



The Nigerian Capital Market and 2017 Budget: Lessons for 2018



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Justification for Budget Analysis

I enjoin the general public... to maintain active interest in government's management of the nation's resources and therefore to track progress...

- *Sen. Udoma Udo Udoma, HMBNP (BIR, 2016, 2017)*

National budgets, when they are properly implemented, could promote macroeconomic growth and stability, both of which could have significant positive influence on the capital market

- *Mounir Gwarzo, DG, SEC (NJSM, 2017)*

Outline of Presentation

1. Background to Presentation

- a. Framework for Budget Impact Analysis
- b. Key Points from 2017 Budget Seminar
- c. Contribution of Capital market to Budget and Planning

2. 2017 Budget and the Economy

- a. Highlights of 2017 Budget and Outcome
- b. Macroeconomic Performance

3. 2017 Capital Market

- a. Primary Capital Market Activities
- b. Secondary Capital Market Activities

4. 2018 Budget and Capital Market

- a. Snapshot of the 2018 Budget
- b. Budget Implications for the Capital Market

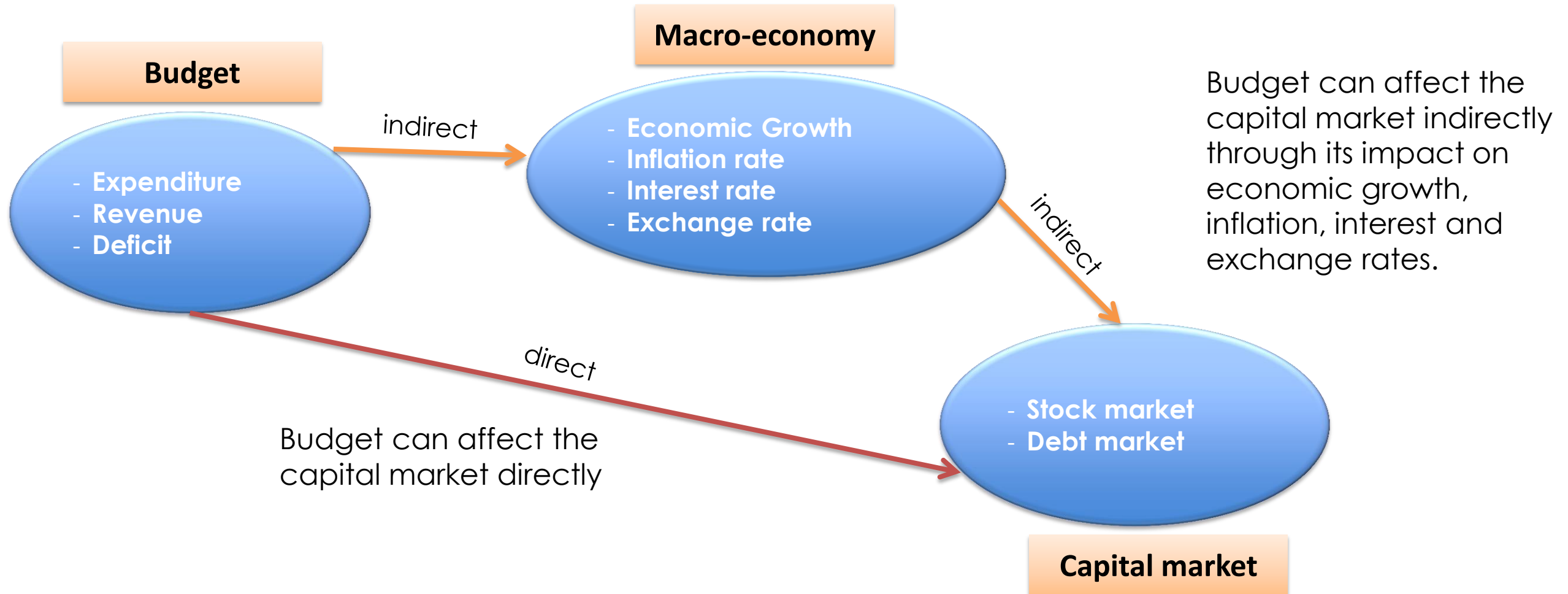
5. Operating Environment from 2018

- a. Planning
- b. Technological and Product Development
- c. Political and Global

6. Summaries and implications



Framework for Budget Impact Analysis



The size and sign of these impacts can vary; thereby making the net impact ambiguous

Key Points from 2017 Budget Seminar

- The expansionary 2017 budget is necessary to return the economy to the path of growth and recovery.
- In financing the budget deficit, the debt segment of the capital market will derive some immediate benefits
- Also, stocks performance of companies that produce/supply goods to government priority sectors will likely improve
- However, the process of financing the budget deficit will further crowd out private investment (interest and exchange rates channels)
 - Need to lower interest rate and reduce uncertainties in exchange rate
- Companies/stocks will later benefit when deficit is used to finance productive capital
- Capital market to be conscious of its contribution to budget success and derivable benefit, coming up with relevant products and initiatives.



- Communiqué published and forwarded to relevant institutions
- WAMI, WAIFEM, MBNP Workshop inputs

Contributions of Capital Market to Budget and Planning

- 1) Provide platform for selling government shares during privatisation
 - Proceeds from privatisation are also used to finance government deficit
- 2) Serve as a market to government when trying to fund budget deficit through the bond issuance
- 3) Engenders transparency among listed firms; thereby easing government tax receipts
- 4) Submit inputs into budget and planning processes



Highlights of 2017 Budget and Outcome (+Forecasts)

Heading	Budget Assumptions	Actuals @ June 2017	2016 Implementation (%)	Forecast (Jul – Dec) @ 2016 Implementation
Expenditure	7.44trn	1.387trn	84.8	4.92trn
• Capital	2.17trn	-	6.6 (+70.2)	1.67trn (less N450bn)
• Recurrent (non-debt)	2.99trn	282.17bn	91.1	2.44trn
• Recurrent (debt)	1.84trn	927.74bn	93.9	800bn
• Statutory transfer	0.43trn	64.00bn	97.9	360bn
Revenue	5.08trn	1.497trn	76.4	2.38trn
• Oil	2.12trn	414.11bn	97.2	1.65trn
• Non-oil	2.96trn	1.083trn (+466.82bn Paris)	71.7	1.04trn
Oil price	US\$44.50/barrel	US\$52.14/barrel (OPEC)		US\$52.3/barrel (EIU)
Oil production	2.2mbpd	1.67mbpd (OPEC)		1.52mbpd (EIU)
Exchange rate	N305/\$ N493.29 (BDC-Jan)	N305.72/\$ N366.25 (BDC)		N305.72/\$ N366.25 (BDC)
Inflation rate	12.92%	16.10%		14.5% (EIU)
GDP growth rate	2.5%	-0.18 (-0.91+0.55)		0.8%(EIU)

