2018
ECONOMIC OUTLOOK

Extracting Opportunities in Difficult Business Environment

Unity Bank Research

. . . in the pursuit of a clear objective

"A hunter with only one arrow does not shoot carelessly"

-African Proverb

Outline:

- Global Economic Review
- Domestic Macro Review
- The Outlook
- The Banking Industry
- 2018 FGN Budget Proposal
- Recommendations

Global Economic Review

IMF Global Economic Growth Projections – October 2017 Edition

Jurisdiction	Projections		Diff. from July 2017 Projections		Diff. from April 2017 Projections	
	2017	2018	2017	2018	2017	2018
World Output	3.6	3.7	0.1	0.1	0.1	0.1
Advanced Economies	2.2	2	0.2	0.1	0.2	0
United States	2.2	2.3	0.1	0.2	−0.1	−0.2
Euro Area	2.1	1.9	0.2	0.2	0.4	0.3
Japan	1.5	0.7	0.2	0.1	0.3	0.1
United Kingdom	1.7	1.5	0	0	−0.3	0
Emerging Markets & Developing Economies	4.6	4.9	0	0.1	0.1	0.1
Russia	1.8	1.6	0.4	0.2	0.4	0.2
China	6.8	6.5	0.1	0.1	0.2	0.3
India	6.7	7.4	-0.5	-0.3	−0.5	−0.3
Brazil	0.7	1.5	0.4	0.2	0.5	−0.2
Sub-Saharan Africa	2.7	3.5	0.1	0		
Nigeria	0.8	1.9	0	0	0	0
South Africa	0.7	1.1	-0.3	−0.1	−0.1	−0.5

Global Monetary Policy: The Start of Liquidity Retrenchment?

1. **Jerome Powell now the NEW US Fed Chair designate**
   - Viewed as a 'moderate' choice – neither too hawkish nor dovish
   - Monetary Policy direction might not be materially affected – Fed has to continue to unwind balance sheet
   - **Pace** of QE unwinding going forward likely brisk
   - Moreover the **tax reform efforts** of the US Administration have made progress, with the US Senate having successfully voted on the proposal.

2. **For the European Central Bank, January 2018 will see commencement of QE tapering**

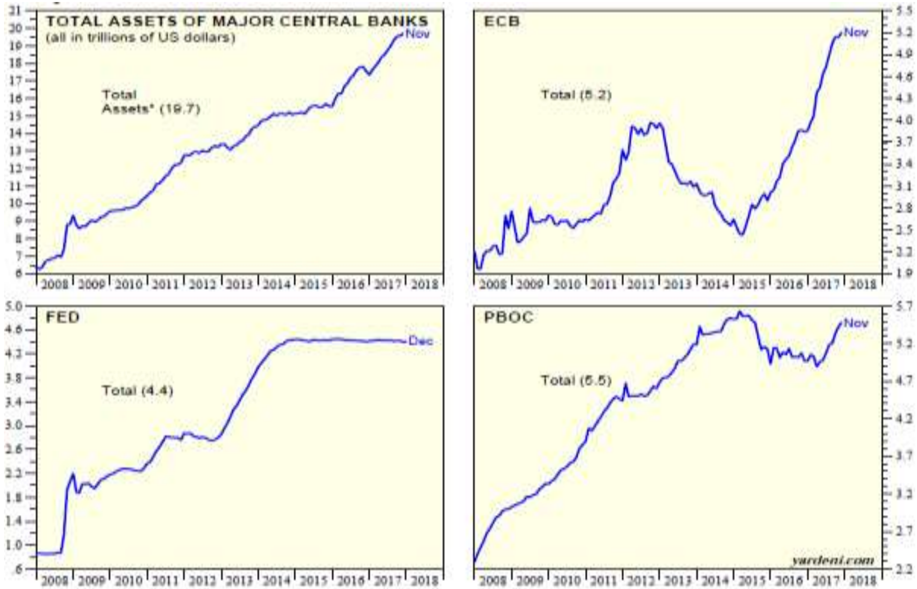
3. **Bank of England's Brexit-adjustment reaction function undone by rising UK Inflation**
   - UK inflation hits 3% in September, highest level since 2012
   - In response, Bank of England reverses direction on Monetary Policy, raises Policy Rate from 0.25% to 0.5%

4. **Bank of Japan maintaining status quo, for now**

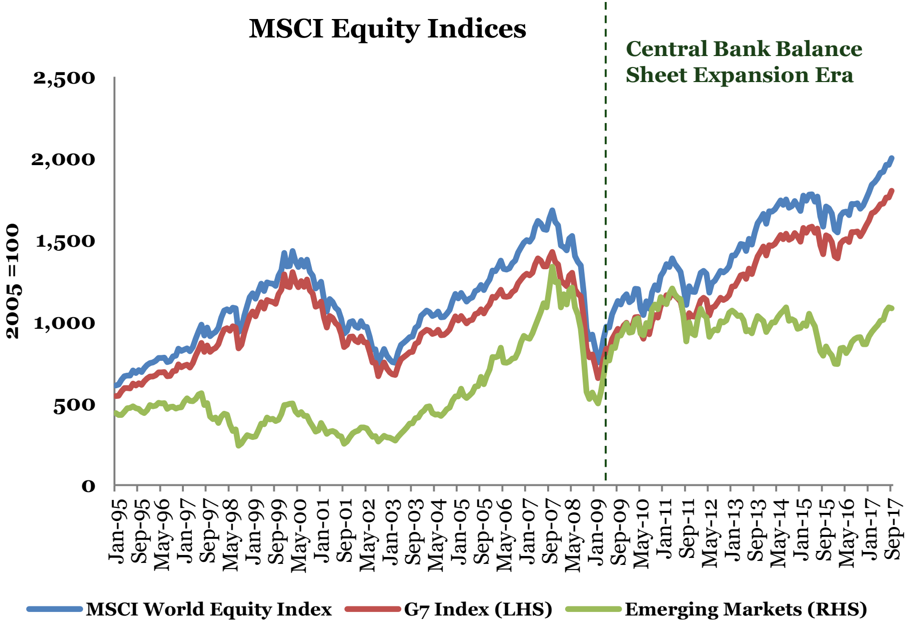
Post-2008 Financial Crisis Global Liquidity Glut Projected to Tighten

- There remains a global liquidity glut since the 2008 Financial Crisis, despite the shift to balance sheet tapering by the Fed
- In 2016, global fixed income assets paying negative yields exceeded $13trillion
- However, tapering is coming!!! Fed already tightening; Interest rates in 2017 have risen significantly from 2016 levels

Global Central Bank Balance Sheet Expansion since the Financial Crisis

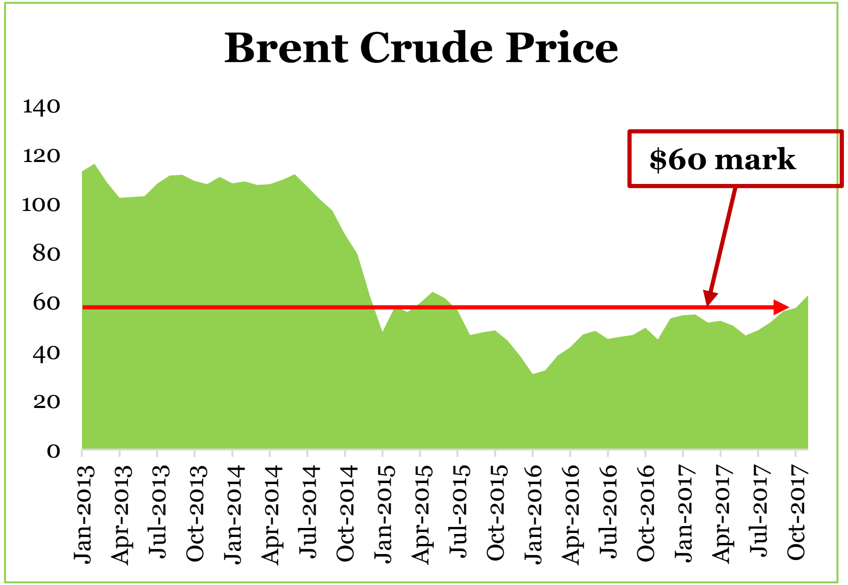


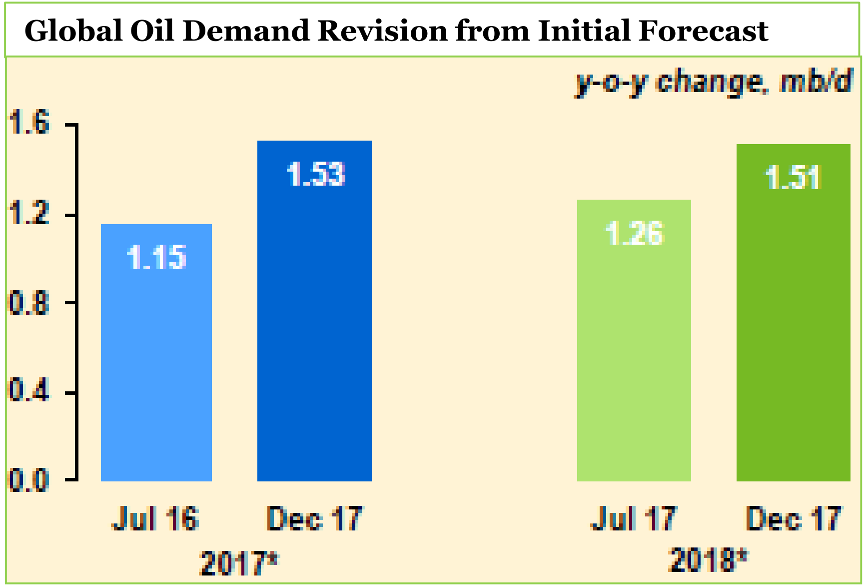
Source: Yardeni Research Incorporated (2017)



Source: Morgan Stanley

Oil Climbs Above $60/bbl. – First in 28 Months
Has the Oil Market Turned A Corner?

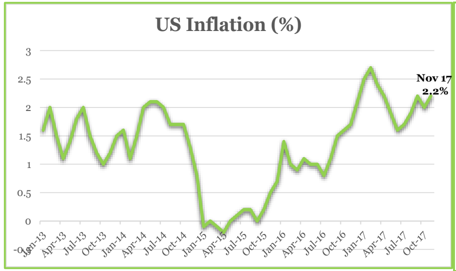


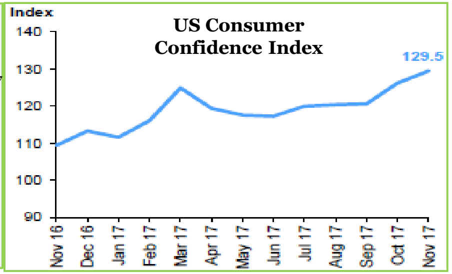


*Note: * 2017 = Estimate and 2018 = Forecast.*
Source: OPEC Secretariat.

