



Nigeria Economic Update

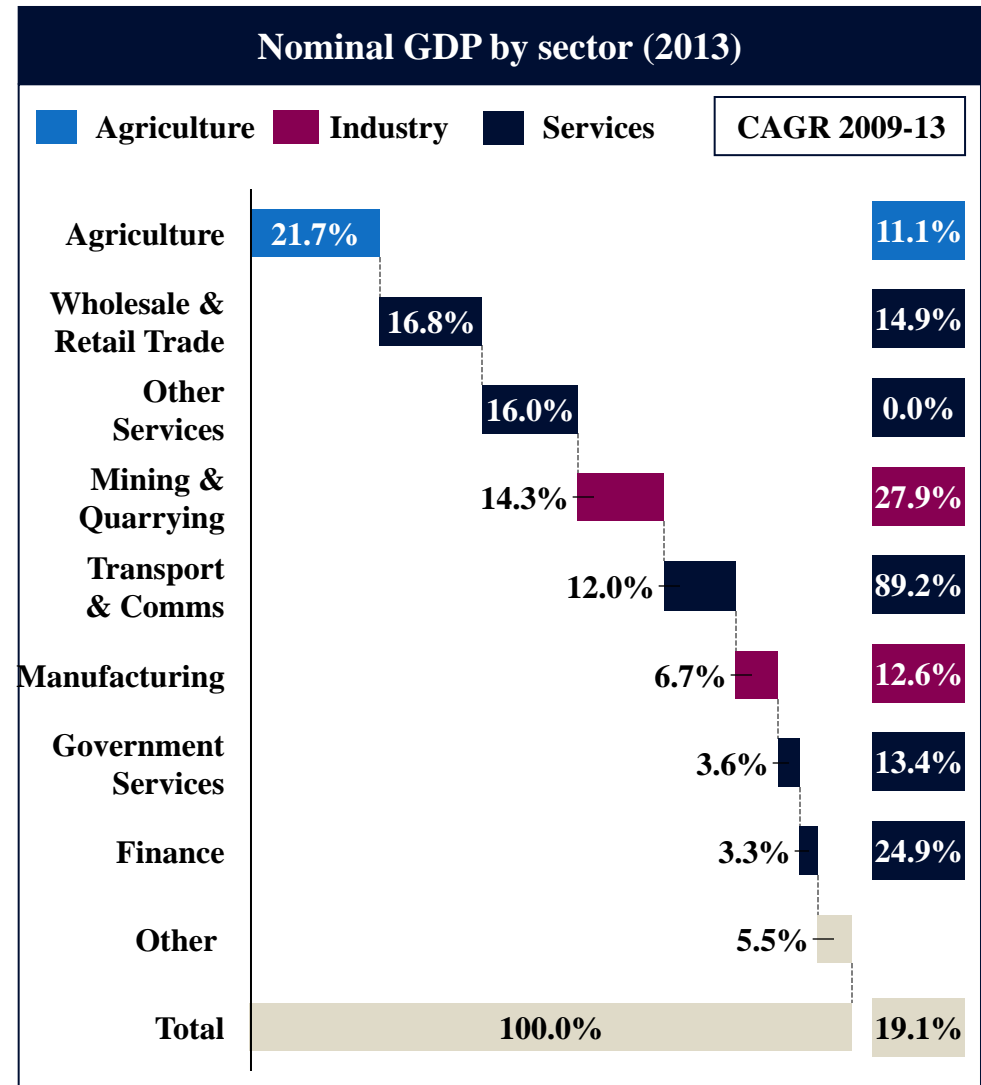
QNB Group

September 2014

Nigeria – Overview

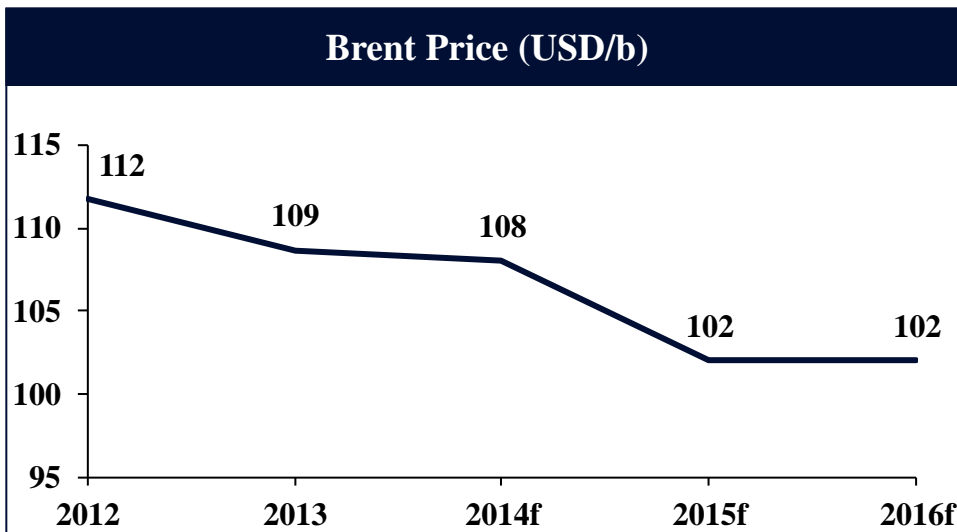
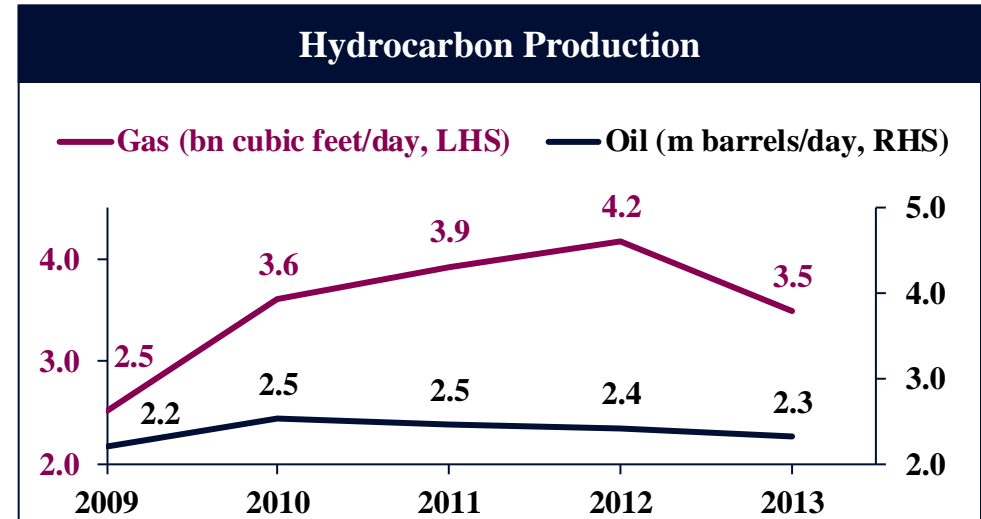
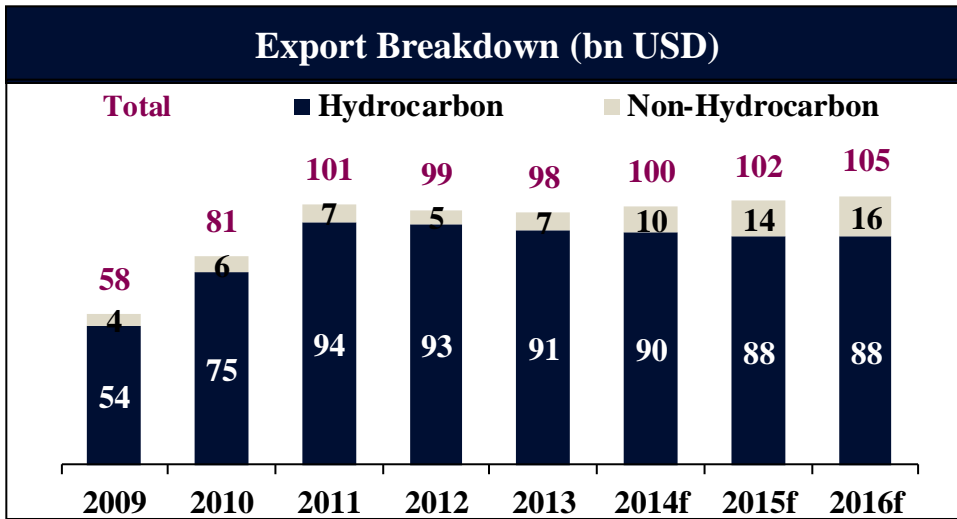
A rebasing of GDP in 2013 has made Nigeria the biggest economy in Africa with the largest population; the economy is growing rapidly but remains constrained by a poor business environment and lack of infrastructure; ratings are low

