Nigeria Economic outlook in 2018

Room for cautious optimism?

Nigeria, following several years of poor economic performance and recession in 2016/17, driven by reasons well documented, towards the end of 2017, the economy appears to have turned a corner. Between 2006 and 2016, Nigeria's GDP grew at an average rate of 5.7 percent per year. This was sustained largely by high oil prices, but following the oil price crash, Nigeria experienced negative GDP growth. After contracting for five consecutive quarters, the economy has returned to growth in the second and third quarter of 2017.

Economic growth is expected to have remained positive in the second half of 2017; averaging about 1.0 percent for the year. This has been driven by the continued recovery of oil production, sustained growth in agriculture, and the positive impact on investment and other private sector activities, made possible by the improved availability of foreign exchange to support imports.

As the government begins to implement the structural reforms outlined in its Economic Recovery and Growth Plan 2017–2020, growth can be expected to strengthen further in the medium term, reaching about 2.8 percent by 2019.

Source - The African Development Bank

The recovery of the oil price is not the only reason to be optimistic in the forthcoming year and beyond.

According to Reuters - Nigerian stocks crossed the 40,000 point mark in January, reaching a three year high, jumping 42% from January 2017. Currency stability, an expected fall in interest rates and rising business confidence have helped fuel this rally, to make it the best performing börse in the world!

During the sustained period of currency volatility and exchange controls, FDI declined rapidly, but in the second half of 2017 has improved. There is high expectation of greater inflows since the government passed into law the first part of the Petroleum Industry Bill (PIB).

PIB legislation, which Nigeria has been trying to pass for more than a decade, aims to increase transparency and stimulate growth in the country's oil industry.

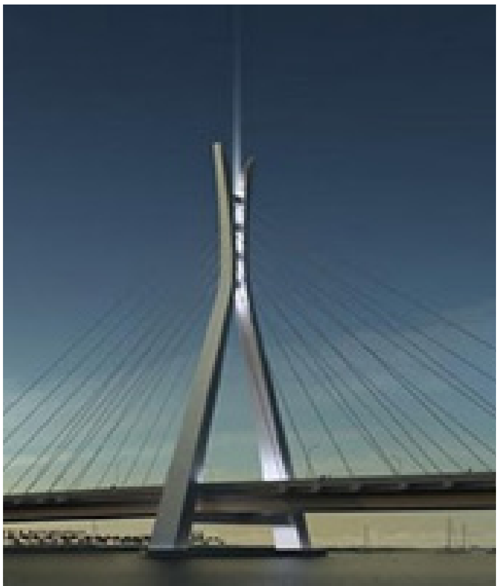
Under President Muhammadu Buhari's administration, the PIB was broken up into sections to ease passage and the first section has now been passed into law.

This is a good result for investors who need clarity, not opaqueness, over terms affecting taxation of upstream oil development. It has been the main sticking point holding back billions of dollars of investment for the oil industry. This will be addressed later in an accompanying bill. Couple this with a settled exchange rate and the biggest barriers to industry investment are removed.

On the downside, the non-oil sector, severely hampered by the exchange controls in place prior to the CBN FX reforms in April, remains weak. Under the guidance of the vice president Osinbajo during President Bihari's prolonged absence due to illness, the FX reforms have stabilised the currency and reduced the gap between the official exchange rate and the black market rate, but still import restrictions and the FX auction restrict liquidity availability to the private commercial sector. As such, the 'good news' listed above has yet to have an impact on the man in the street and local businesses, who continue to suffer.

President Buhari and Vice President Osinbajo

However, with Presidential elections just around the corner in 2019 it is vital that Buhari passes his 2018 budget through parliament quickly in order to accelerate spending to stimulate the economy in time to generate discernible benefit to voters. In doing so, we expect funds to flow into infrastructure and potentially housing projects.



As Governor of Lagos, Fashola was crediting with great strides in infrastructure improvement including the Lekki toll bridge opened in 2013.

Shortage of affordable housing will remain a challenge to this and successive governments. The appointment of former Lagos governor Fashola as Minister of Power, Works and Housing was popular, though Fashola is reported to have said self interest groups within Nigeria make the delivery of their housing goals extremely difficult.

There is also the cost. The cost to build an acceptable 'formal' home, is far greater than the potential home owners ability to pay. The absence of a formal mortgage market makes this even more difficult as interest rates for borrowing remain in excess of 15%. In the sector with the greatest demand, the supply is very limited.

Perhaps the expected fall in interest rates by the middle of 2017 will help this a little, but mass housing delivery, without state funding intervention looks unlikely in the short term.

The housing shortage in Nigeria is estimated to be over 11 million homes.

At least a fall in interest rates and greater currency in circulation from government spending will stimulate the non-infrastructure construction sector, which has been in bad shape for 2 years. As one of the biggest employers, this sector is also critical enabling more money to circulate and more Nigerians to benefit from the multiplier effect.

Overall, there is much to be optimistic about. Estimates of 3% GDP growth in 2018 (be it from a very low base) seem credible. With more money coming into Nigeria from higher oil prices (even if the current highs of $70 per barrel fall to a more sustainable $60 per barrel); increased government expenditure; lower interest rates and higher levels of FDI, there are several drivers all pushing Nigeria in a positive direction.

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