



PAC HoldingsTM
RC284413

| A PROPRIETARY INVESTMENT COMPANY |

Ideas ■ Partnerships ■ Solutions

Macroeconomic Indices: Review & Outlook for 2019



- ❑ Global Economic Outlook
- ❑ Economic Outlook: Sub-Saharan Africa
- ❑ Commodity Prices: Crude Oil
- ❑ Ghana's Economic Overview
- ❑ Nigeria's Economic Review
- ❑ Nigeria's Economic Outlook
- ❑ The 2019 Appropriation Bill

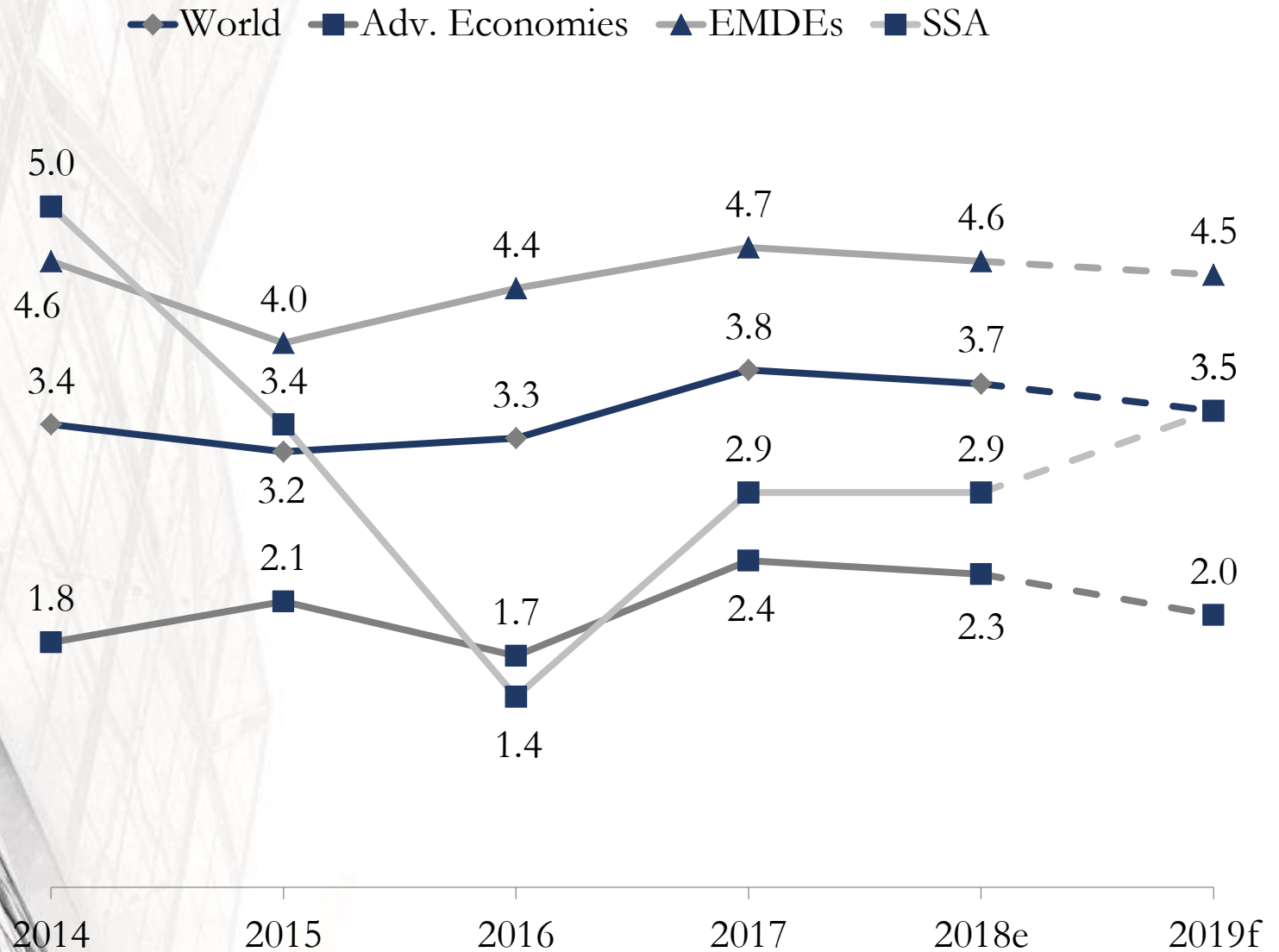
Global Economic Outlook

...darkening skies

- ❑ Recent developments
- ❑ Global economic growth & prospects
- ❑ Risk to the global economic outlook
- ❑ Trade tension - chronology of tariff events in 2018

- ❑ Global economic growth is moderating as the recovery in trade and manufacturing activity loses steam
- ❑ Trade tension among major economies remains elevated
- ❑ Trade dispute combined with concerns about weakening global growth prospects weigh on investors' confidence and contributed to decline in global equity prices
- ❑ Some large EMDE experienced financial market pressure and slowdown in activities. Other factors that affects the group are: rising U.S. interest rates, capital outflows and volatile oil prices
- ❑ The recovery among commodity exporters has lost momentum, largely owing to country-specific challenges within the group

Global economic growth and prospects (%)



Source: IMF



- ❑ Rising trade tensions and policy uncertainty
- ❑ Increasing trade barriers - protectionism
- ❑ Uncertainty over Brexit negotiation – a no-deal exit, a last minute deal or a delay to Brexit
- ❑ Geopolitical risks
- ❑ The direction of the commodity prices

Chronology of tariff events in 2018

- ❑ **Jan. 22:** Trump placed a 30% tariff on foreign solar panels, on the same day tariff of 20% were placed on washing machine for the first 1.2m units imported in the year
- ❑ **Mar. 1:** Trump imposed 25% tariff of steel and 10% on aluminum imported from China
- ❑ **Apr. 2:** China responded by imposing 25% tariff on aluminum, airplanes, cars, pork and soybeans and 15% tariff on fruits, nuts and steel pipe that it imports from the U.S.
- ❑ **Apr. 5:** Trump responded that he was considering another round of tariff on an additional US\$100b worth of Chinese imports
- ❑ **May 15:** A top economic adviser to Chinese President visited Washington for trade talks
- ❑ **May 20:** Chinese officials agreed to reduce the U.S. trade deficit with China by increasing its imports from the U.S. Therefore, The White House announced they are putting the trade dispute on hold

Chronology of tariffs events in 2018 continues...

- ❑ **May. 29:** The White House announced it would impose a 25% tariff on US\$50b worth of Chinese goods with “industrially significant technology”.
- ❑ Also, Trump planned to impose investment restrictions and enhanced export controls on some Chinese individuals and organisations to prevent them from acquiring U.S. technology
- ❑ On the same day, China announced that it will discontinue trade talks with Washington if she imposed further sanctions
- ❑ **Jun. 15:** Trump declared that it will impose a 25% tariff on US\$50b worth of Chinese exports; US\$34b will start on July 6 with a further US\$16b to begin at a later date. China threatened to respond in kind with similar tariff on the U.S. export to China
- ❑ **Jun. 18:** Trump declared that the U.S. would impose additional 10% tariff on another US\$200b worth of Chinese export if China retaliated against earlier tariffs

Sub-Saharan Africa's Economic Outlook

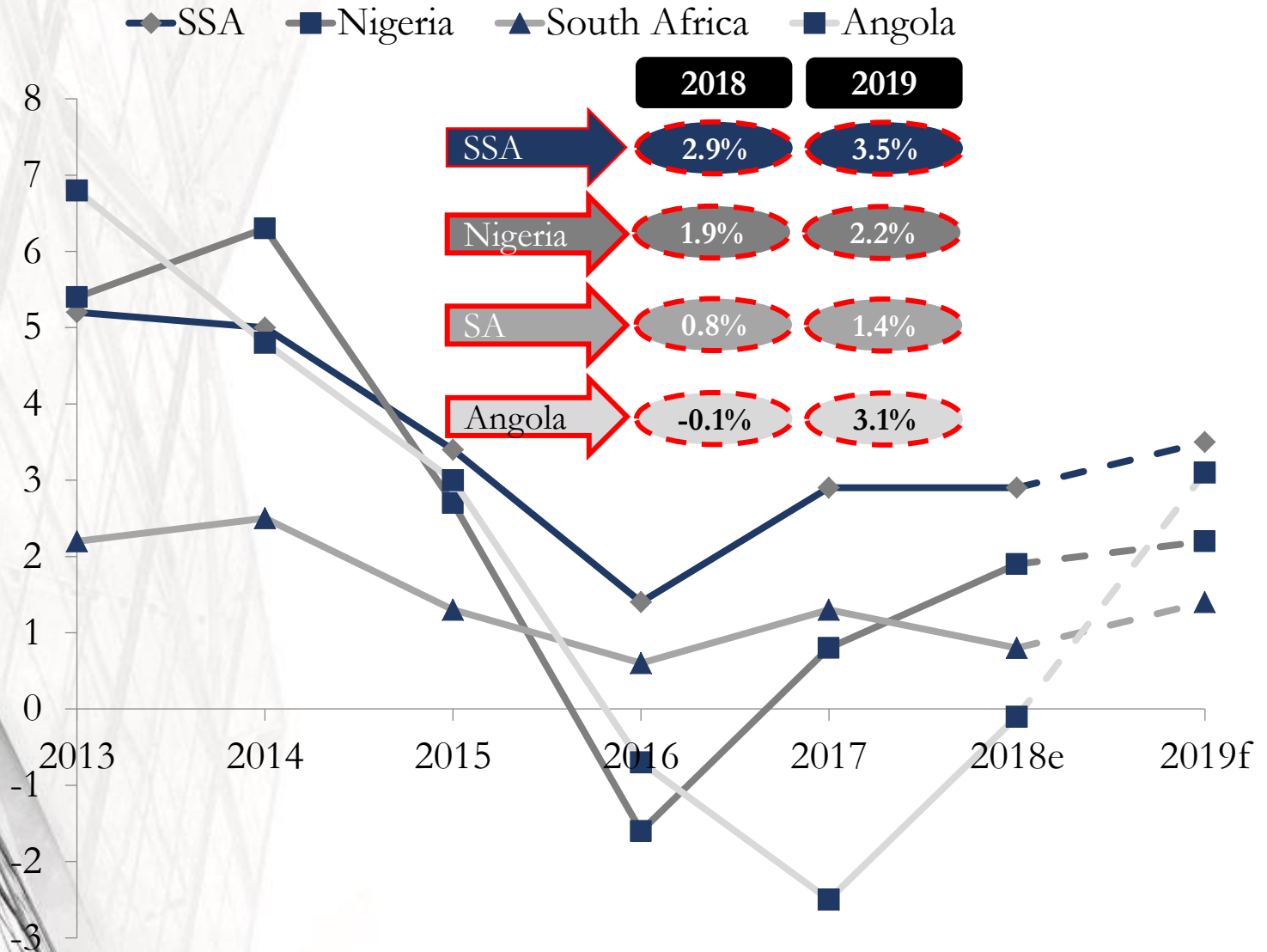
...risks tilted to the downside

- ❑ Recent developments
- ❑ SSA's economic growth & prospects
- ❑ Growth stories of non-resource intensive countries
- ❑ Risk to the outlook