Overview Data (2013)	
GDP (bn USD)	522.6
% GDP related to Agriculture	21.7
Real GDP Growth (%)	6.3
Per Capita GDP (k USD, PPP)	2.8
CPI Inflation (%)	8.5
Current Account Balance (% of GDP)	2.6
FX Reserves (months of import cover, end-2013)	6.7
Exchange Rate (USD:NGN, end-2013)	155.2
Fiscal Balance (% of GDP)	-2.7
Government Debt (% of GDP)	10.6
Broad Money Growth (%)	8.9
Banking Assets (% of GDP)	29.9
3-Month Interbank Rate (%)	12.1
Population (m)	169.3
Population aged 15-64 Years (% share, 2012)	52.9
Population growth (%)	2.7
Unemployment (% , 2011)	18.8
Religion (% Muslim)	50.0
Doing Business Rank out of 189	147
Competitiveness Rank out of 148	120
Moody's Rating (Long-term FX debt)	Ba3



Nigeria – Hydrocarbon Sector

Hydrocarbon production and exports have grown rapidly in recent years, notwithstanding significant oil theft and pipeline closures, but lower global projected oil prices could moderate further gains, requiring further economic diversification

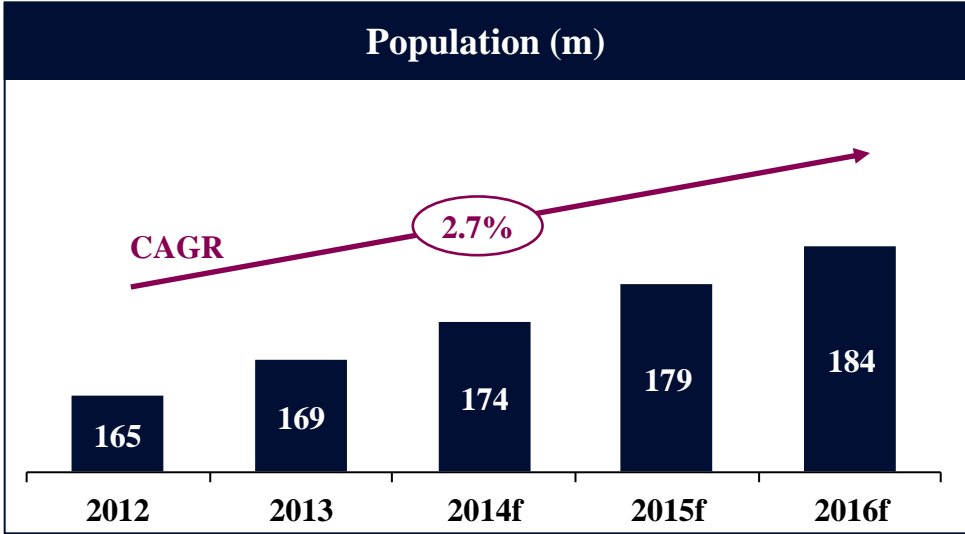
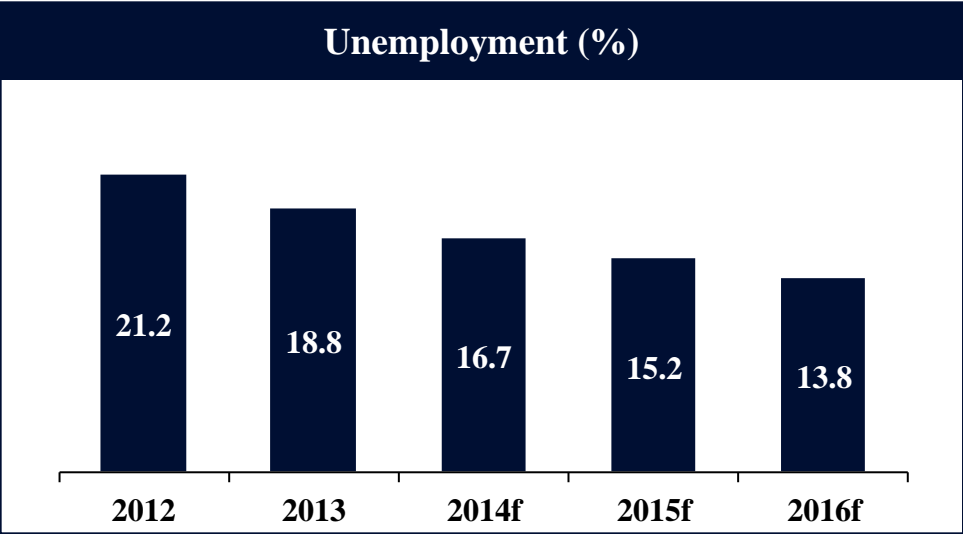
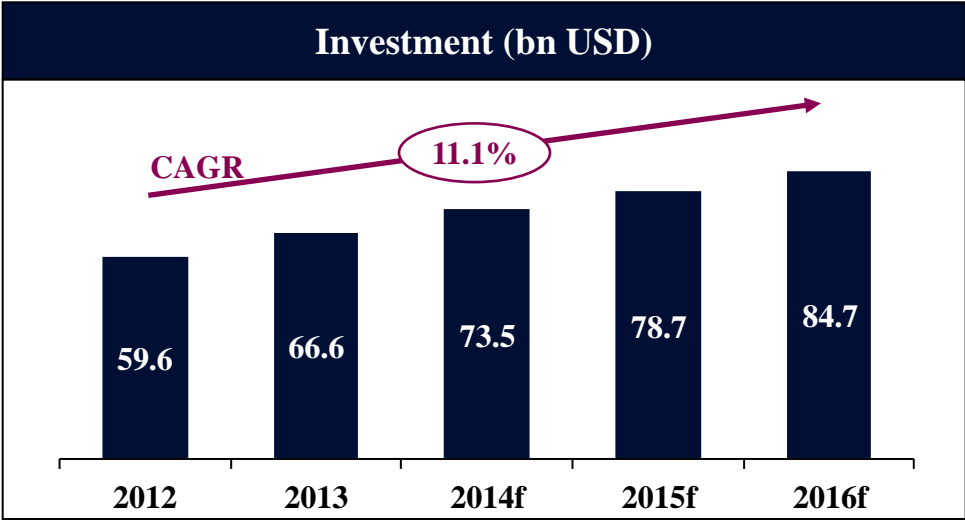
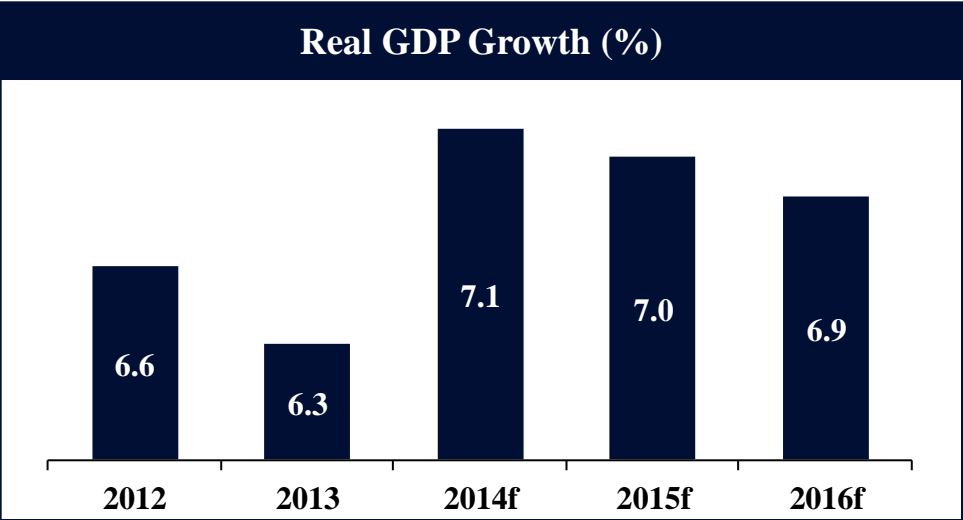


Commentary

- Oil production declined in 2013, from increased oil theft that was amplified by pipeline closures after the sabotage
- Mitigating measures have included collaboration with local leaders in oil-producing communities and international initiatives to discourage the purchase of illegal oil by foreign refineries
- With the oil sector accounting for roughly 75% of government revenue and 95% of exports, the reduction in oil exports adversely affected the fiscal and external positions in 2013

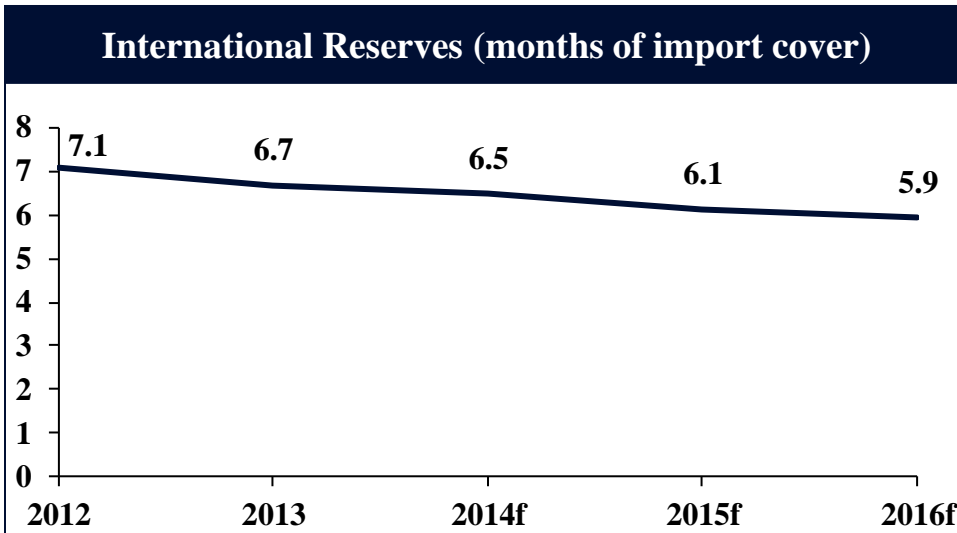
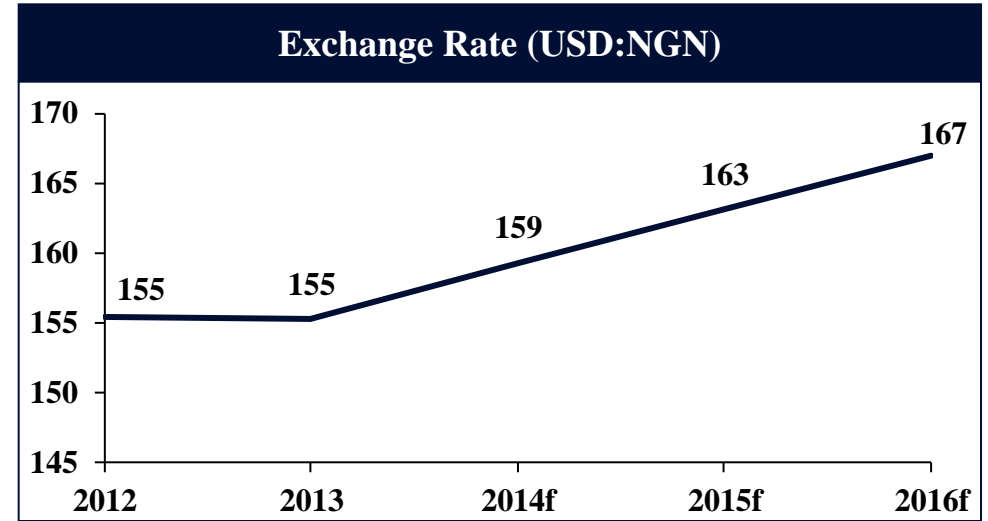
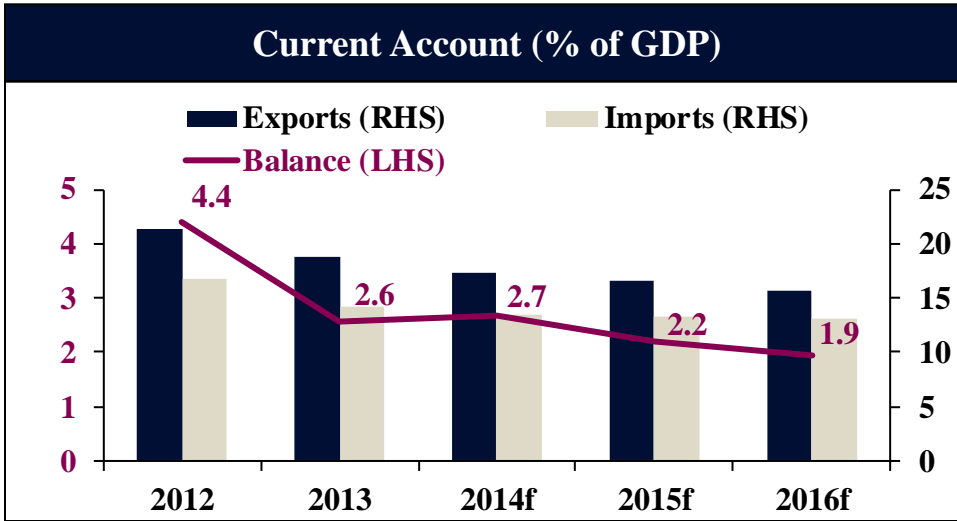
Nigeria – GDP Growth

