



# THE NIGERIAN ECONOMY IN 2010



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- Economic Forecasts





# World Outlook



## Outlook

- Gradual recovery to continue in USA, Euro zone and Japan
- Growth in China will accelerate
- Demand for crude oil will rise leading to stronger crude oil prices
- Fewer write downs by banks and limited incidence of bank failures as lending activities are likely to pick up
- Growth of emerging economies will pick up





# Revenue and Expenditure of Government



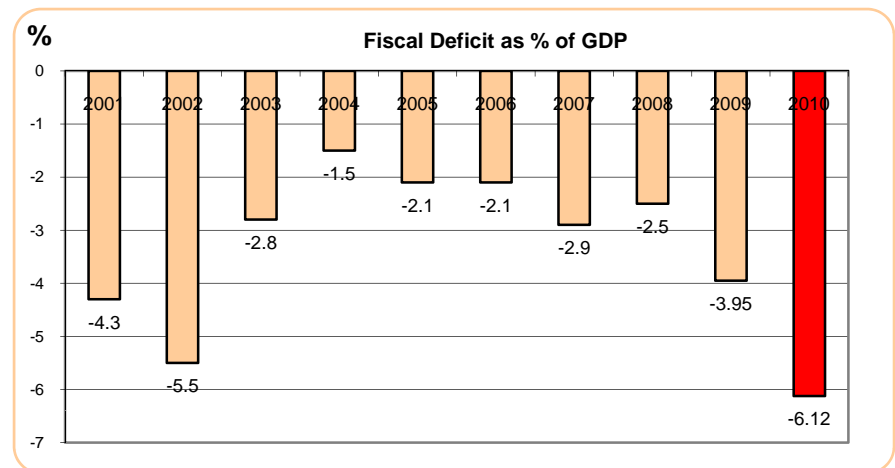
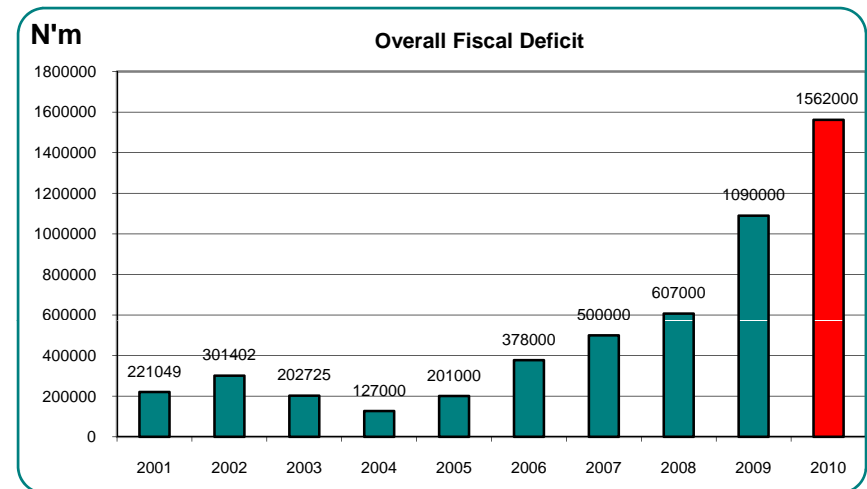
## 2010 Revenue Assumptions

- Oil price benchmark price of \$57pb compared with \$45pb in 2009
- Oil production level of 2.088mbpd compared with 2.292mbpd in 2009

	2006	2007	2008	2009E	2010F
<b>Revenue</b>	2,843.00	2,611.00	3,107.00	1,788.00	2,517.00
<b>Spending</b>					
Transfers	351.00	348.00	307.00	326.00	180.28
Debt Finance	249.00	214.00	286.00	368.00	517.07
MDA Spending	1,339.00	1,888.00	1,639.00	2,376.00	3,381.00
Total	1,939.00	2,450.00	2,232.00	3,070.00	4,078.35
Balance	904.00	161.00	875.00	(1,282.00)	(1,561.35)