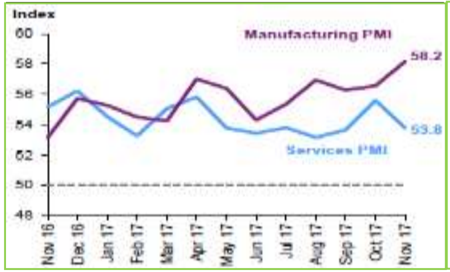
Global Economic Review and Outlook

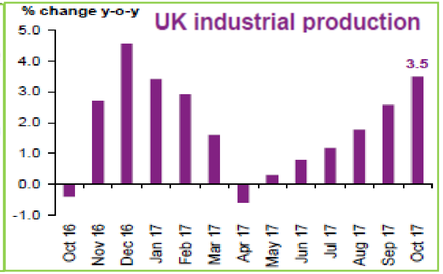
USA





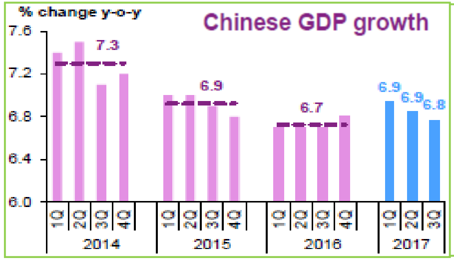
United Kingdom

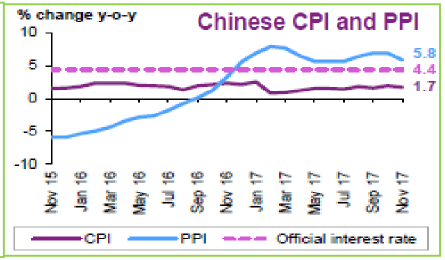




Euro Zone

China





Economic Growth Rate & Revision as at October 2017 (%)	World	OECD	US	Japan	Euro Zone	UK	China	India	Brazil	Russia
2017	3.5	2.2	2.1	1.4	2.1	1.5	6.7	6.9	0.5	1.5
Change from previous month	0.1	0.2	0	0	0.1	0	0	-0.1	0	0.3
2018	3.4	2	2.2	1.2	1.8	1.4	6.3	7.5	1.5	1.4
Change from previous month	0	0	0	0.1	0	0	0	0	0	0

Spotlight on Major Economies

USA

- The US economy continues to show strength, with data pointing to sustained momentum.
  - **U.S. GDP growth** likely rise to 2.5 percent in 2018 while 2017 estimate has been adjusted to 2.3 percent. Both figures are better than the 2.1 percent growth in 2016.
  - The improvements in the **labour market** continued, recovering from the negative impact by the hurricane season in August and September. Non-farm payrolls increased by 228,000 jobs in November 2017, after rising by 244,000 in October 2017.
  - **Industrial production** saw a strong rise in August, September and October 2017.
  - **Domestic demand** held up very well in Q3 2017, supported by growth in retail sales.

Euro Zone

- Euro-zone growth continued to show a solid momentum. The broad-based growth remains visible in all the Euro-zone economies. It also seems to be well supported across the various sectors.
  - **Labour market** developments continued to improve as the unemployment rate fell and remained below 9% in October 2017. It stood at 8.8%, the lowest level since the onset of the financial crisis in 2009.
  - The latest **PMI** indicators have confirmed the ongoing improvement in the Euro-zone. The manufacturing PMI increased to a considerable level of 60.1 in November 2017
  - However, ECB plans gradual withdrawal of its monetary support, which include a proposed cut in monthly QE purchases to €30bn from the current level of €60bn, starting in January 2018 and running until September 2018.

UK

- Finally, the EU and the UK found some form of agreement over the most challenging brexit bill. The agreement shows that the UK will continue to support the EU budget up to 2020, as if it continued to be a member of the EU.
- In the meantime, economic indicators have continued relatively solid, amid a declining GDP growth level.
  - The **unemployment rate** remained surprisingly low, staying at 4.2% in August for a second consecutive month.
  - **Wage** growth continued at a relatively healthy level of 2.6% y-o-y in September 2017.
- UK inflation hits 3% in September, highest level since 2012.
  - In response, Bank of England reverses direction on Monetary Policy, raises Policy Rate from 0.25% to 0.5%

China

- **China's economy** slowed at the beginning of Q4 2017, owing to production cuts, weaker exports and real estate activity. However, the economy remains very strong with a GDP Growth of 6.8% in Q3 2017.
- **China's GDP growth** expectation was kept unchanged at 6.8% in 2017. 2018 GDP growth revised up to 6.5%, from 6.3% last month.
- China Inflation well tamed at 1.7% in November, a drop from 1.9% recorded in October.
- In 2017, the PBoC maintained prudent and neutral monetary policy and kept liquidity in the country's financial system stable.

Threats to Global Economy in 2018

2017 has proven to be a decent year for the global economy despite the fact that political risk levels rose significantly.

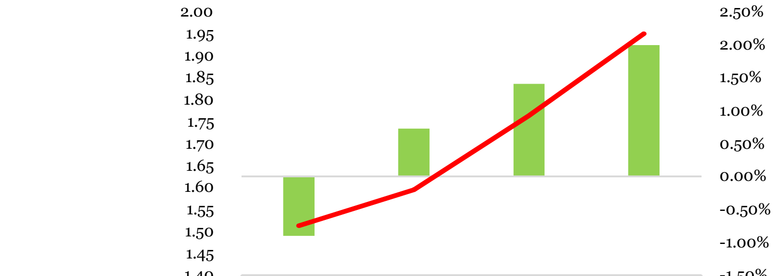
Looking ahead, 2018 is forecast to be another year of stable growth for the global economy, with overall growth rates forecast to be near to those recorded in 2017. However, here are eight economic risks to watch in 2018:

- **Stock Market Corrections**: Market indicators suggest that the possibility of a significant stock market correction is on the rise in many leading economies.
- **Eurozone Economy without a Stimulus**: ECB is preparing to withdraw its stimulus programs, raising fears of a significant slowdown in Europe starting from Q3 2018.
- **Chinese Debt**: China's level of total debt is now estimated to be in excess of 300% of GDP, one of the highest total debt levels in the world. Chinese government is likely to take more steps to control public debt, which could lower consumer and business spending in 2018 and subsequently, slow economic growth in China.
- **Wealth Inequality**: Wealth inequality levels continue to rise in most of the world's leading economies, driven upwards by a combination of economic policies and the transformation of the world's labor market. This factor is leading to increased support for populist, protectionist and nationalist political parties and leaders, on both the political right and left, will rise steadily, threatening to disrupt global trade and investment.
- **NAFTA**: There is a better-than-50% chance that United States President Donald Trump withdraws his country from the NAFTA free trade agreement, despite strong opposition from many key industries in the US.
- **Housing Bubbles**: The threat of a sharp decline in property prices in many of the world's leading countries has risen**.** Among the countries much at risk from a bursting of their real estate bubbles in 2018 are China, Canada, Australia and Germany.
- **Inflation**: Inflation rates are trending upwards and an external shock or two could send inflation rates much higher in many of the world's leading economies. Among the countries facing the threat of rising inflationary pressures in 2018 are the United Kingdom, India, Mexico and Turkey.
- **Geopolitical Risk**: Many of the world's leading economies are now facing the risk of becoming directly or indirectly in conflicts with one another, the potential for geopolitical risk to destabilize the global economy may rise in 2018.

Domestic Economic Review

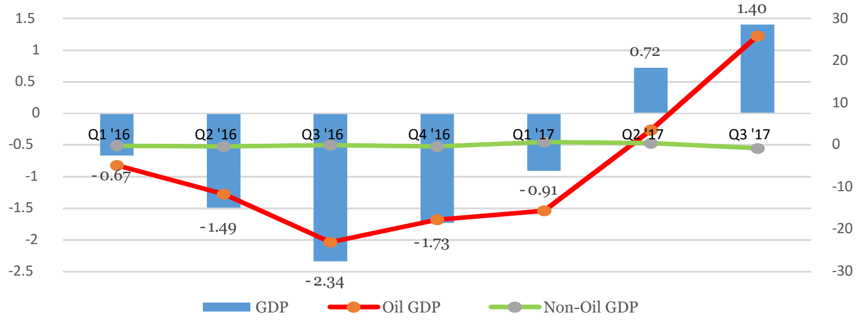
Domestic Economic Review

Correlation: GDP Growth & Oil Production

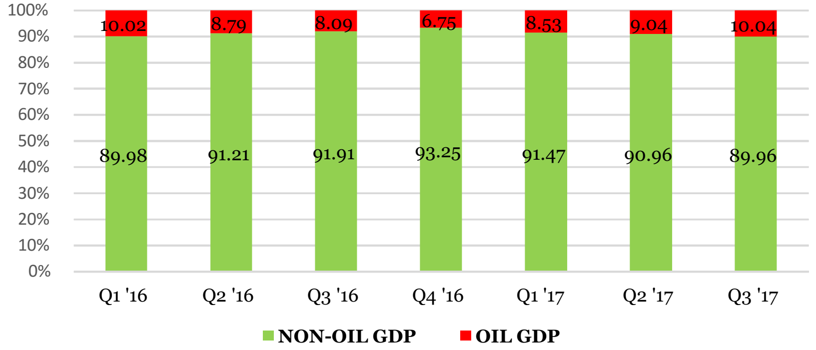


	Q1 '17	Q2 '17	Q3 '17	Q4 '17 E*
GDP Growth Rate	-0.91%	0.72%	1.40%	1.99%
Oil Production (mbd)	1.51	1.59	1.76	1.95

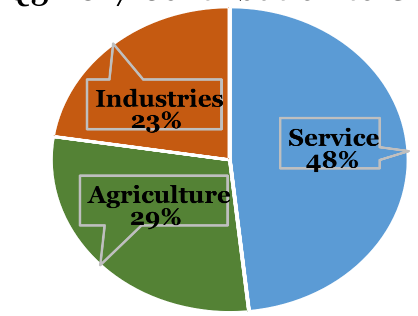
Increased Oil Output Quickens GDP Recovery in Q2 and Q3 2017



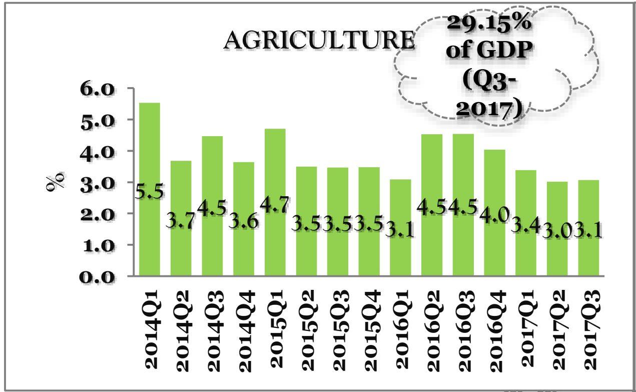
Non-Oil Sector Remains Dominant Contributor to GDP