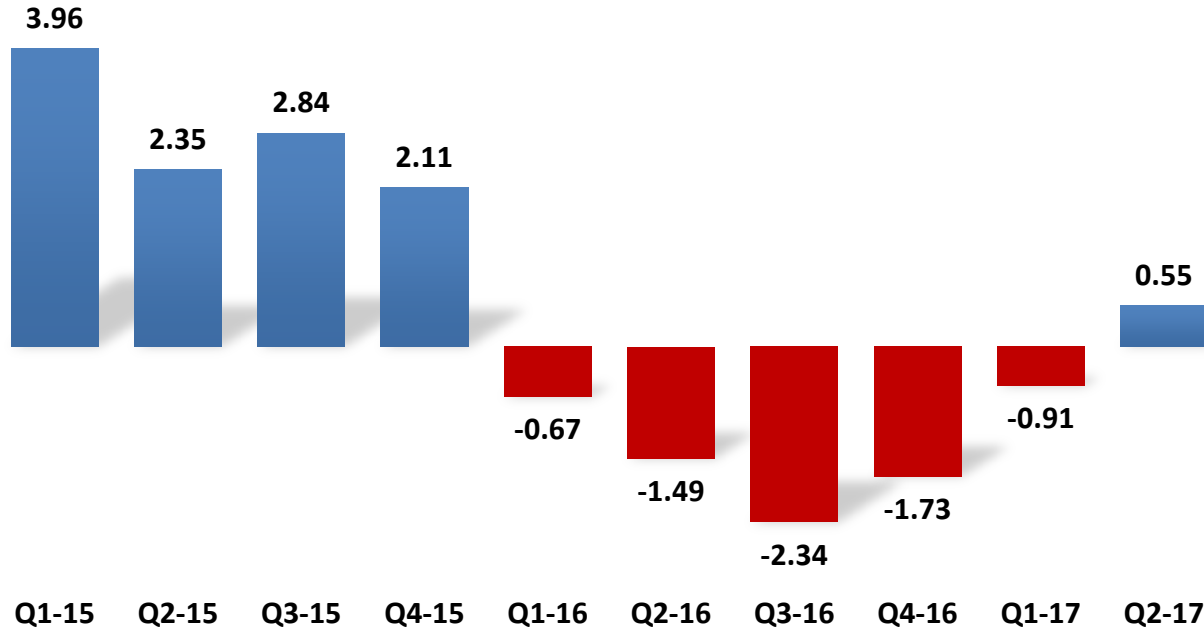
Further Developments on 2017 Budget

- \$1.5bn Eurobond issued in February at 7.875% to finance 2016 budget
- \$300mn Diaspora bond issued in June at 5.625% to finance 2017 budget.
- N100bn Sovereign Sukuk issued in Sept at 16.47%
 - Sukuk proceed of N100bn handed over to FMPWH – for 25 roads
- Plan to borrow additional \$5.5bn in international capital market
 - \$2.5bn to finance road and rail projects in 2017 budget
 - \$3.0bn to refinance existing short-term domestic debt
 - 31% of FGN's domestic debt in NTBs at 17%.
 - Interest saving vs exchange risk trade-off
- N450bn capital disbursement so far
 - Plan to allocate 50% of capital before year-end
 - Capital implementation likely to spill over to mid-2018
- Low implementation of 2017 capital budget due to:
 - Late passage of 2017 budget
 - Extension of 2016 budget to May 5, 2017
 - Shortfall in oil and non-oil revenue
- Voluntary Assets and Income Declaration Scheme, 9 mths. from July, 2016

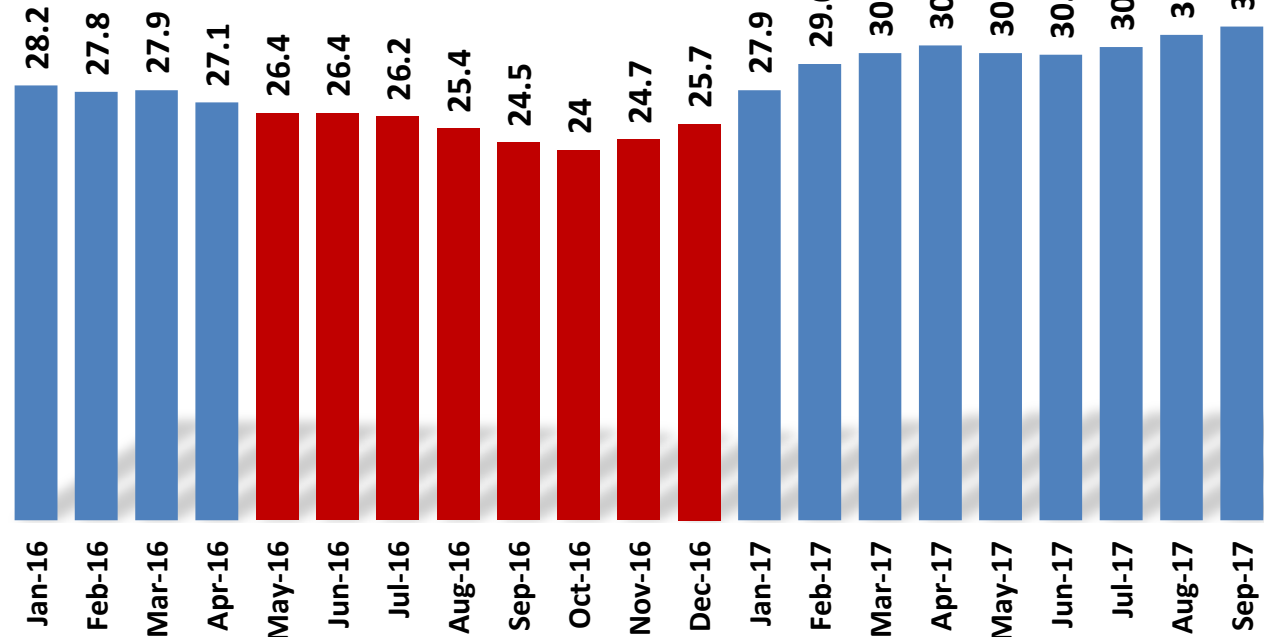


Macroeconomic Performance

GDP Growth (%)



External Reserves(US\$bn)

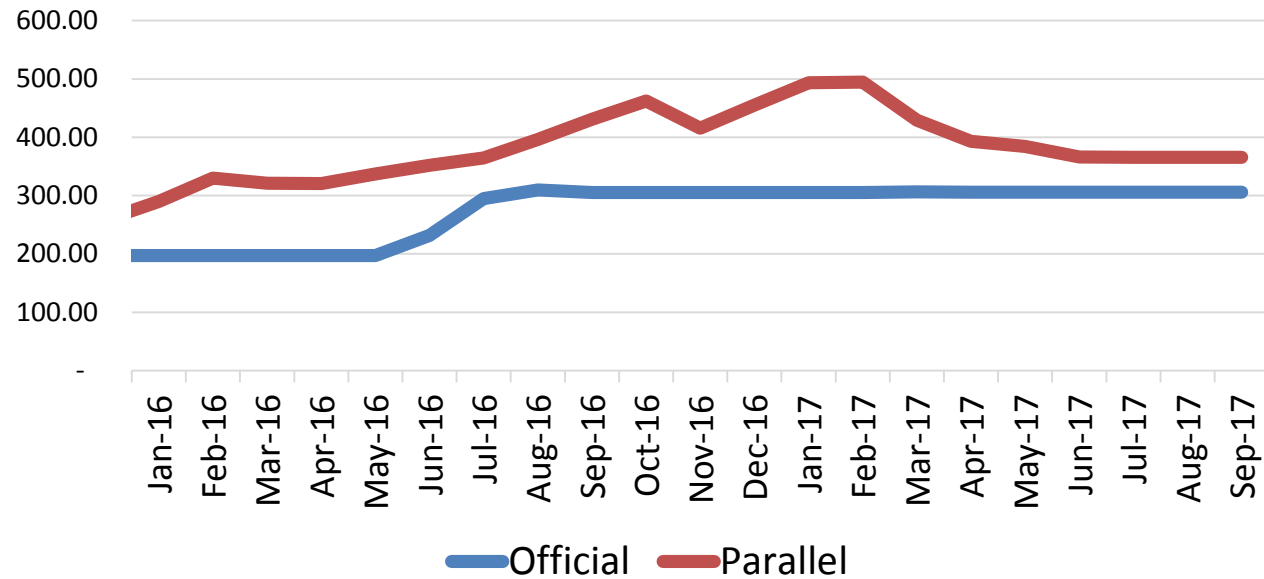


- ❑ Nigeria exited recession in Q2'17 with 0.55% growth
 - Oil production was a major driver of growth with growth in agriculture, manufacturing and trade.
 - Also the relatively stable exchange rates