Real GDP growth is expected to increase over the medium term, partly driven by higher investments, which should lower the high unemployment rate despite high population growth



Nigeria – Balance of Payments

The current account surplus is expected to decline over the medium term on lower oil prices; the central bank intervened to stabilize the Naira in 2013 by restricting portfolio outflows, thus limiting the decline in international reserves

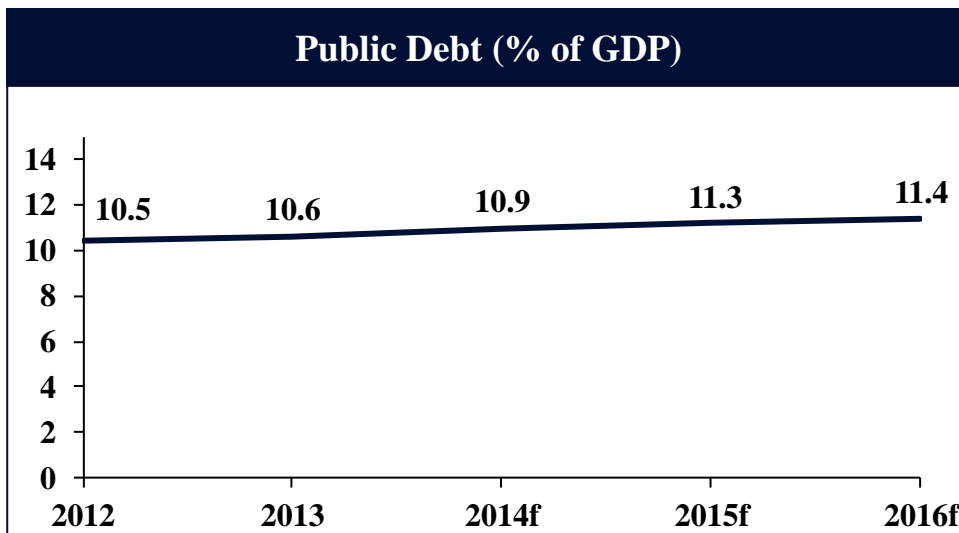
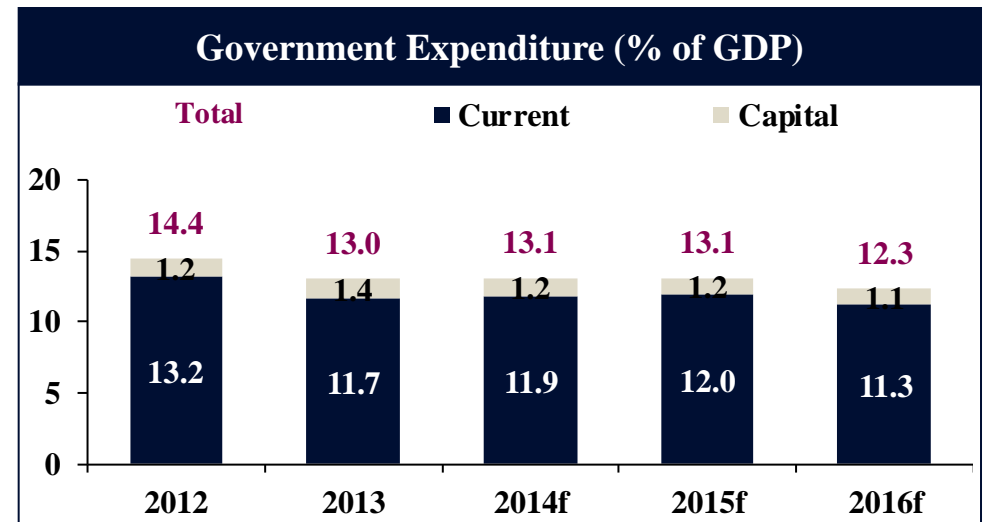
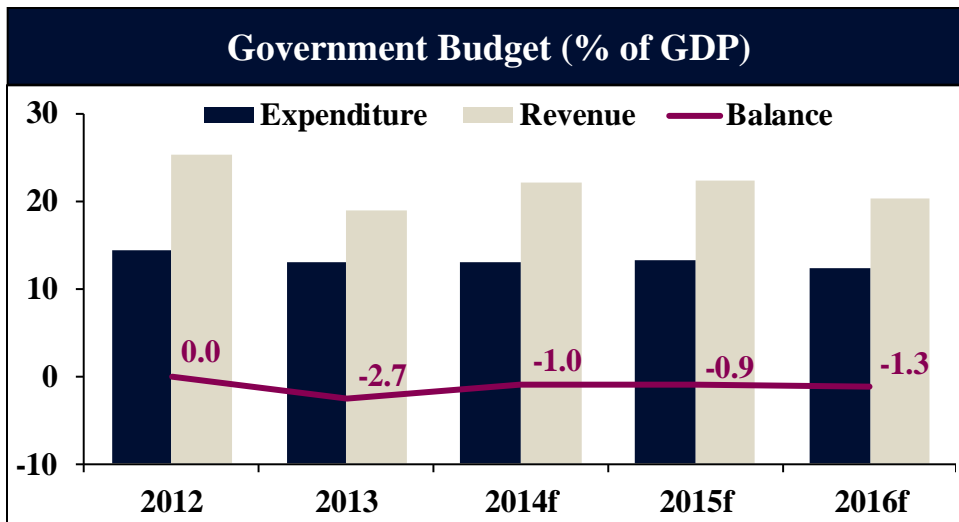