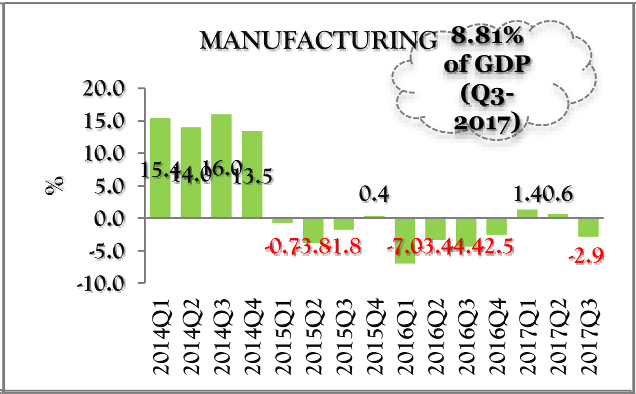


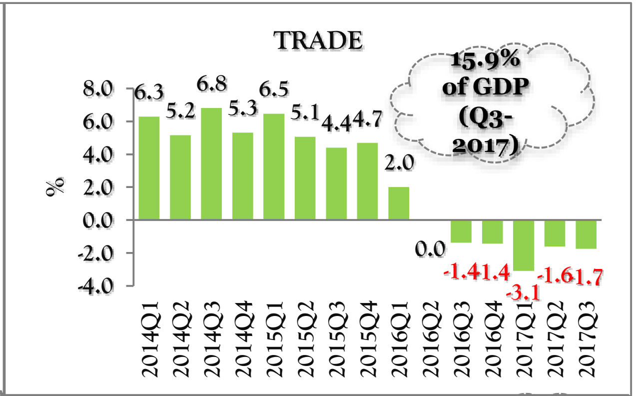
Q3 2017 Contribution to GDP

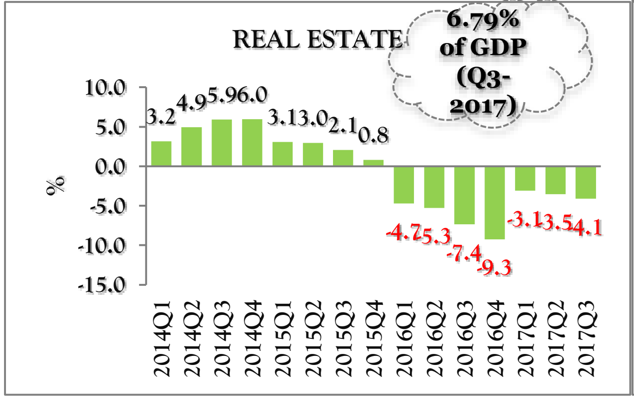


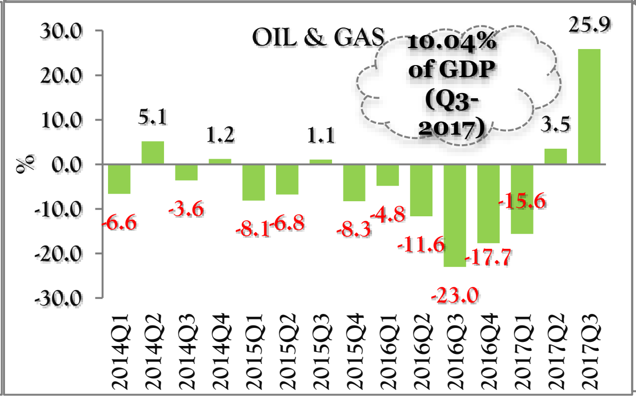
GDP: The Economy's Six Major Sectors

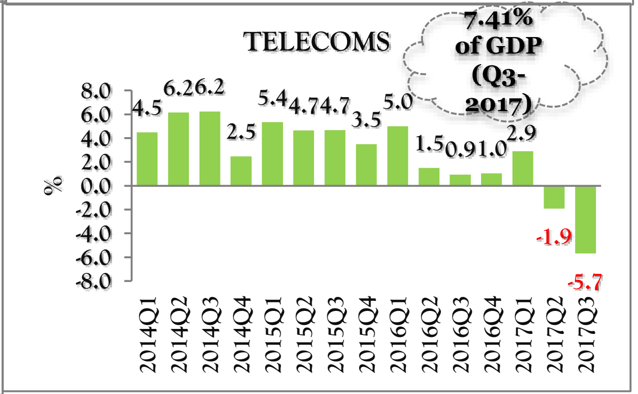








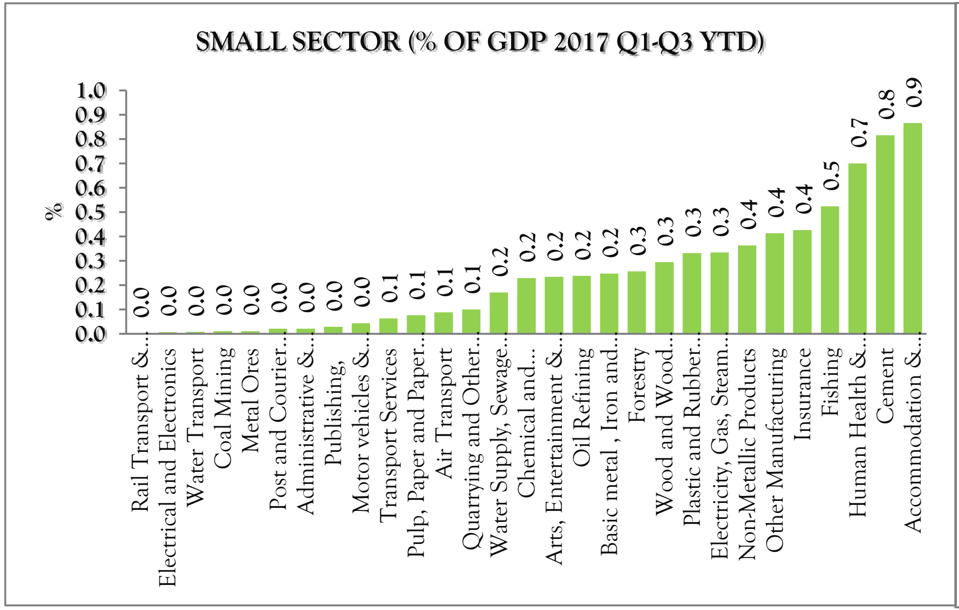


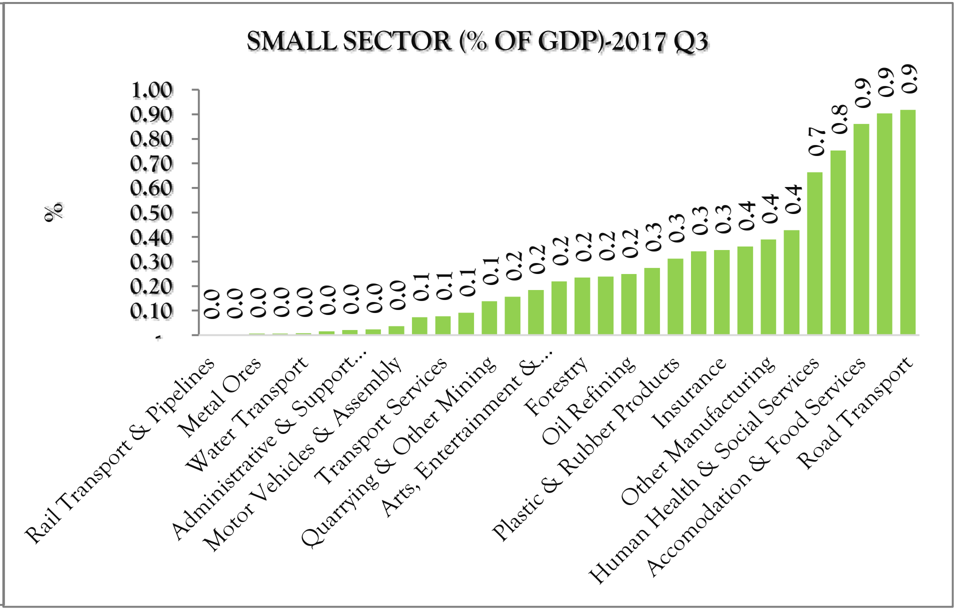


Implication of 2017 GDP Figures

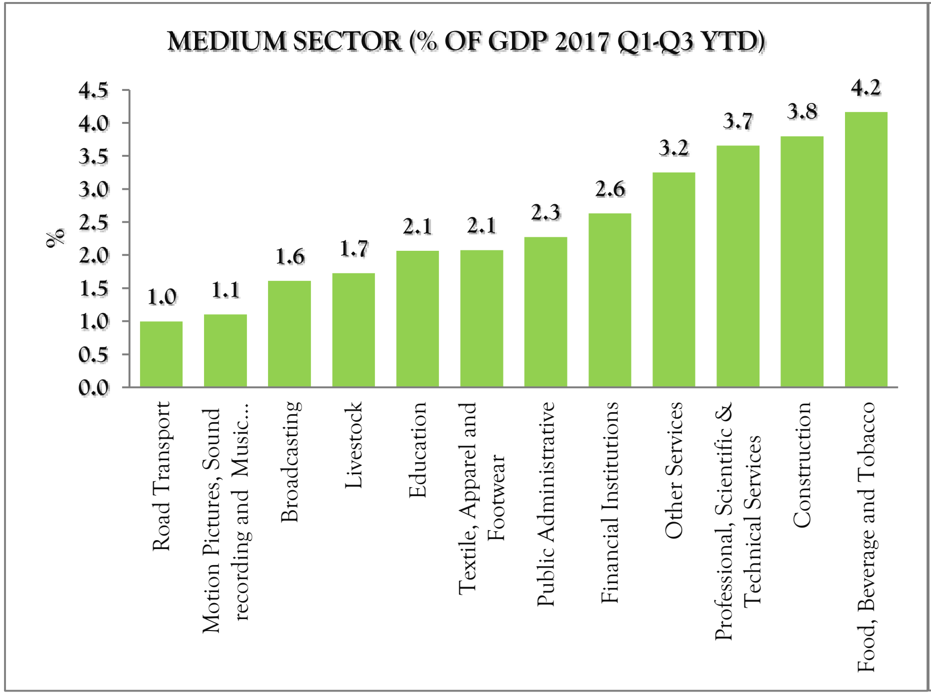
- **Dependency of recovery on Oil is re-affirmed!!!**
  - Economy doubtless lifted by big leap in Oil & Gas sector growth
  - Oil production recovered and international prices inched up in Q3 ‘17
- **Agriculture remains on soft patch**
  - Agriculture flat at 3.06% vs 3.01% in Q2, snaps 4-quarter streak of deceleration
  - Among the top contributors to GDP, only Agriculture and Oil and Gas recorded growth in Q3 2017
- **Contraction of demand-dependent sectors underscore sustained severity of pressure on the Consumer**
  - After slowing in Q2 2017 (0.64%) vs. Q1 2017 (1.36%), Manufacturing contracts sharply: –2.85%
  - Distributive Trade extended contraction streak to 5 quarters, shrinking 1.7% in Q3 2017
  - Telecoms sharply deepened contraction to –5.7% in Q3 2017, from –1.9% in Q2 2107
  - Real Estate continues to contract (–4.1% in Q3 2017), extends streak to 7 consecutive quarters