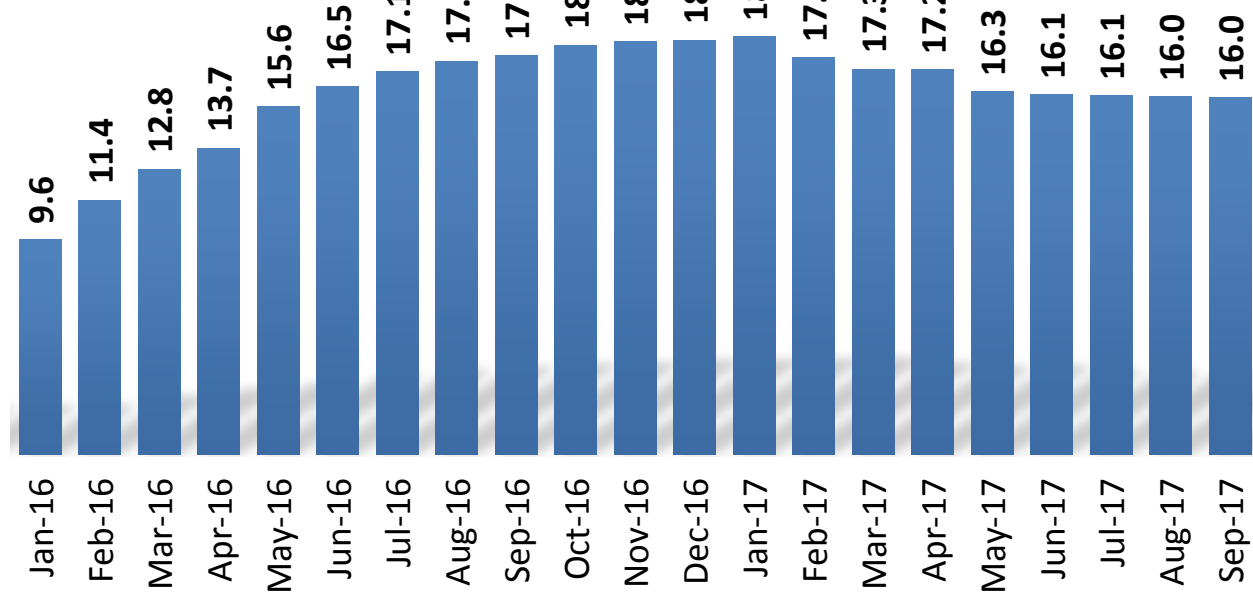
- ❑ External reserves grew towards US\$34.03bn Oct'17 end due to:
 - Higher oil prices
 - Higher oil production,
 - Increased government borrowings
- ❑ Period of reserves accretion corresponds to that of growth
 - Evidence of vulnerability to external shocks

Macroeconomic Performance (Cont'd)

Monthly Average Exchange Rate



Inflation Rate (%)