All figures in N'bn

- **Fiscal Deficit**
- It is not clear where the deficit would be financed from in 2010 but could come from a combination of the following sources
  - Any unspent balances from the 2009 Budget
  - Outstanding Signature bonuses
  - Domestic borrowings
    - Money market
      - T Bills
      - Bank Credit
    - Capital Market
      - FGN Bonds
  - External borrowings
    - Multilaterals
    - Bilateral Agencies



## Direction of expenditure

- About 90% of MDAs' capital expenditure targets the following key priority sectors
  - Critical Infrastructure
  - Human Capital Development
  - Land Reform
  - Food Security;
  - Physical Security
  - Law and Order
  - Niger Delta
- Priority will also be given to key initiatives that would further bridge critical infrastructural gaps to reduce the cost of doing business in Nigeria such as
  - Investment in upgrading the railway networks
  - Dredging marine waterways - notably the dredging of the Lower River Niger
  - Road projects and maintenance works



## Outlook

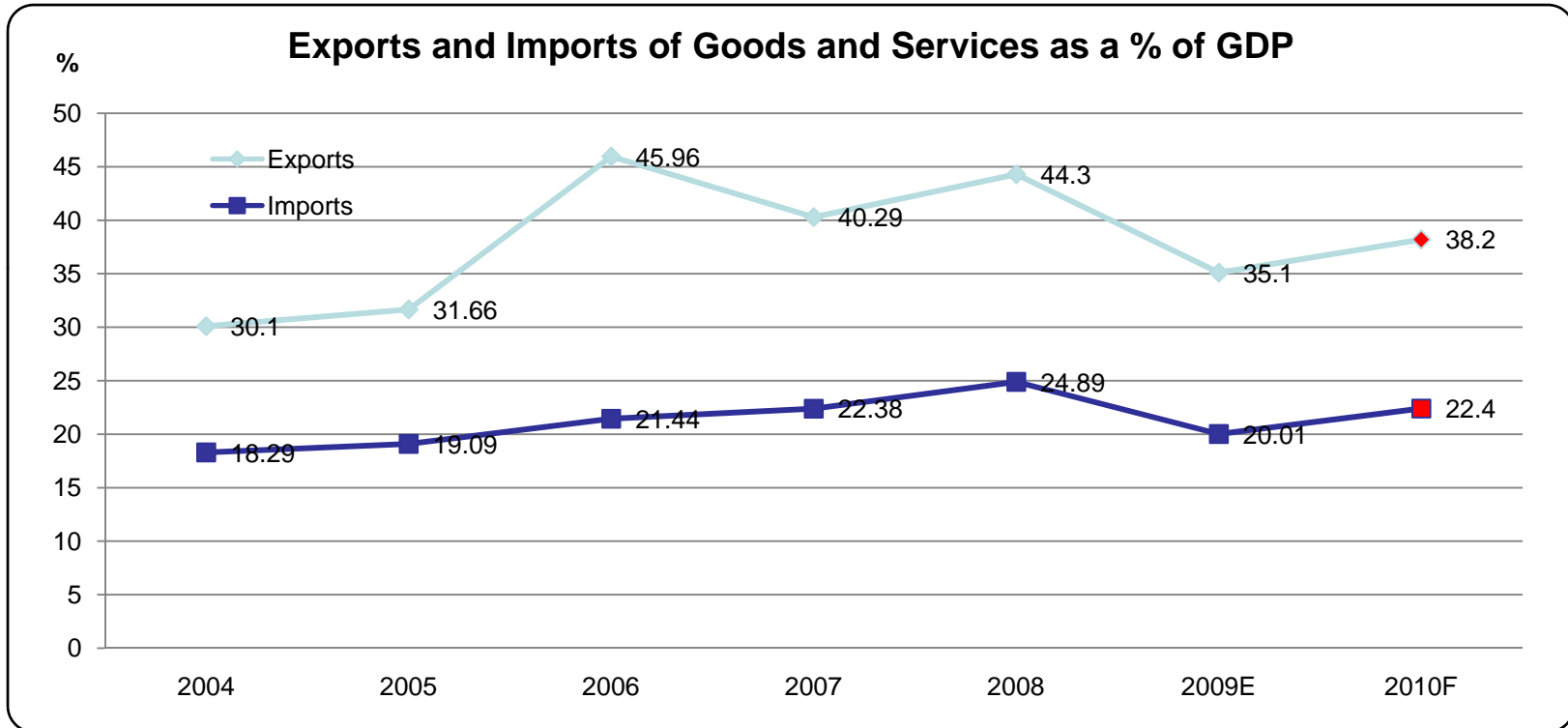
- Federally collectible revenue will stabilize (unlike last year when it fell) due to the expected increase in the price of oil
- Expected expansion in budgeted expenditure over that of previous fiscal years is to counter the effect of the credit crunch on the economy as well as to reduce the infrastructure gap
- FGN will run a deficit of about 6.2% of nominal GDP and this will most likely be financed by borrowing
- At current oil prices, FGN spending will be sustainable with little prospect of supplementary budget in 2010