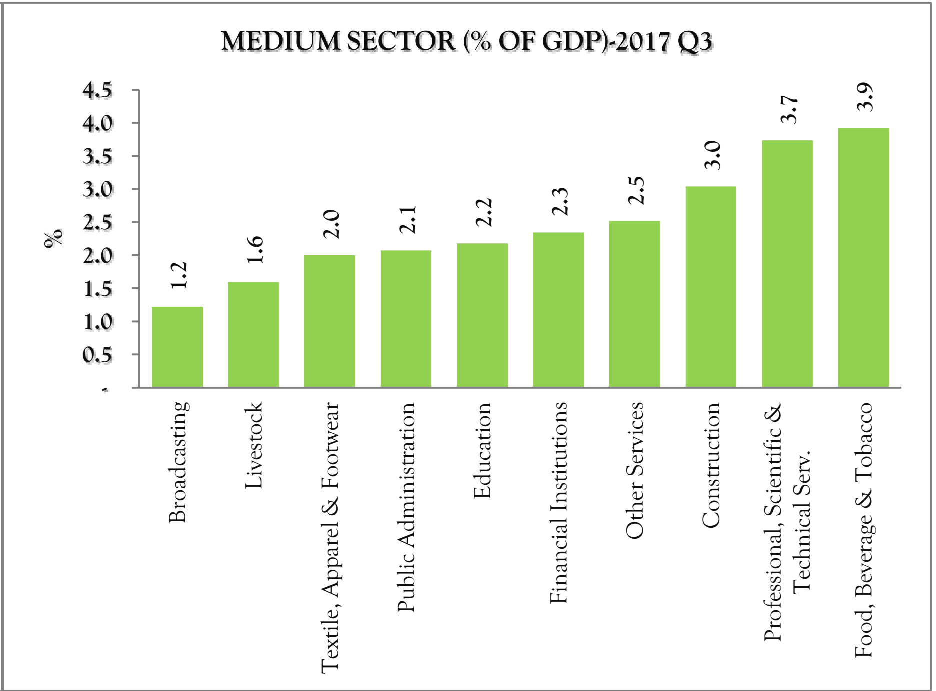
Sub-Sectorial Contribution to GDP
Small Sectors (0%–1% of GDP)



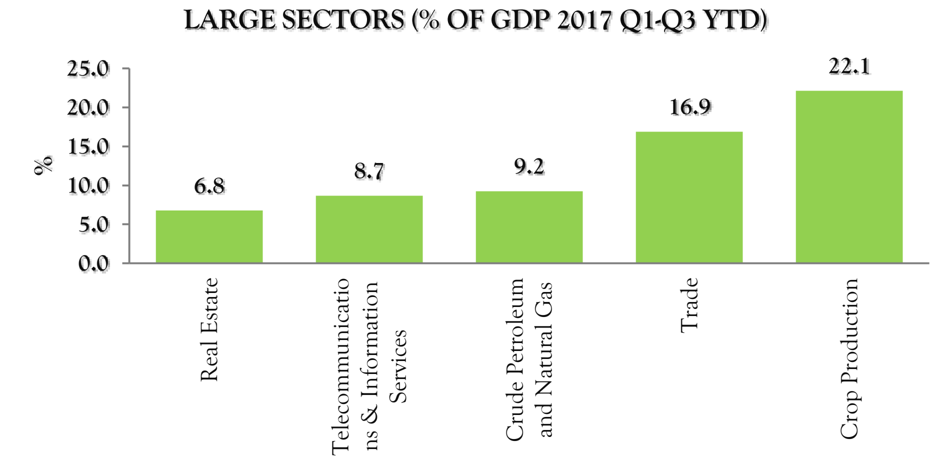


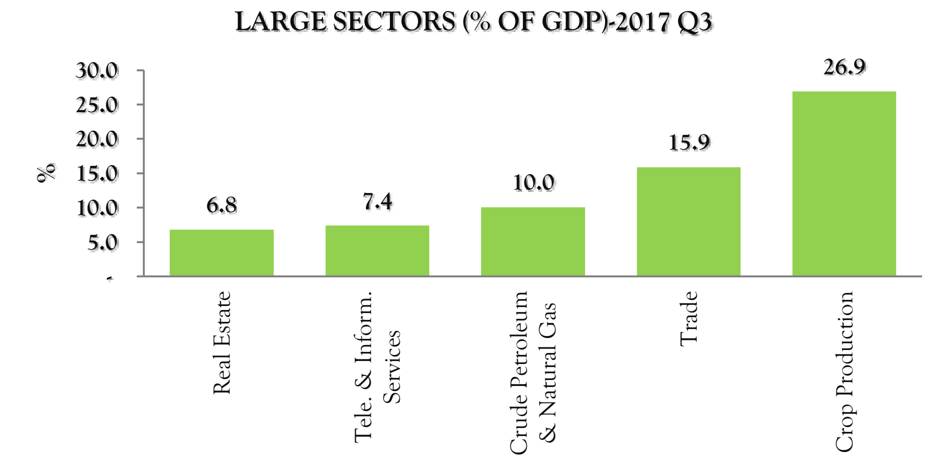
Sub-Sectorial Contribution to GDP
Medium Sectors (1%–5% of GDP)





Sub-Sectorial Contribution to GDP
Large Sectors (>5% of GDP)

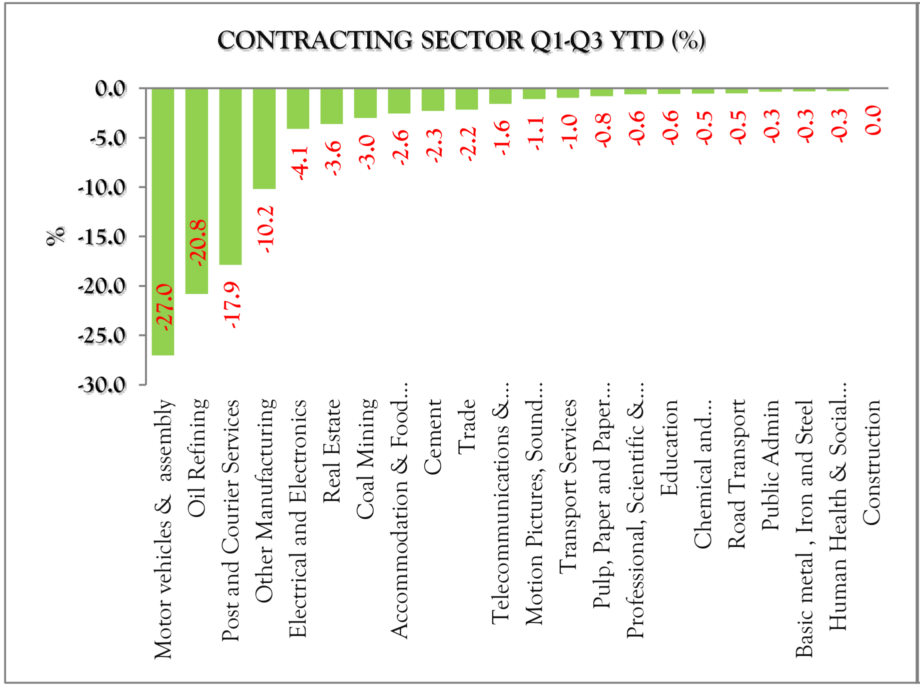


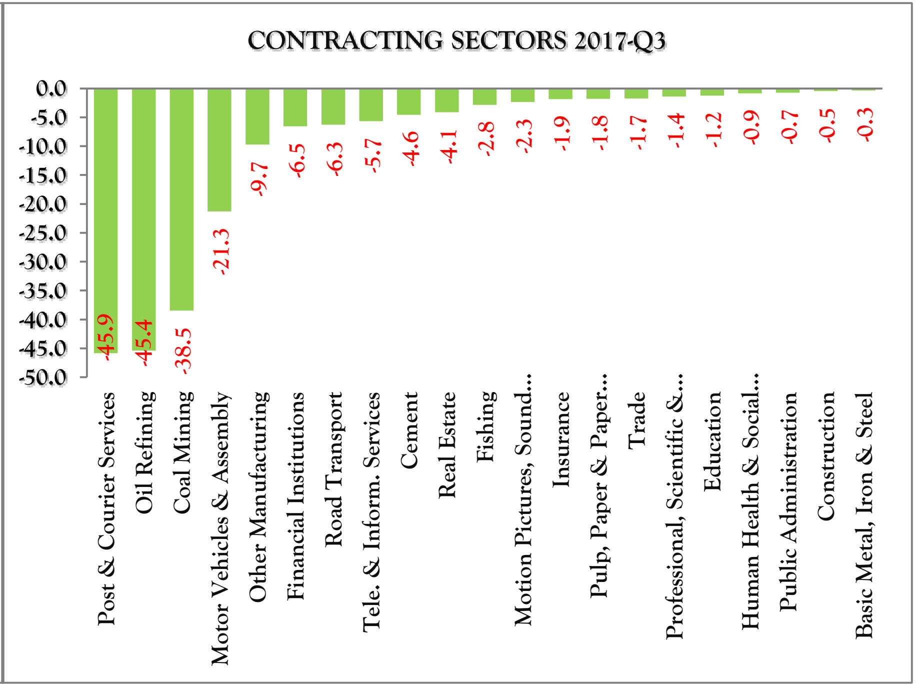


Note:

- We have split up the sectors into Small, Medium and Large based on the 46-sector classification employed by the NBS. This entails disaggregating some collective sectors such as Agriculture into 4 sub-sectors, Manufacturing (13 sub-sectors), ICT (4 sub-sectors) and so on
- Under this scheme and using our criterion for classification only 5 sectors are considered 'Large'
- However, when the various sub-sectors comprising Agriculture, Manufacturing and ICT are aggregated, six large sectors accounting (in Q1-2017) for approximately 78% of GDP emerge