❑ CBN's FOREX intervention has ensured stable exchange rates

- Availability of FOREX could boost company profits

❑ Noticeable convergence in exchange rates

- Though multiple rates still persist

❑ Inflation dropped marginally for the 8th consecutive month to 15.98%

- Declining base year effects

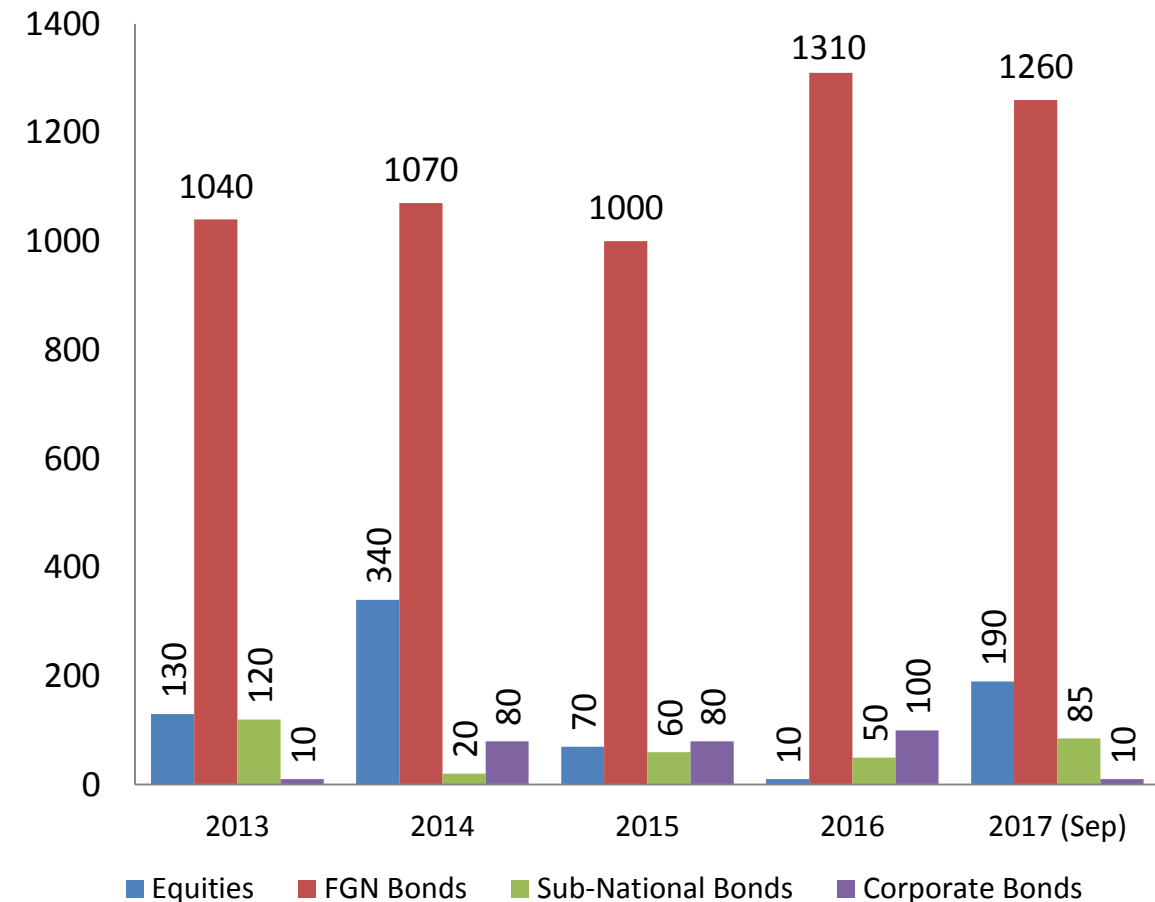
❑ Two-digits level expected to persist

- Lingering effects of currency devaluation shocks

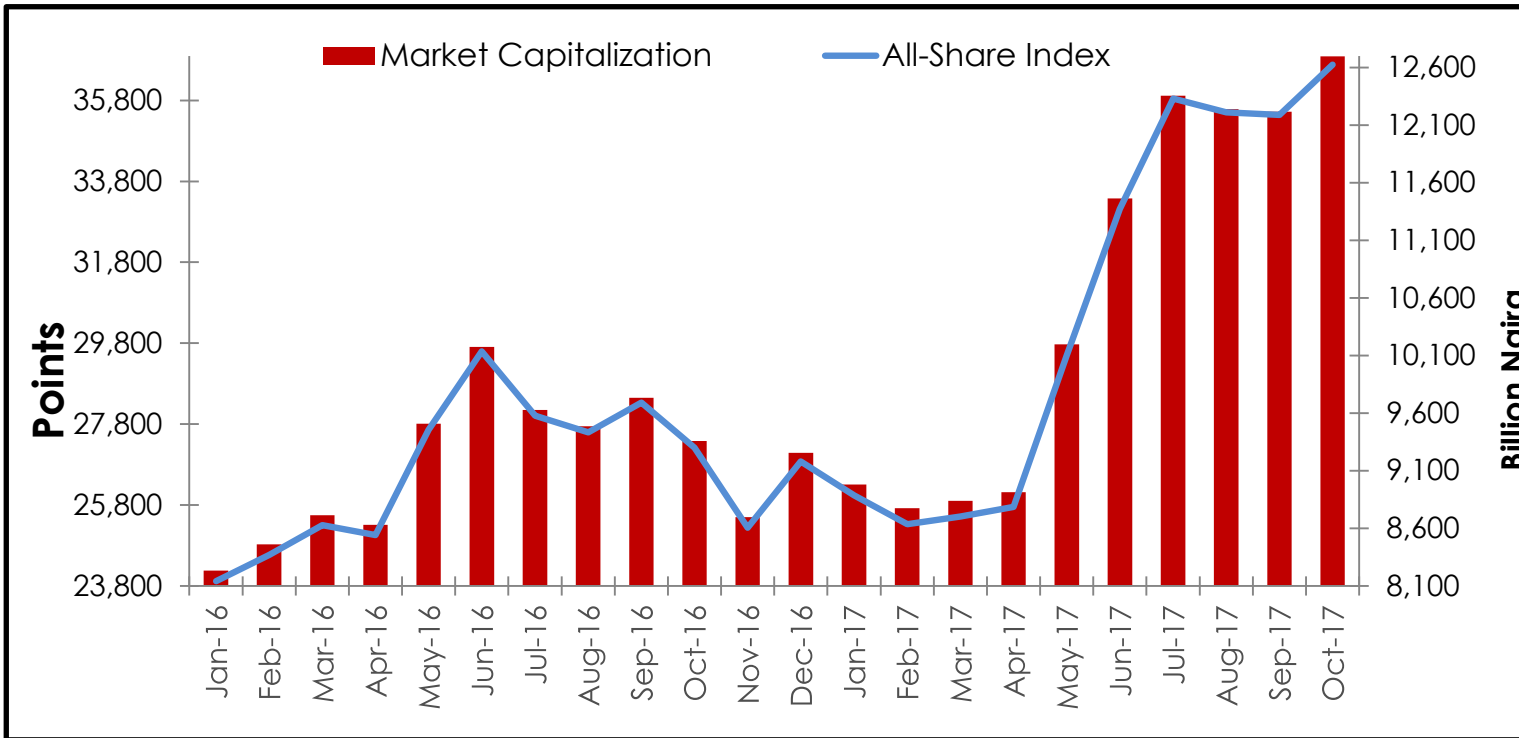
Primary Capital Market Activities

- ❑ By Sep'17, total value of new issues amounts to N1.55trn
 - Equities is 12% of the total issues
 - Rights issues made up 94% of the equities issued
- ❑ FGN Bonds dominates new issues at 82%
 - FGN issues at Sep. almost equal full year 2016
 - Leaving little space for other issuers
- ❑ Sub-national bonds is 6%
- ❑ Corporate Bonds is 1%

New Issues (N'bn)



Secondary Markets - NSE



❑ ASI stood at 36,680.29 points at the end of Oct. 2017

- Gained 37.8% from January
- Gained 34.8% compared to Oct. 2016

❑ Equities market capitalization for the same period was N12.7trn

❑ At 2017 budget seminar

- ASI was 25,322.3
- Equities market cap. was N8.76
 - Budget grew by 15.6%
 - Market cap. grew by 45%

❑ Improved stock performance due to:

- Improved global conditions – higher growth, lower inflation and interest rates, stable oil price
- Improved domestic macroeconomic fundamentals
- CBN intervention in the foreign exchange market
- New pension Multi-fund Structure
- Improved company results
- Regulatory initiatives that boost investor confidence

Listed Companies' Fundamentals

Average Profit after Tax (PAT) Per Sector (N'm)

Sectors	2017:Q2	Y-o-Y	Q-o-Q
Agriculture	2,845.80	119.29	65.30
Conglomerates	785.33	(146.40)	(8.18)
Construction	(845.41)	(1,528.25)	58.92
Consumer Goods	6,219.04	284.42	285.10
Financial : Banking	4,388.80	(78.01)	(62.17)
Financial : Insurance	626.89	45.76	93.55
Financial : Others	748.39	416.31	89.08
Healthcare	46.82	(109.18)	8.98
ICT	48.72	(62.24)	357.20
Industrial Goods	16,530.70	218.06	169.72
Natural Resources	56.95	(200.73)	(279.62)
Oil and Gas	595.51	(113.75)	15,232.2
Services	140.38	(166.02)	530.52
Total Market	2,475.99	46.11	45.26

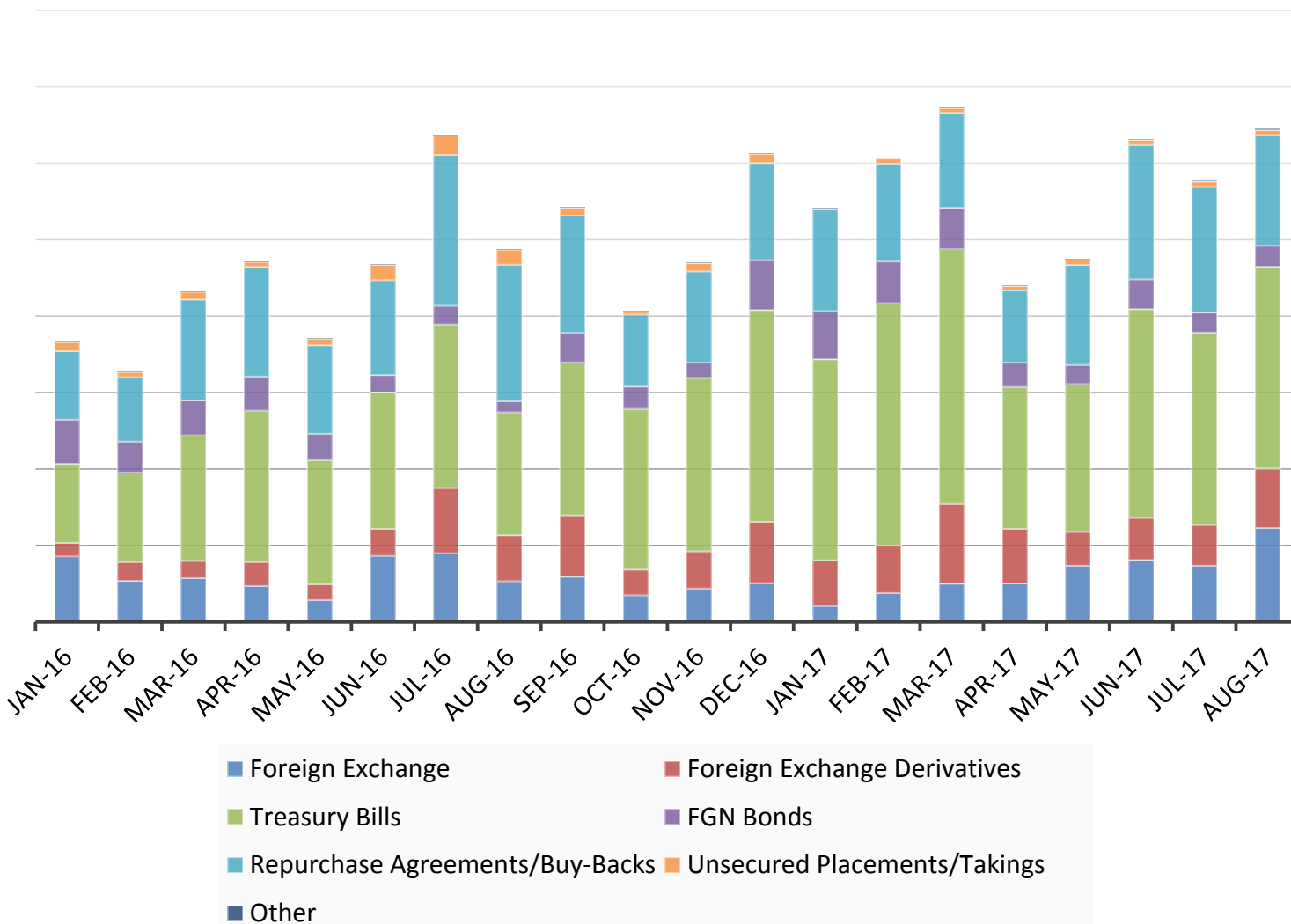
- ❑ Performance (PAT) of listed companies improved by 46% on the average between H1'16 and H1'17
 - ❑ Justifying growth in their prices and ASI
- ❑ Performance (PAT) of many of the top 20 firms beat the market average.

