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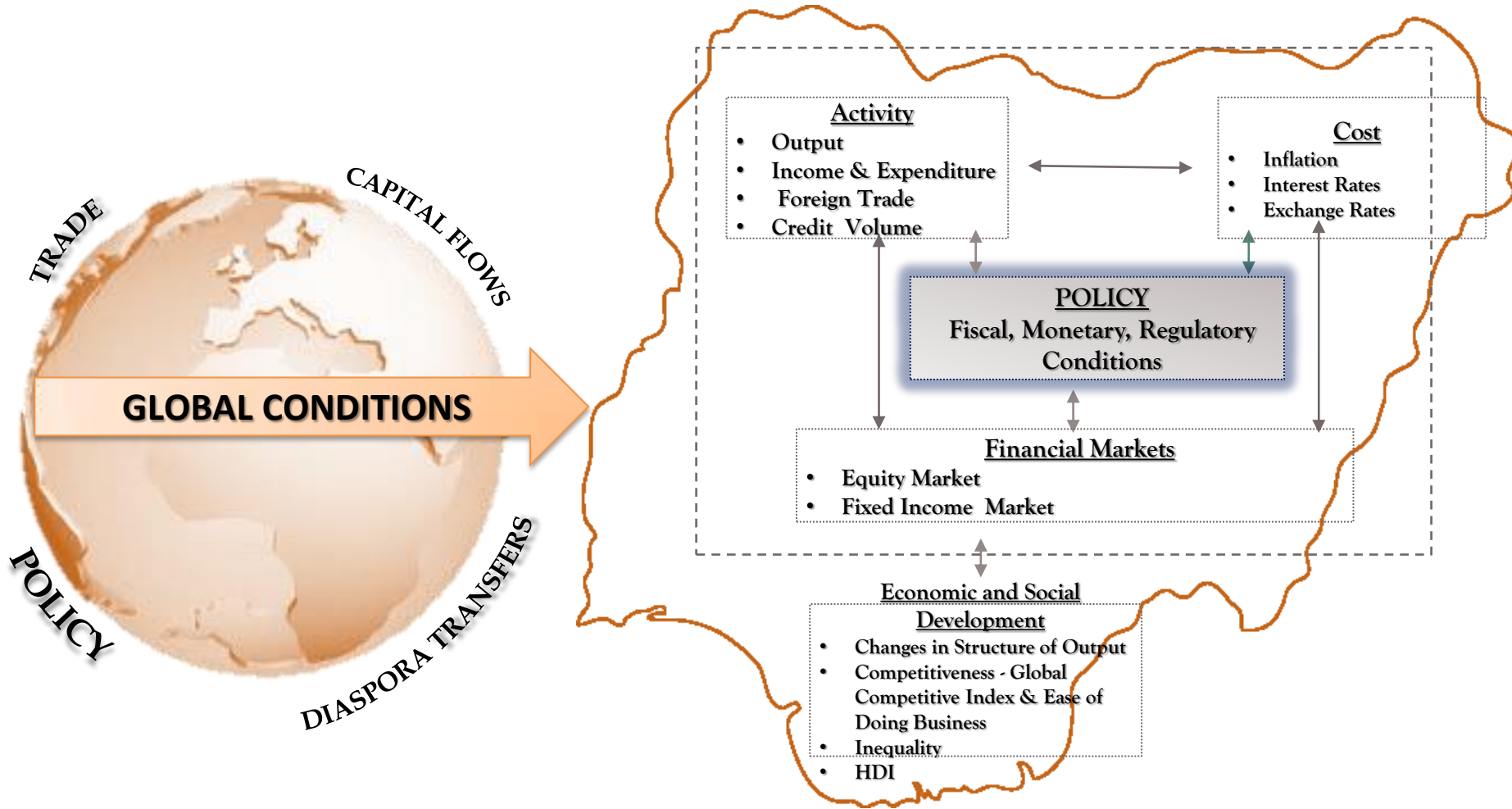
The 2019 Elections and your Business

By
Doyin Salami

Outline

- ▶ Where is the economy now?
- ▶ What will be the impact of elections?
- ▶ How are corporates faring?

What drives the Nigerian Economy?



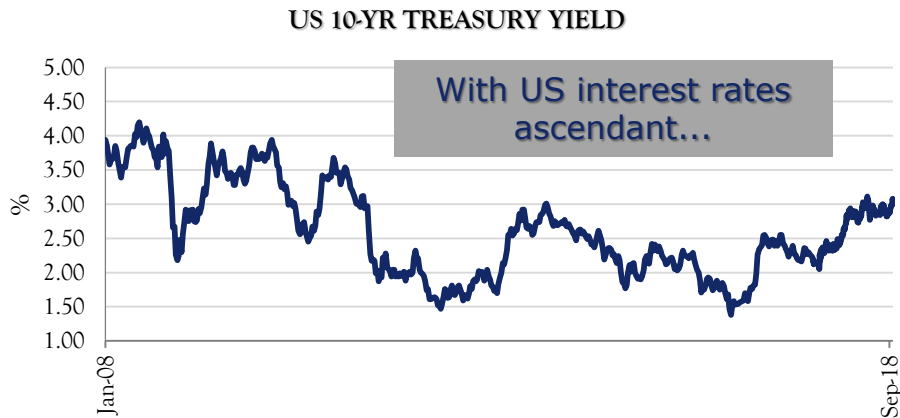
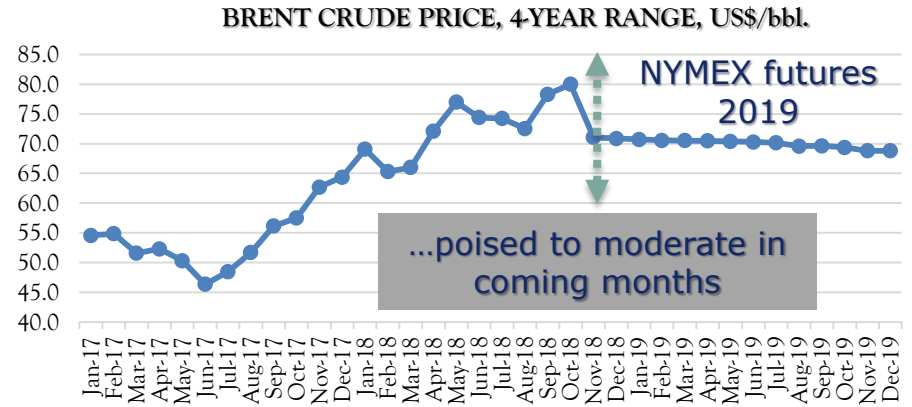
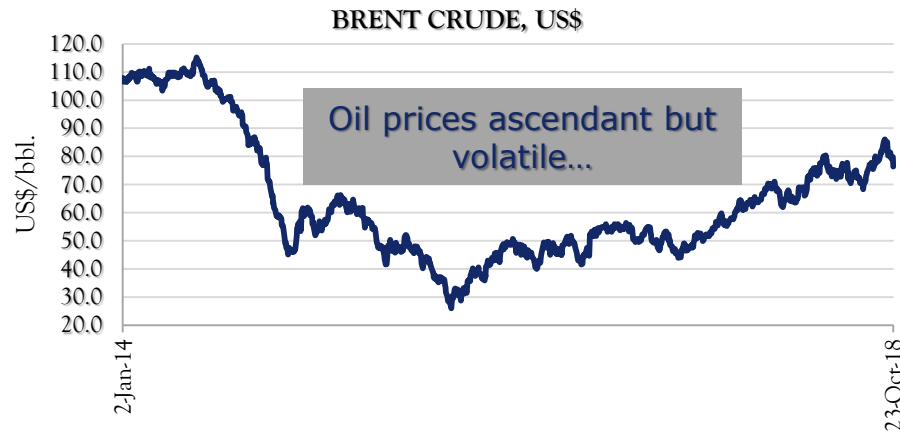


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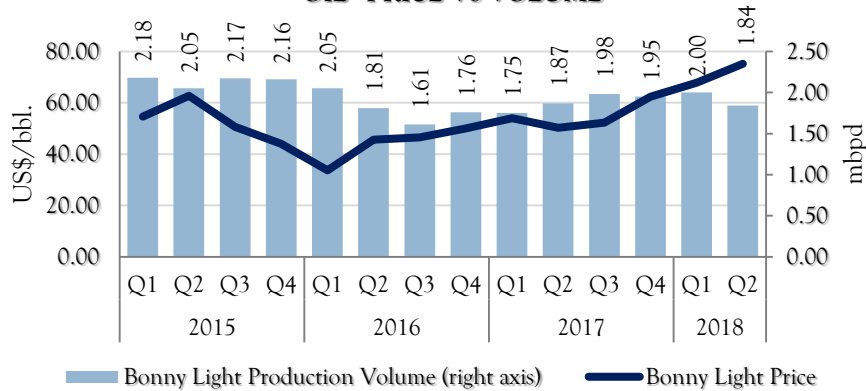
WHERE IS THE ECONOMY NOW?

