



الوكالة الإسلامية الدولية للتصنيف
Islamic International Rating Agency

ECONOMIC & BANKING SECTOR OVERVIEW

Nigeria

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Economic Overview – Nigeria

Nigeria is the most populous African country with its population of 196mn. According to United Nations (UN) expectations, Nigeria will be the 3rd largest (7th 2018 YE) country by population, which is anticipated to reach 410mn by 2050. After a recession in 2016, Nigeria's ongoing economic recovery, accompanied by reduced inflation and strengthened reserve buffers are deemed positive developments. Nonetheless, long standing structural and policy challenges need to be addressed to reduce vulnerabilities, raise per capita growth, and alleviate poverty, with the latter being the biggest challenge facing the society and the economy, and given that more than half the population remains below the poverty line. Contributing to social susceptibilities is unemployment which rose to 22.6% in 2018, up from 17.5% in 2017, with the labour-force growing by 4.5% over the same period. Reducing unemployment remains a foremost priority, given its social, environmental and political implications, besides its economic effects.

GDP increased by 1.9% in 2018 up from 0.8% in prior year, accelerating rapidly in the last quarter of 2018. Growth was driven by improvements in manufacturing and services, which also benefited from spill-over of a higher oil price. Growth in the agricultural sector, which constitutes about 47% of the labour-force and 25% of GDP, remained below the historical trend of 3-4%, on account of floods and continued need for reforms in the sector.

In tandem with increasing oil prices, current account improved in 2018 and 2017 to 2.1% and 2.8% of GDP respectively, following a deficit of 3.0% in 2015. With considerable downside volatility in oil price and a weak long-term prognosis, we expect Nigeria to remain vulnerable on the external account.

The fiscal dependence on oil is noteworthy at 57%¹ in 2018, with recent reforms directed at increasing non-oil revenue and thereby diversifying revenue streams through tax policy changes and administrative measures. These measures include comprehensive VAT reform, and elimination of tax incentives, in addition to securing oil revenues through restructuring of state-owned enterprises and value addition to the oil economy, through increased diversification.

Despite an improving trend, inflation has persisted above the Central Bank of Nigeria ("CBN") target of 8%, and remains a key monetary policy objective. The central bank in its bid to balance inflation outlook with its economic growth objectives, has recently adopted an expansionary monetary stance in line with other emerging economies. Given multiple windows for exchange rate, unification of these windows and resultant convergence in exchange rates is expected going forward, to support inflation targeting objectives of the CBN and to remove distortions.

On a positive note, a pick-up in non-oil growth has been seen in recent years coupled with significant fall in inflation, and strengthening reserve buffers. However, the recently re-elected government continues to be faced with high unemployment, negative per capita growth and weakness suggested by human development indicators, which under score the need for significant investment required in social infrastructure development.

	2016	2017	2018
Population (million)	184.0	189.0	195.9
GDP per capita (USD)	2,206	1,995	2,049
GDP (USD bn)	405	376	397
Economic Growth (GDP, annual variation in %)	-1.6	0.8	1.9
Unemployment Rate	13.40	17.50	22.60
Fiscal Balance (% of GDP)	-2.20	-4.00	-4.00
Public Debt (% of GDP)	19.60	23.40	28.40
Inflation Rate (CPI, annual variation in %)	15.70	16.50	12.10
Policy Interest Rate (%)	14.00	14.00	14.00
Exchange Rate (vs USD)	304.50	305.50	306.50
Current Account (% of GDP)	0.70	2.80	2.10
International Reserves (USD)	25.80	38.80	42.60
External Debt (% of GDP)	2.80	5.00	16.00