Performance of Top 20 Firms (H1'17)

Company	Sector	PAT Growth(%) 2017H1	Closing Price Growth (%)
Dangote Cem.	Industrial Goods	39.28	6.77
Nig. Brew.	Consumer Goods	19.72	16.67
GTBank	Financial Services	14.24	49.70
Nestle	Consumer Goods	96.76	6.00
Zenith	Financial Services	52.91	32.47
Lafarge Afr.	Industrial Goods	253.28	(31.98)
Stanbic Ibtc	Financial Services	53.06	103.70
UBA	Financial Services	35.98	86.38
Seplat	Oil And Gas	251.90	40.91
Access Bank	Financial Services	14.75	61.74
EcoBank	Financial Services	17.63	(12.69)
Fbn Holdings	Financial Services	(23.90)	64.01
Unilever	Consumer Goods	70.26	11.73
Guinness	Consumer Goods	204.79	(34.55)
Mobil Oil	Oil And Gas	(78.52)	47.94
Total	Oil And Gas	(93.95)	47.37
Union Bank	Financial Services	4.77	20.00
Dangote Sugar	Consumer Goods	56.84	35.34
Oando	Oil And Gas	691.70	12.31
Forte Oil	Oil And Gas	45.66	(73.69)
Julius Berger	Construction	137.31	(26.41)

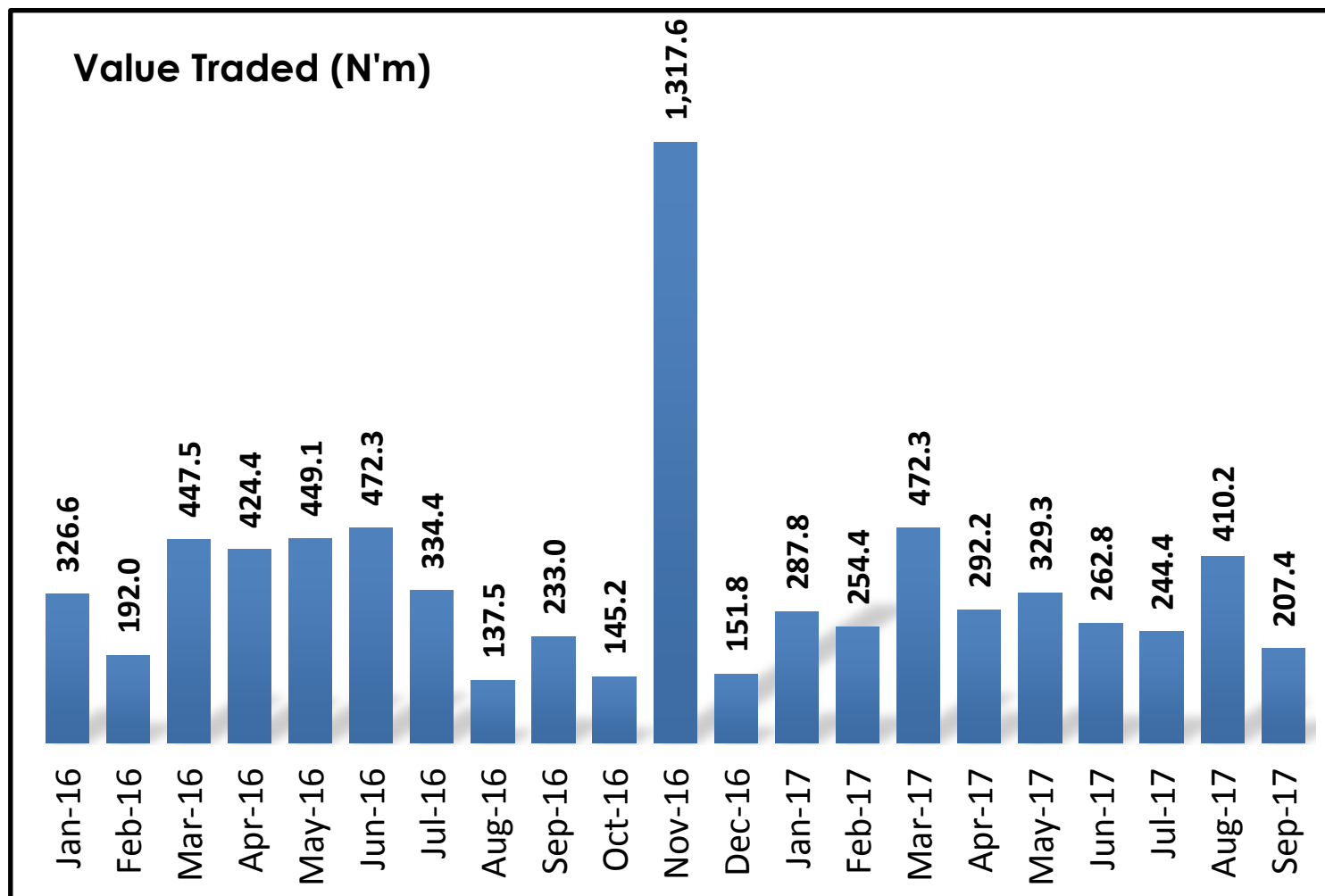
Secondary Markets: FMDQ

Market Turnover (N'bn)