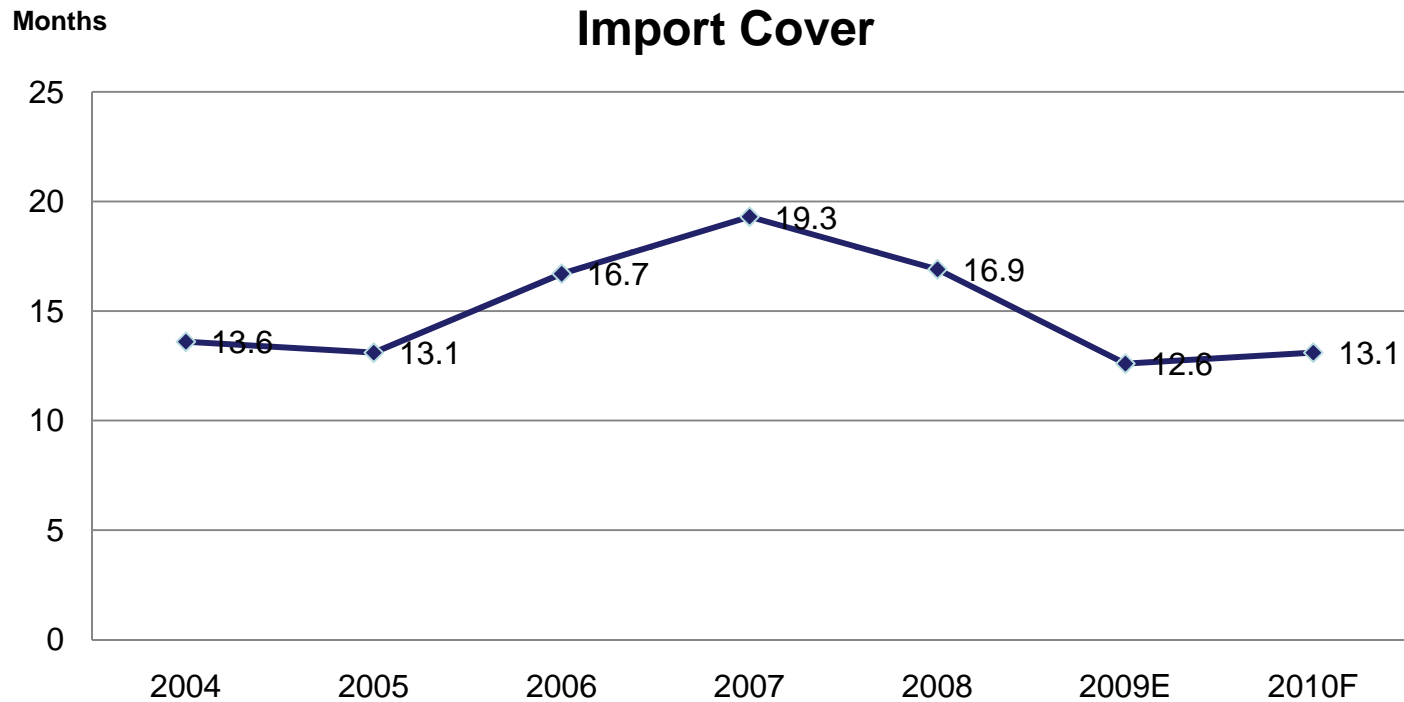


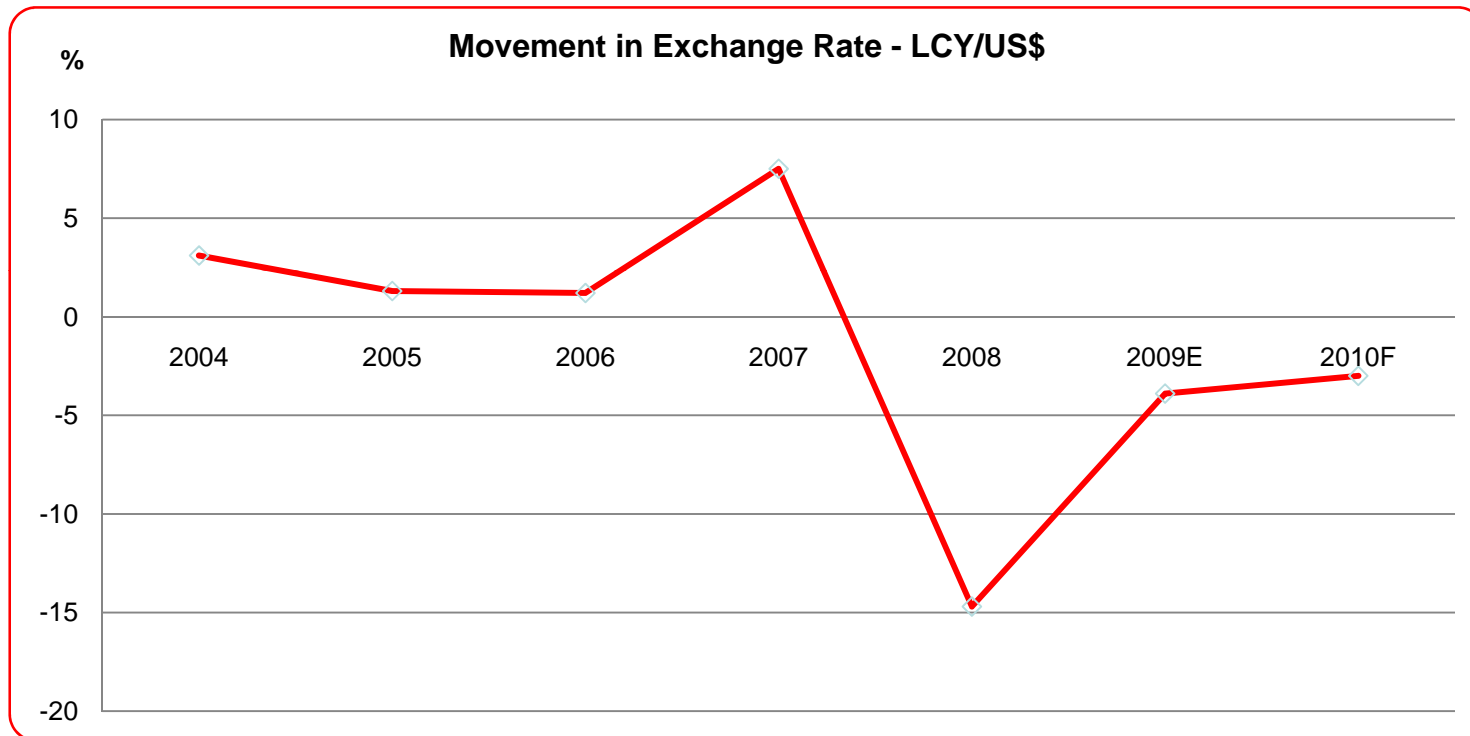


# External Sector









## Outlook

- Merchandise exports will rise from an estimated 35.5% of GDP to approximately 38.2% in 2010
- Current account will remain in deficit (about 6% of GDP) based on current import levels
- Low activity level expected on the financial account, therefore current account deficit will continue to be funded largely by borrowings
- Import cover will improve slightly due to expected increase in oil revenue
- LCY/USD exchange rate will remain weak to reflect weakening current account- but an improvement over 2009 is expected in 2010