From Nigeria's standpoint, international conditions are favourable on balance, albeit with significant tail risks

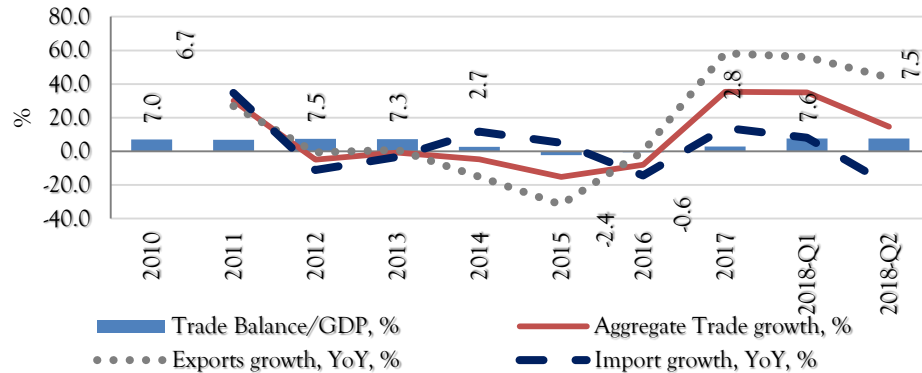


External balances are improved compared to crisis period, but are running into headwinds

OIL - PRICE VS VOLUME

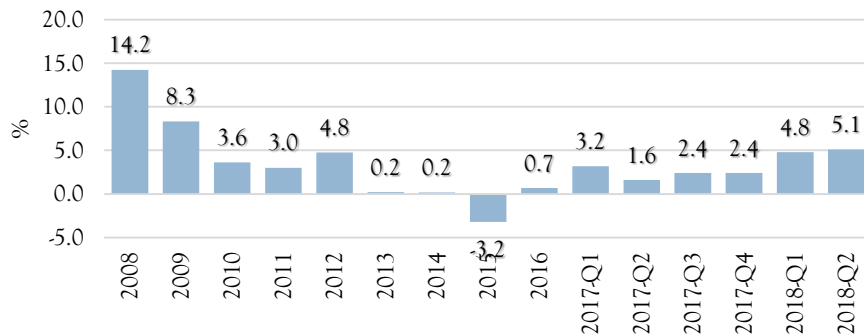


EXTERNAL TRADE PERFORMANCE

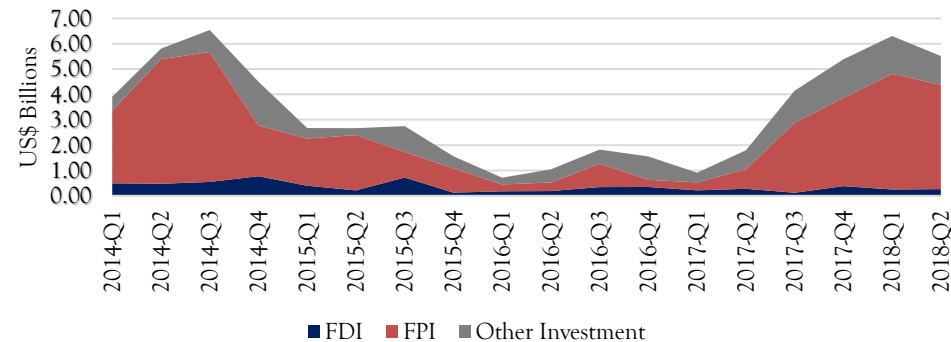


Gains from higher oil prices are constrained by renewed production challenges, whilst capital flows, once recovering, begin to taper, induced by rising international interest rates and uncertainties associated with the 2019 elections

CURRENT ACCOUNT BALANCE, % of GDP



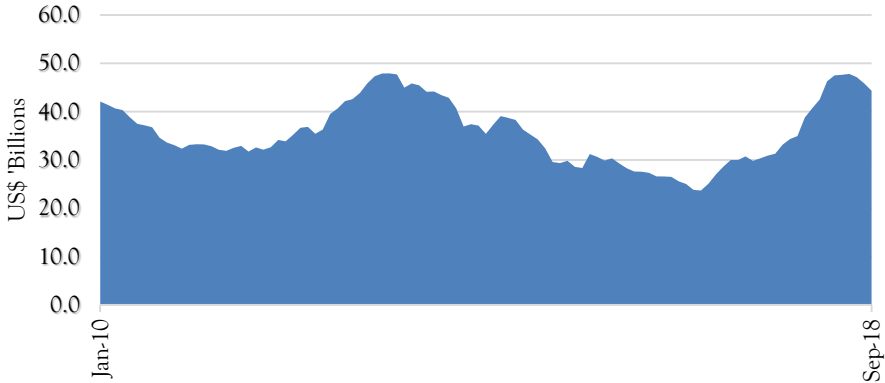
CAPITAL INFLOWS, US\$ BILLIONS



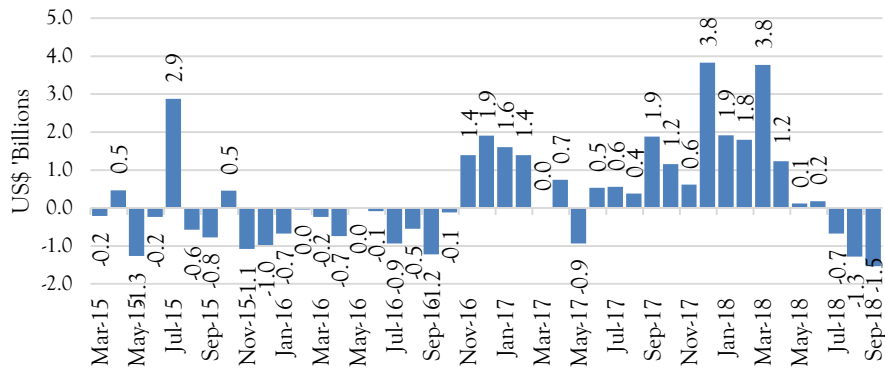
Efforts to manage the impact of external headwinds manifest in the deployment of accumulated foreign exchange reserves by the CBN in defence of the Naira



GROSS FX RESERVES

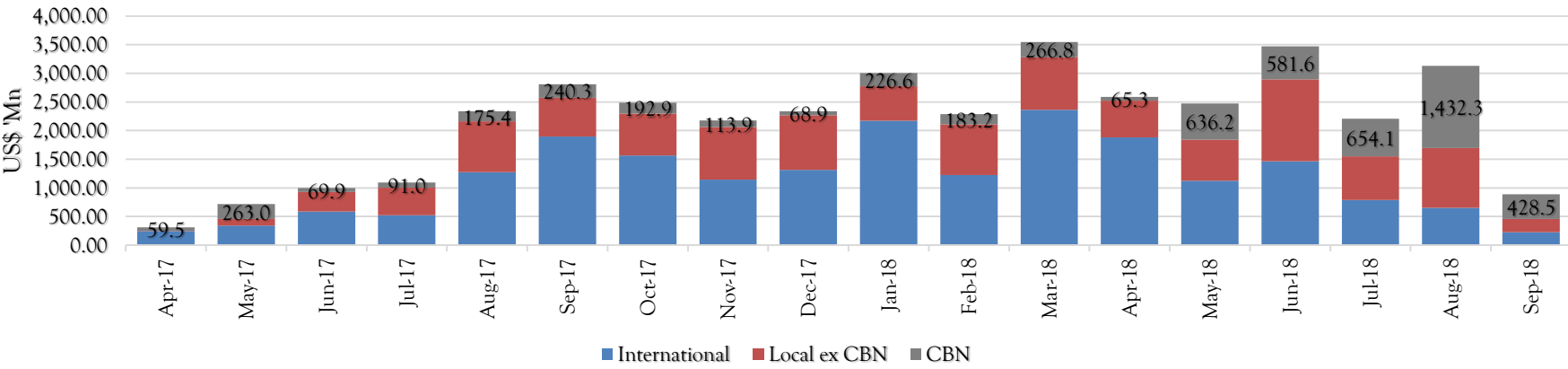


RESERVES ACCRETION



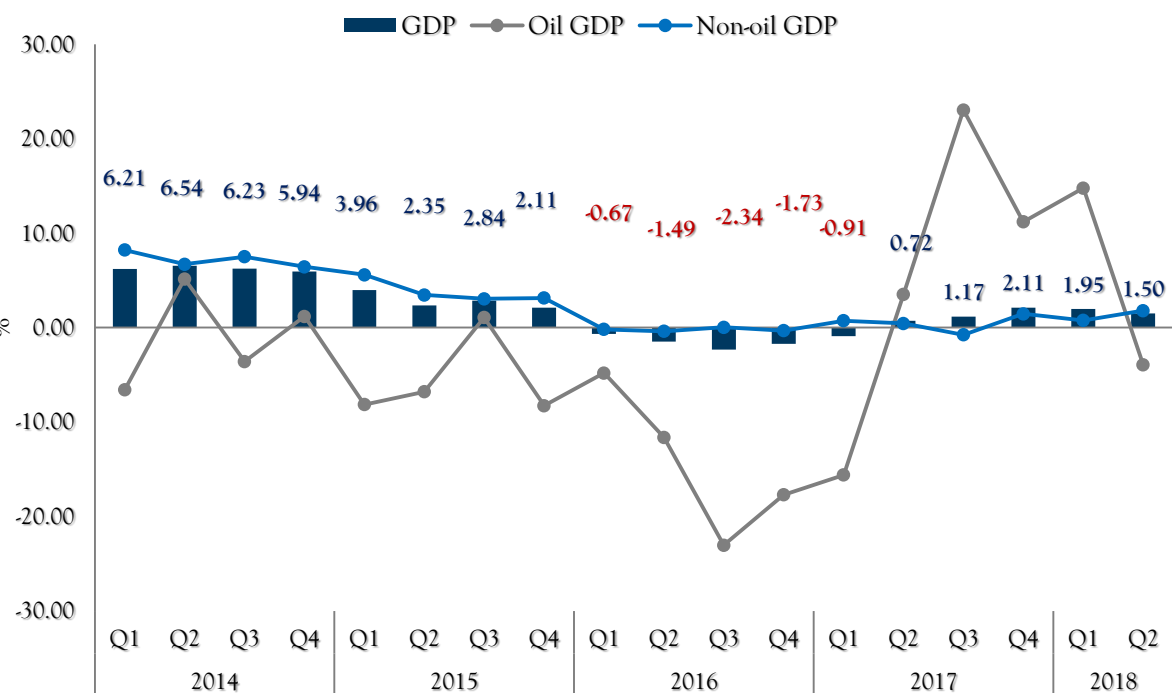
***Gross Reserves are down nearly US\$4bn since peaking in July**