Directions of Trade (2013)

Exports		Imports	
Destination	(bn USD)	Source	(bn USD)
India	12.4	China	13.2
United States	10.7	United States	7.1
Brazil	9.6	India	2.9
Spain	6.8	France	2.2
Netherlands	6.8	United Kingdom	2.1

Nigeria – Fiscal Policy

Fiscal policy aims to limit the deficit while stimulating growth and creating jobs; fuel subsidies continue to impose a toll on the fiscal balance, thereby limiting capital expenditures, while public debt remains low

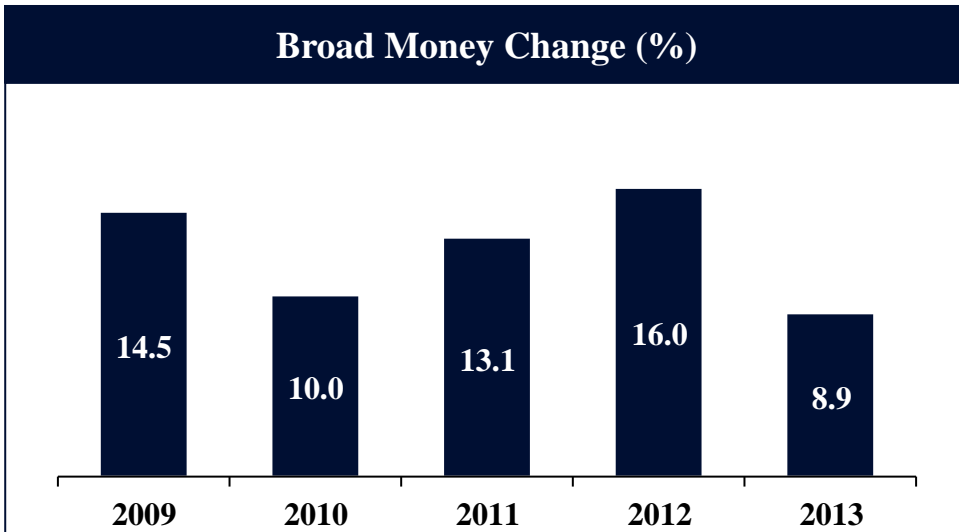
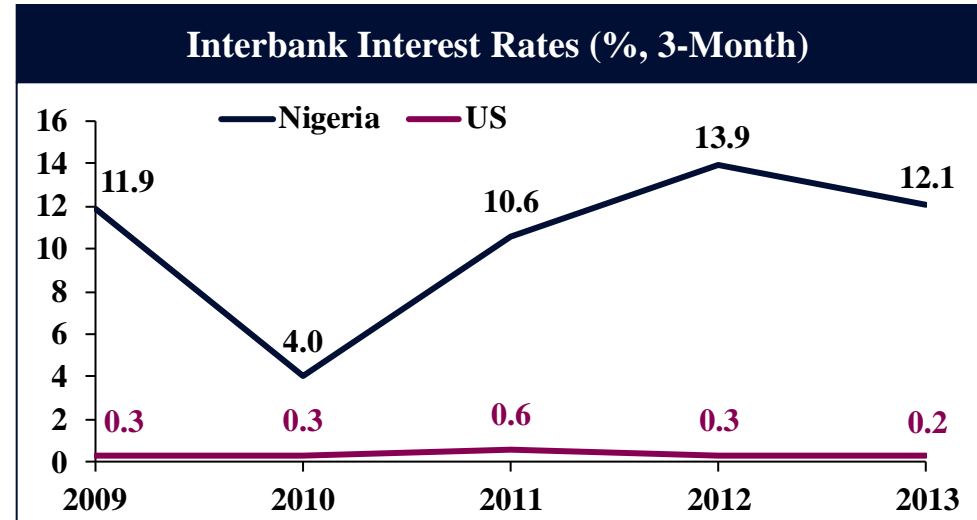
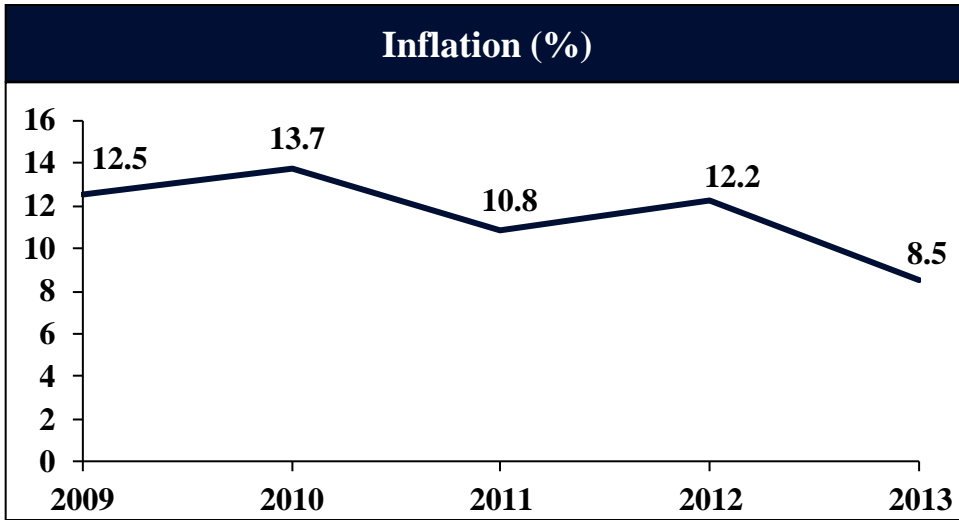