Recent developments in SSA

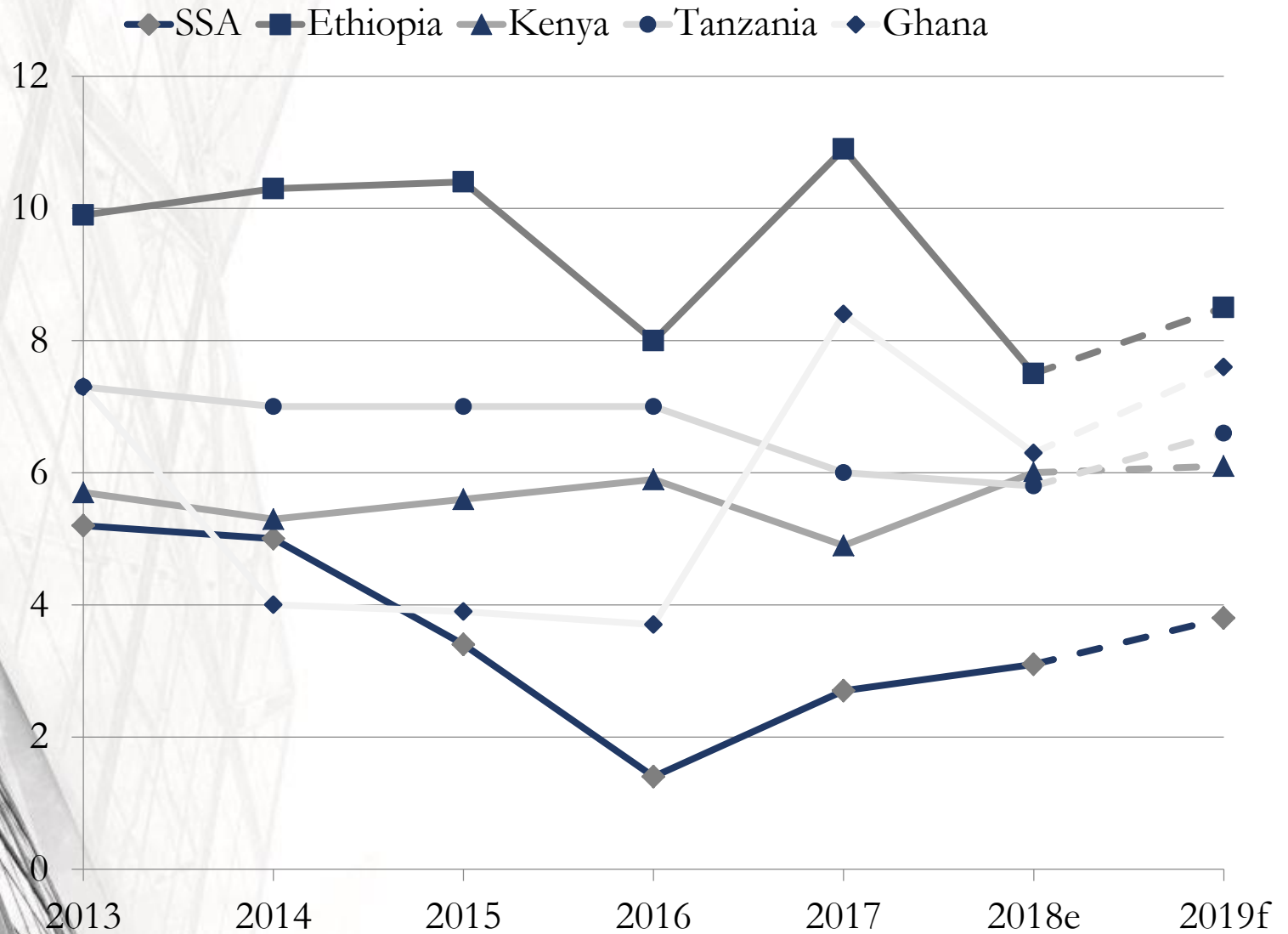
- ❑ The recovery in SSA continues, although at a slower pace
- ❑ The sluggish recovery was due to weaknesses in Nigeria, South African and Angola
- ❑ The region faced a more difficult external environment as global growth moderated, financing conditions tightened
- ❑ Commodity prices diverged; while oil prices were higher, the prices of metal and agricultural products dampened by weakening global demand
- ❑ In Nigeria, oil production fell partly due to pipeline closures while non-oil sector was affected by weak consumer demand and herders/farmers conflict
- ❑ In Angola, oil production contracted due to under-investment and maturing oil fields
- ❑ SA emerged from recession in 2Q'18 partly due to improved agricultural activities and manufacturing sectors

SSA economic growth and prospects (%)



Source: IMF

SSA economic growth and prospects (%)



Source: IMF

Growth stories of non-resource intensive countries

- Public infrastructure investments
- Improved agricultural harvest
- Improved business environments
- Positive impacts of lower oil prices



On the external front....

- ❑ Slow growth in China & Euro Area would adversely affect the region through lower export demand and investment
- ❑ Metals producers in SSA will be affected by the trade tension as metals prices will fall due to weak demand from China
- ❑ Normalisation of monetary policy in advanced economy could result in sharp reductions in capital inflows, higher financing costs and currency depreciation
- ❑ A negative commodities price shock can trigger financial crisis
- ❑ High and rising public debt burden and increased reliance on foreign currency borrowing can heighten refinancing and interest rate risk



On the domestic front....

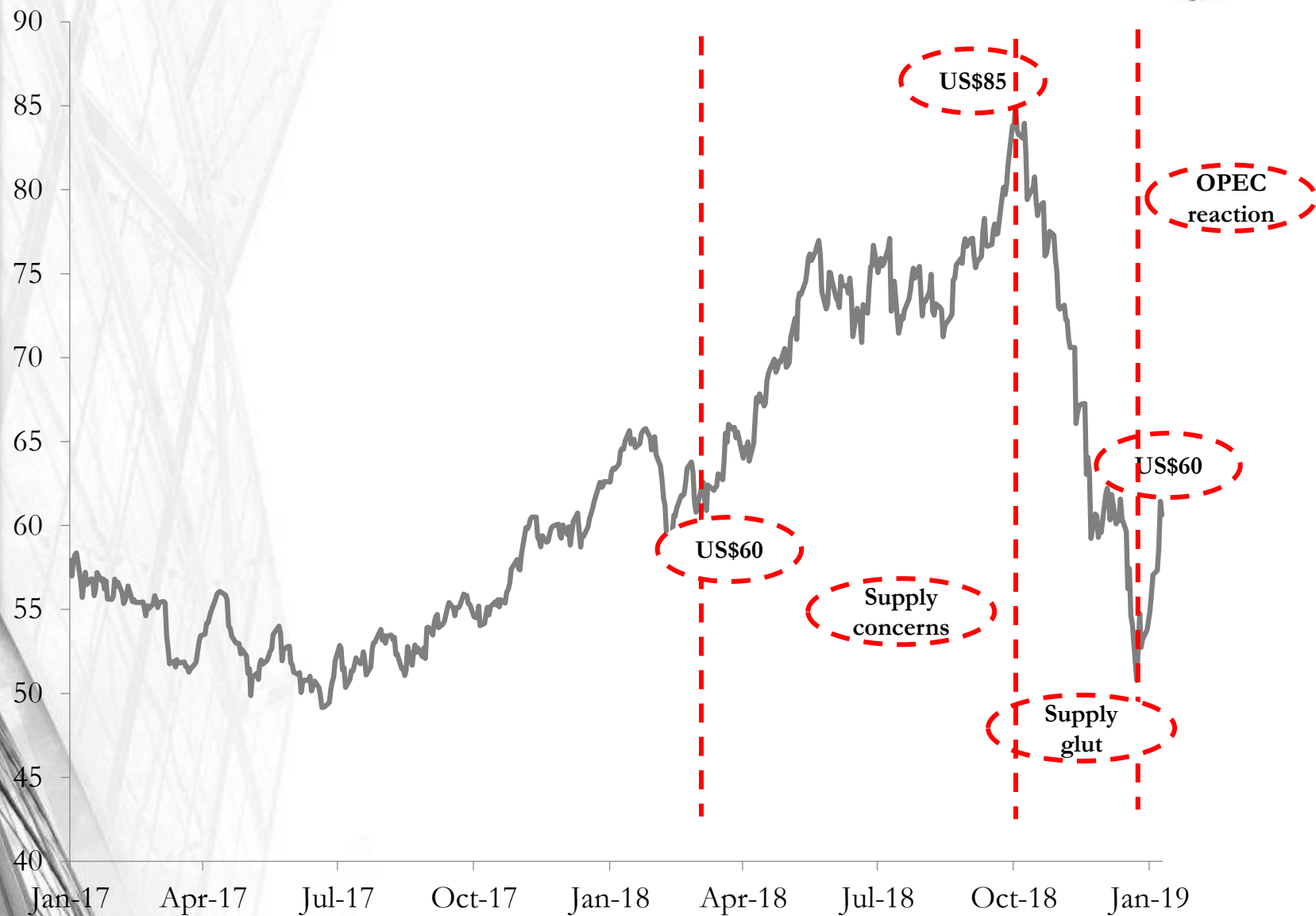
- ❑ Political uncertainty and weakening of economic reforms in countries holding elections in 2019 (Nigeria, Malawi, Mozambique & South Africa)
- ❑ Insurgencies and armed conflicts with adverse effects on economic activities remain an important risk
- ❑ Adverse weather condition
- ❑ Rising financial sector stress