INFLOWS INTO I&E FX WINDOW, US\$ Mn



A fragile and weakening economic recovery

GDP GROWTH (YEAR-ON-YEAR, %)



Q2-2017

Oil GDP: 3.53%
 Non-oil GDP: 0.45%
 21 Sectors Contracting
 14 Slow Growing Sectors (Growth <3%)
 11 Fast growth sectors (Growth >3%)

Q1-2018

Oil GDP: 14.77%
 Non-oil GDP: 0.76%
 10 Sectors Contracting
 23 Slow Growing Sectors (Growth <3%)
 13 Fast growth sectors (Growth >3%)

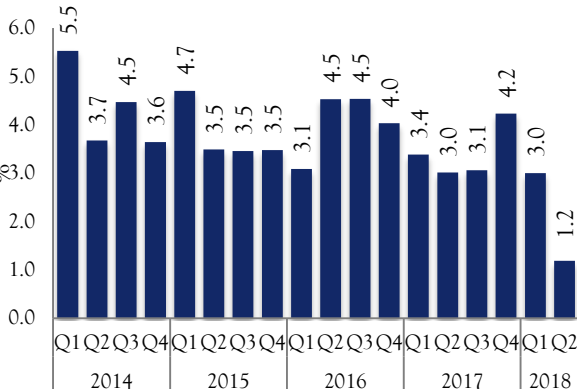
Q2-2018

Oil GDP: -3.95%
 Non-oil GDP: 1.80%
 15 Sectors Contracting
 13 Slow Growing Sectors (Growth <3%)
 18 Fast Growing Sectors (Growth >3%)

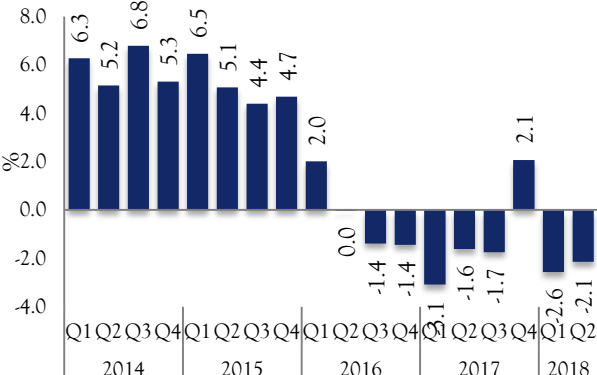
Flailing recovery reflects limp growth or contraction in major sectoral growth drivers



