing via a less aggressive stance on liquidity sterilization, through open market operations (OMOs). While growth's influence on the monetary policy reaction function is rising, FX stability remains the core objective, and the token cut suggests that the central bank remains cautious in its signaling. We expect the CBN to solidify its accommodative bias at the May MPC meeting, by cutting the policy rate by another 50bp.
- **Authorities are taking initial steps to reduce reliance on oil revenues, although the process likely will be prolonged.** In order to fund the proposed 50% increase in public-sector minimum wages, government plans to raise Value Added Tax to 7.5% from 5.0%, and also increase Corporate Income Tax and Petroleum Profit Tax by an unspecified amount. That said, there are risks of a larger than budgeted fiscal deficit as these tax measures likely will not be implemented until 2020. The 2019 budget, with a proposed 2.2% of GDP deficit should be approved by mid-year, which will trigger up to US\$2.5bn in Eurobond issuance. Debt management strategy of reducing domestic issuance will also likely reinforce monetary policy's accommodative tilt.

# Nigeria: Buhari won election convincingly, but policy implementation is slow

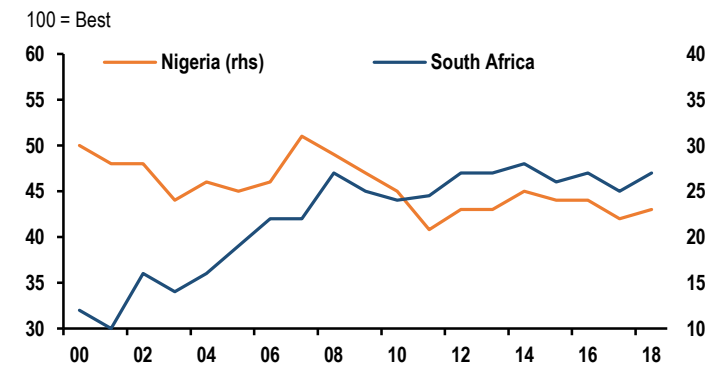
## President Buhari won the elections convincingly

### Election results

| Presidential election 2019 |               |                 |
|----------------------------|---------------|-----------------|
| Party                      |               | % of votes      |
| Muhammadu Buhari           | APC           | 55.6            |
| Atiku Abubakar             | PDP           | 41.2            |
| Others                     |               | 3.2             |
| Legislative election 2019  |               |                 |
|                            | House of Reps | Senate          |
| APC                        | 216           | 64              |
| PDP                        | 114           | 41              |
| APGA                       | 10            |                 |
| Others                     | 20            | 4               |
| State Governors 2019       |               | No of Governors |
| APC                        |               | 15              |
| PDP                        |               | 13              |