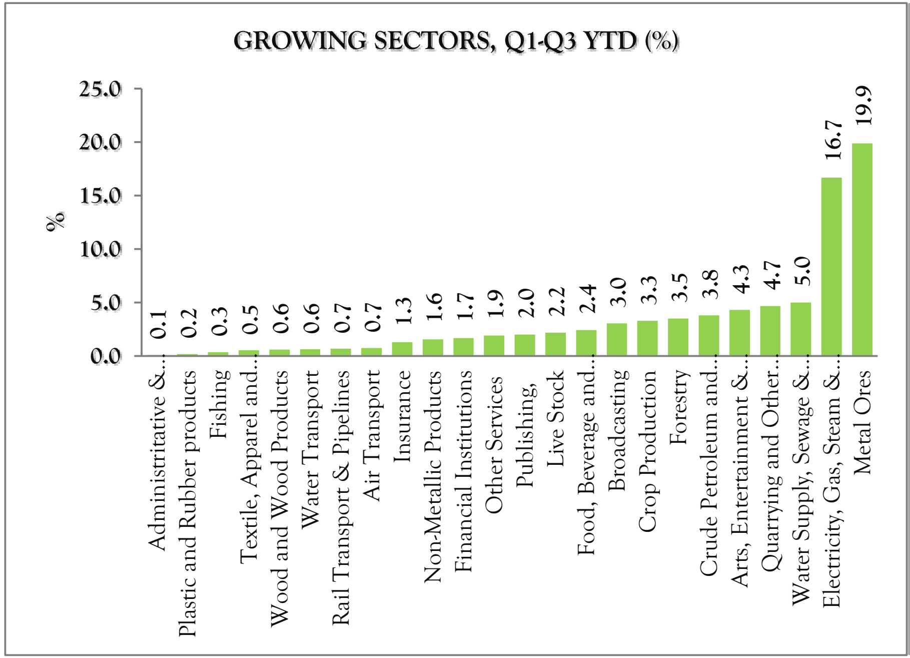
Sector Growth Speed
Contracting Sectors

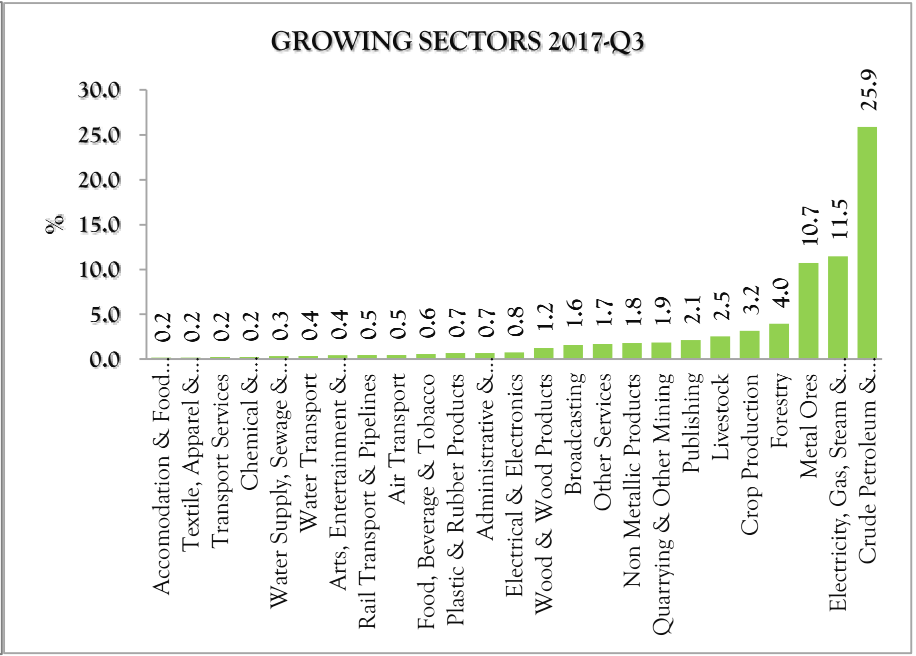




Sector Growth Speed

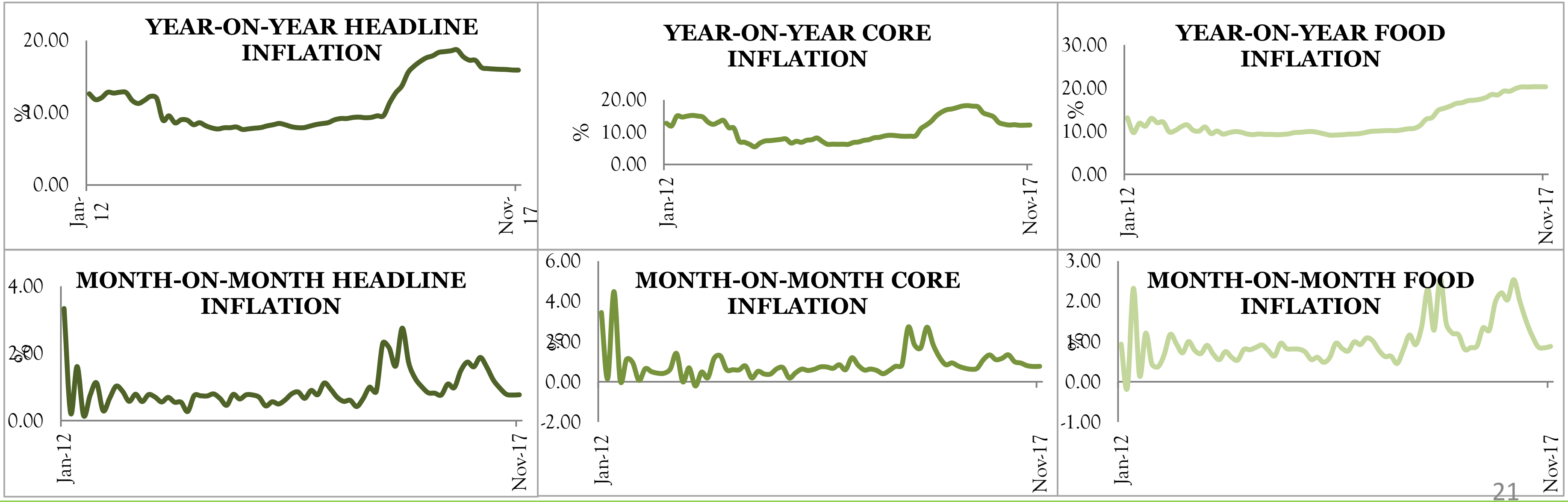
Growing Sectors – Where the opportunities lie



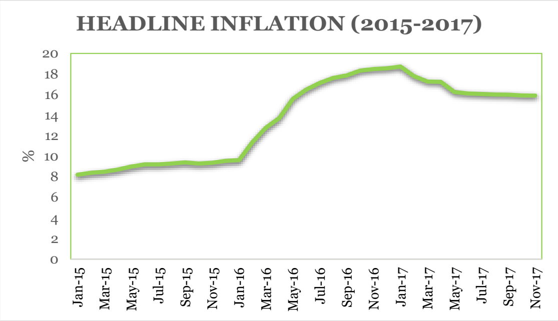


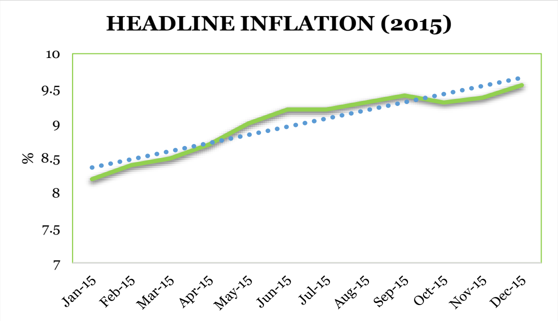
CPI: *Moderating Inflation with Underlying Upward Pressures*

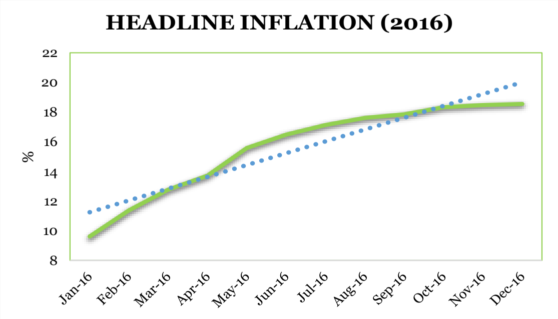
- Moderation of Inflation in 2017 indicative of impact of base effects from 2016
  - In 2016, shocks to Energy & Utilities prices pushed up prices, driving Core Inflation
- Pace of moderation has slowed in recent months, suggesting base effects are exhausted
- Food Inflation appears to be main source of underlying inflation pressure in 2017, but appears to be easing as month-on-month changes decline dramatically in the second half of the year
  - Approach of the harvest season
  - Could relative stability in recent months in FX have reduced incentive to export food to regional markets?

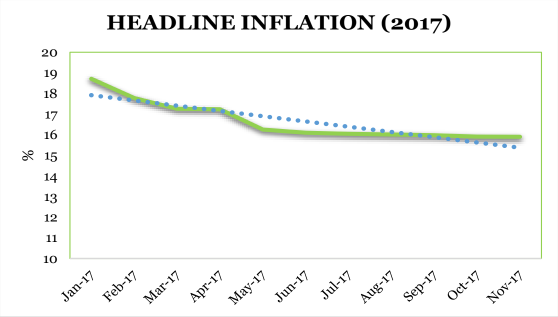


CPI: *Inflation May Remain in Double-Digits in 2018*



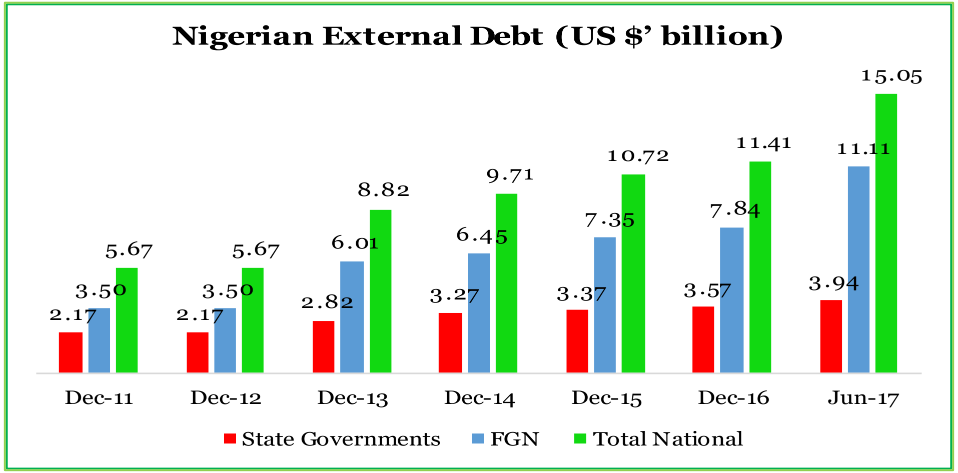






- Inflation, in 2016, rose with a steeper gradient than it has declined in 2017, suggesting the exhaustion of **base effects** and **downside stickiness**
- We expect sluggish declines going forward, declines induced largely by the diminishing impact of the recent food price shock and weak consumer wallets
- Absence of shocks from FX rate consolidation and a possible change in pump price of PMS