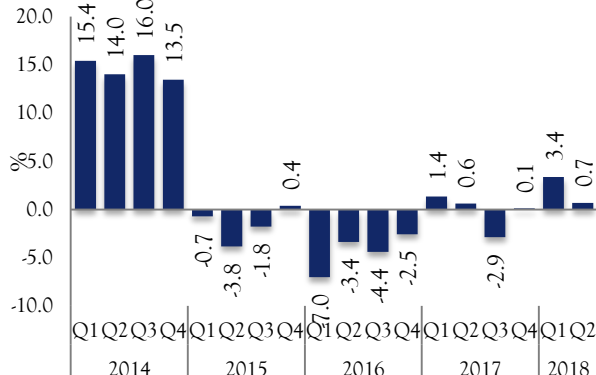
AGRICULTURE



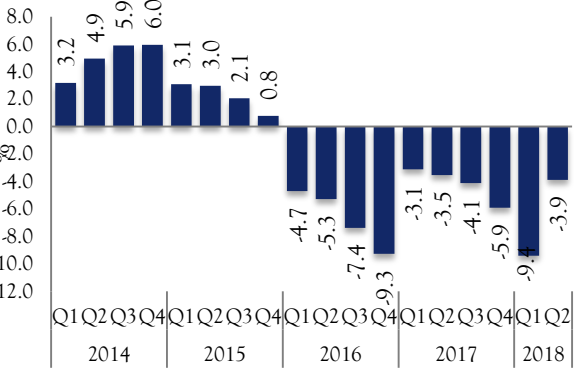
DISTRIBUTION



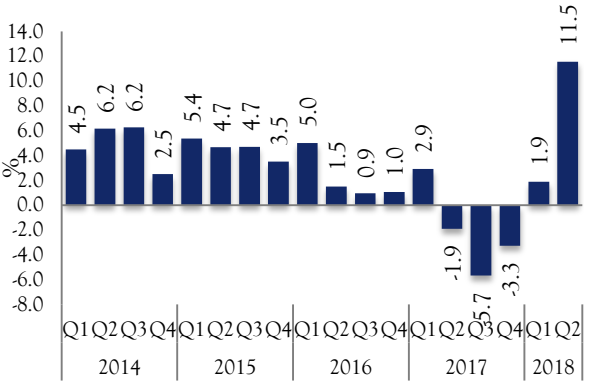
MANUFACTURING



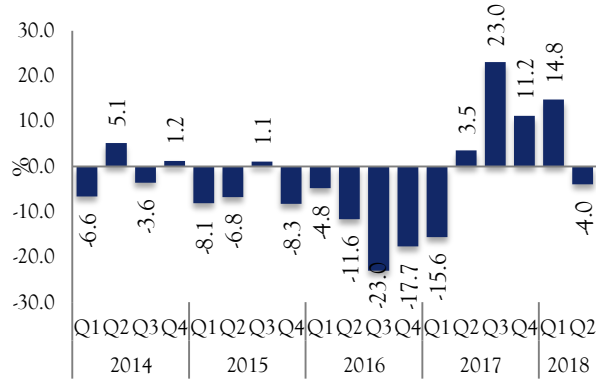
REAL ESTATE



TELECOMS

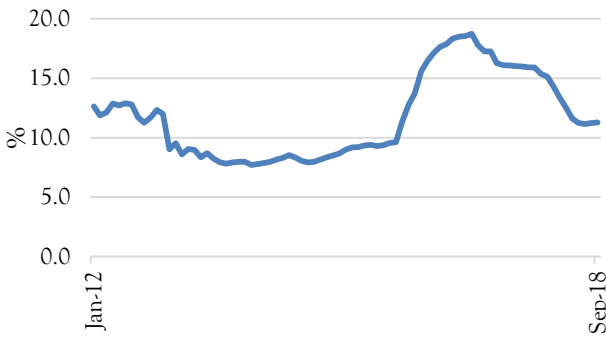


OIL & GAS

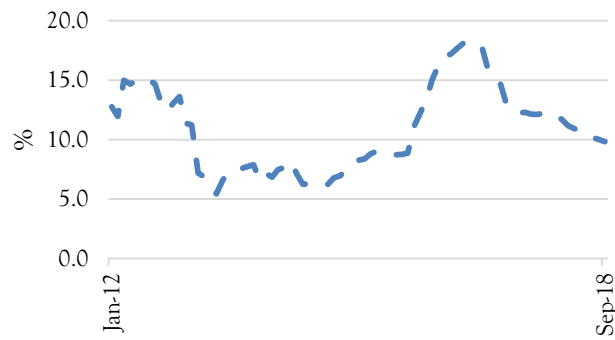


Once easing, Inflation has bottomed out and is poised to rise in coming months

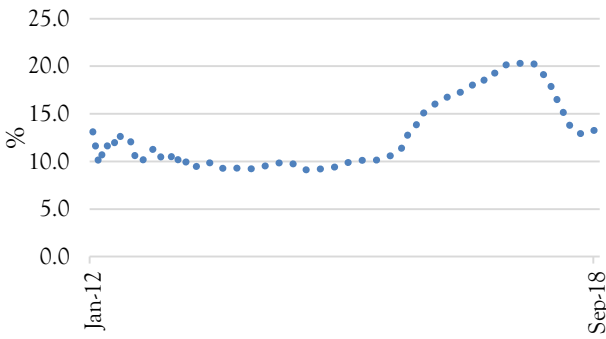
HEADLINE, YoY, %



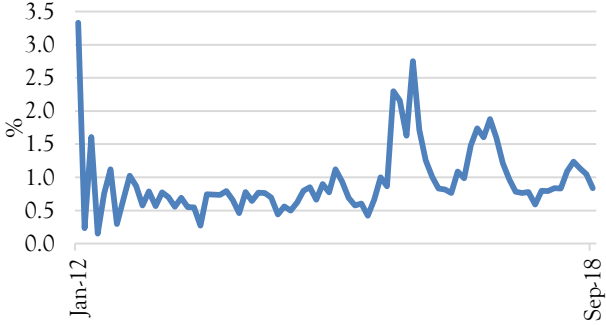
CORE, YoY, %



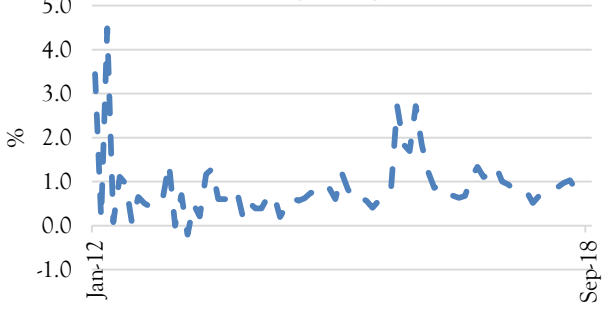
FOOD, YoY, %



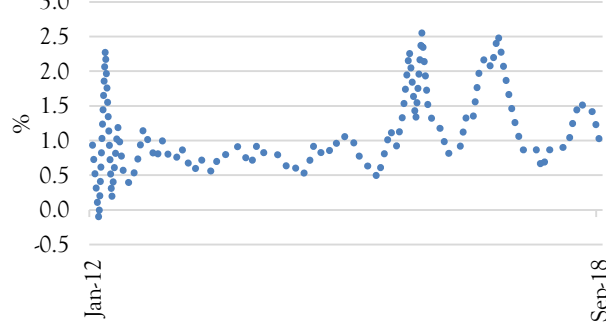
HEADLINE, MoM, %



CORE, MoM, %



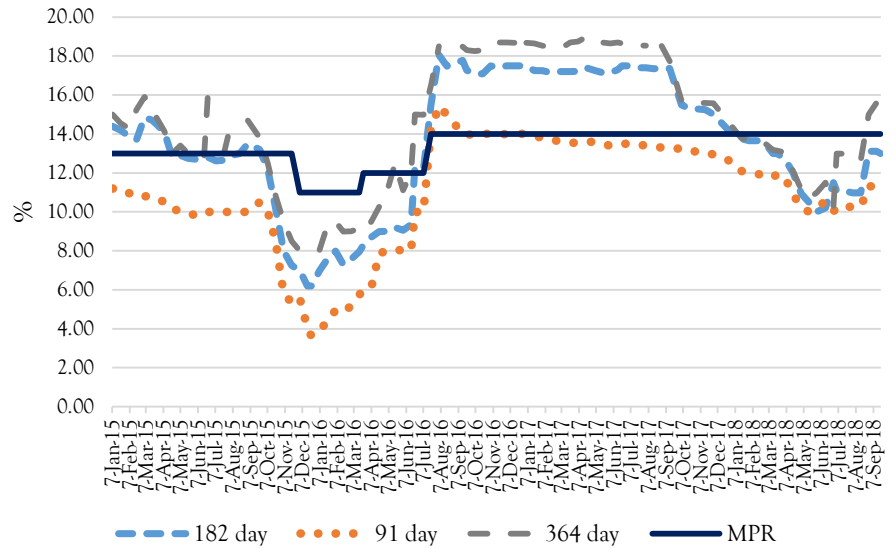
FOOD, MoM, %



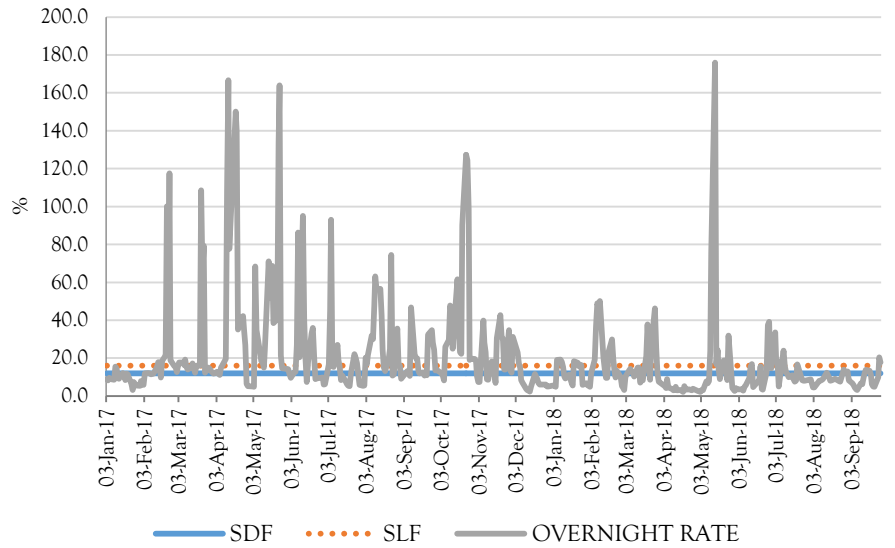
Recent trajectory of short term rates suggest a tightening of liquidity conditions



MPR vs T-BILLS PRIMARY STOP RATES

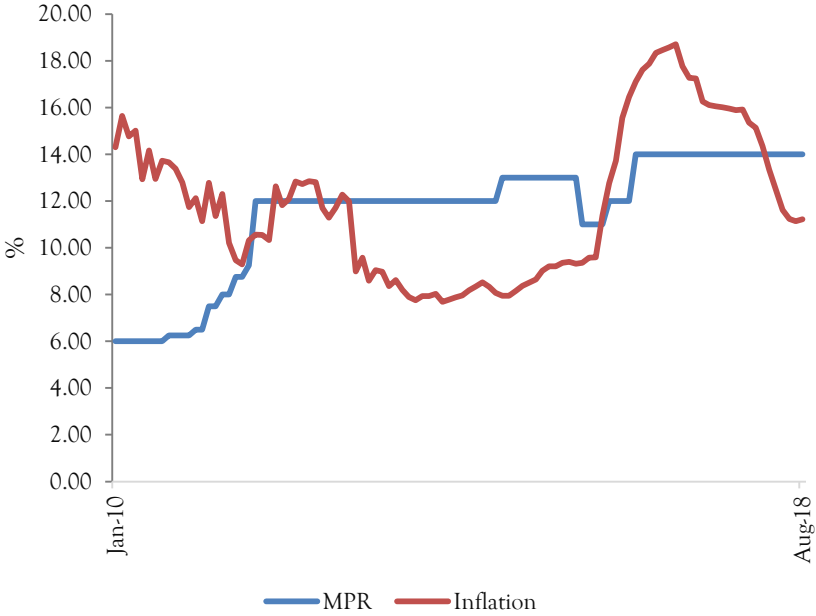


THE ASYMMETRIC CORRIDOR vs OVERNIGHT RATE

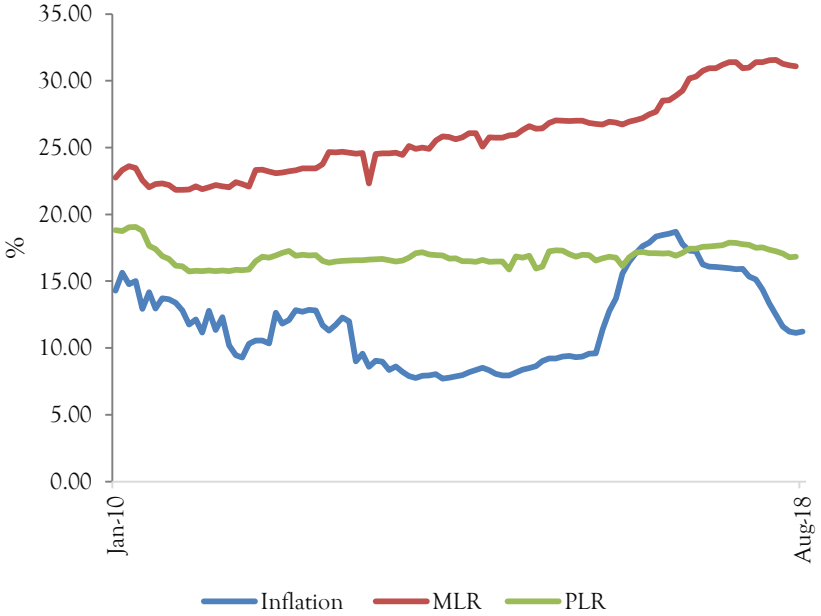


And with lending rates remaining high...