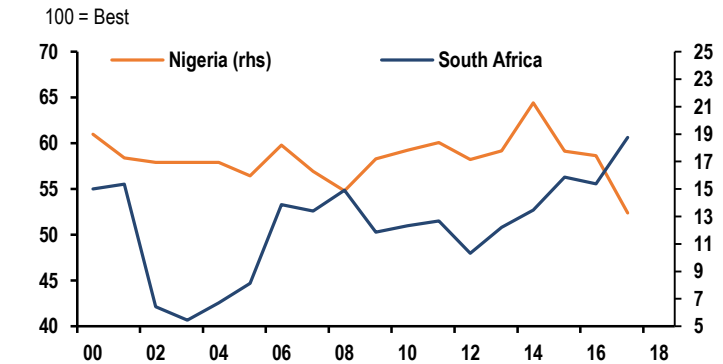
Source: INEC

## Corruption perception index in Nigeria and South Africa



Source: Transparency international

## Rule of law in Nigeria and South Africa



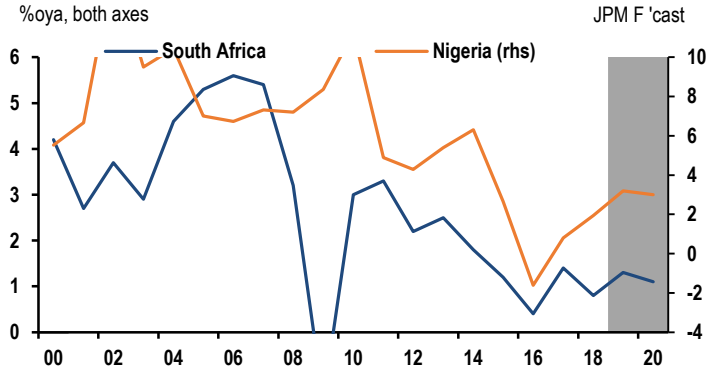
Source: World bank

## Key policy thrust

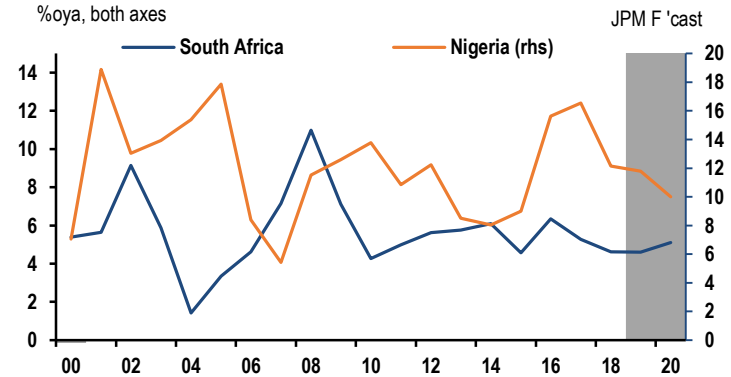
- Security in North East and Niger Delta region
- Energy sector reform
- Ease of doing business reform
- Import substitution
- FX market reform
- Fiscal policy reform
  - Revenue mobilization via raising taxes
  - Switch away from domestic debt

# Nigeria: Growth recovering, but not fast enough

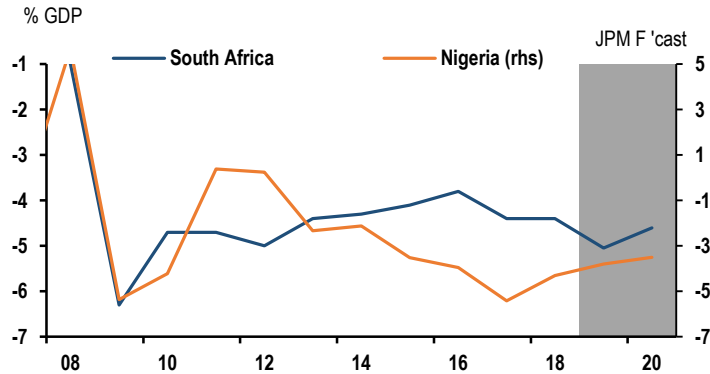
## Nigeria and South Africa GDP Growth



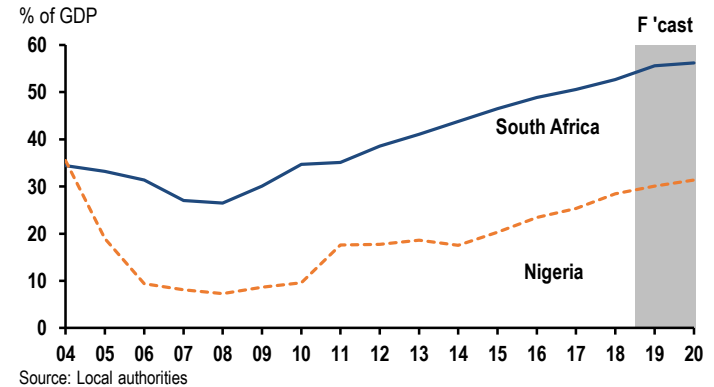
## Nigeria and South Africa inflation



## Government fiscal deficit (% GDP)



## Public debt has risen across Africa



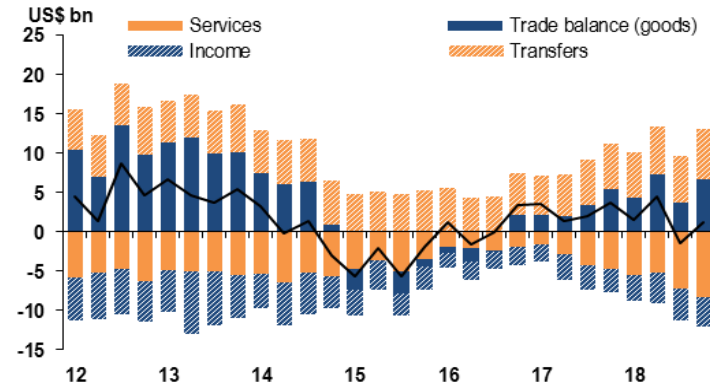
# Nigeria: External balances remain supportive