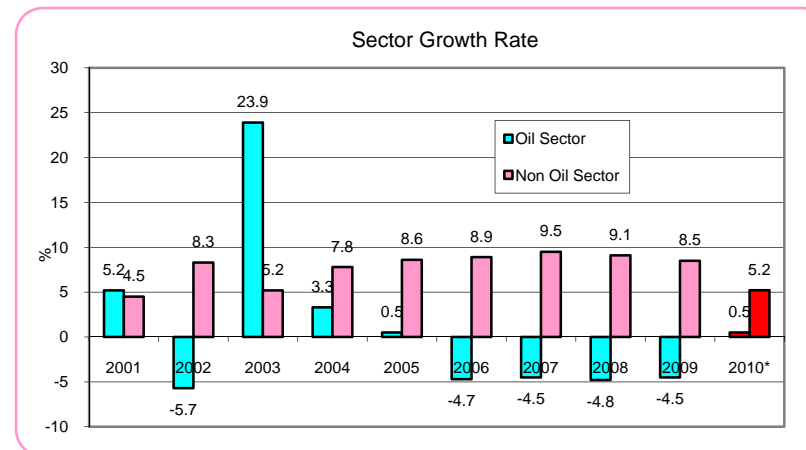
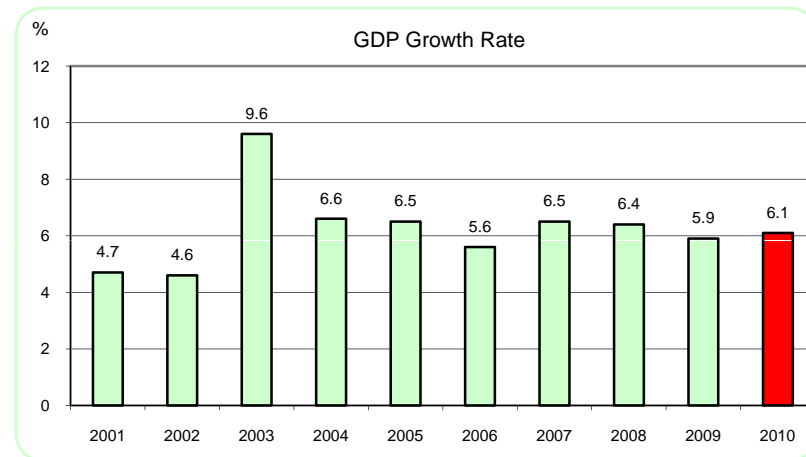


# Domestic Economy



## GDP Growth

- The appropriation bill projected 6.1% growth rate for 2010 which is in line with our forecast
  - Which will probably be driven by growth in the none oil sector for 2010
  - In recent years, non oil GDP has grown faster than oil GDP due to improvement in commodity prices (cocoa, coffee, and other cash crops)
  - The improvement in commodity prices is expected to pick up in the medium term in line with expected rise in oil prices from 2010
  - This will serve as growth stimulant in the agric sector (the largest single contributor to the GDP) and result in the overall growth of that sector