Fiscal Policy

- Fiscal policy aims to limit the deficit while stimulating growth and creating jobs
- Government expenditures fell in 2013, largely from policies to control personnel expenses in the federal government, including the enhancement of payroll administration processes
- The room for increasing capital expenditures remains limited by still large (albeit declining) fuel subsidies
- Public debt is low and is expected to increase marginally over the medium term, provided fiscal deficits remain low

Nigeria – Monetary Policy

Monetary policy aims to ensure monetary and price stability; the central bank managed to reduce inflation to single digits in 2013 with high short-term interest rates and limiting broad money growth; inflation is expected to decline further

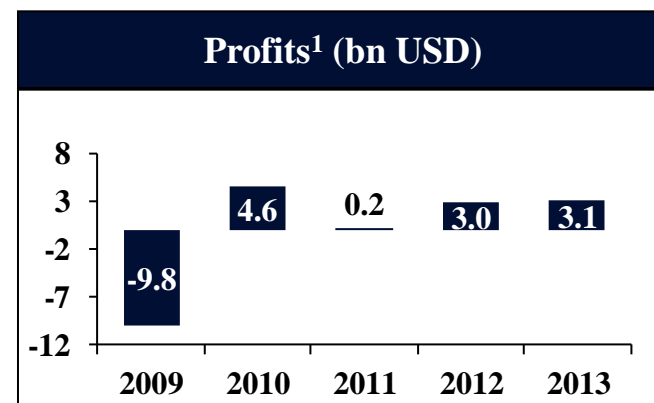
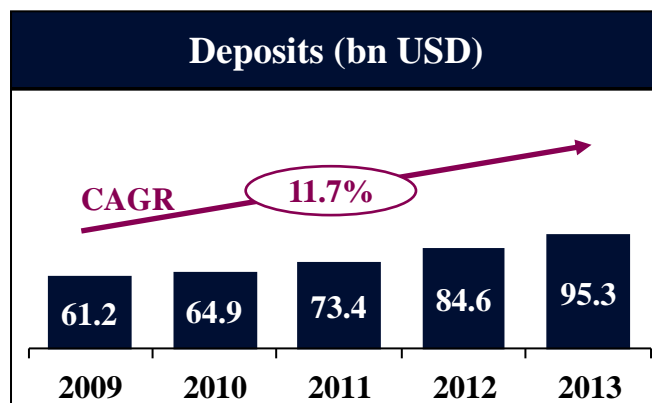
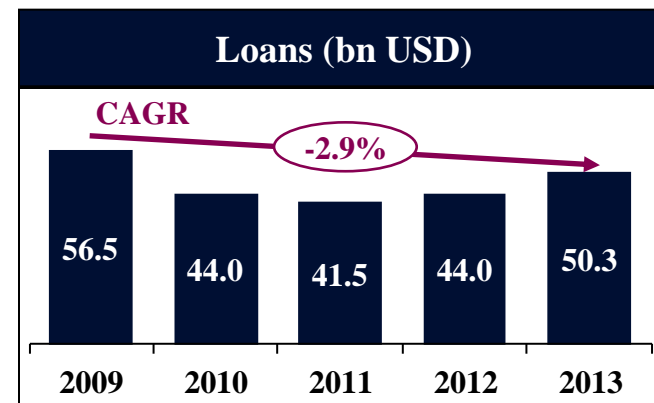
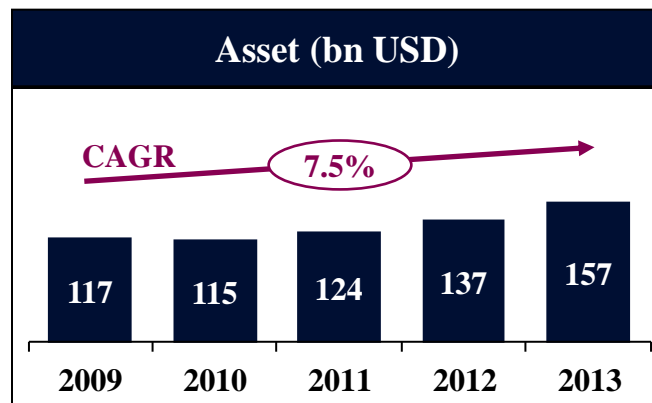
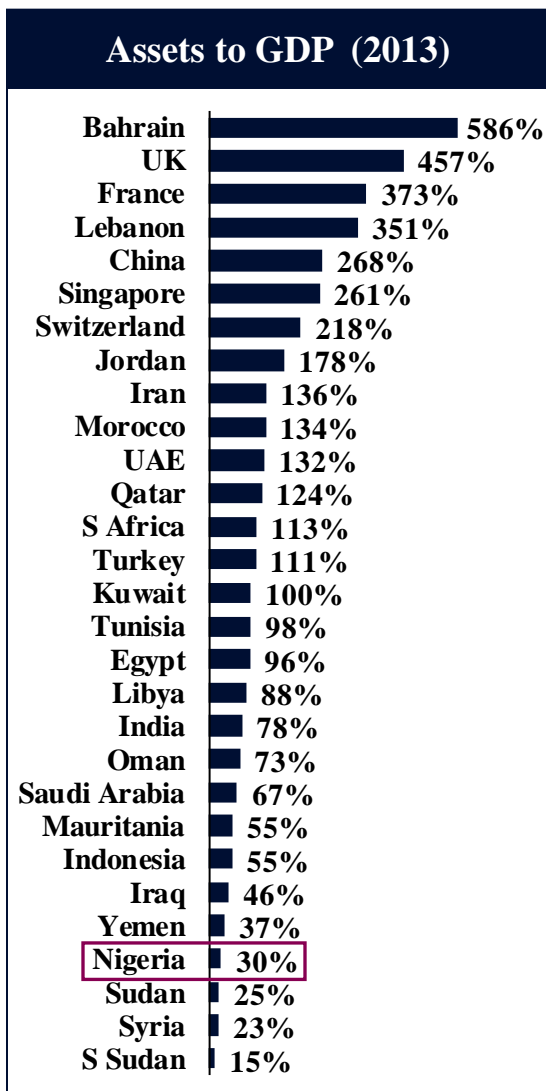