Despite a less productive economy, Nigeria's external balance is more supportive vs South Africa

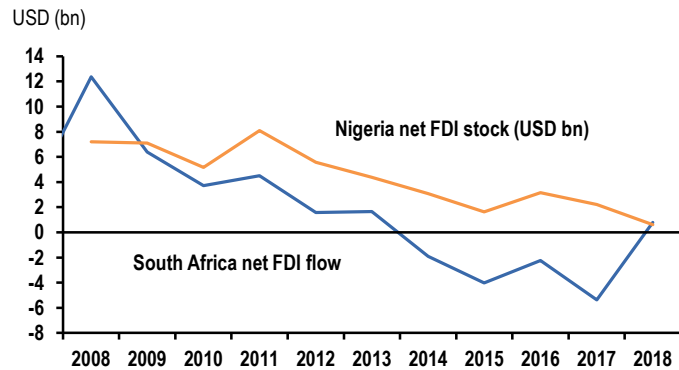
| %GDP  | South Africa  |                 | Nigeria       |                 |
|-------|---------------|-----------------|---------------|-----------------|
|       | Trade balance | Current account | Trade balance | Current account |
| 2014  | -1.7          | -5.3            | 3.8           | 0.3             |
| 2015  | -0.9          | -4.4            | -1.3          | -3.1            |
| 2016  | 0.3           | -3.3            | -0.4          | 0.7             |
| 2017  | 0.6           | -2.5            | 3.4           | 2.8             |
| 2018  | 0.5           | -3.6            | 5.3           | 1.4             |
| 2019F | 0.8           | -3.4            |               | 2.3             |
| 2020F | 0.8           | -3.5            |               | 1.8             |

Source: Local authorities, J.P. Morgan

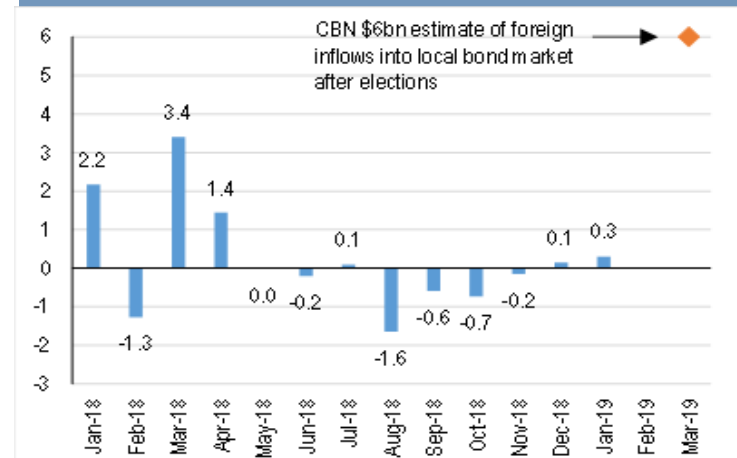
One-off capital import pulled C/A into deficit in 3Q, but it is set to remain a surplus in 2019



The decline in FDI into Nigeria . . .