Commodity Prices – Crude Oil

...oil prices are too high...not good - Trump

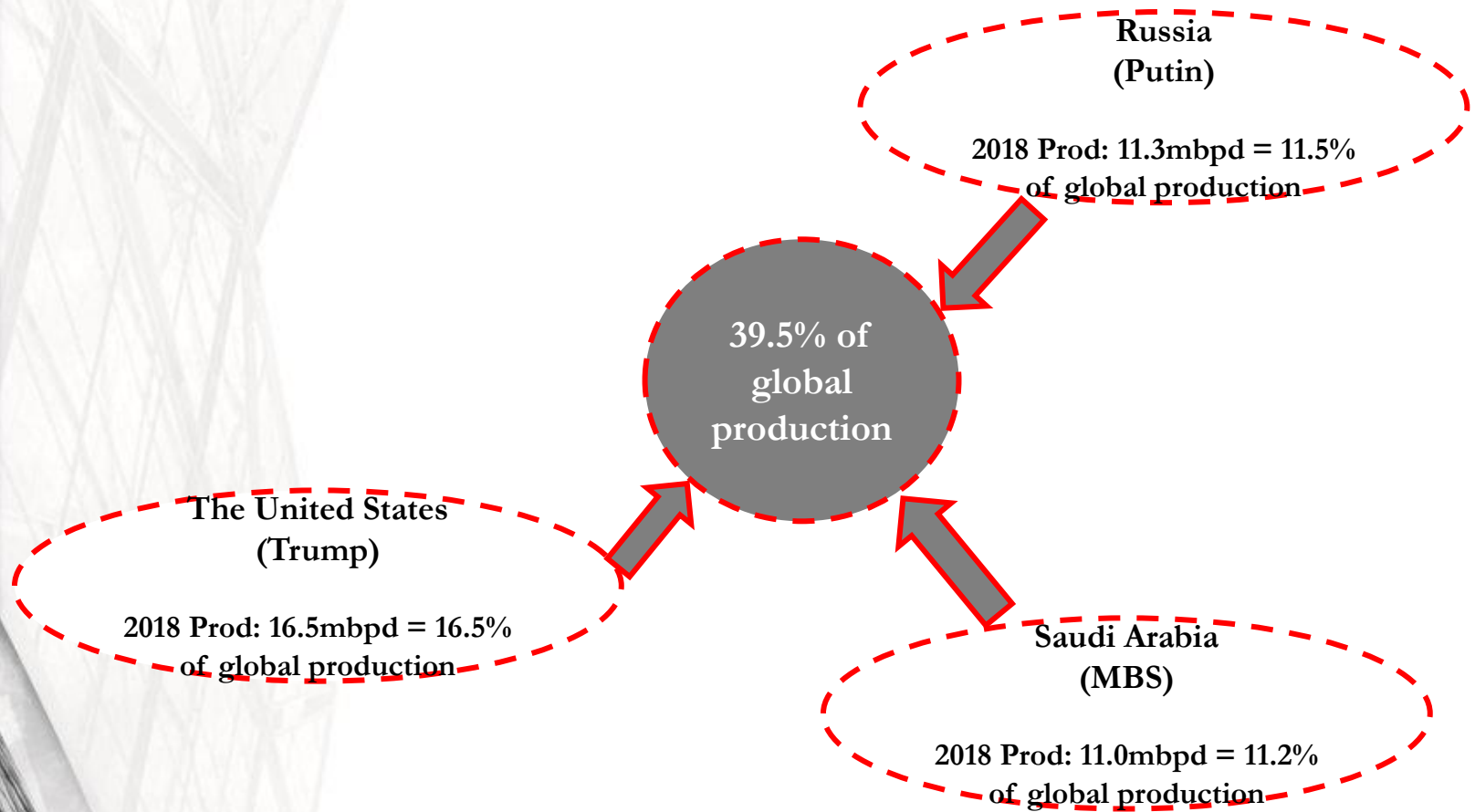
- Price trends
- 3 axis of power
- Supply concerns
- Consumption concerns
- Other factors

Prices of Brent Crude Oil (US\$/barrel)



Source: Bloomberg

The 3 axis of power





- ❑ Average global demand & supply in 2018 was 98.8mbpd and 98.3mbpd respectively
- ❑ Iranian production shock - the U.S. sanctions against Iran: waivers were granted to 8 key importers
- ❑ OPEC actions and reactions – output cut by 1.2mbd for six months from January 2019 based on October 2018 output
- ❑ Escalated geopolitical risk – the U.S. vs. Iran
- ❑ Collapse in Venezuela's production
- ❑ Unexpected outages in Canada & disruptions in Libya

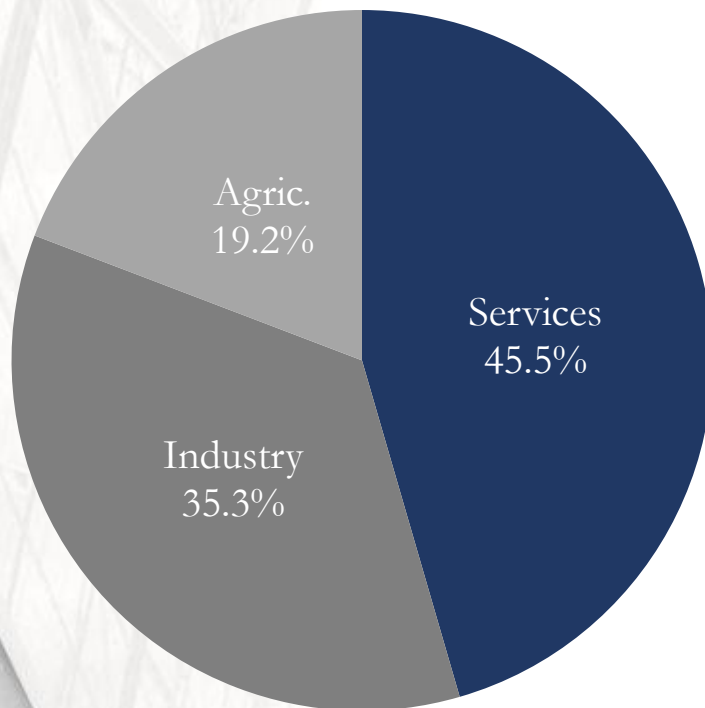
Consumption concerns

- ❑ The global economy is set to cool in 2019/2020 as rising interest rates and inflation begin to limit consumption in major economies
- ❑ The U.S. GDP growth is projected to slow to 2.5% in 2019 relative to 2.9% in 2018 as rising interest rates hamper consumer spending & trade barriers raise costs
- ❑ Market uncertainties weaken the fundamentals in emerging markets
- ❑ Chinese economy is projected to slow down to 6.2% in 2019 from 6.6% in 2018 as domestic capacity constraints are elevated as a result of the effects of the U.S – China trade war
- ❑ The trade war will weigh on manufacturing and construction activities in both countries resulting in slower growth in oil consumption

Other factors

- ❑ **Algeria:** Constant risk of disruptive change in leadership as the 81-year old President is ill
- ❑ **Venezuela:** Involved in political and sovereign debt crisis, therefore production is unlikely to recover in the near-term
- ❑ **Libya:** There is improved political environment but stability is not guaranteed yet
- ❑ **Nigeria:** Political instability may lead to resurgence of militancy activities in the oil producing region
- ❑ Therefore, oil price is projected to average **US\$60** per barrel in 2019

Sectoral Distribution



Source: GSS

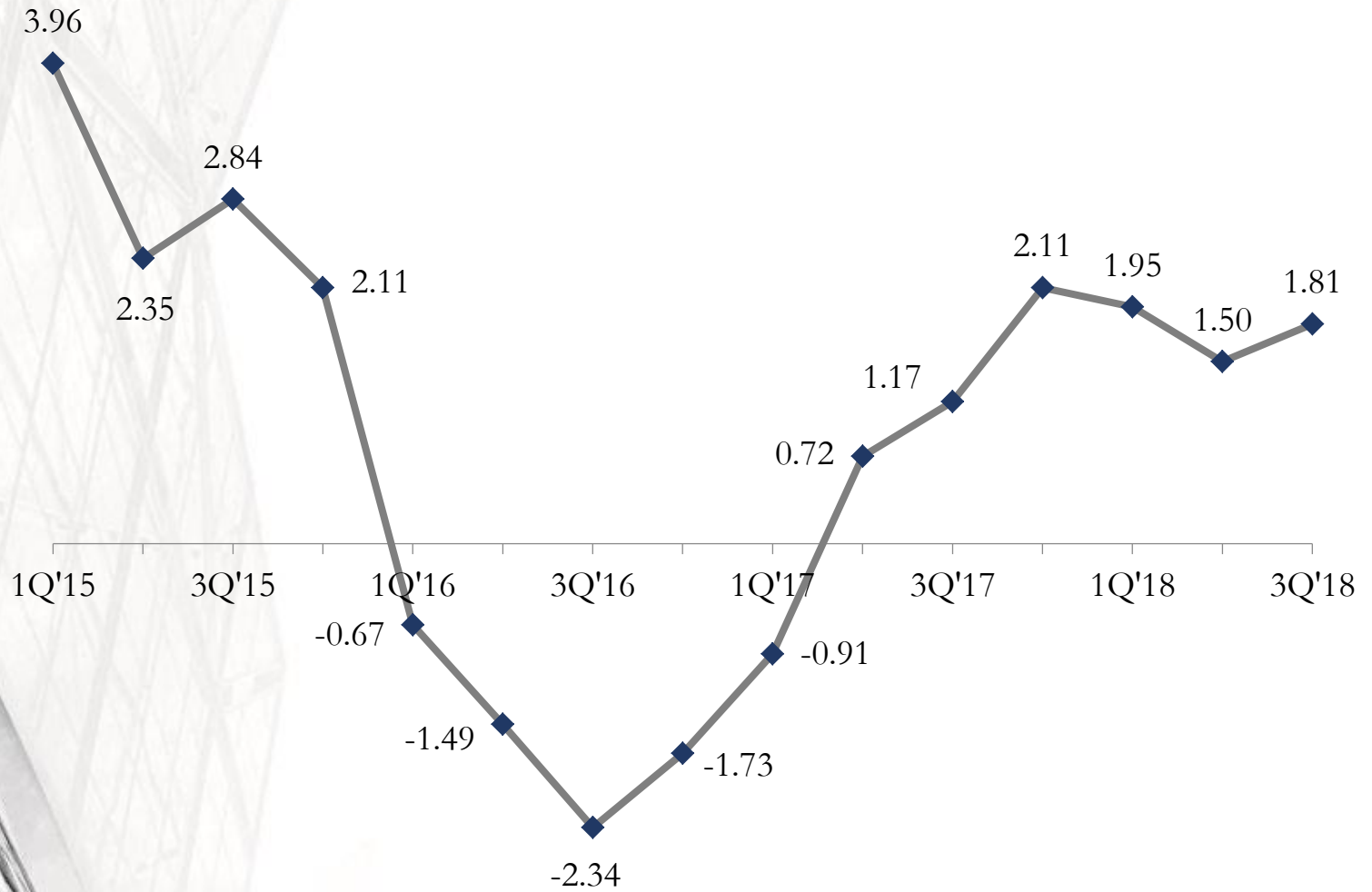
- ❑ Ghana recorded real GDP growth rate of 7.4% in 3Q'18 relative to 8.7% in 3'Q17
- ❑ Industry sector recorded the highest real growth rate of 11.7%, while Agriculture sector and Services sector recorded 5.5% and 3.5% accordingly
- ❑ **Tailwind:** Improving business-enabling environment, continued strengthening of external demand for oil and cocoa
- ❑ **Headwinds:** High risk of debt distress (Debt/GDP ratio at 38.5% in 2018), banking sector vulnerability and volatility in oil prices