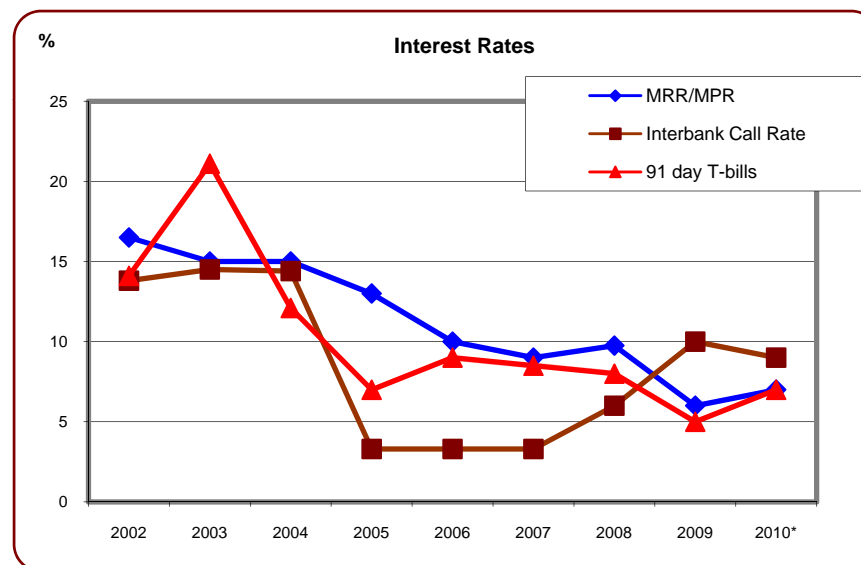
## Inflation

- The latest official report on inflation from the National Bureau of Statistics (NBS) revealed that the year-on-year inflation figure for September 2009 was 10.4% compared with December, 2008 which was 15.1%.
- Government's target for 2010 (11.2%) seems achievable but
  - The following may however heighten inflationary pressure in 2010 and may impair the attainment of the target
    - The controversial deregulation of the downstream sector of the petroleum industry
    - Budgeted increase in government expenditure for 2010
    - A deficit budget may be inflationary if the deficit gets out of control
    - Prospects of increasing VAT from its present 5% to about 10%



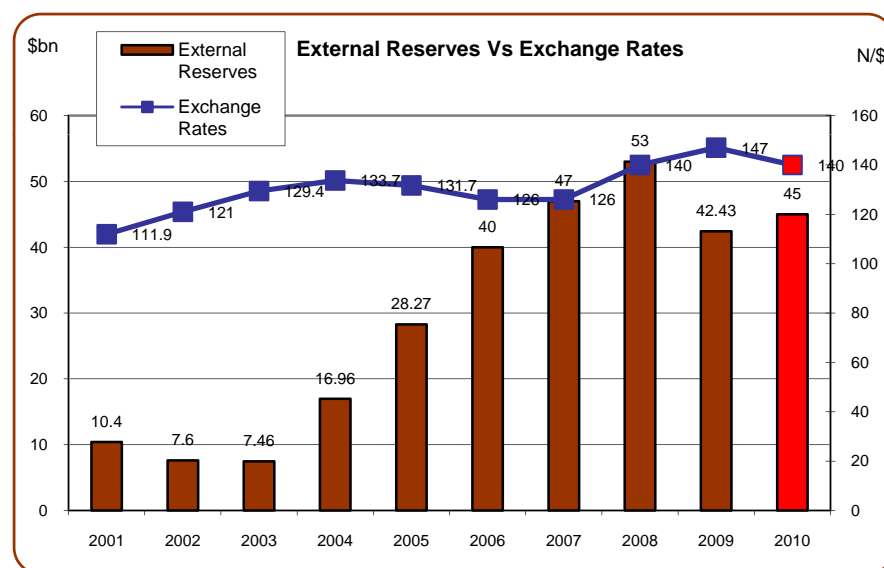
## Interest Rates

- The 2010 appropriation bill was silent on interest rates target
- Usually what eventually happens to price level will apply to interest rates – as they move in tandem
- Factors that will influence the level of interest rates in 2010 would include the following
  - Rising inflation may eventually lead to rising interest rates – as CBN may respond by tightening liquidity
  - Risk free rate is currently around 11% which is about the level of inflation
  - The present credit crunch if not quickly addressed would likely drive lending rates
  - Competition among deposit taking institutions given the present liquidity crunch would also drive interest rates
  - The current rejuvenation of the corporate bond market may also drive interest rates – coupon rates on corporate bonds are usually higher than rates on government bonds
  - Short term Interbank rates, will continue to respond to current factors, such as NNPC debit, release of monthly statutory allocations and quarterly capital votes