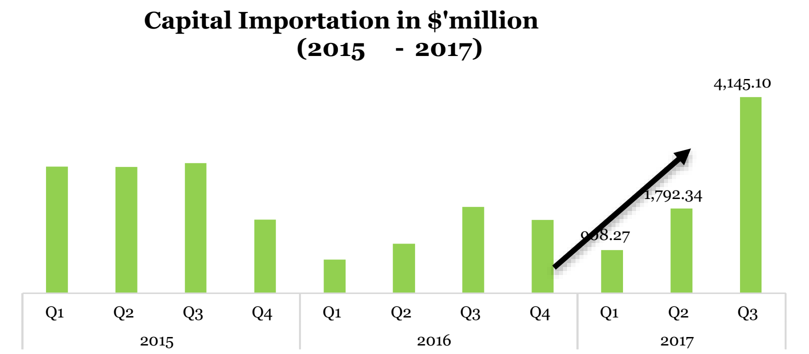
Rising Public Debt as FGN seeks to Fund Budget Deficit

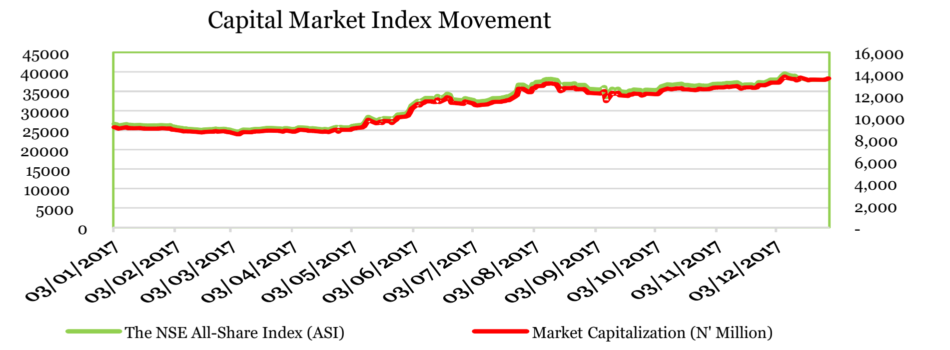


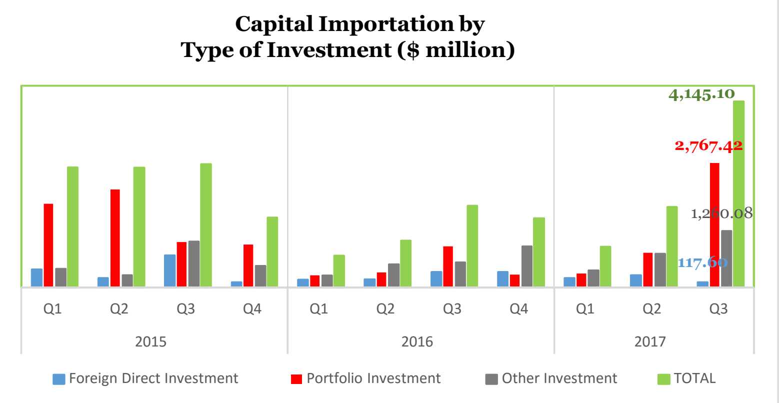
PUBLIC DEBT STOCK AS AT JUNE 30, 2017 (USD Million)			
Debt Category	**USD**	**NGN**	**% of Total**
External Debt Stock (FGN + States +FCT)	15,047.00	4,602,877.30	23.44
Domestic Debt (FGN only)	39,337.86	12,033,450.02	61.28
Sub-Total	**54,384.86**	**16,636,327.32**	
Domestic Debt Stock (States + FCT)	10,132.10	3,000,655.34	15.28
Grand Total	**64,516.96**	**19,636,982.66**	100.00

- External debt hits $18 Billion as at November 2017.
- FGN domestic debt alone hit ₦12 Trillion at the end of H1 2017.
- N100 billion Sukuk Bonds over-subscribed in September 2017.
- Eurobond of $3 billion was raised in two equal tranches in Q4 2017 to finance infrastructural deficit, and to reduce the local currency debt burden.
- Nigeria spends 34% of its revenue on debt servicing.
- Foreign debt servicing gulped $197.29 million in Q3 2017.

Restoration of Confidence in the Business and Investment Space

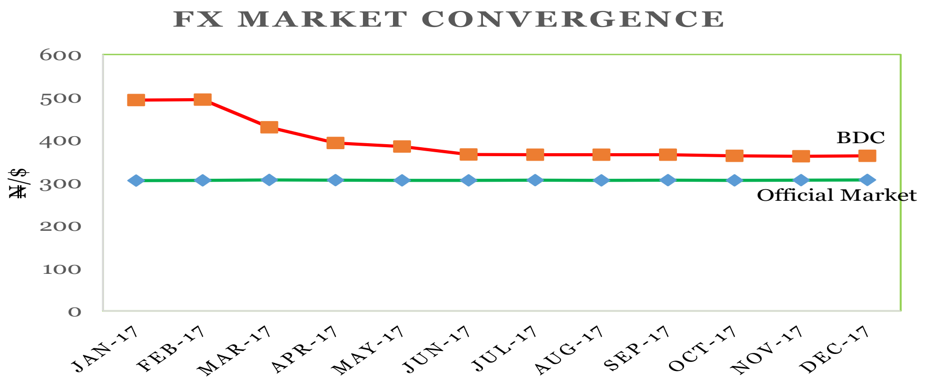






- Sustained growth in Capital Importation in 2017.
- Increased confidence in the Capital Market as the twin capital market indicators (NSE ASI and Market Capitalization) show bullish trend.
- Nigerian Stock Exchanged rated as one of the best perform
- The Primary segment of the capital market has also shown modest sign of confidence. 14 quoted companies raised N340.6 billion via right issues in 2017.
- Lafarge, Guinness Nigeria, Unilever, Flour Mills, Union Bank dominated right issue boom with 94% of total right issue.

Foreign Exchange: Relative Stability Achieved in 2017



- CBN's periodic intervention in the Forex market reduced the exchange rate volatility over the last two quarters of 2017, leading to a gradual convergence of the official market and BDC segment.
- With several policy interventions, businesses witnessed improved liquidity of forex and stability of Naira against the dollar.
- With improved confidence in the forex market, we opine that stability in the FOREX market will be sustained in 2018.
- The multiplicity of exchange rates remains a concern considering the implication for transparency and round-tripping.
- Improved capital importation in 2017, sustained oil production/export, the stability of the FOREX market, and increased dollar borrowing by FGN has stirred external reserve into the $40 billion territory at the beginning of 2018.

2018 Outlook

Major Drivers for Nigerian Economy in 2018

1. **Oil remains central**
   - ❑ What potential for int'l market rebalancing so that demand exceeds supply?
   - ❑ Supply competition and OPEC response
   - ❑ Sustained calm in the Niger-Delta or not?
2. **Security and political risk**
   - ❑ Sectionalist tensions
   - ❑ Herdsmen vs farmers debacle
   - ❑ Seeming resurgence of insecurity in North East
   - ❑ Will politically motivated crimes surge in 2018?
3. **2019 Electoral Calculus and implications for Policy**
   - ❑ Fiscal consolidation and revenue diversification: Would fiscal actions support fragile monetary policy?
   - ❑ Legacy projects see to an uptick in Infrastructure spend
   - ❑ Would we see more elaborate pro-business & investment Reforms & Incentives?
   - ❑ What portents for FX policy?
4. **Policy Uncertainty**
5. **Government borrowing and debt management**

Outlook for Key Macro-Economic Indicators

- **Growth:**

The growth momentum is expected to be sustained in 2018, although at a slow pace: 2- 2.2%. The drivers of growth will remain unchanged: increased agriculture and oil production. In addition, increased infrastructural development and its impact on productivity is expected to boost aggregate demand.

- **Inflation**

Considering that 2018 is an electioneering year, we anticipate an increase in the level of money supply, at a growth rate of 5-10%. Broad money supply contracted by 11.06% in 2017 due to tight liquidity conditions. Also, the likely review of the minimum wage (currently at N18,000) and other social intervention programs by the government should trigger inflationary pressures in 2018.

- **Oil Production**

Nigeria's production levels have been capped at 1.8mbpd by the OPEC. Hence, we project that oil output will remain within the range of 1.75mbpd to 1.8mbpd, barring any disruptions to pipelines.

- **Exchange Rate**

The exchange rate may encounter some pressure owing largely to the anticipated increase in liquidity. However, the CBN will support Naira at the expense of the external reserves level.

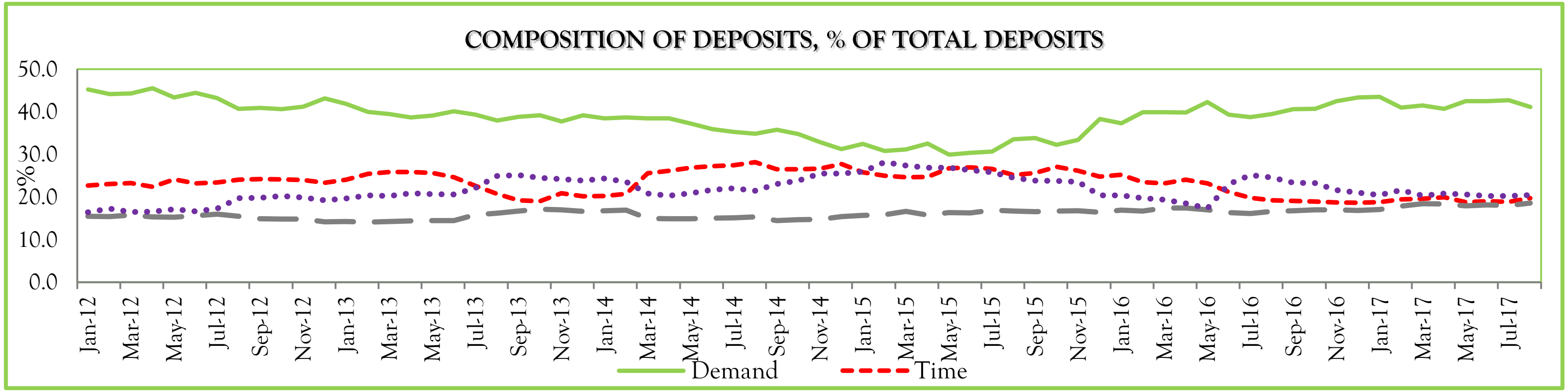
Economic and policy decisions will be influenced by political motives. Nonetheless, the economic recovery recorded in 2017 will be sustained in 2018 however at a slow pace of about 2.2%. This is based on the assumptions of a decent oil production level and oil prices at moderate rate of $55pb. If there are any shocks to oil production and even price, all bets are off.