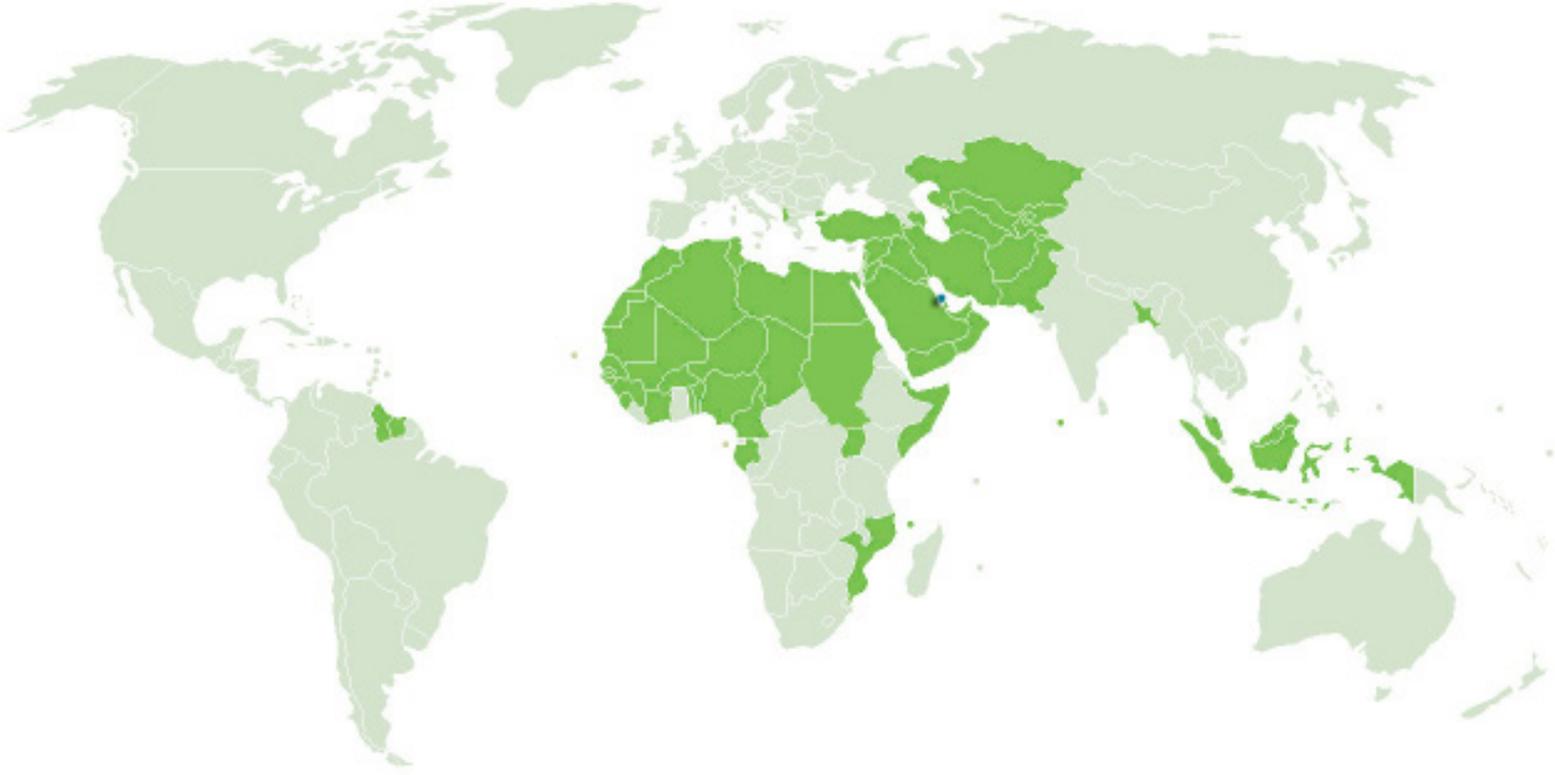
¹ Source : IMF

Banking Sector

Despite a number of players in the financial sector, financial access remains weak at 40%². The banking sector spans 21 conventional banks and 1 non-interest bank being Jaiz Bank, as of May 2019. In July 2019, the second Non-interest Bank has been licensed in the country. The sector depicts concentration at one end with 10 largest banks having a market share of 84% and fragmentation at the lower end. Aggregate assets at NGN 37.2tn at 2018 YE (NGN 34.5tn) related to 26% of GDP, indicating an under banked population and significant room for growth.

At 13.2% at YE 2018, non-performing loans, are one of the most significant issues plaguing the banking sector. Although receding from 14.8% at YE 2017, with economic recovery on the back of higher oil prices, and sale of NPLs to asset management companies (AMCs), non-performance remains above global norms. Despite the recent takeover of Polaris Bank (erstwhile Skye Bank) by AMCON, the state-owned asset management company, which has picked up a large portion of the sector's non-performing assets, impairments continue to weigh on financial sector performance. Restructured loans, particularly in the oil and gas sector, reportedly average 30% of total loans, and pose further threat to the sector's health with "Power and Energy", "Transport and Storage" and "Oil and Gas" industries being deemed high risk as reflected in incidence of non-performance. Capital adequacy indicators in the sector improved markedly to 15.3% (FY2017: 10.3%) at YE 2018, with gradual economic recovery and resolution of troubled banks through disposal of NPLs or take over as mentioned earlier. Stress tests indicate that large banks' resilience to credit risk and high sector or single obligor concentration has improved, while small and medium-sized banks remain vulnerable.

² World Bank Data, 2017



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