HEADLINE INFLATION VS MONETARY POLICY RATE

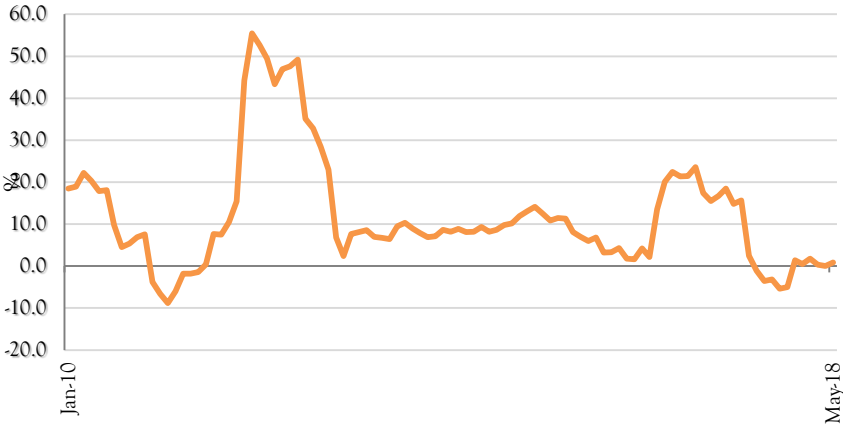


HEADLINE INFLATION VS LENDING RATES

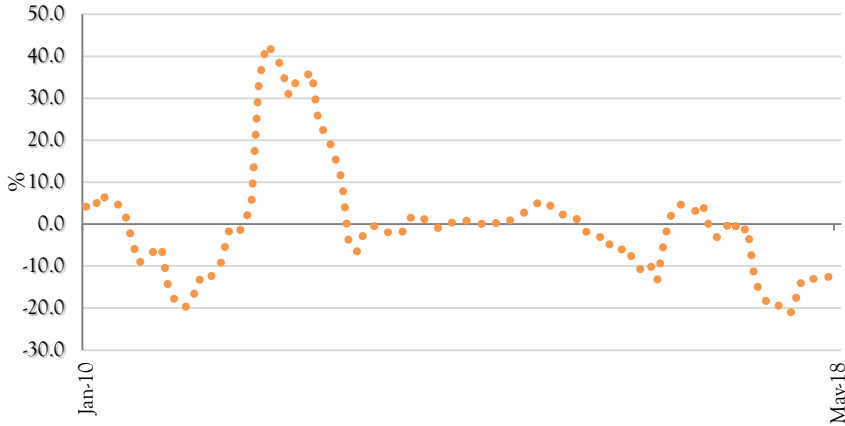


Credit growth remains sluggish

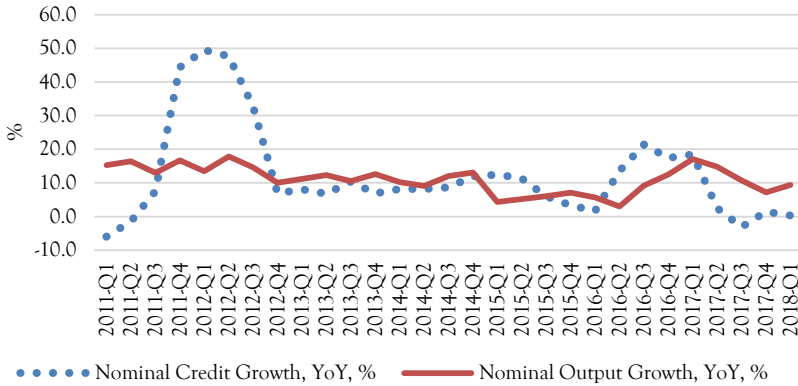
CREDIT GROWTH, YoY, %



INFLATION-ADJUSTED CREDIT GROWTH, YoY, %

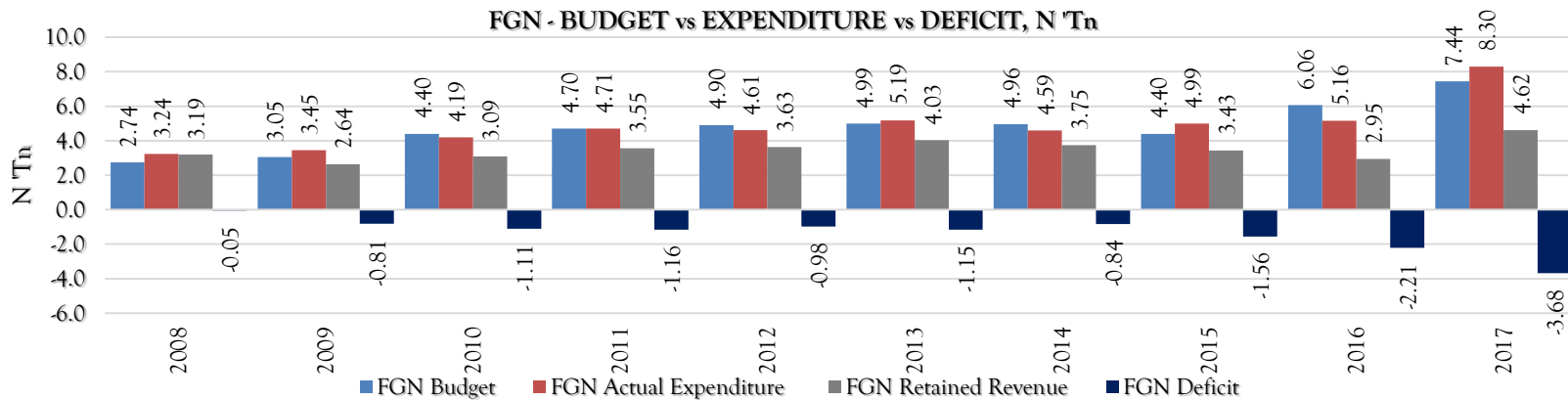


CREDIT GROWTH vs OUTPUT GROWTH



Grim fiscal realities nudge FG to turn to asset sales in attempt to rebalance the fiscus in 2018

FG lines up 10 SOEs for sale to raise N289bn (US\$797m) in Q4...



| FGN Budget 2017 performance (N billion) | Budgeted | Actual |
|---|----------|---------|
| Aggregate Revenue | 5,084 | 4,623 |
| Aggregate Expenditure | 7,441 | 8,302 |
| • Capital | 2,178 | 980 |
| • Recurrent | 2,988 | 5,180 |
| • Debt Service | 1,841 | 1,959 |
| • Statutory Transfers | 434 | 184 |
| Fiscal Deficit | 2,357 | -3,680 |
| GDP (nominal) | 100,050 | 113,719 |
| Fiscal Deficit, % of GDP | 2.36% | 3.24% |
| Real GDP growth, YoY, % | 1.50% | 0.83% |



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WHAT WILL BE THE IMPACT OF ELECTIONS?

Critical issues during and in the aftermath of the Elections

1. Will there be stability and smooth transition or disruption???
2. How will key indicators react to the signals communicated by electioneering?
3. How will the policy conversation be (re-)framed by the elections and their possible outcome?
 - New helmsman at the CBN? Incumbent governor's tenure expires Jun 2019, with possibility of renewal
 - New administration [new perspectives] or...
 - 2nd term for incumbent
 - Signals communicated by first steps – including composition of “core” or “kitchen” cabinet

How do macroeconomic indicators respond to electoral uncertainty?



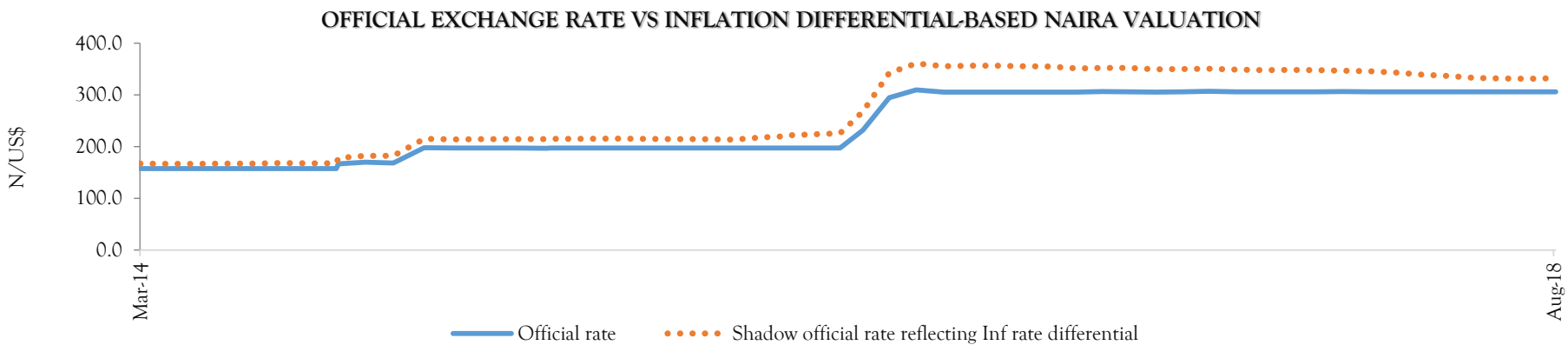
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| Indicator | Expected response to electoral uncertainty |
|---------------------------|--|
| Inflation | To rise |
| Net FPI (equities market) | To decline |
| Exchange rate | To rise in nominal terms (depreciation) |

| Indicator | Empirical finding (12-month period spanning 6 months pre-election and 6 months post) |
|---------------------------|--|
| Inflation | 1.03% monthly average increase |
| Net FPI (equities market) | N0.06billion monthly average decline |
| Exchange rate | 0.49% monthly average increase (depreciation) |