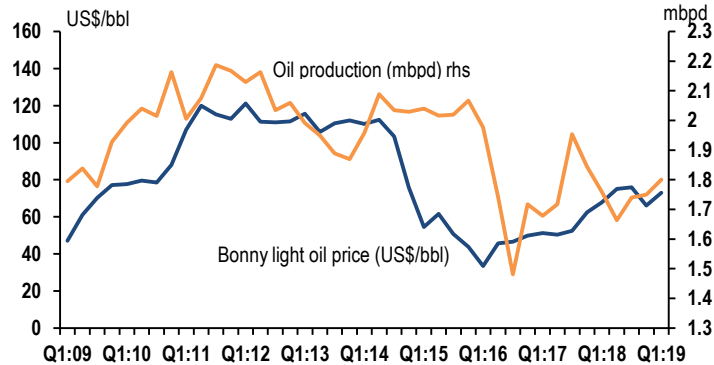


. . . has been offset by increased portfolio inflows



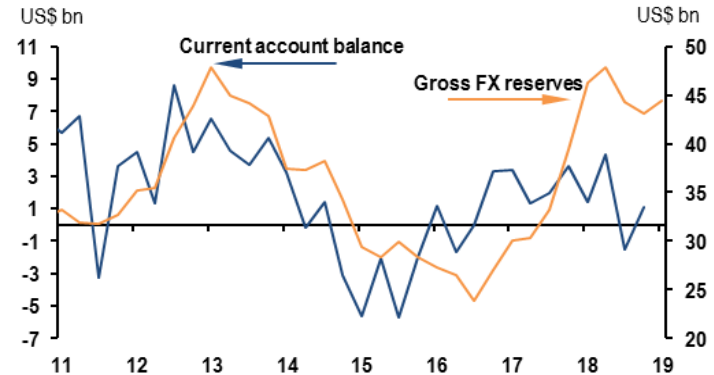
# Nigeria: FX risks remain limited despite more accommodative monetary policy

Oil production volumes set to remain relatively stable despite recent pipeline shut-ins . . .



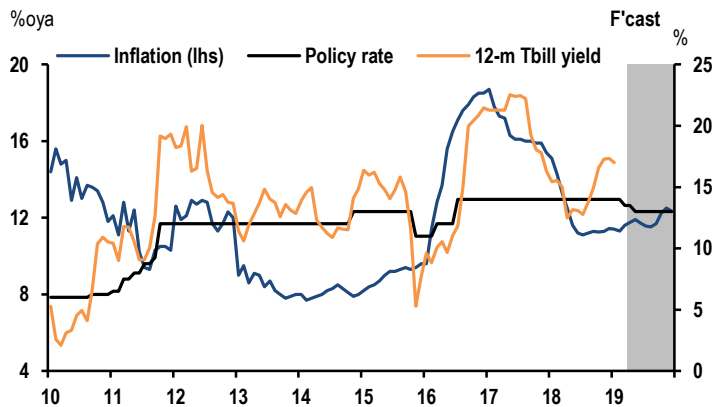
Source: Central Bank of Nigeria, Bloomberg

. . . and has contributed to FX reserve accumulation



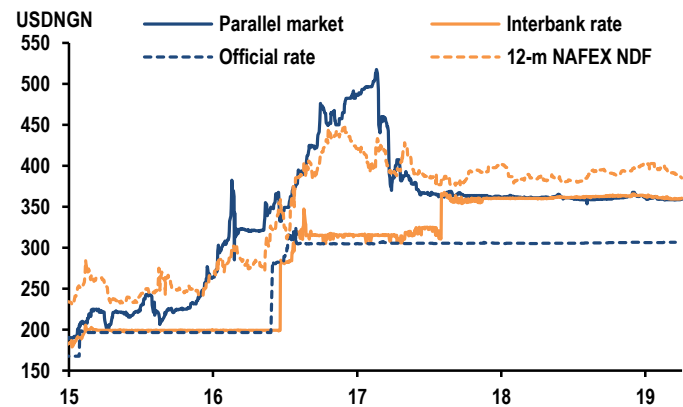
Source: National Bureau of Statistics, CBN, J.P. Morgan

Supportive global and domestic backdrop has allowed slightly more accommodative policy stance