Nigeria's Economic Review

...the year of uncommon surprises

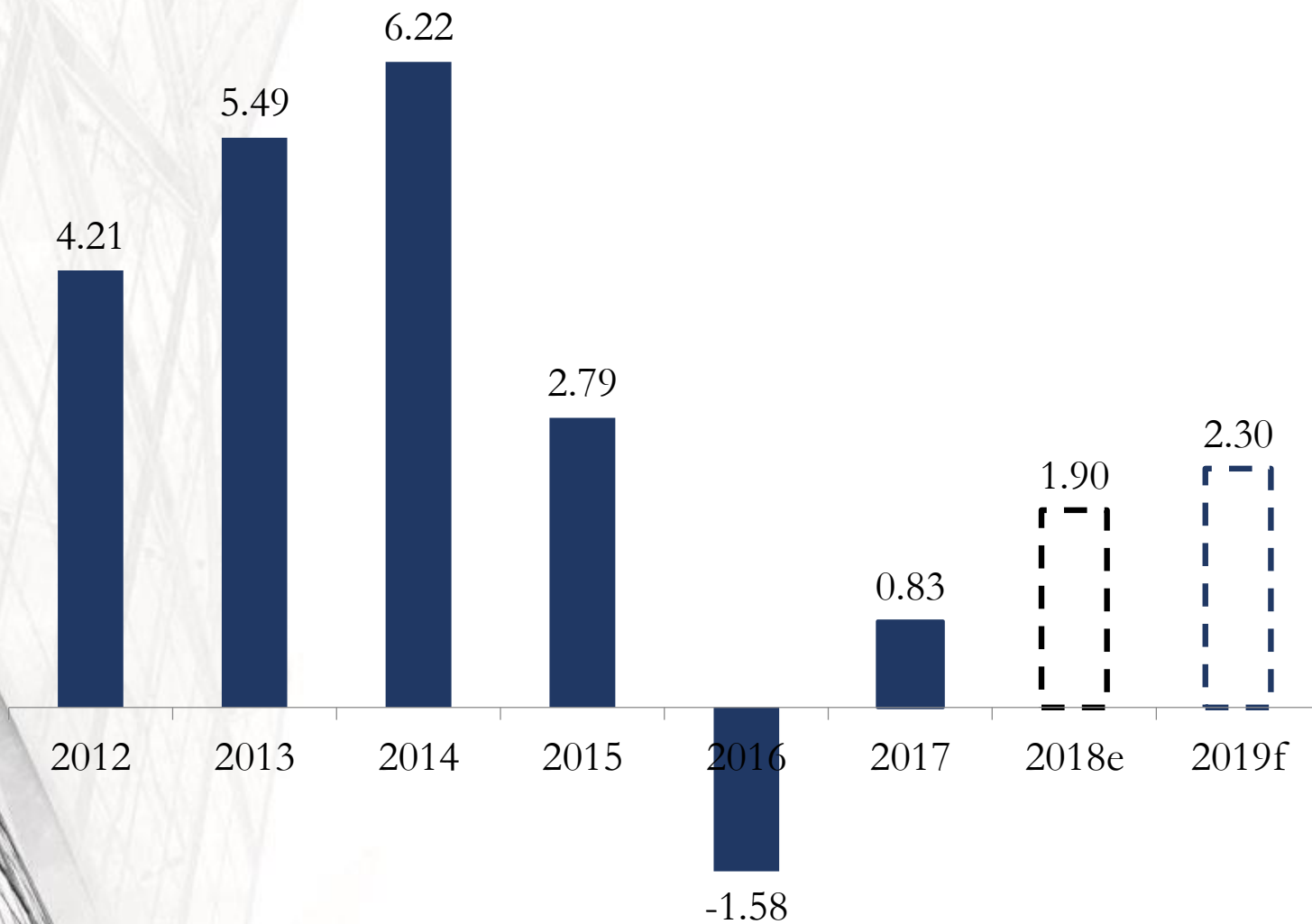
- ❑ Quarterly real GDP growth rates
- ❑ Yearly real GDP growth rates
- ❑ Oil sector & non-oil sector growth rates
- ❑ Sectoral growth rates
- ❑ Crude oil production
- ❑ Exchange rate & foreign reserves
- ❑ Consumer price index
- ❑ Govt. fiscal operations – FAAC allocations & debt mgt.
- ❑ Policies & events that shaped 2018

Real GDP growth rate (%)

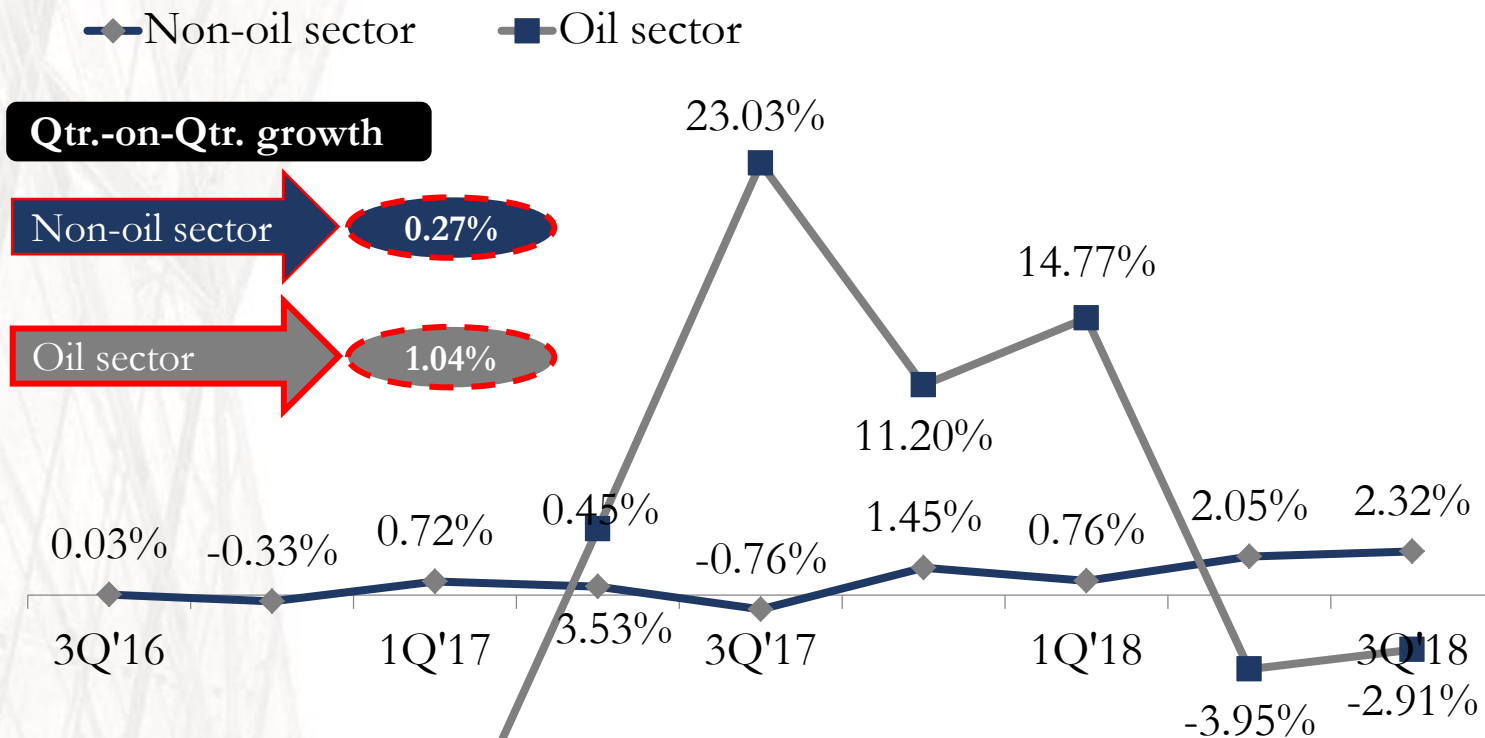


Source: NBS

Yearly real GDP growth rate (%)