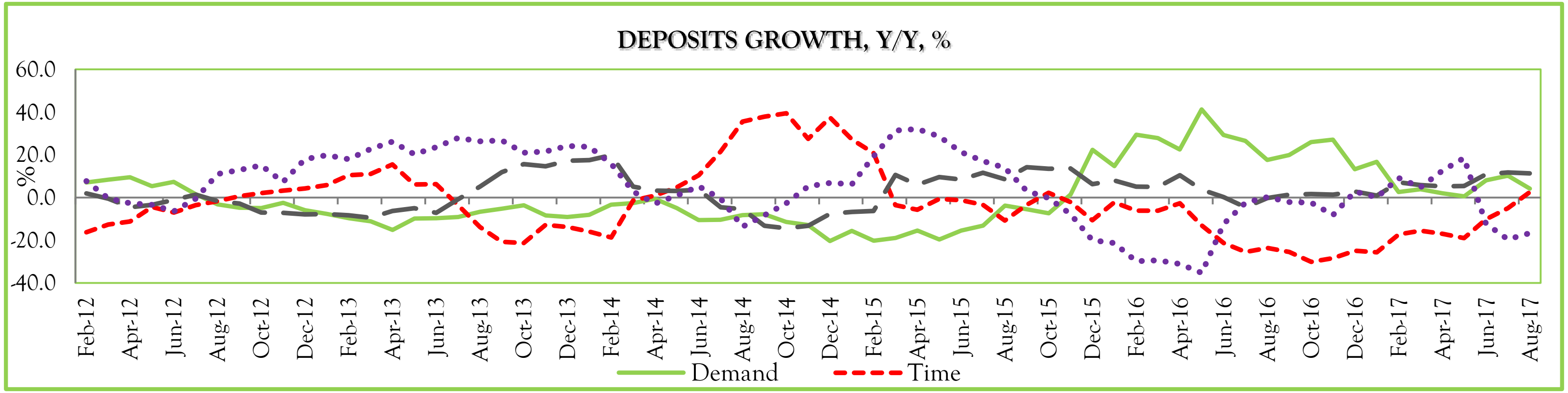
The Banking Industry

Trending Industry Dynamics

1. **Liabilities mobilization:**
   - ❑ Slow economy
   - ❑ Asset Substitution: High yields, & attractive interest-bearing assets luring Savers
2. **Asset Quality:** High and rising industry delinquencies/ NPLs
3. **Credit Concentration:** Loan book domination by
   - ❑ Few sectors
   - ❑ Few obligors
4. **Weak Capitalization:** Capital Ratios diminishing, even weaker in USD terms if I&E window is deployed for conversion of FCY transactions
5. **Policy Risk:** Liquidity management measures
   - ❑ Potential for CBN to sterilize bank balance sheets in order to manage liquidity-creating effects of monetizing deficits
   - ❑ Disparity between Policy-level CRR and Effective CRR
6. **Policy Risk:** Potential incentive structures/conditionalities for access to FX
7. **Industry Counterparty Risks, Customer Overlaps, Network Effects**
8. **Stringent Regulatory Demands in light of IFRS 9 transition**

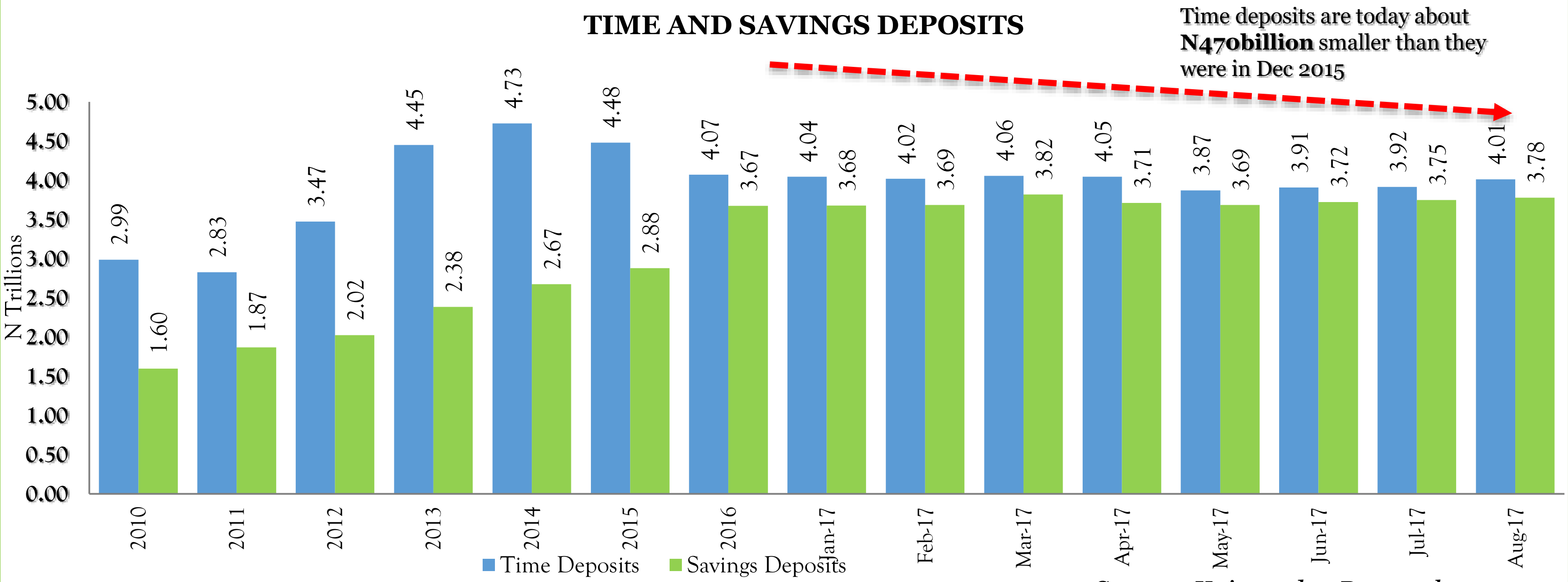
Structure of Bank Deposits:
Demand Deposits most resilient to pressure on deposits





Tenured Deposits Pressured by Attractive Returns on Interest-Bearing Assets

Elevated yields and new FGN securities have lured savers away from tenured deposits to interest-bearing government securities, although tenured deposits appear to be making a comeback in recent months.

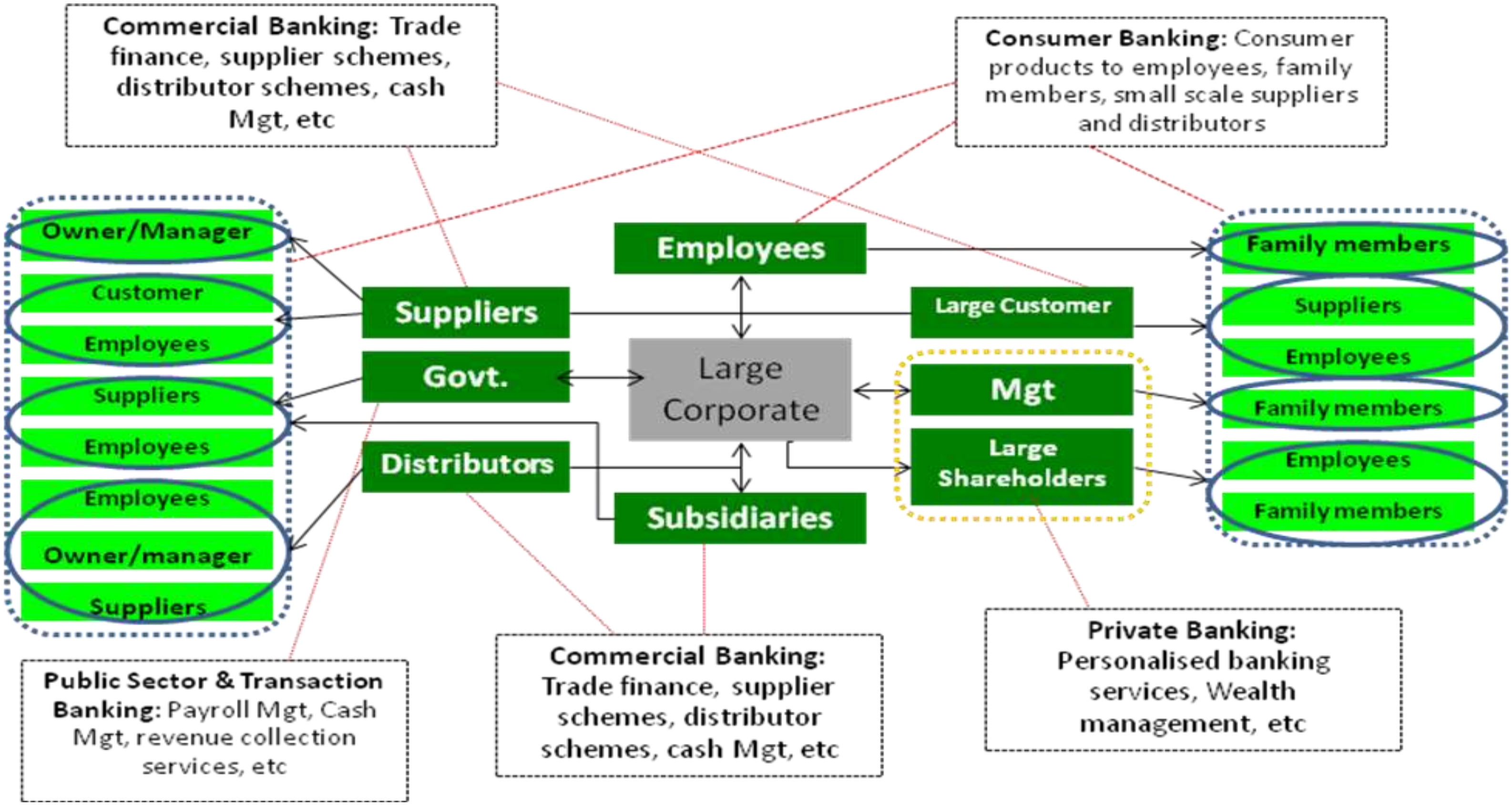


Source: Kainosedge Research

Structure of Deposit Ownership

Deposit Source:	June'15	Dec' 15	Mar. '16	Jun. '16	Sep. '16	Dec. '16	Mar.' 17	Jun. '17	Aug. '17
N' Billion									
Bank & Micro Finance Banks	371.07	97.8	108	129.33	121.16	139.75	244.62	180.06	144.25
Primary Mortgage Banks	79.16	21.54	24.3	23.03	23.12	25.15	31.83	26.73	27.9
Insurance Companies	266.22	97	98.5	92.48	65.99	62.26	61.71	61.71	59.7
Finance Companies	401.11	431.24	417.1	495	324.91	358.52	308.42	308.42	382.15
Other Companies	8356.45	8863.74	8733	9732.33	9346.76	292.97	9801.51	9801.51	9734.43
Individuals	5311.26	5973.02	6215.6	6462.81	6339.7	10,049.72	6237.6	6237.6	6428.44
Non- Residents	55.28	53.41	118.6	59.01	76.15	6167.89	83.05	83.05	85.65
Government	3257.57	1964.43	1781.5	1590.57	1767.06	78.62	1323.37	1323.37	1266.17

The Banking Industry Stability may Lie in Following the Flow of Income of our Customers . . .