Source: NBS, CBN, J.P. Morgan forecast

As FX stability likely remains the core policy focus



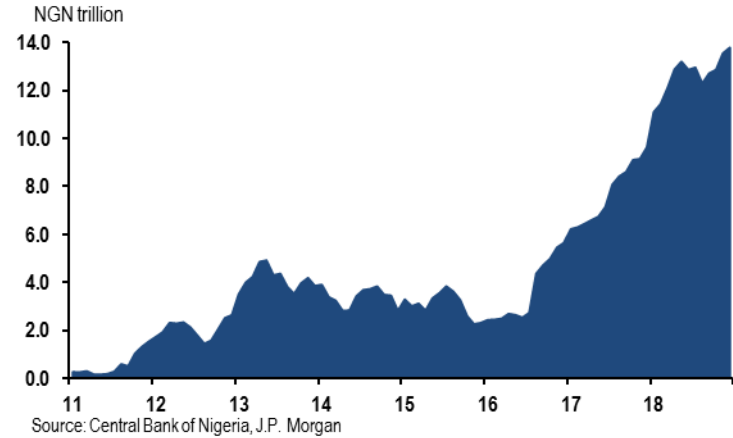
Source: Bloomberg, Central Bank of Nigeria, abokifx.com

# Nigeria: Limited FX pressure likely will lead to lower market rates

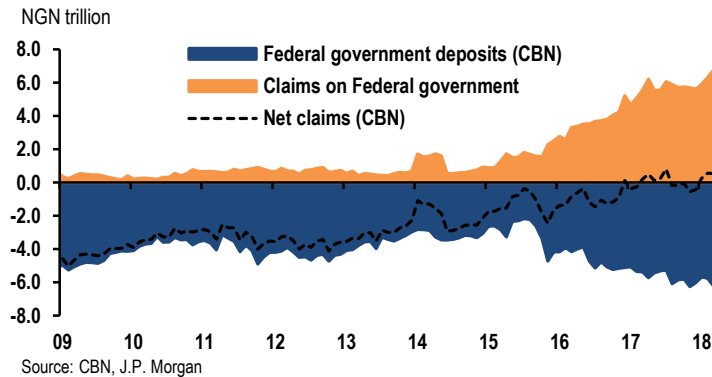
**Exchange Market Pressure: Naira does not appear to be under pressure**



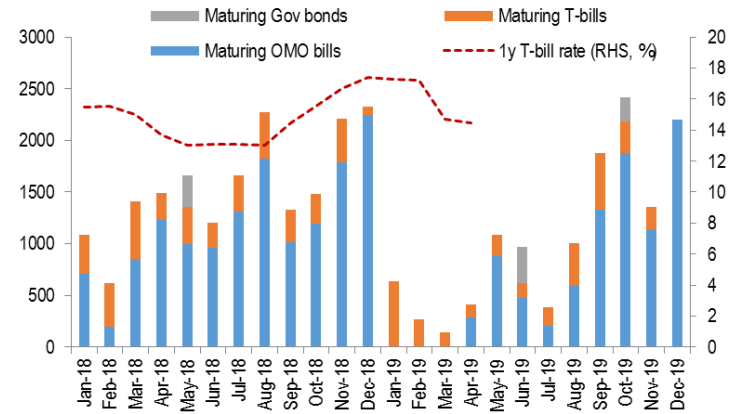
**Yet the central bank likely will continue issuing OMO bills, albeit at lower rates . . .**



**As the central banks funding of fiscal operations appear to have subsided**



**Lighter OMO maturity profile post-election may result in lower market interest rates**



### Key risks

- Downside risks to oil prices (and production) below US\$50/bbl will test the Central Banks resolve to maintain FX stability
- A pullback in EM risk appetite likely will result in outflows from Nigeria
- Upside risks to the inflation outlook come from increased minimum wages and potentially higher electricity tariffs
- Continued fiscal challenges related to petrol subsidies and arrears accumulation
- Continued regulatory pressure on business environment might adversely impact new investment decisions



## Nigeria: Earlier than expected implementation of structural reforms

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### Key catalysts

- A better-than-expected improvement in global risk appetite and contained spill over from broader EM risk events likely will result in continued portfolio inflows
- A faster than anticipated recovery in consumption expenditure could result in upside surprises to economic growth
- Successful implementation of tax revenue measures may allow authorities more space to direct resources towards more productive sectors
- Earlier than expected implementation of policies aimed at resolving key structural bottlenecks in the power/energy sector will prove positive

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