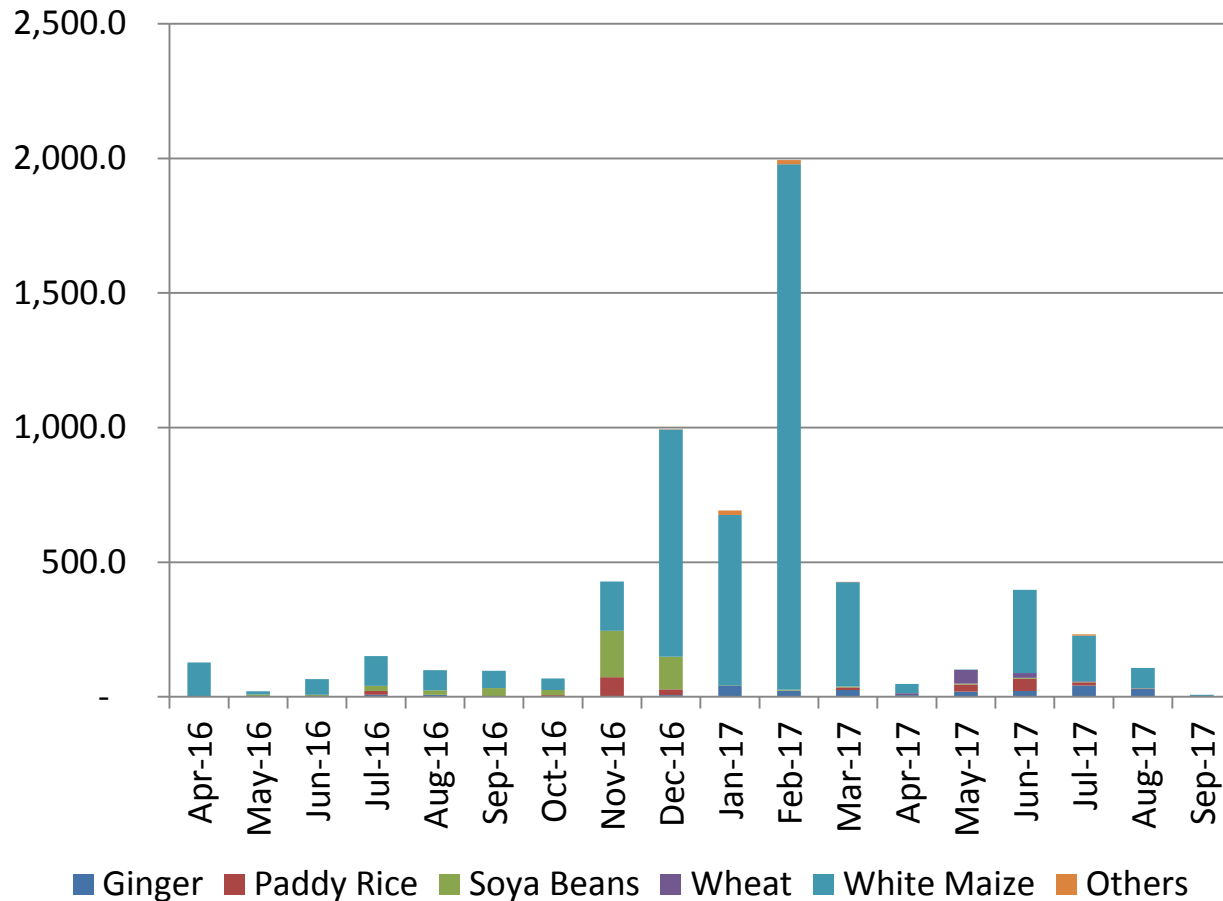
- ❑ Total turnover in Aug'17 was N12.9trn and N12.18trn in Oct'17
- ❑ The second half of 2017 sees improved activities compared to the first.
- ❑ Treasury bills dominate the market
 - Accounted for 41% of turnover
 - Followed by Repurchase with 22.4%.
- ❑ Foreign Exchange recorded the highest growth in turnover (484%) from Jan. 17 – Aug. 17
 - Now 19% of total turnover
- ❑ FGN bonds declined by 56.8% from Jan
 - Responsible for 4.2% of turnover

Secondary Markets: NASD



- Trade on the floor was valued at N207.4m in Sep. 2017
 - Value fell by 27.94% compared to Jan. 2017
 - Peak value in 2017 was N472.3m in Mar.
- Highest value of trade was recorded in Nov. 2016 worth N1.32bn
 - High transactions in Friesland Campina
- Increased transactions projected given the Platform's recent initiatives and product development

Secondary Markets: AFEX



- Value traded was N7.5mn in Sep. from N107.1mn in Aug.
- White Maize dominates trades
 - Others include paddy rice, soya beans
- When compared to corresponding periods of 2016, value traded improved.
- Transactions on the Platform expected to rise between Nov'17 and Mar'18 based on the cycles

Snapshot of the 2018 Budget of Consolidation

	Size & Growth	Sectoral/Component Allocation				Specific Plans/Initiatives
Expenditure	<ul style="list-style-type: none"> Proposed expenditure of N8.612trn <ul style="list-style-type: none"> from N7.44trn in 2017 15.6% growth Capital expenses is N2.652trn (30.8%) 	Top Capital Spenders (N'bn)				<ul style="list-style-type: none"> Consolidation on 2017 projects and initiatives Manbilla Hydropower projects Earmarked Transmission lines and stations National Housing Programme 2nd Niger Bridge Focus on Niger Delta and North East Completion of East-West Road NSIA to invest locally Stiffer regulation on MDA's employment
		Size (N'B)	2017	2018	Growth (%)	
		<ul style="list-style-type: none"> Works, Power and Housing Transport Defence Agriculture Water Resources Industry, Trade and Inv. Interior Education Health 	553.7	555.9	0.4	
		241.7	263.1	8.8		
		139.3	145.0	4.1		
		103.8	119.0	14.6		
		104.2	95.1	-8.8		
		81.7	82.9	1.5		
		63.8	63.3	-0.8		
		56.7	61.7	8.8		
		55.6	71.1	27.9		
Revenue	<ul style="list-style-type: none"> Projected revenue of N6.607trn <ul style="list-style-type: none"> From N5.086trn 30% growth 	<ul style="list-style-type: none"> Oil N2.442trn (36.96%) Non-oil N4.165trn (63.04%) <u>Assumptions</u> <ul style="list-style-type: none"> Oil price: US\$45.00 ; Currently \$60.75; Projection (eia): \$56.0 Oil pdn. 2.30mb/d ; 1.86mb/d in Sep.2017 (Aug.: 1.80mb) Ex. Rate N305/US\$1 ; Black Mkt N363/US\$1; GDP Growth: 3.5% ; Inflation: 12.4% 				<ul style="list-style-type: none"> Enforcement of surplus remittance by SOEs
Deficit	<ul style="list-style-type: none"> Deficit of N2.005trn <ul style="list-style-type: none"> 1.77% of GDP 15% lower than 2017 	<u>Deficit Financing</u> <ul style="list-style-type: none"> Deficit to be financed partly by new borrowings of N1.699trn 50% domestic ; 50% external Balance of deficit N306bn to be financed from proceeds of privatization of some non-oil assets by BPE Debt service:N2.014trn from N1.6689trn in 2017 (20.7% gr.) Debt service is 23.4% of expenditure and 30.5% of revenue 				<ul style="list-style-type: none"> Reduction in share of domestic debt from 79% to 60% by 2019

Status of the Budget

- 2018 budget presented to the NASS on 7th of Nov., 2017
 - Preparation started in Jun., 2017
- Senate (President) once suggested a budget of N10trn
 - Learning based on implementation rate of 2017 budget
 - NASS may pass a budget of over N9trn
 - Consolidating 2017 and 2018 to restore Jan-Dec cycle
 - Move to scrap Excess Crude Account (ECA)
- Historically, it takes about 5 months from when NASS receives and President signs budget
- Capital budget spilling to following year not unusual
 - Only that May 2017 stood out
- 5.125% US\$500M JUL 2018 matures in 2018

Year	NASS Received	President Sign	Month Difference	End Period for Capital
2008	08-Nov-07	14-Mar-08	4	Dec-08
2009	02-Dec-08	10-Mar-09	3	Mar-10
2010	23-Nov-09	22-Apr-10	5	Mar-11
2011	15-Dec-10	26-May-11	5	Mar-12
2012	13-Dec-11	13-Apr-12	4	Dec-12
2013	10-Oct-12	26-Feb-13	5	Dec-13
2014	19-Dec-13	21-May-14	5	Dec-14
2015	17-Dec-14	18-May-15	5	Dec-15
2016	22-Dec-15	06-May-16	5	May-17
2017	14-Dec-16	12-Jun-17	6	?
2018	07-Nov-17	?	??	???