## Exchange rates -

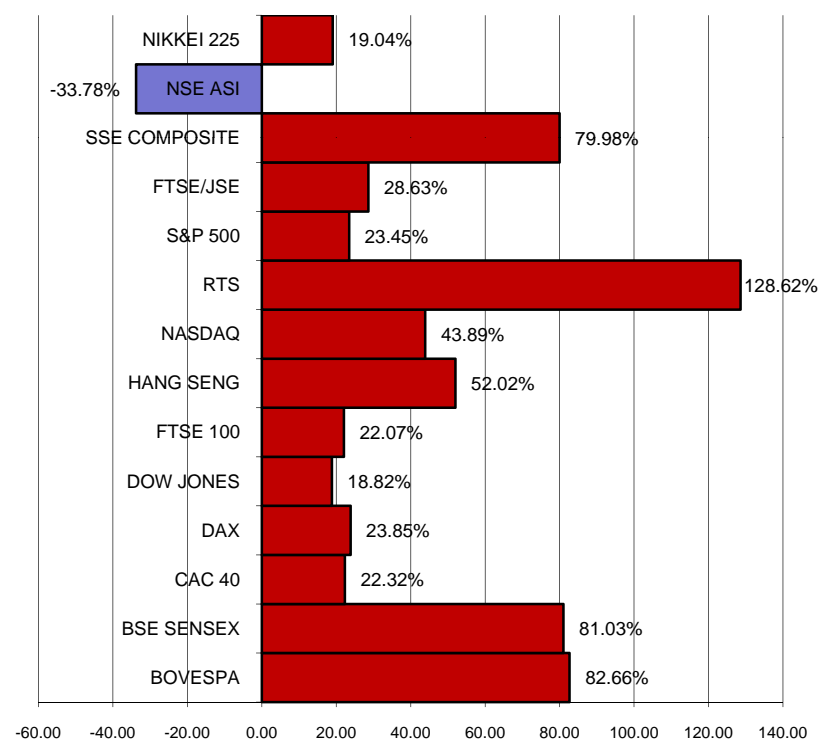
- In December 2008, The value of the Naira depreciated against major currencies around the globe
- The Naira, which has recorded a relative stability in the previous three years crashed against the Dollar at both the official market and the interbank markets – approx 20%
- Relative stability was restored in 2009 – although the Naira still fell – but it was not a free fall
- The following factors may buoy the value of the Naira in 2010.
  - Projected increase in oil prices
  - Higher oil prices would enhance government revenue hence accretion to the external reserve should resume
  - Inflow of money to fund political activities ahead of the 2010 elections
  - Prospect of the capital market attracting investment from hedge funds managers – given the present undervaluation of shares



## Financial Markets

- The NSE ASI lost 33.78% in 2009 and this does not compare favourably well with other markets that gained
- Reforms in the banking sector led to a fall in share prices dragging the index along with it
- As of now, banking stocks constitute over 44% of total market capitalisation, down from 60% recorded in 2008
- The NSE ASI has been gaining since the beginning of 2010 propelled by activities of foreign portfolio managers
- There is prospect of up to 30% gain in the index in the first quarter of 2010 if current trend continues.
- The market is expected to perform better in 2010 than in 2009 and the banking sector will gradually lose its dominance

**2009 PERFORMANCE OF SELECTED INDICES**



- We expect that the stock market's recent poor performance will leave many investors disillusioned about investing while those still willing to do so will seek sound investment advice and deep research
- Hence, access to professional investment management services offers the best potential for better performance in 2010
- Equities
  - On the portfolio management side we will recommend companies with strong business fundamentals in the banking, consumer, building and construction sectors
  - Banks that successfully rise above the CBN audit and common year-ends without major challenges will be the most sought after
  - As we believe that the real estate sector will struggle, the building and construction sector will continue to benefit from the government's increased focus on infrastructure development
  - a high point stressed in the 2010 appropriation bill
- In the alternative, recommend participation in collective investment schemes particularly investments in mutual funds.