Monetary Policy

- Monetary policy aims to ensure price stability
- The central bank managed to reduce inflation to single digits in 2013 with high short-term interest rates and containing broad money growth
- Nigeria's Monetary Policy Committee has set the inflation target range for 2014 at 6-9%
- Inflation is expected to decline over the medium term, in line with a tight monetary policy and a lowering trend in food prices

Nigeria – Banking Sector Overview

The banking sector experienced a systemic crisis in 2009 that significantly reduced asset penetration; assets and deposits have started to grow again, while loan growth has been positive for the last two years; profits are recovering

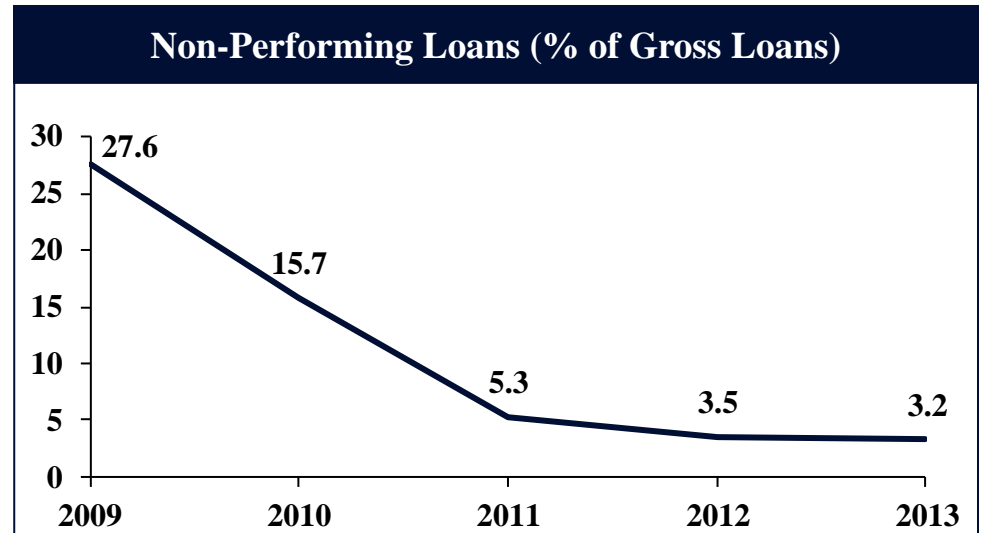
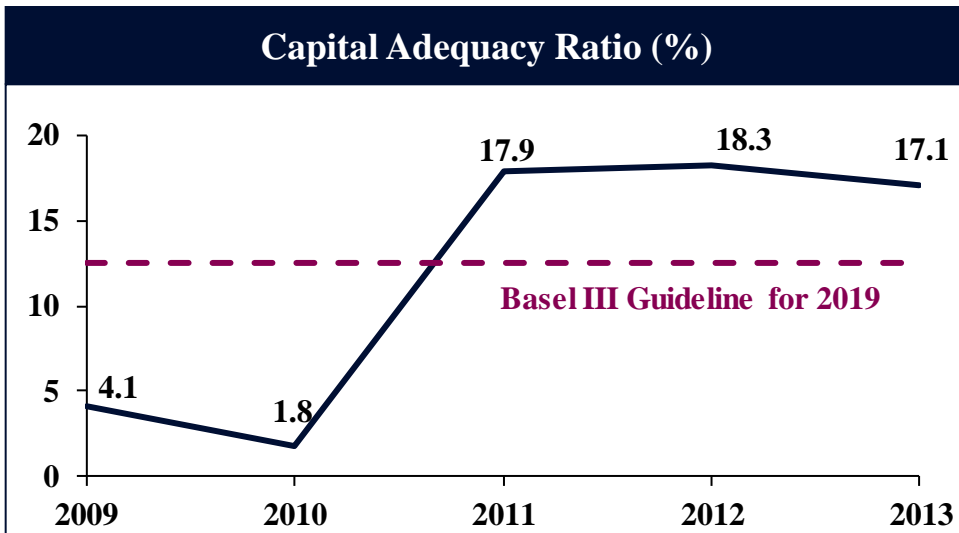
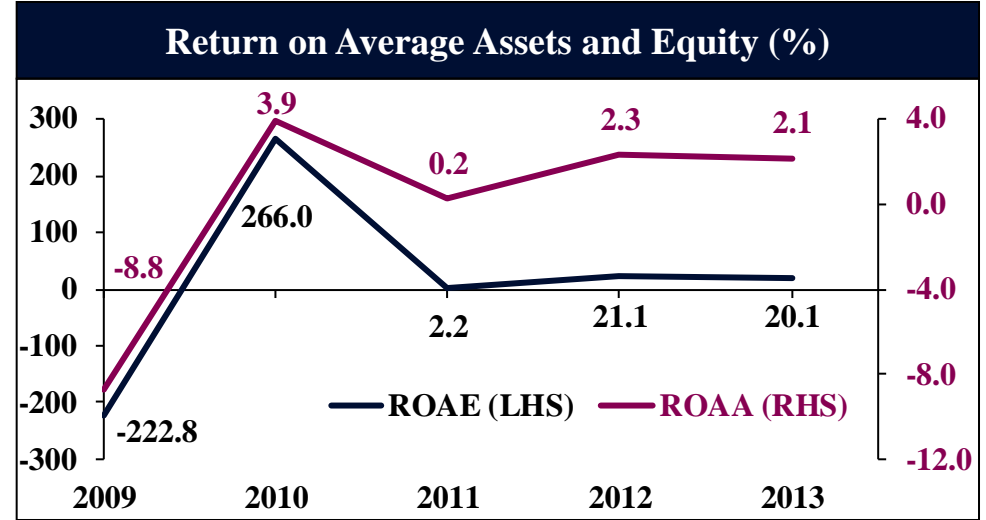
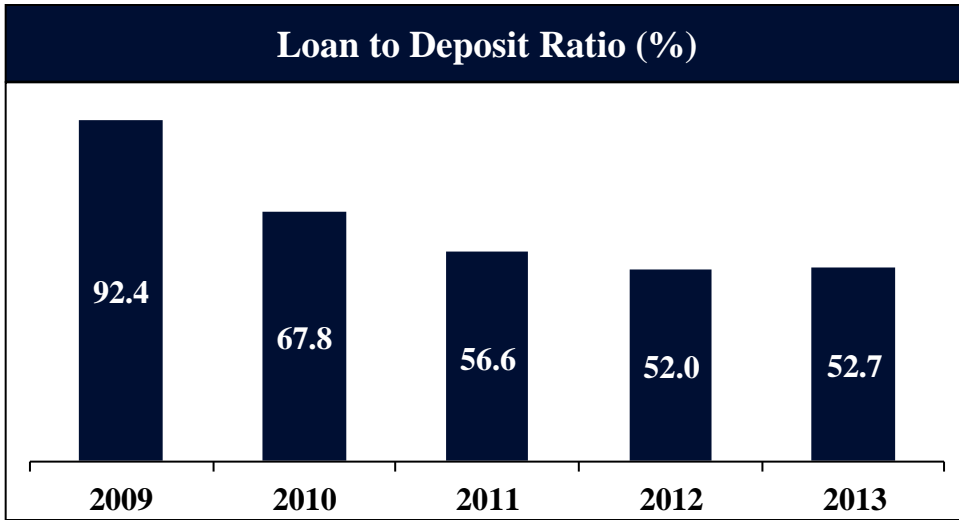