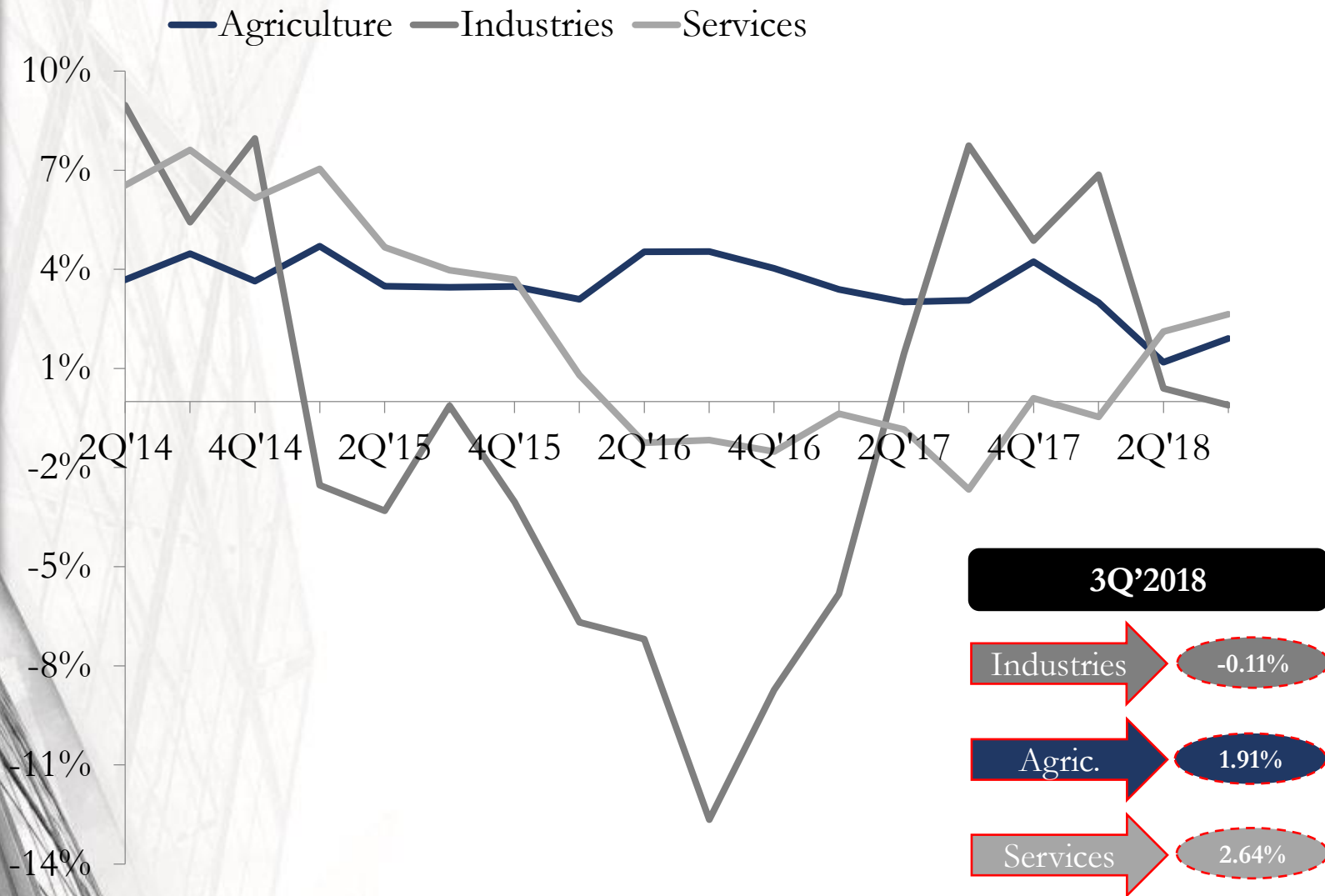


Oil sector and non-oil sector growth rate



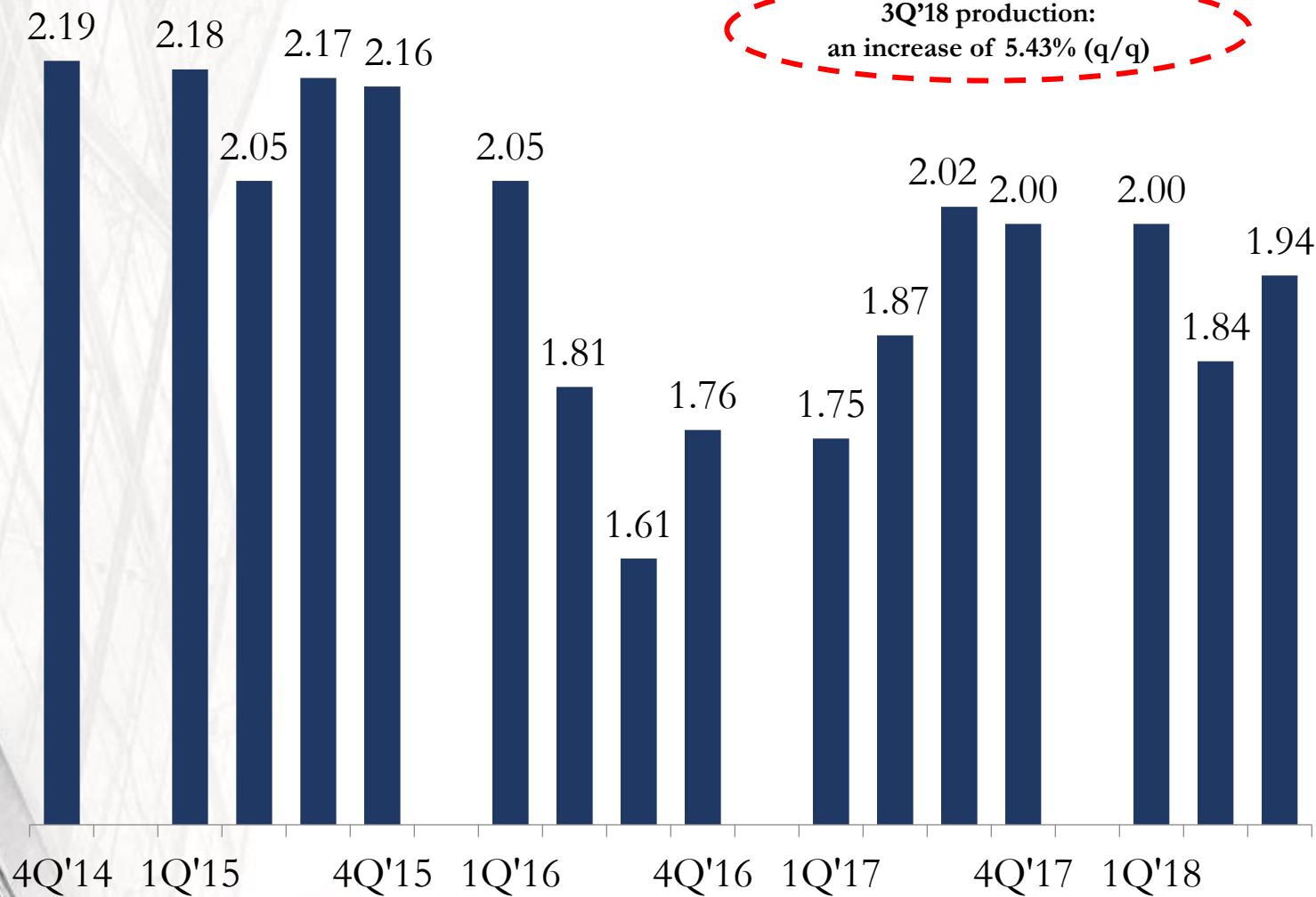
Source: NBS

Sectoral analysis – real growth rate (%)



Source: NBS

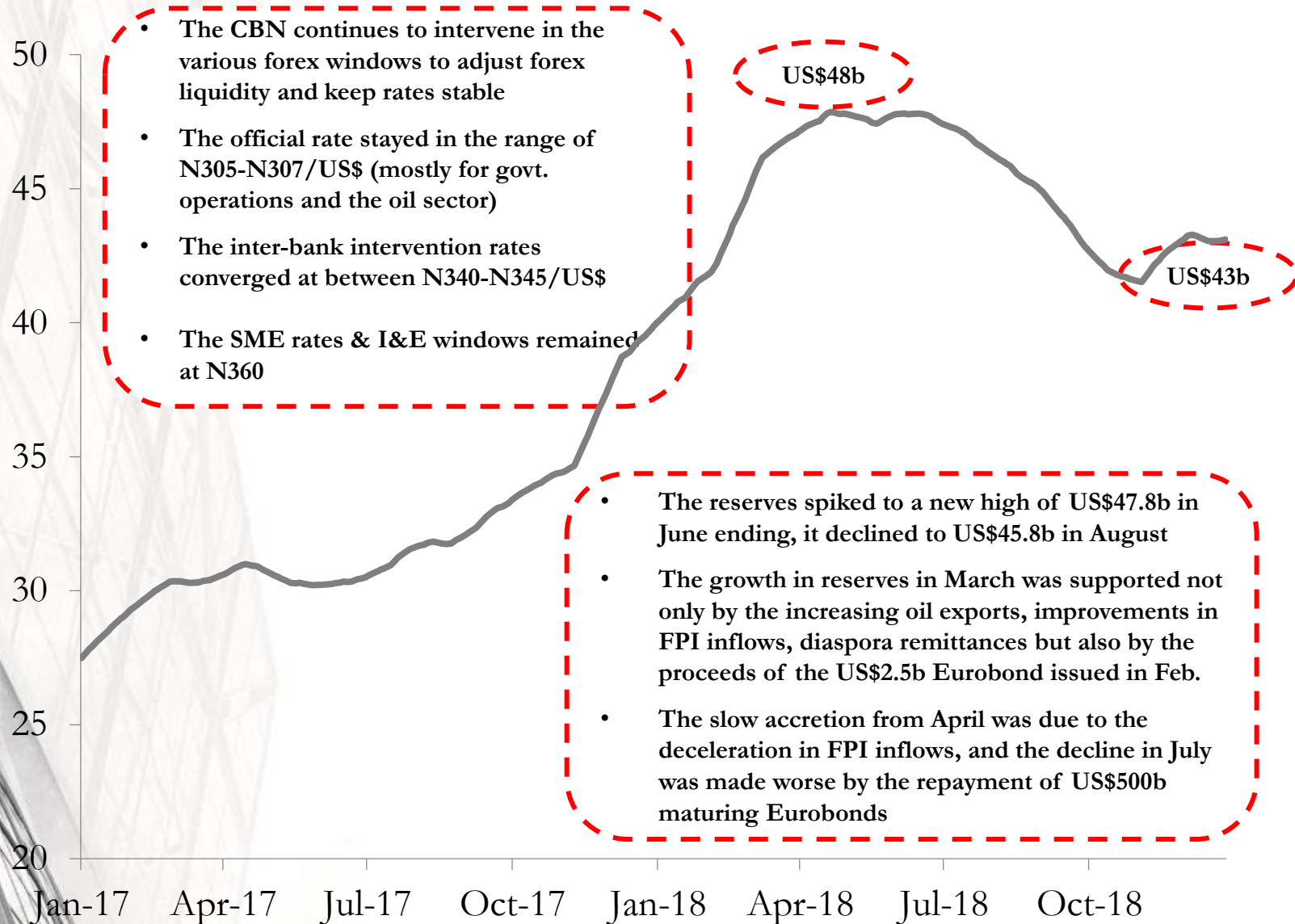
Crude oil production (mbpd)



3Q'18 production:
an increase of 5.43% (q/q)

