Rhombus Advisors LLC

Omotunde A.J. Mahoney
+1-973 509 5300

March 6, 2018

NIGERIA RESEARCH NOTE

Still muddling through

"He scored an own goal, equalised and then took credit for a draw(!)"

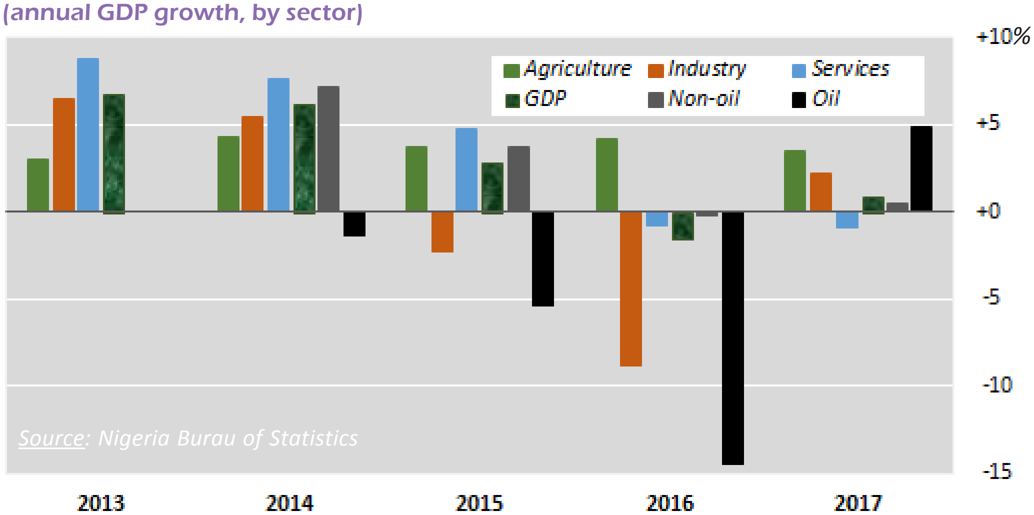
Bismarck Rewane's inspired metaphor[1] took on particular resonance in the context of ***last week's lack-lustre GDP report for 2017/Q4****.*

1) With **full-year growth for 2017 at a paltry 0.83%** and a 2018 target of 3.5% (versus a population growth rate estimated at 2.45%), there was **little cause for celebration** in last Tuesday's report. Nevertheless, **the Villa's apparitchiks[2] were quick to hail the data as proof that the economy is now gaining traction(!)**, putting it on track to hit its 2018 target of 3.5%.

2) Although the extremely modest expansion in Q4/2017 was slightly more broad-based than in the previous quarter, the **non-oil** sector came in essentially flat for the year , a**t +0.47%**. As is evident from the chart below, **oil-sector dependency remains a hallmark of Nigeria's growth story** - such as it is.

3) It is true that aggregate demand was weighed down by the **0.91% contraction in the dominant Services sector** – an even worse result than the previous year's figure of -0.82%. But **Agriculture grew by only 3.45%**, which must be a source of huge concern[3] for the Buhari administration as it prepares for the 2019 elections when it will be seeking a fresh mandate.

An economy struggling for traction
(annual GDP growth, by sector)



4) Upon closer inspection, the Administration's objectively modest **3.5%[4] target looks decidedly aspirational**, in the light of four independent constraints:

[1] The ironic reference, the head of Financial Derivatives (Lagos), was to President Buhari's attempt to claim credit for having ended the recession triggered - or at any rate intensified and prolonged - by his dogged commitment to the Naira's USD peg.
[2] I.e. Dr. Adeyemi Dipeolu, Special Adviser to the President on Economic Matters.
[3] The latest estimates indicate that the sector accounts for 28% of total employment in Nigeria. See *ILOSTAT database* (March 2017), by ILO.
[4] I.e. barely above the population growth rate.

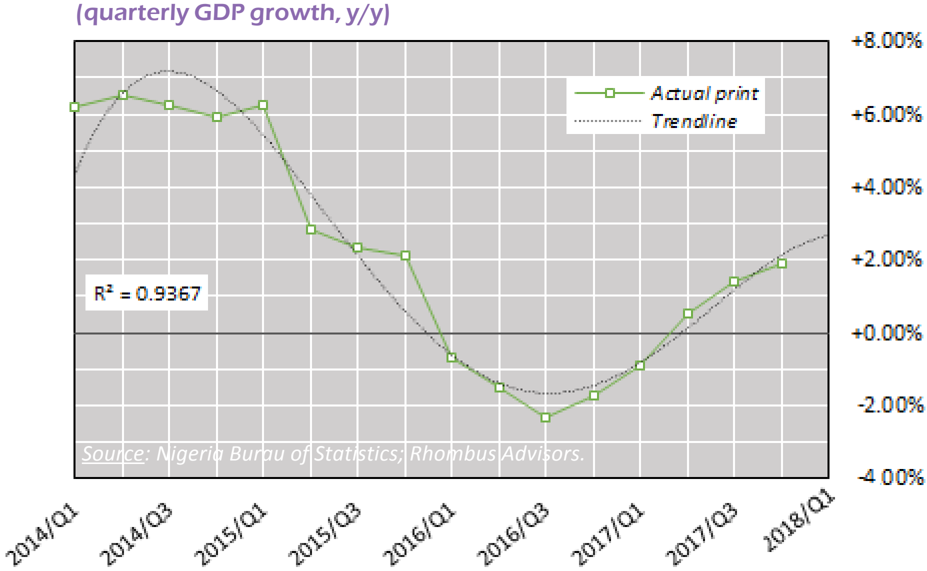
- the **impressive boost the oil sector sector provided** in H2/2017[5] - on the back of greater export shipments at higher prices - **has almost certainly run its course**;
- the **non-existent scope for monetary accommodation**[6] - with the year/year inflation rate at a disturbingly 'sticky' 15.13%;
- the limits this constraint imposes on the **prospects for both employment and income growth**; and,
- the growth-sapping overhang of the **2019 elections**.

5) In the light of these significant headwinds, we subscribe to the down-beat prognosis in the IMF's Article IV report for 2017, viz.:

> *"Higher oil prices would support a recovery in 2018 but a 'muddle-through' outlook is projected for the medium term under current policies, with fiscal dominance and structural constraints leading to continuing falls in real GDP per capita."*[7]

6) As for the economy's likely trajectory, **a basic trend analysis might well prove a better guide than the official forecast**. If so, then the authorities have **even more to worry about** than Mr. Buhari's unfulfilled pledges to crush Boko Haram and crack down on corruption. **The clock is ticking**.

Shallow recovery
(quarterly GDP growth, y/y)



[5] The sub-sector posted a year/year expansion of 25.88% and 8.38% in Q3 and Q4, respectively.
[6] These are, admittedly, near optimal conditions for the increasingly popular 'carry' trade.
[7] The relevant Report was inadvertently released to the media on Mar. 2, 2017 - after the Executive Board meeting at which it should have been considered that morning had been cancelled due to the extreme weather in Washington D.C. See "*IMF says Nigeria will 'muddle through' with economic policies in medium term*", by Reuters; Mar. 2, 2018.