2018 Budget Implications for Capital Market

Equities Market

- ❑ At oil price above \$55pb, peace in Niger-delta and stable exchange rate, implementation of budget will contribute to economic growth
- ❑ In such environment, stock market will maintain a positive growth trajectory
 - Increase in aggregate demand will raise companies' performance
 - Forex availability will aid access to raw materials
 - Listed companies that are contractors or producers of government preferred sectors enjoy increased earnings
 - Government expenditure on cost-reducing infrastructure will generally benefit most firms
 - If domestic borrowing is reduced, companies will have access to cheaper funds, hence, higher value.
 - Preference for equities if interest rate falls.
 - Reduced uncertainties in exchange rate attracts FPI

Debt Market

- ❑ High deficit of N2trn with planned new domestic borrowing of N850bn offers investment opportunities.
- ❑ But the plan to rebalance debt portfolio in favour of external borrowing may:
 - Reduce domestic issuance of bonds and primary transactions
 - Raise turnover of existing debt instruments
- ❑ Listing and trading of Eurobond on FMDQ will reduce this transaction loss
 - Eurobond gives an average turnover of N4bn in a month (0.05% of turnover).
 - It can also serve as hedge instrument
- ❑ If interest rate falls, preference for equities may lower transactions on fixed income
- ❑ PFAs and Funds will likely return less

Outlook on Nigerian Capital Market

- Forecasts are made as un-weighted average of trend projection and benchmarking
- 5-year forecast (2017-2021)
- Table contains forecasts for:
 - ASI
 - Equities turnover
 - Bonds
 - Funds
- At the current trend and macroeconomic projections, the capital market is forecasted to grow steadily over time

Year	All Share Index	Equities Turnover (N'bn)	FGN Bond (N'trn)	Sub-national Bond (N'bn)	Corporate Bond (N'bn)	Funds' NAV (N'bn)
2016	26,875	575.69	1.3	47.0	103.17	223.6
2017	38,500	915.26	1.5	132.4	20.00	400.0
2018	40,213	918.52	1.6	135.2	104.12	427.9
2019	43,044	922.60	1.8	137.8	109.54	485.1
2020	45,869	926.52	2.0	140.4	114.95	548.6
2021	48,701	930.62	2.1	143.2	120.38	616.6

Planning Environment - ERGP

❑ The ERGP is a medium-term plan (2017-2020) with three broad objectives to:

- Restore growth through macroeconomic stability and economic diversification
- Build a globally competitive economy through investment in infrastructure, improvement in business environment and promotion of digital-led growth
- Invest in the Nigerian people through programmes on inclusive social inclusion, job creation, youth empowerment and improved human capital

❑ Roles ERGP gives the capital market:

- Economic Diversification: private equity and venture capital players
- Competitive Economy: infrastructure and Diaspora bonds
- Investing in our People: Green bonds
- Governance: Use of capital market by sub-national

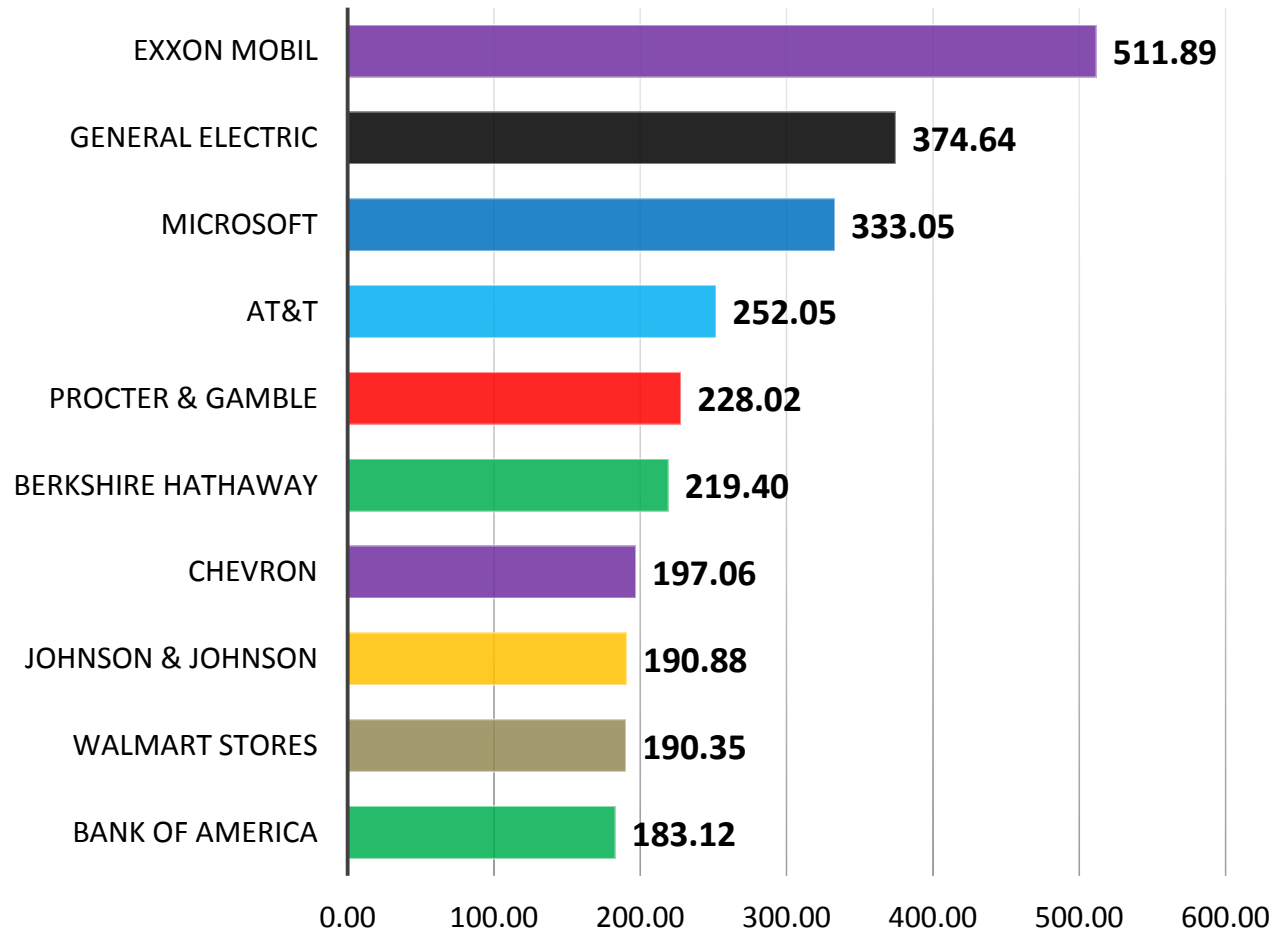
❑ The capital market can play additional roles:

- Privatisation through listing
- Explore capital market instrument to address housing deficit
- Sub-national to issue revenue bonds.