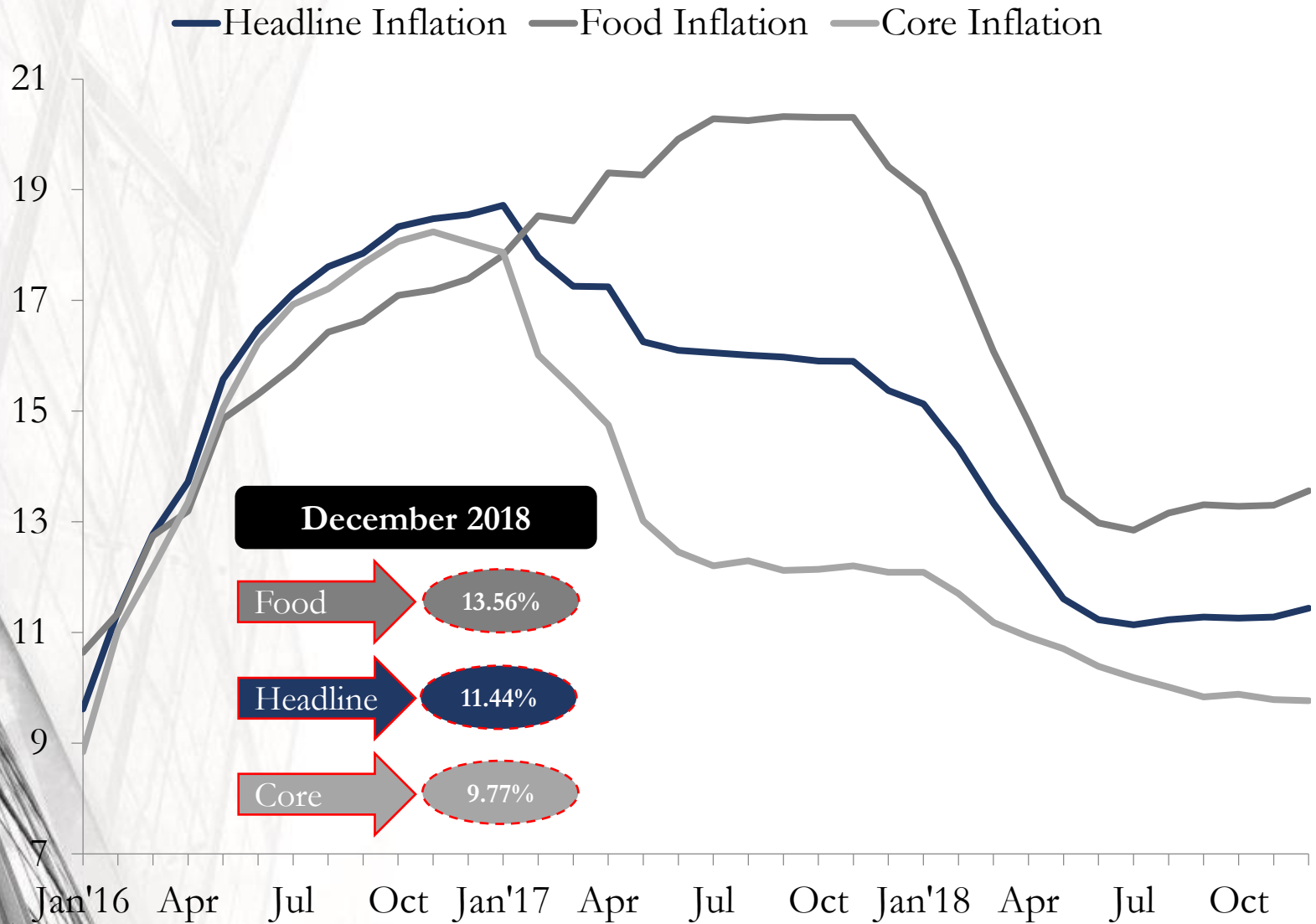
Source: NBS

Exchange rate and foreign reserves



Source: CBN

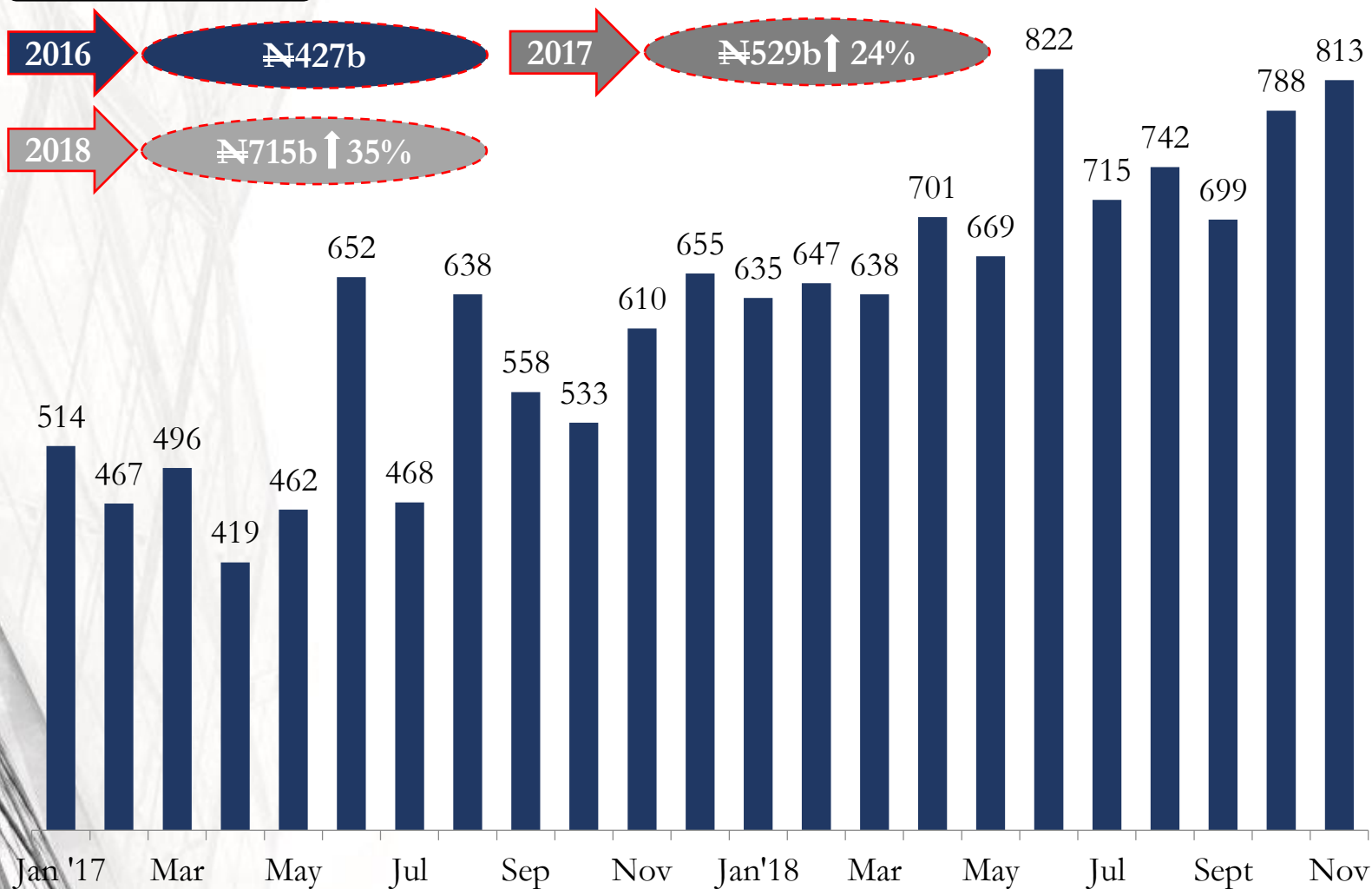
Consumer price index (%)



Source: NBS

Government Fiscal Operations – FAAC Allocations

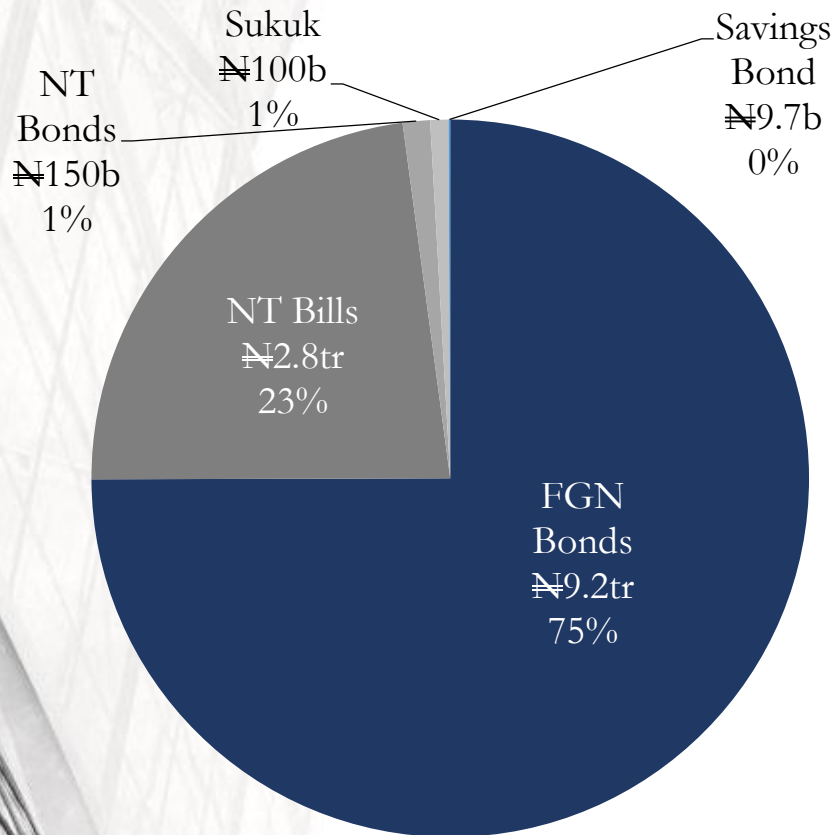
Monthly Average



Source: NBS

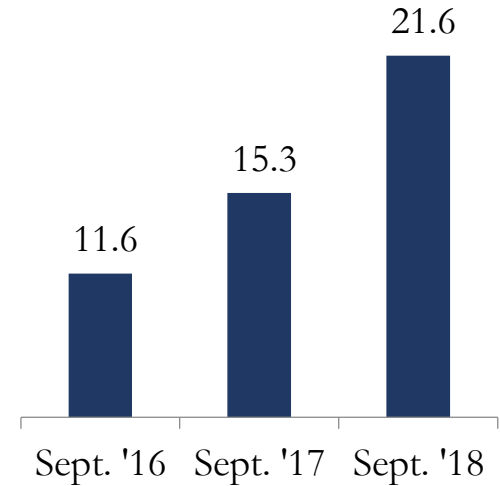
Government Fiscal Operations – Debt Management

FGN's Domestic Debt Stock – Sept '18

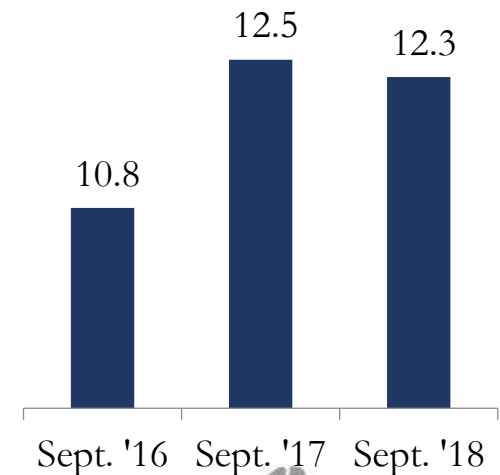


Source: DMO

External Debt (US\$b)



Domestic Debt (₦'tr.)