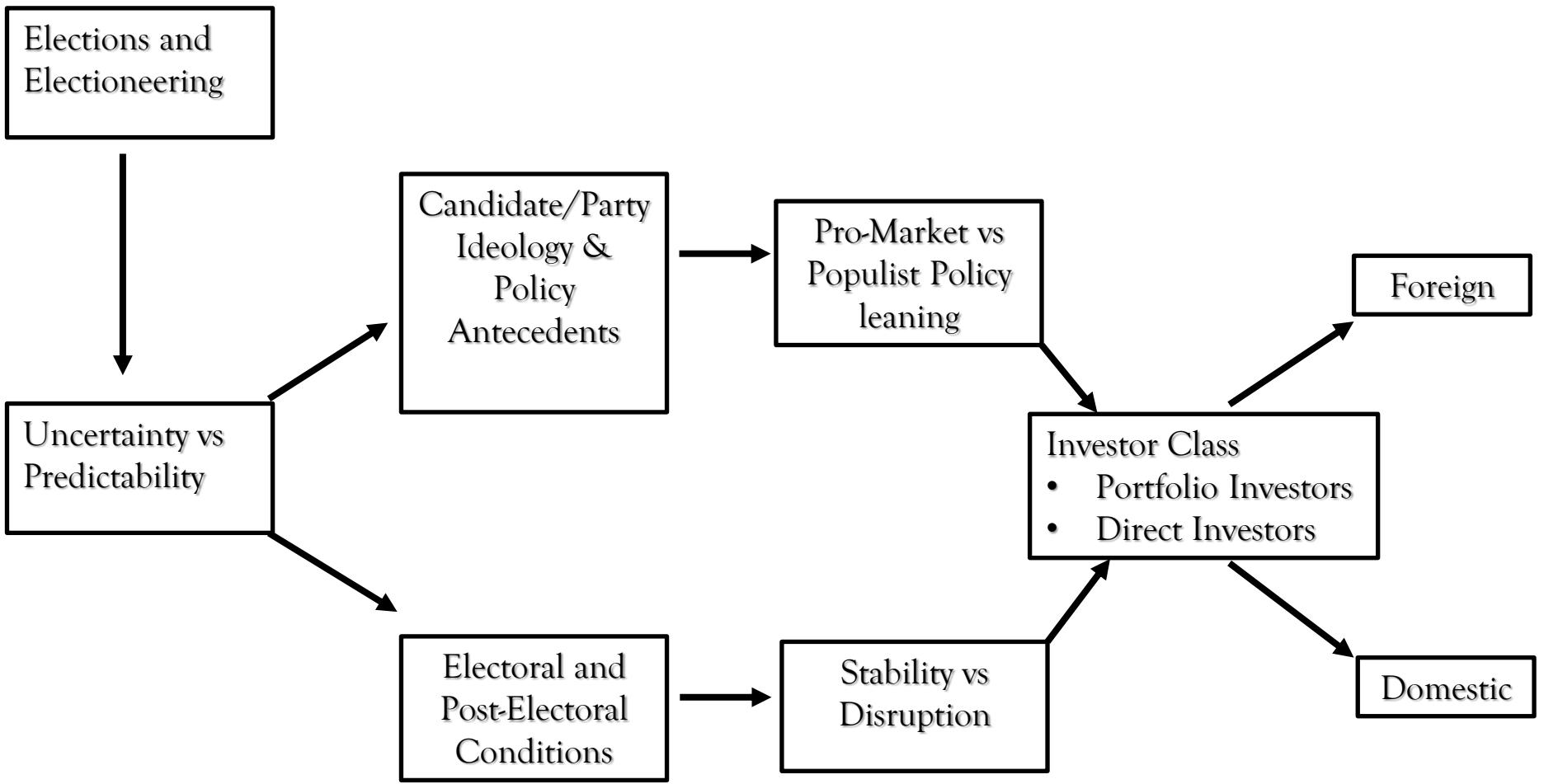
What plausible scenarios for the exchange rate?



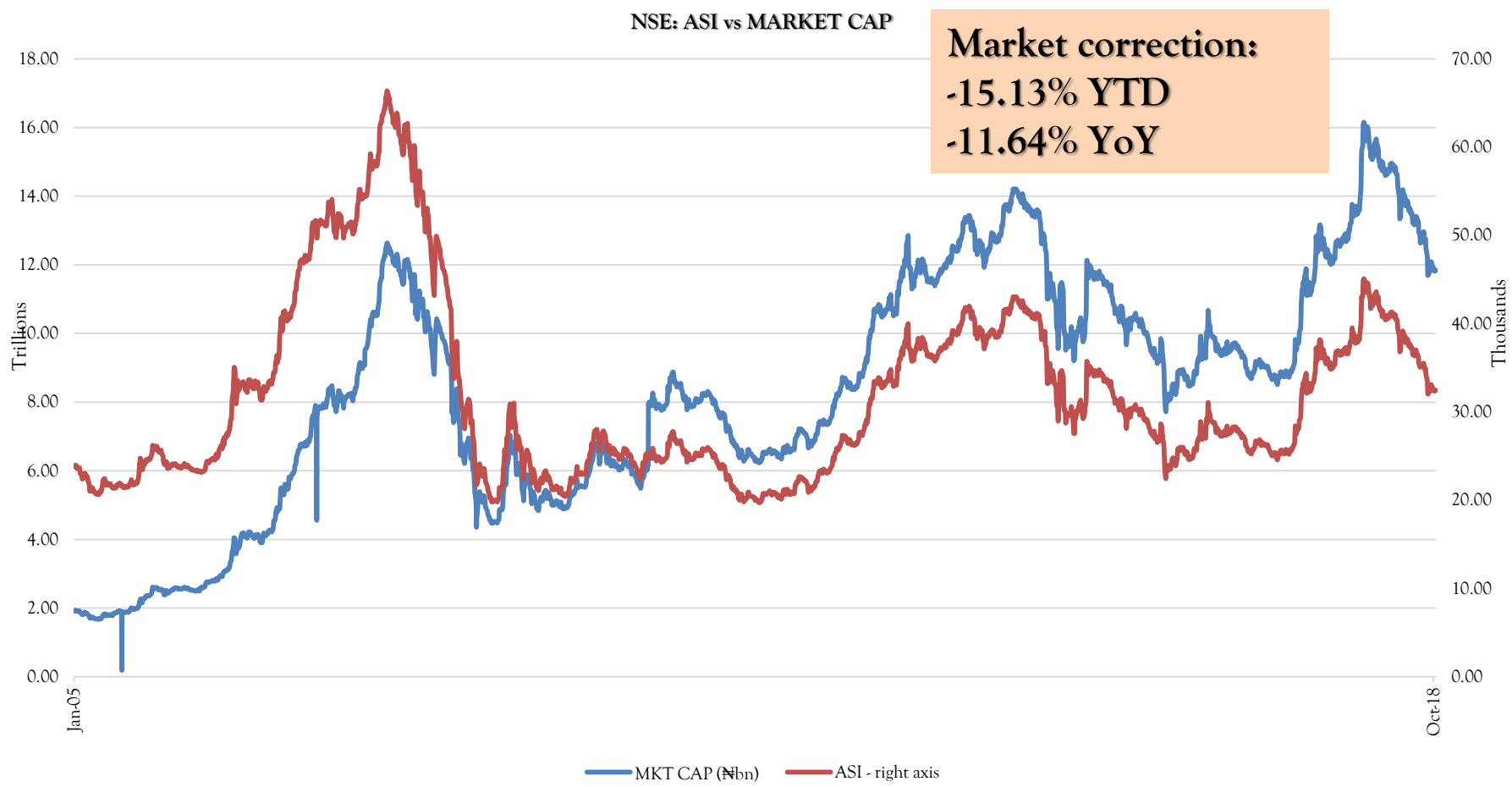
- We see an 8–10% over-valuation of the Naira given the present differential between domestic and US inflation rates
- However, in our view, exchange rate adjustment is contingent on pressure on the FX reserve holdings
- We estimate **US\$34.33bn (Gross FX Reserves)** as the threshold below which pressure on the Naira would be difficult for CBN to accommodate

| | | | |
|--|-------------------|---------------------|----------------------|
| Gross FX Reserves Threshold for Naira Adjustment (US\$, Bn) | 34.3 | | |
| FX Reserves Forecast (US\$, Bn) | Baseline: 40.0 | Optimistic: 42.0 | Pessimistic: 36.0 |

How do elections affect investor sentiment?



Equities market experiences significant correction owing to heightened domestic uncertainty





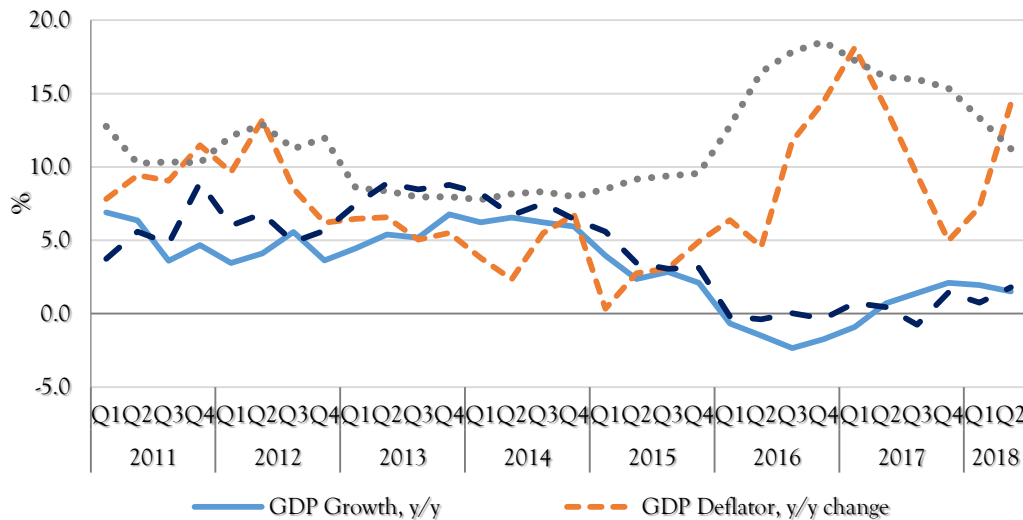
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HOW ARE CORPORATES FARING GOING INTO ELECTION SEASON?