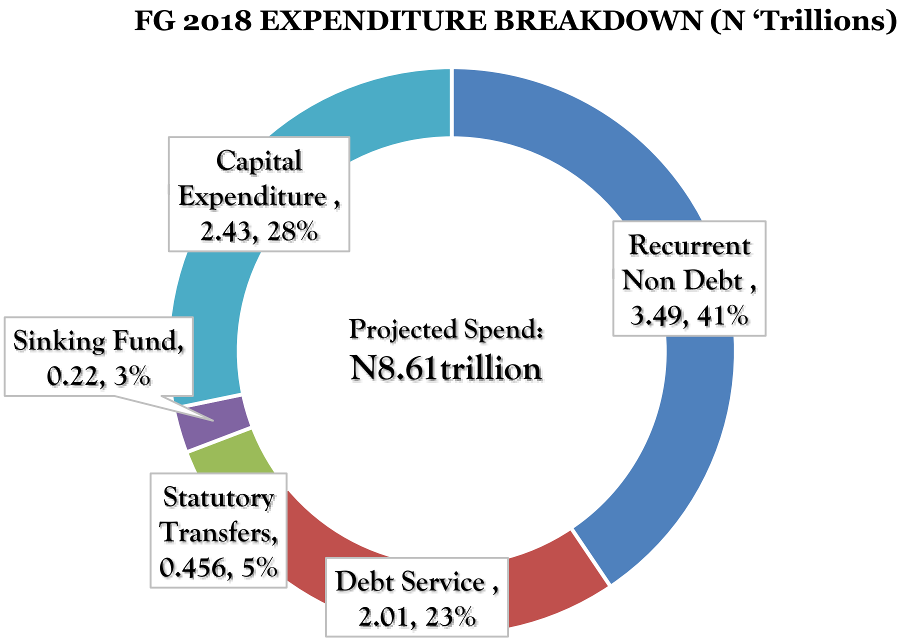


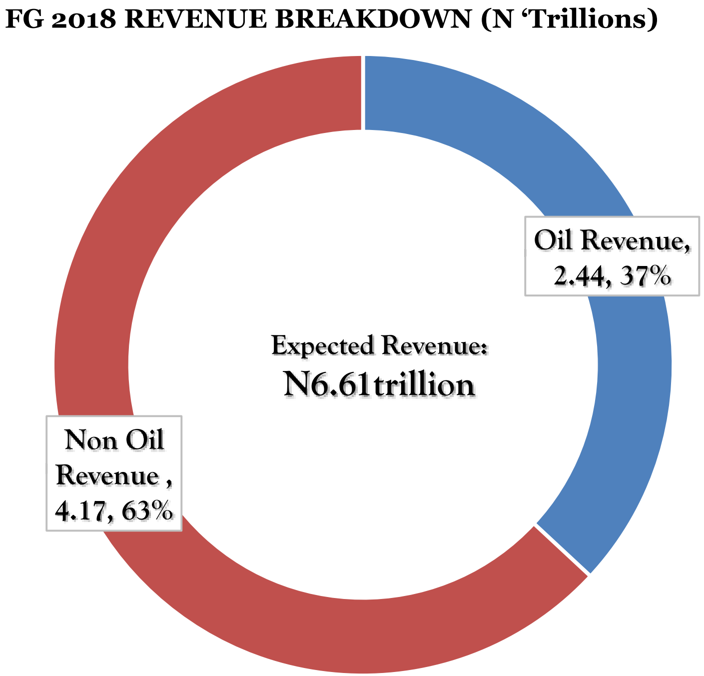
FGN 2018 Budget Proposal

2018 Budget Assumptions and Dynamics

- **GDP Growth: 3.5%**
- **Expected Revenue of N6.61trn vs N5.08 in 2017**
  - Approx. 37% of Revenue from Oil based on Oil Price Benchmark US$45/barrel (US$44.5 in 2017)
  - Oil Production 2.3mn barrels/day (compared with actual of 1.97mbpd ytd and assumed 2.2mbpd in 2017)
  - MTEF 2018–2020 document envisages Taxes (VAT) on luxury goods at 15%, up from 5%
- **Budget Deficit of N2.01trn**
  - Expected to decline to less than 1% of GDP by 2020
- **MTEF envisages shift in favour of foreign financing of deficit**
  - Foreign Financing to increase from 28% to almost72% by 2020
  - Domestic Financing to decrease from 54% in 2016 to 26% in 2020

2018 Budget Proposal Breakdown





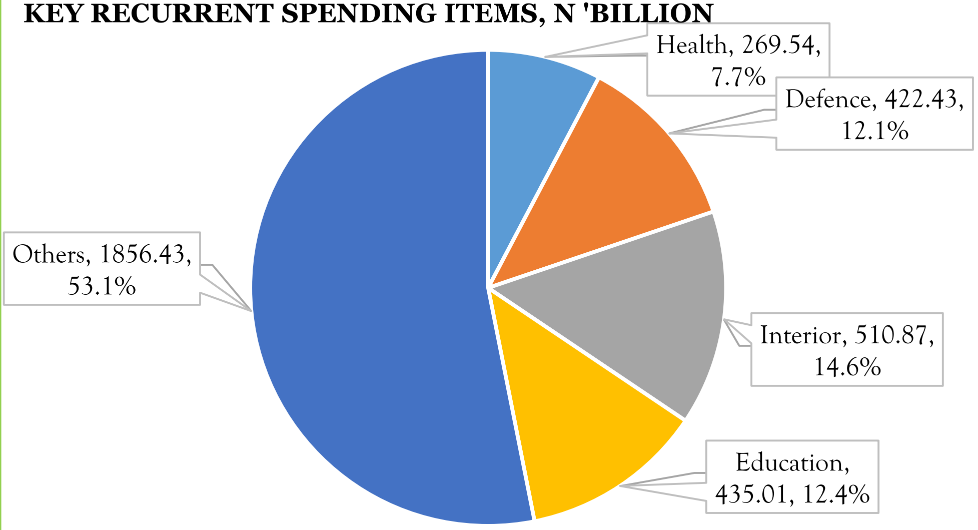
Budget Proposal – 2018 vs 2017

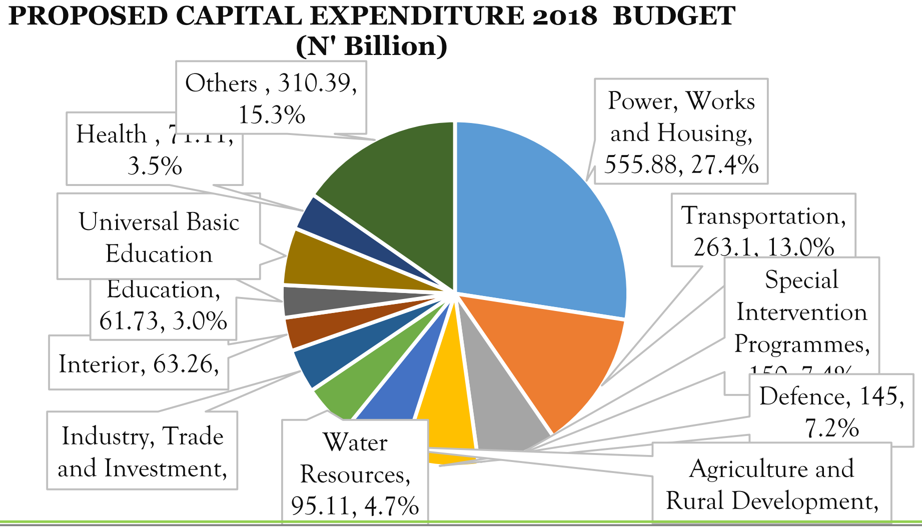
Item	2017	2018	Change	
	N 'tn	N 'tn	N 'tn	%
Total Appropriation	7.44	8.61	1.17	15.7
Revenue Projection	5.08	6.61	1.53	30.1
Deficit	2.36	2.01	-0.35	-14.8
Statutory Transfers	0.44	0.46	0.02	4.5
Debt Service	1.84	2.01	0.17	9.2
Sinking Fund	0.18	0.22	0.04	22.2
Recurrent (Non-Debt)	2.99	3.49	0.5	16.7
CAPEX	2.18	2.43	0.25	11.5

Budget Proposal: *Too Optimistic*

- **A 30% lift in revenue vis-à-vis 2017 anticipates**
  - A surge in non-oil revenue on the back of 3.5% GDP growth
  - Oil Production 2.3mn barrels/day (compared with actual of 1.97mbpd YTD and assumed 2.2mbpd in 2017) and price
  - Tax base expansion & compliance efforts of the FG still require lead time to materialize
  - 3.5% growth amounts to a quadrupling of 0.8% FY GDP growth projected by IMF – not likely!!!
  - Upshot is continued reliance on the domination by oil in 2018 making price & quantity assumptions paramount
    - Oil price will likely stay above $45/bbl. benchmark price
    - 2.3mbpd is a bit of a stretch knowing well that OPEC has pegged our production quota at 1.8mbpd
- **Deficit maybe about 53.2% (N3.07trn) higher than FGN proposed N2.01trn**, based on a combination of smaller revenue outturns and constrained spending in the (likely) event that budget passage is delayed – CAPEX to be the main casualty

2018 Budget Key Spending Items





KEY CAPEX PROJECTS

Project	NGN 'billions
Construction and rehabilitation of strategic roads	300
2nd Niger Bridge (44km long; run through Anambra, Delta, Imo and Edo states)	100
National Housing Programme	35.4
Counterpart funding for earmarked transmission lines and substations	12
Mambila hydro power project	9.8

Key Political Issues That Will Affect Business

1. Cost of Governance, Fiscal Responsibility
2. Corruption
3. Cabinet Reshuffle
4. Politicking – Race for 2019
5. Security – Boko Haram, Herder/Farmers Crisis, Agitation for independence
6. Infighting among political appointees, arms of government

Like Nigeria, the Stability of Households and Businesses May Lie in Maximizing the Flow of Income . . .

unity bank

Individuals and Household

Economic recovery failing to fix fragile household finances. Individuals and households need to keep these in mind:

- It is not time to spend irrationally or impulsively .
- Cut discretionary or impulsive spending. Do not purchase if your survival doesn't depend on it. Resist sales pitches.
- Do not add to your debt burden if you can survive without it. Evaluate carefully before picking up a credit card even if the cost is low.
- Endeavour to create savings buffer/emergency fund. No matter how little, always set some money aside on regular basis for contingencies.
- Create additional stream(s) of income. Your primary responsibility is to keep your current income. Avenues for additional source of income should also be sought.

Small and Commercial Businesses

Many SMEs are still struggling with their business operations despite the positive signs of economic recovery. Small and Commercial Businesses should undertake the following:

- Cut down investment in businesses you are not directly involved in. Focus on keeping your business going.
- Maintain adequate liquidity/cash flow for your business even when profitability is impaired.
- Review the prospect of your business in line with the reality of the economy.
- Curtail any unwarranted cost from your business' expenditure line.
- Maintain good relationship with your current clients. Without them, your business could struggle to survive. Research has it that it costs more exertion and assets to discover new clients than holding on to existing ones.
- Focus on exceptional customer service.

THANK YOU

We Can…

Yes! We Can Succeed Together!