- Bonds
  - In the bond market, the primary issuance market, historically dominated by sovereign bonds, looks set to face an avalanche of corporate and state bonds
  - This would be without prejudice to the level of activities expected in the participation of sovereign bonds
  - The massive budget deficit expected for 2010 would fuel increase in the primary issue of FGN and state government bonds
  - In 2009, the bond market returned over 17% and outperformed the equities market by 38%
  - The 20-year bonds have returned an average of 30%, 10-year bonds have returned over 20%, while the short end bonds have barely returned 10% year to date
  - As investors seek higher returns, the long term instruments are becoming more attractive.



## Trading

- Volumes will increase
- Foreign exchange depreciation will slow
- Funding costs will rise due to borrowing pressure
- Profits will continue to dip in 2010 due to huge cost of doing business
- Ability to meet obligations should improve



## Manufacturing

- Power situation will remain difficult with prospect of improvement
- Exchange rate will begin to stabilize in the face of improved oil revenue
- Borrowing rates will be higher
- Demand for products may slow as there are no signs of improvement in disposable income
- Though still a difficult year slight improvement is expected 2010



## Telecoms

- Sales will continue to grow but revenue per customer will fall as industry continues to go down market for customers
- Profit growth will slow but industry profitability will remain strong
- Profit will be concentrated in the hands of top 3 as others struggle with high leverage and/or low customer base
- Industry structure and dynamics suggests high prospects of mergers and acquisitions in 2010



## Banking Industry

- Fallout of shake up
  - Further consolidation is expected in the industry
  - Profitability will weaken due to full provisioning
  - Expansion would be replaced with contraction resulting in the closure of many branches
  - Headcount will continue diminish due to down and right sizing arising out of restructuring
  - Consolidation would come by mergers and acquisition
  - More banks would issue corporate bonds to improve liquidity



## Upstream Oil sector

- JV budget remains flat at \$5billion
- More attention given to the Niger Delta in the appropriation bill
- Amnesty program seems on course
- Increase in local content at present 18% is still far short of 70% target for 2010
- With relative peace expected in the Niger Delta in 2010, increasing exploration activities will enable further achievements in the local content drive
  - Particularly as activities in the marginal fields area (developed to encourage indigenous E&P companies) would most likely pick up



## Downstream Oil sector

- Full deregulation expected in 2010 which would lead to
  - Construction of private refineries
  - Privatization of viable government refineries
  - Dismantlement of non- viable government refineries
  - In the long run – reduction in importation of petroleum products



## Power

- The power industry has enjoyed generous budgetary allocations in the past few years prompted by its numerous problems including
  - Obsolete and inadequate generating plants
  - Defective transmission cables
  - Chaotic distribution network
- We expect government interest in the sector to continue in 2010
  - Government targets 10,000MW by December 2010
  - The performance target of generating 6000MW of electricity by December 2009 may have been missed
  - Current estimates puts electricity generation at 5,000MW
- With increasing government interests we expect the present slow approach to privatization in this sector to continue in 2010



## 7. Economic Forecasts



Economic Forecasts			
Indicator	2008*	2009**	2010***
GDP Growth Rate (%)	6.40	5.90	6.10
Industry Capacity Utilization (%)	53.90	52.50	53.00
Inflation Rate (%) (year end)	15.10	10.50	11.20
Average Lending Rate (%)	21.00	22.00	23.50
Fiscal Deficit as % of GDP	0.20	3.50	3.50
External Reserves (\$bn)	53.00	42.00	45.00
Average Crude Oil Price (\$pb)	101.15	60.00	70.00
Average DAS Rate (N/1\$)	118.92	145.00	144.50
NSE ASI (Base 1984=100) points	31,450.00	20,827.17	30,000.00
Market Capitalization (Nbn)	9,535.80	4,989.39	9,000.00
Market Capitalization as % of GDP	39.70	21.0	35.0

\* CBN Annual Report - 2009, \*\* LeadCapital Estimates, \*\*\* LeadCapital Forecasts