In the aggregate, corporates are contending with tight margin conditions

PRODUCTION, PRODUCTION COSTS AND CONSUMER PRICES



- As rate of increases in consumer prices moderate, aggregate production costs are rising sharply
- Indeed, in the second quarter, we observe an intersection between declining inflation in consumer prices, and sharply rising increases in production costs
- This implies that the scope for margins for businesses, in the aggregate, are acutely tightening

- ❖ *Growth in aggregate GDP as well as and especially in Non-Oil GDP represents production levels*
- ❖ *The aggregate GDP deflator, measured at farm and factory gate, is a measure of economy-wide production costs (in the absence of a Producer Price Index)*
- ❖ *The consumer price Inflation rate, represented by rates of change in the Consumer Price Index (CPI), measures changes in the prices consumers face at the marketplace*

Our searchlight is on the Industrial Commercial Companies...

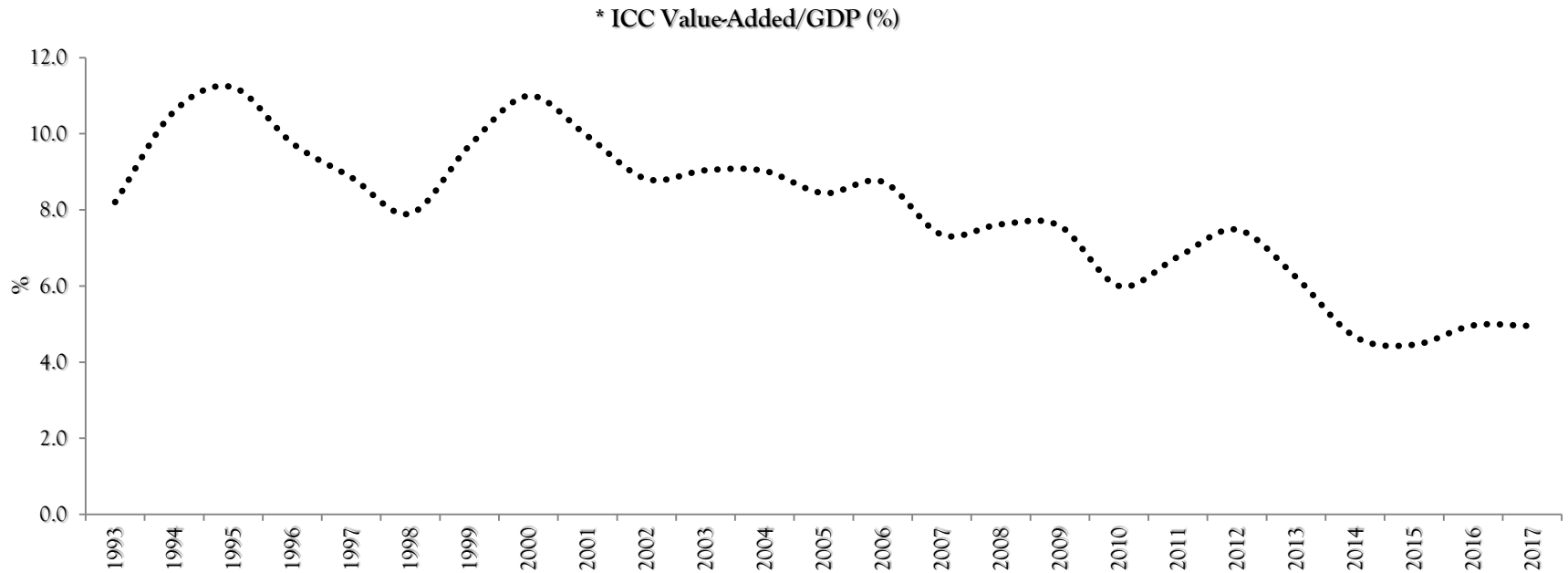


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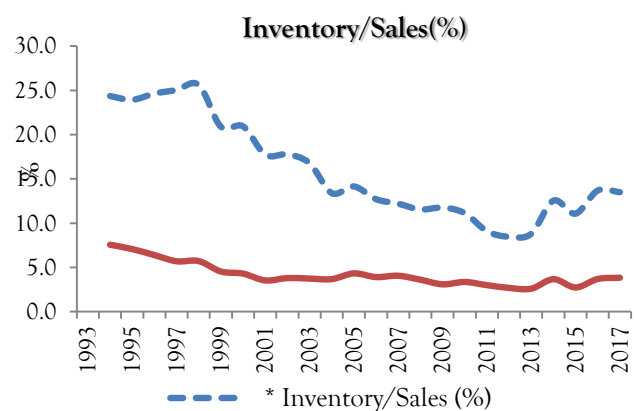
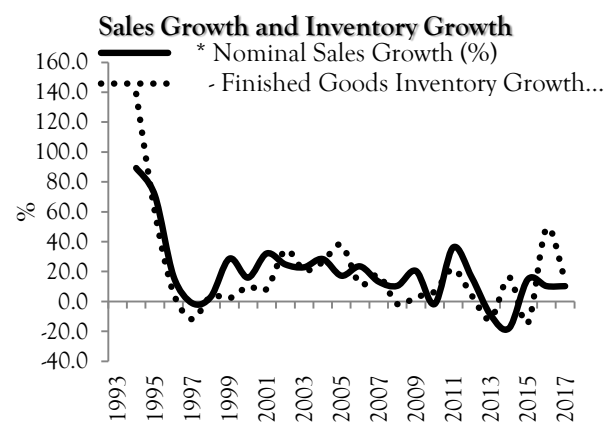
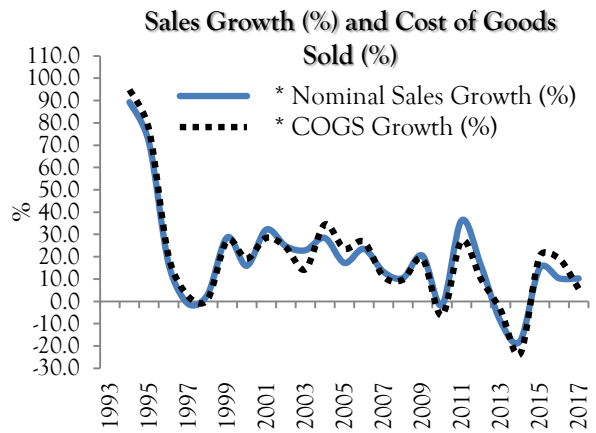
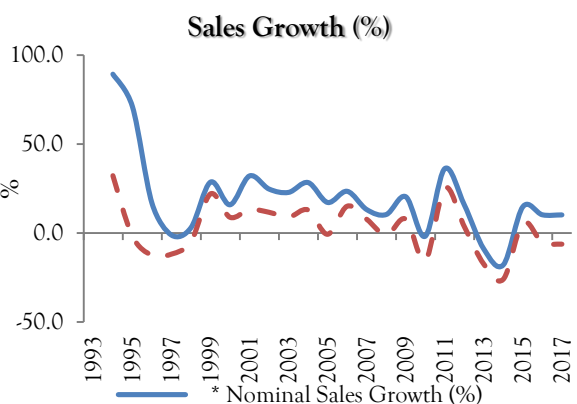
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- **African Petroleum/Fortes**
- **Cadbury Nigeria Plc.**
- **Conoil Plc.**
- **Julius Berger**
- **Nestle Nigeria Plc.**
- **Total Nigeria Plc.**
- **7 Up Bottling Company**
- **Flour Mills**
- **John Holt**
- **Oando/Unipetrol**
- **Guinness Nigeria Plc.**
- **Texaco Nigeria Plc./Chevron/MRS**
- **Nigeria Bottling Company Plc.**
- **Nigerian Breweries**
- **Dangote Sugar Refinery Plc.**
- **United Nigerian Textiles**
- **Seplat Oil & Gas**
- **Ashaka Cement Plc.**
- **Dangote Cement**
- **Benue Cement (taken over by Dangote Cement in 2009)**
- **Lafarge Cement WAPCO Nigeria**
- **P.Z. Industries/P.Z. Cuzzons Nigeria Plc.**
- **Dunlop**
- **Mobil Plc.**
- **Transnational**
- **UAC of Nigeria Plc.**
- **Unilever Plc.**
- **Union Dicon**