Policies and events that shaped 2018

- Favourable global crude oil prices
- Ease of doing business reforms
- Tension between the Executive & Legislative arms of govt.
- Delay in the passage of the 2018 budget
- Re-balancing of the nation's debt
- Increased pressure to generate non-oil revenue

Economic Outlook - Nigeria: GDP Growth Rate

...fragile recovery

- ❑ Macroeconomic outlook - GDP
- ❑ Exchange rate, fiscal & monetary policy
- ❑ Capital market
- ❑ Downside risk to the outlook
- ❑ Expected policy responses
- ❑ Policies & events that are expected to shape 2019

Macroeconomic outlook – GDP

- ❑ Real GDP growth rate of between 2.0% to 2.2% in 2019, driven by both the oil sector and the non-oil sector
- ❑ Average oil prices is expected to trade around US\$60pb and average production of 1.9mbpd, the stability in the oil sector is an important enabler to the non-oil sector
- ❑ The non-oil sector remains blurred by the unstable recent sectoral growth pattern combined with election-related uncertainties
- ❑ The agriculture sector outlook is weak due to security challenges in the north-east and the north-central despite govt. support
- ❑ The non-oil, non-agriculture sector outlook is positive but limited by a slow recovery in private demand

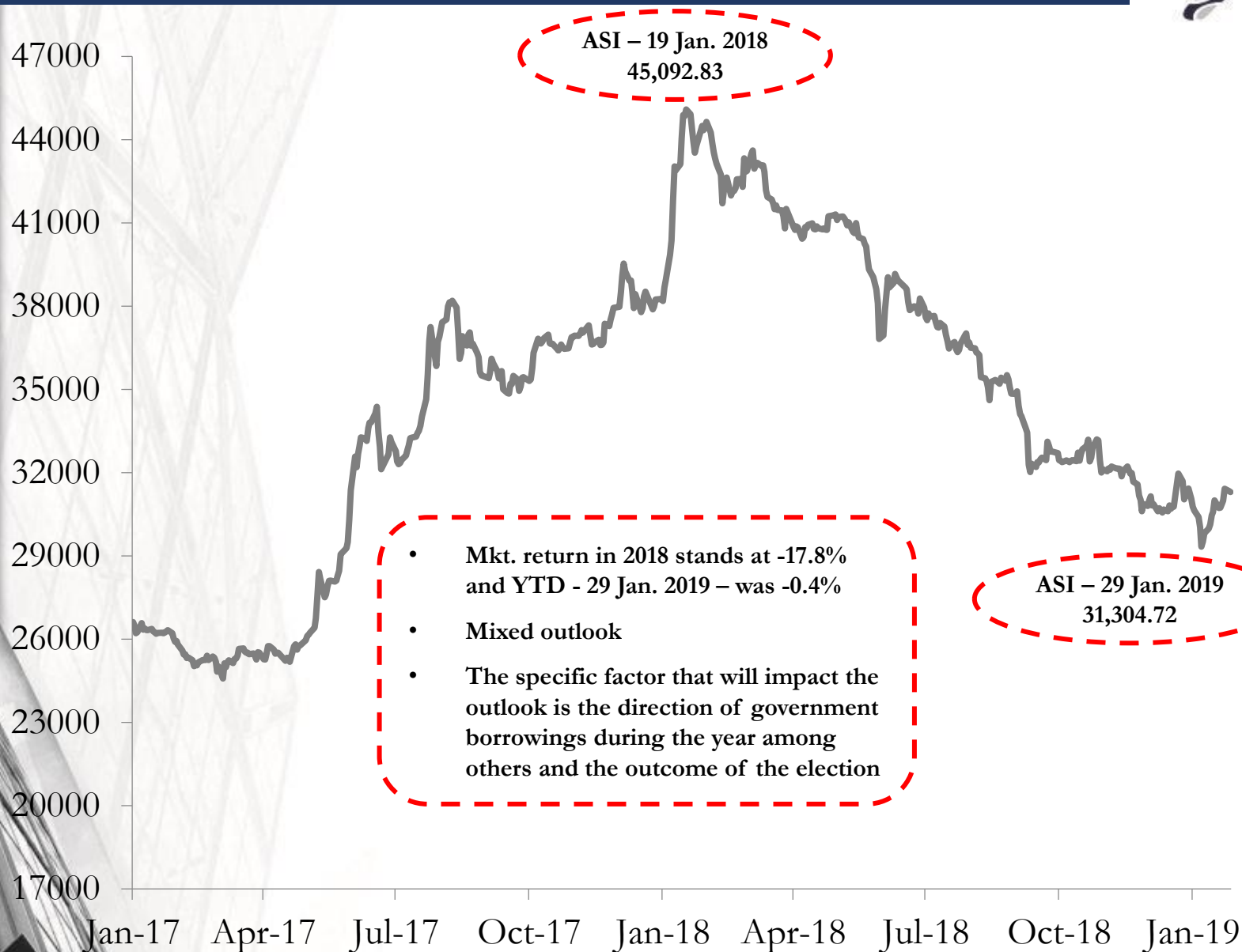
Macroeconomic outlook – GDP

- ❑ Overall, medium term growth outlook depends on the implementation of structural macroeconomic, fiscal and sectoral reforms – power sector recovery program, increase in revenue-tax base and diversification of the economy

Exchange rate, fiscal & monetary policy

- ❑ Exchange rate is expected to remain stable before the election and as long as foreign reserves is not less than US\$36b
- ❑ Full exchange rate unification and free floating of Naira remain unlikely, however post-election exchange rate mgt. depends on the likelihood of a change of leadership in the CBN
- ❑ Expansionary fiscal policy is expected to continue in 2019, although total spending as a proportion of GDP is expected to decline relative to 2018 because of lower 2019 budget
- ❑ FAAC revenue is expected to be lower on the back of fall in the prices of crude oil, hence there may be increased deficit
- ❑ Overall, public debt will rise steadily but remains relatively low – under 25% of GDP
- ❑ Contractionary monetary policy is expected to remain in force for the first half of 2019

Capital market outlook



Source: Bloomberg

Downside risk to the outlook

- Unsuccessful election
- Crude oil prices shock and production shock
- Banking sector vulnerability
- Elevated trade tension
- Security challenges
- Weak consumer spending

Expected policy responses

- Increased borrowing
- Subsidy removal – partly or fully
- Increase in electricity tariffs
- Increase in VAT on some premium items
- Renewed interest in privatisation and concessioning
- Probability of further devaluation of currency

Policies & events that are expected to impact 2019

External Factors

- The direction of the U.S. interest rate
- Trade tension
- Relatively lower crude oil prices

Domestic Factors

- The outcome of the election
- The leadership of the apex bank
- The relationship between the Executive and the Legislature post-election
- Expected delay passage of the 2019 budget
- Review of minimum wage
- Banking sector vulnerabilities
- The review of the list of items that can not access forex

The 2019 Appropriation Bill

...budget of continuity

- Review of the 2018 budget – assumptions, revenue & exp.
- The 2019 budget - assumptions
- Expenditure framework
- Budget breakdown – expenditure
- Budget breakdown – revenue
- Fiscal deficits
- Expenditure – selected MDAs

Review of the 2018 budget- assumptions

	2018 Budget	Actual (Q3 2018)
Real GDP growth rate	3.50%	1.81%
Average oil production	2.3 mbpd	1.95 mbpd
Oil price benchmark	US\$51 per barrel	US\$74 per barrel
Inflation rate	12.40%	11.44% (Dec. '18)
Exchange rate (Official)	N305/US\$	N305.95/US\$

Source: Federal Budget Office

Review of the 2018 budget - revenue

	2018 Budget (Half year)	2018 Actual (Half year)	Performance Level
Total revenue	₦2,309 billion	₦1,476 billion	63.9%
Oil revenue	₦1,494 billion	₦994 billion	66.5%
Non-oil revenue	₦815 billion	₦482 billion	59.1%
CIT	₦397 billion	₦262 billion	66.0%
Custom duties	₦162 billion	₦138 billion	85.2%
VAT	₦104 billion	₦72 billion	69.2%
FGN indep. rev.	₦424 billion	₦220 billion	51.9%
Special levies	₦29 billion	₦10 billion	34.5%

Source: Federal Budget Office

Review of the 2018 budget - expenditure

	2018 Budget (Half year)	2018 Actual (Half year)	Performance Level
Personnel cost	₱1,059 billion	₱849 billion	80.2%
Total debt service	₱1,007 billion	₱1,053 billion	104.6%
Total recurrent exp.	₱2,860 billion	₱2,278 billion	79.7%
Total capex	₱1,086 billion	-	0%
Statutory transfer	₱265 billion	₱228 billion	86.0%
Fiscal deficit	₱977 billion	₱771 billion	78.9%

Source: Federal Budget Office

The 2019 budget- assumptions

	2019 Budget	2018 Budget
Real GDP growth rate	3.01%	3.50%
Average oil production	2.3 mbpd	2.3 mbpd
Oil price benchmark	US\$60 per barrel	US\$51 per barrel
Inflation rate	9.98%	12.40%
Exchange rate (Official)	N305/US\$	N305/US\$