Analysis

- Loan growth remains subdued as credit to the private sector is sluggish with banks showing more appetite for low-risk government securities

Nigeria – Banking Sector Ratios

After the 2009 banking crisis the authorities took over bad loans, injected capital and acquired three banks, lowering the loan to deposit ratio and NPLs, raising the capital adequacy ratio and helping profitability to recover



Nigeria – Banking Sector Competitor Analysis

The top 5 banks control 47.7% of total assets, with good profitability and low non-performing loans; the expansion of the banking sector is hampered by an inefficient legal system and lack of credit information on borrowers

Financials for Top 5 Banks (2013)*

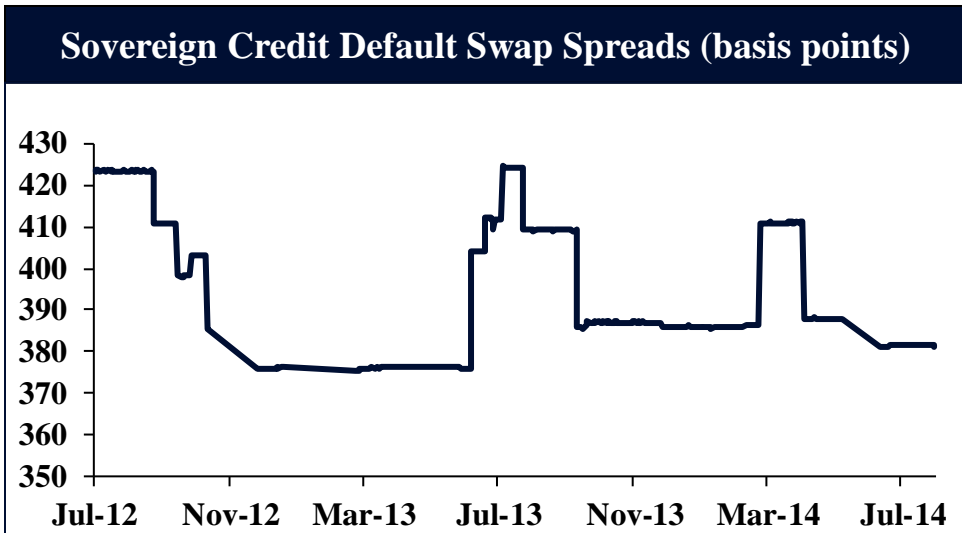
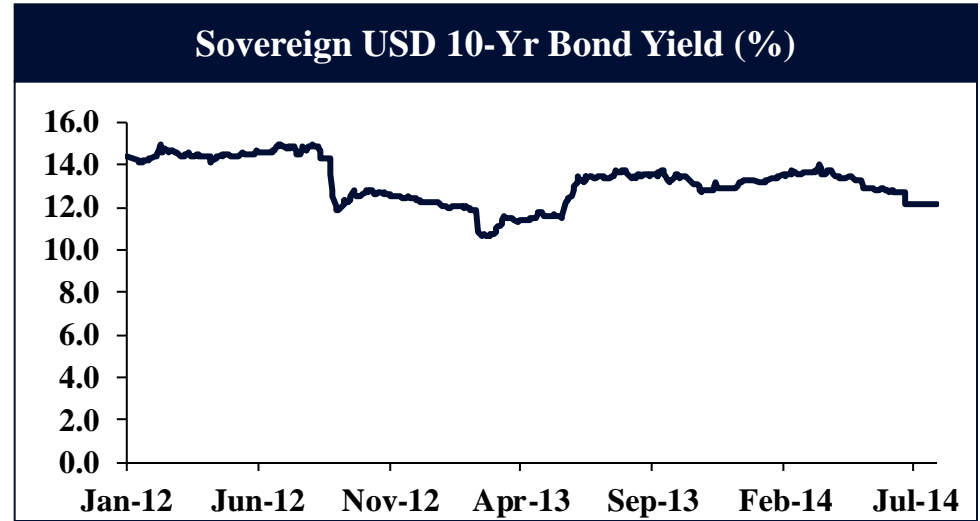
	Market Share by Assets (%)	Net Income (bn USD)	Equity (bn USD)	ROE (%)	Assets (bn USD)	ROA (%)	Loan to Deposit Ratio (%)	Non-Performing Loans (%)
First Bank of Nigeria	13.3	0.4	2.5	17.3	24.2	1.8	62.6	2.9
Zenith Bank	11.1	0.6	3.3	18.7	20.3	3.0	57.7	2.4
United Bank for Africa	9.4	0.3	1.5	19.8	17.0	1.8	44.3	1.2
Guaranty Trust Bank	7.4	0.6	2.1	27.1	13.5	4.3	71.9	3.3
Access Bank	6.5	0.2	1.6	14.8	11.8	2.0	60.1	2.8

Analysis

- There are 21 banks operational banks, with the largest being First Bank of Nigeria, Zenith Bank and United Bank of Africa
- The top 5 banks account for 47.7% of assets, with relatively high levels of ROE and ROA
- The banking sector’s potential to grow retail lending remains substantial, however, this potential will remain constrained for as long as an inefficient legal system makes it difficult to enforce collateral, and the lack of credit information (such as that provided by a credit bureau) prevents banks from assessing the credit history of potential borrowers
- The resilience of the banking sector’s growth prospects could be tested by country’s underdeveloped governance structures, significant corruption, inadequate infrastructure, and increased militant and criminal activity in the oil-rich Niger delta

Nigeria – Financial Markets

The Nigerian Stock Exchange is up 49.9% since Jan-13 on higher investor confidence and robust economic fundamentals; sovereign yields and CDS spreads have eased on lower risks; S&P's and Fitch sovereign rating are below investment grade



Sovereign Ratings (July 2014)

	Rating	Outlook
Moody's	Ba3	Stable
Standard & Poor's	BB-	Negative
Capital Intelligence	NR	N/A
Fitch	BB-	Stable

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