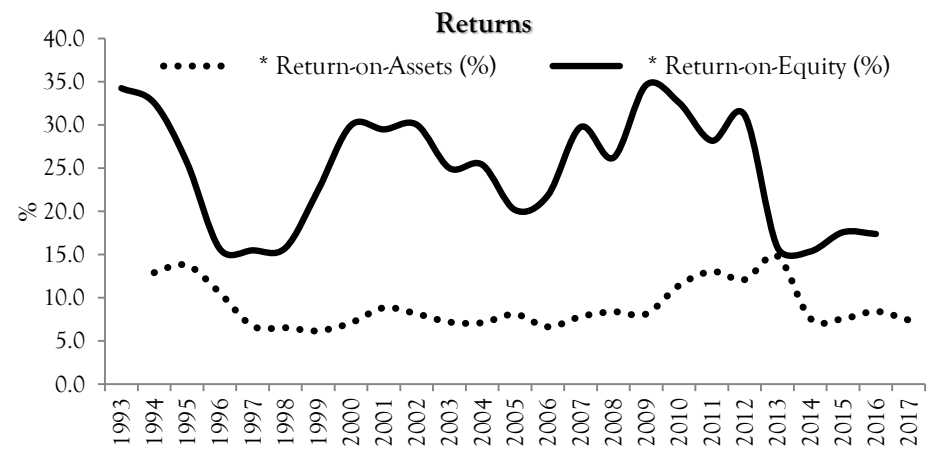
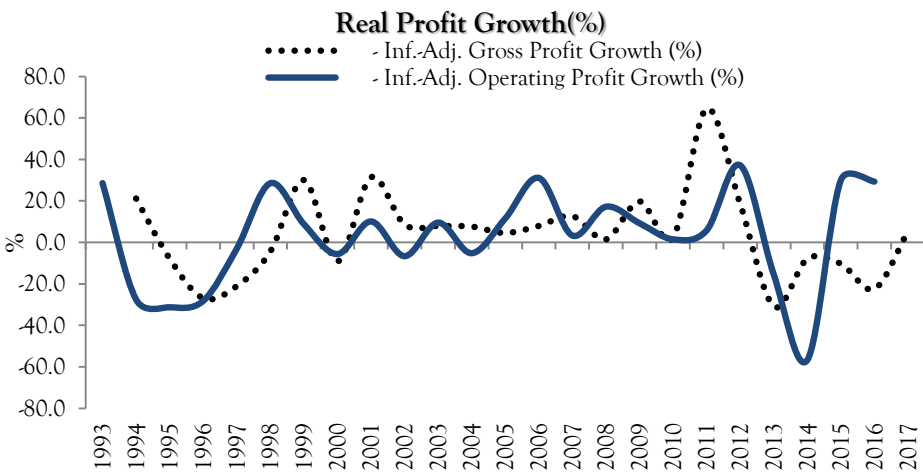
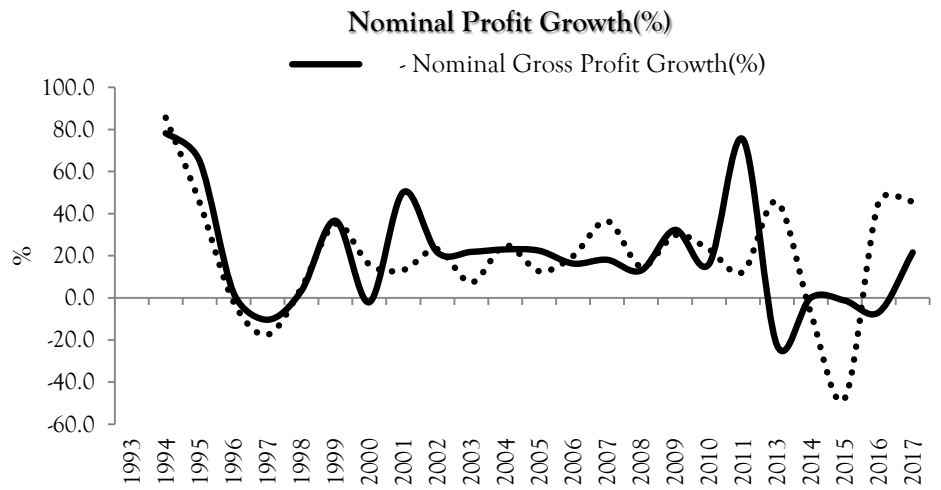
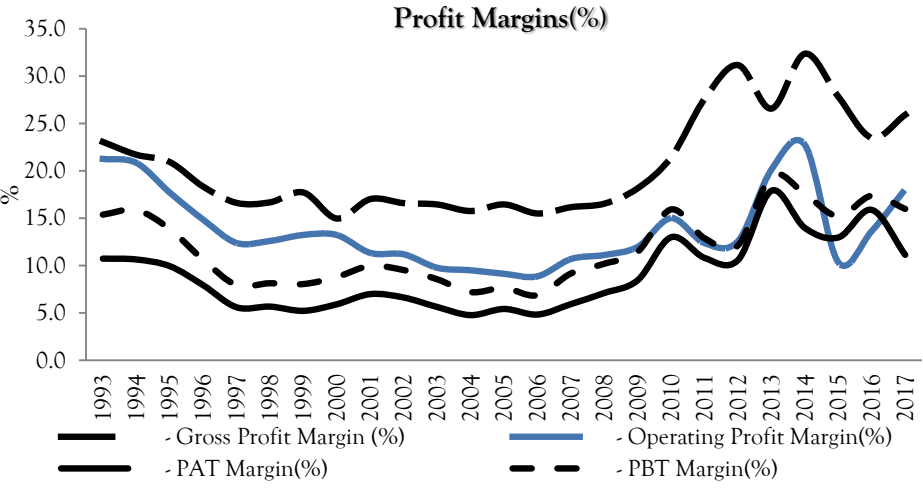
...which collectively account for about 5% of the economy



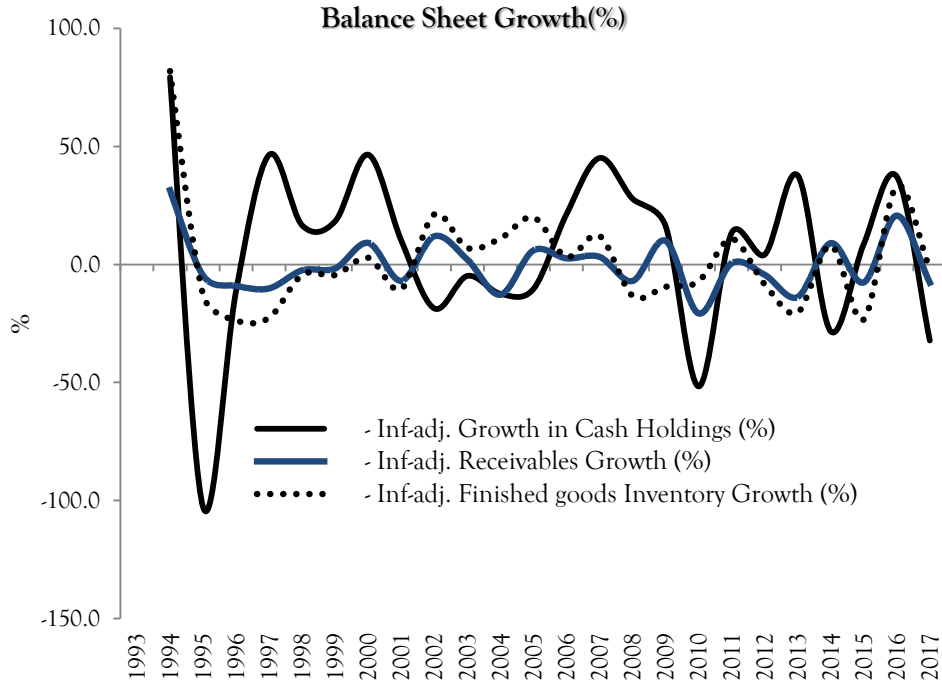
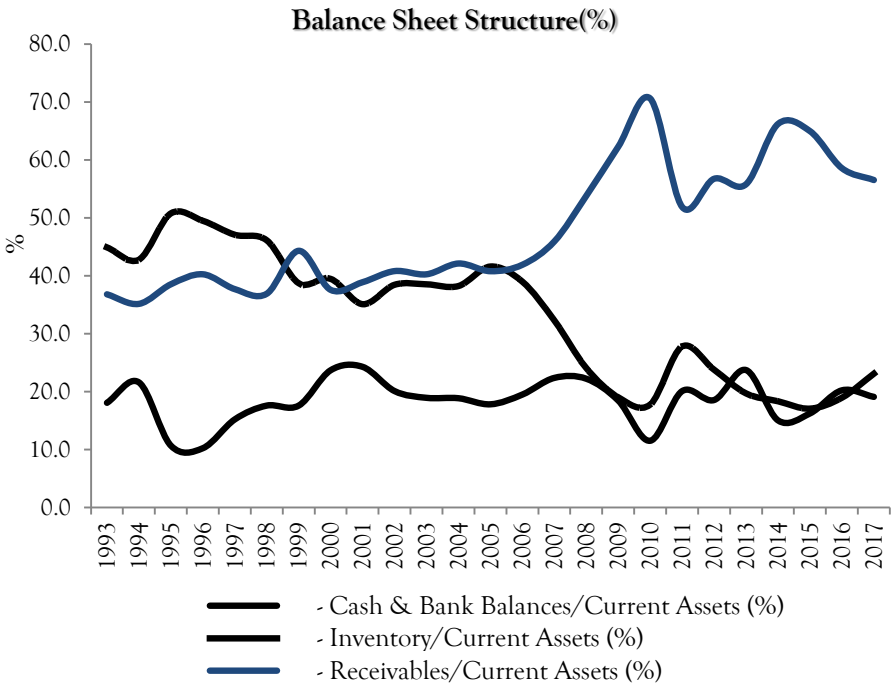
Sales growth has slowed over the past two years, outstripped by sales costs; inventory has piled on, albeit easing in 2017



Corporates have sustained margins and returns in the face of pressure by easing volumes



Balance sheets are contracting in inflation-adjusted terms, are less liquid and under pressure from high receivables & inventory





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Thank You