Source: Federal Budget Office

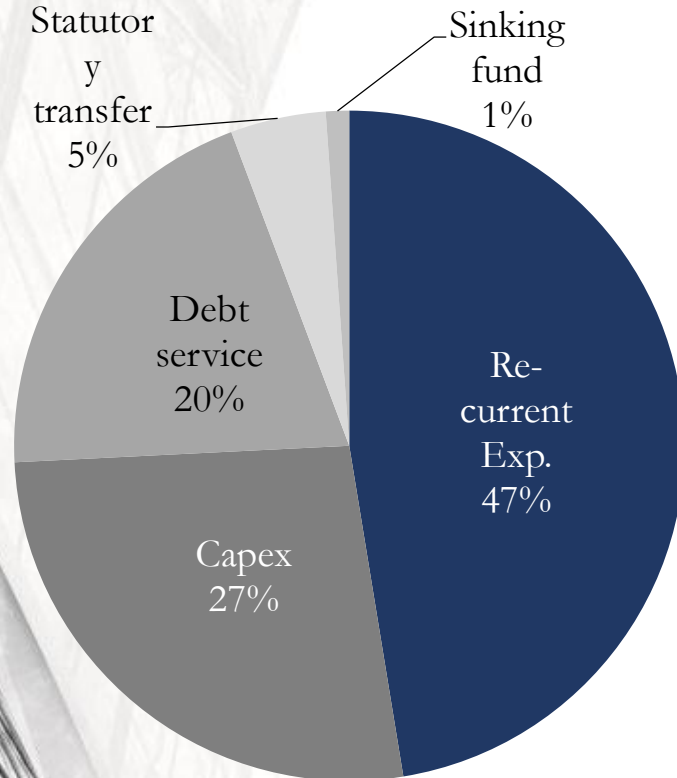
Overview of the expenditure framework

	2019 Budget Prop. (₦'billion)	2018 Budget Passed (₦'billion)	
Total budget	8,827	9,120	-3.2%
Re-current exp. (non-debt)	4,718	3,516	34.2%
Debt service	2,144	2,014	6.5%
Sinking fund	120	190	-36.8%
Special intervention	350	350	0.0%
Capex	2,864	2,873	-0.3%
Statutory transfer	492	530	-7.2%
Fiscal deficit	1,860	1,954	-4.81%

Source: Federal Budget Office

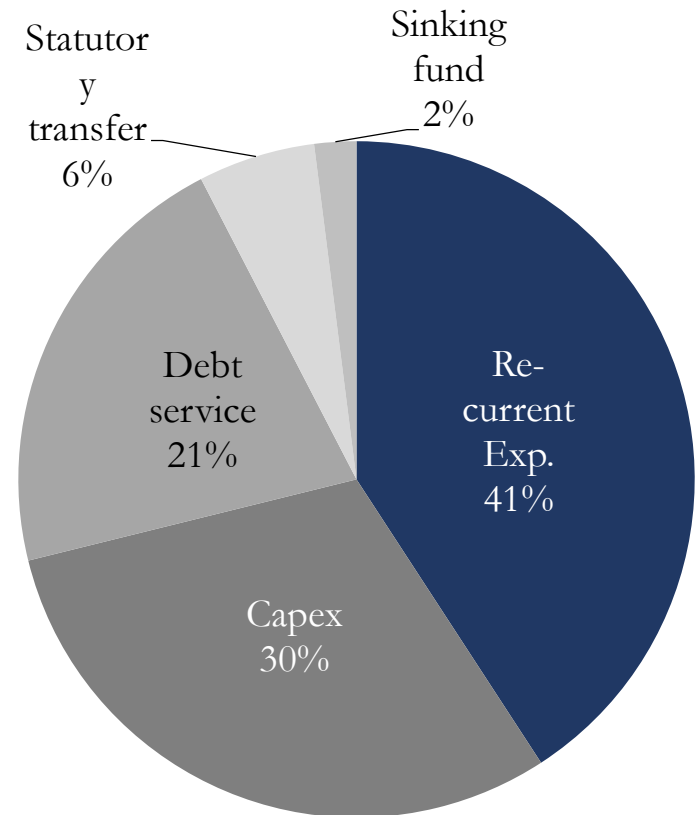
Budget breakdown - expenditure

2019 Budget (Proposal)



Source: Federal Budget Office

2018 Budget (Passed)



Source: Federal Budget Office

Budget breakdown - revenue

	2019 Budget Prop. (₦'billion)	2018 Budget Passed (₦'billion)	
Total revenue	6,967	7,166	-2.8%
Oil revenue	3,688	2,999	23.0%
Non-oil revenue	1,385	1,385	0.0%
CIT	799	795	0.5%
Custom duties	302	325	-7.1%
VAT	229	207	10.6%
FGN indep. rev.	624	848	-26.4%
Recoveries	203	374	-0.46%

Source: Federal Budget Office

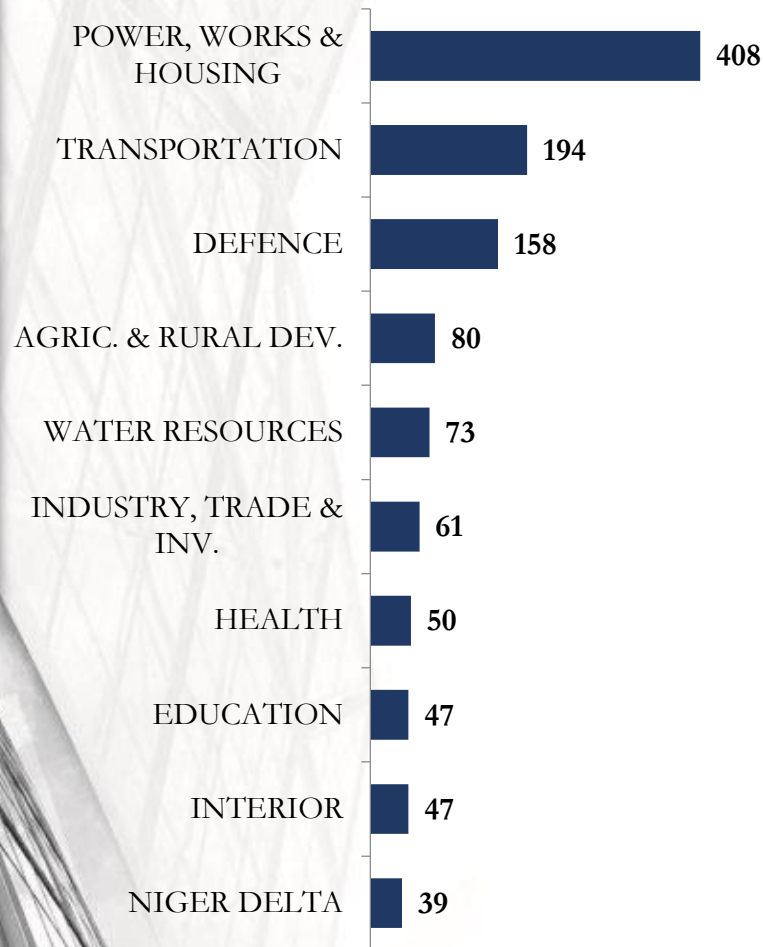
Fiscal deficit

	2019 Budget Prop. (₦billion)	2018 Budget Passed (₦billion)	
Total revenue	6,967	7,166	-2.8%
Total exp.	8,827	9,120	-3.2%
Fiscal deficit	1,860	1,954	-4.8%
Deficit/GDP	1.33%	1.73%	
Financing			
Privatisation	210	306	-31.4%
Borrowings:	1,650	1,643	-0.4%
Domestic	825	794	3.9%
Foreign	825	850	-2.9%

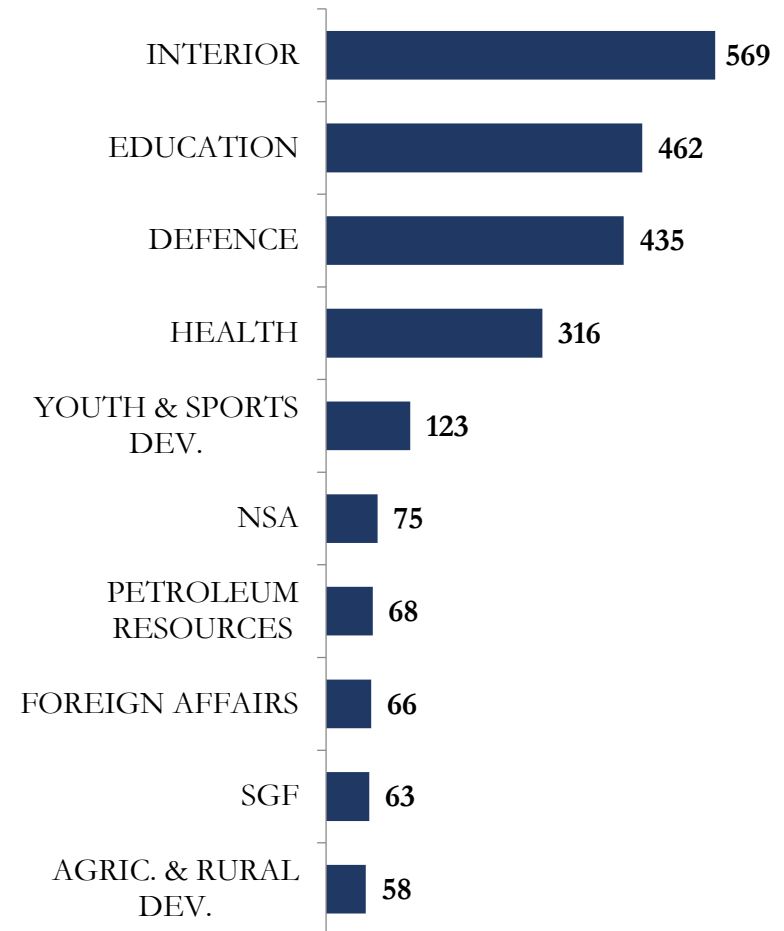
Source: Federal Budget Office

Budget breakdown – expenditure

Selected MDAs - Capital Exp.



Selected MDAs - Recurrent Exp.



Source: Federal Budget Office



THANK YOU!



www.panafricancapitalholdings.com

PanAfrican Capital Holdings

Ideas ■ Partnerships ■ Solutions

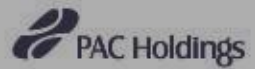
8A Elsie Femi-Pearse Street, Victoria Island, Lagos, Nigeria

Tel: +234 (1) 2716899, 2718630

info@panafricancapitalholdings.com

LAGOS | ABUJA | ACCRA | NAIROBI





Copyright © **PAC HOLDINGS**.

All Rights Reserved.

The contents of this document or any portion thereof may not be reproduced or used in any manner whatsoever without the express written permission of **PAC HOLDINGS Limited**.