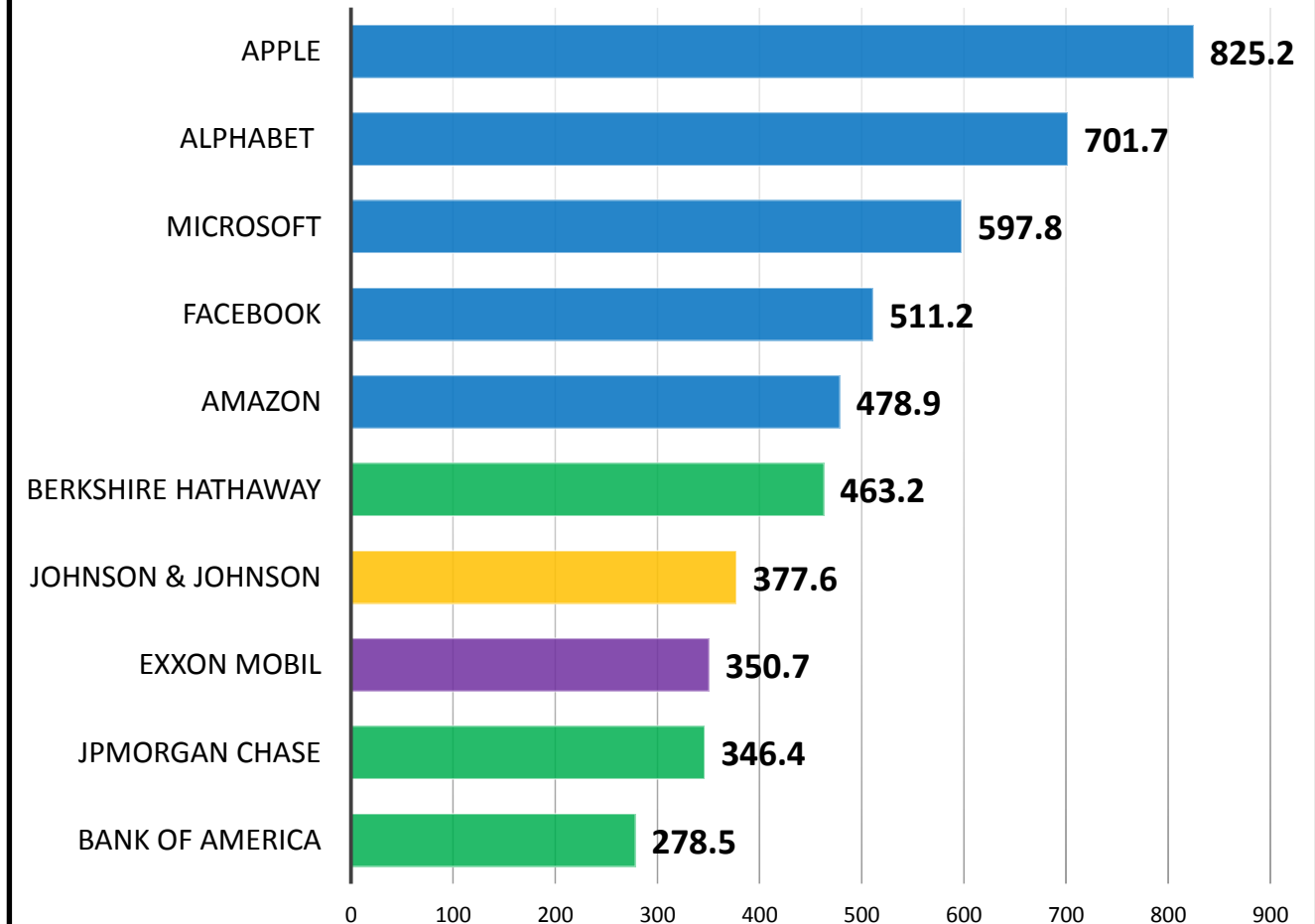
Technological Environment - US

- The US market in the chart shows:
 - Things are increasingly becoming automated
 - Technological firms are dominating in capitalisation
 - Double your capitalisation to retain your position in 10 years.

2007 MARKET CAPITALISATION (\$'B)



2017 MARKET CAPITALISATION (\$'B)

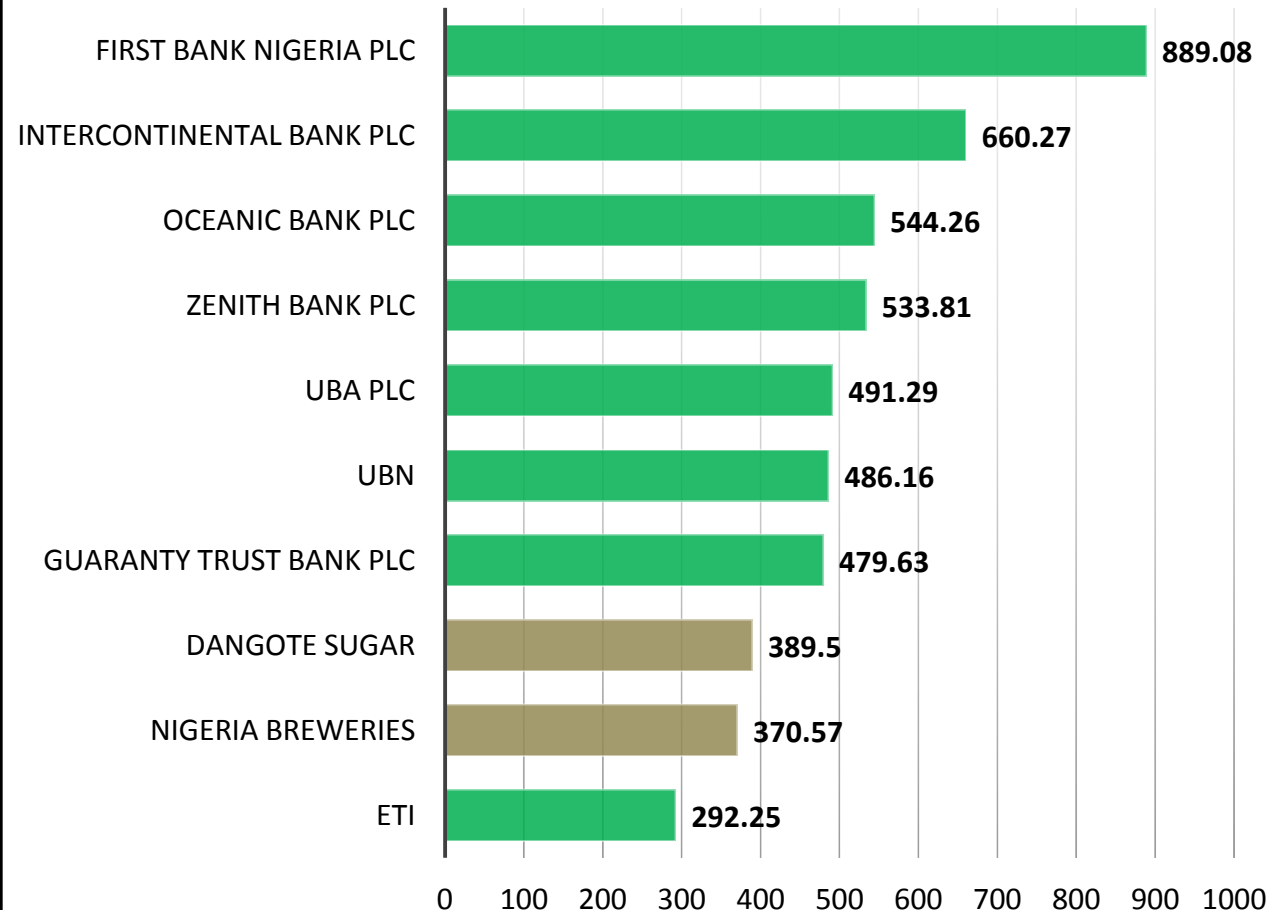


Technological Environment - Nigeria

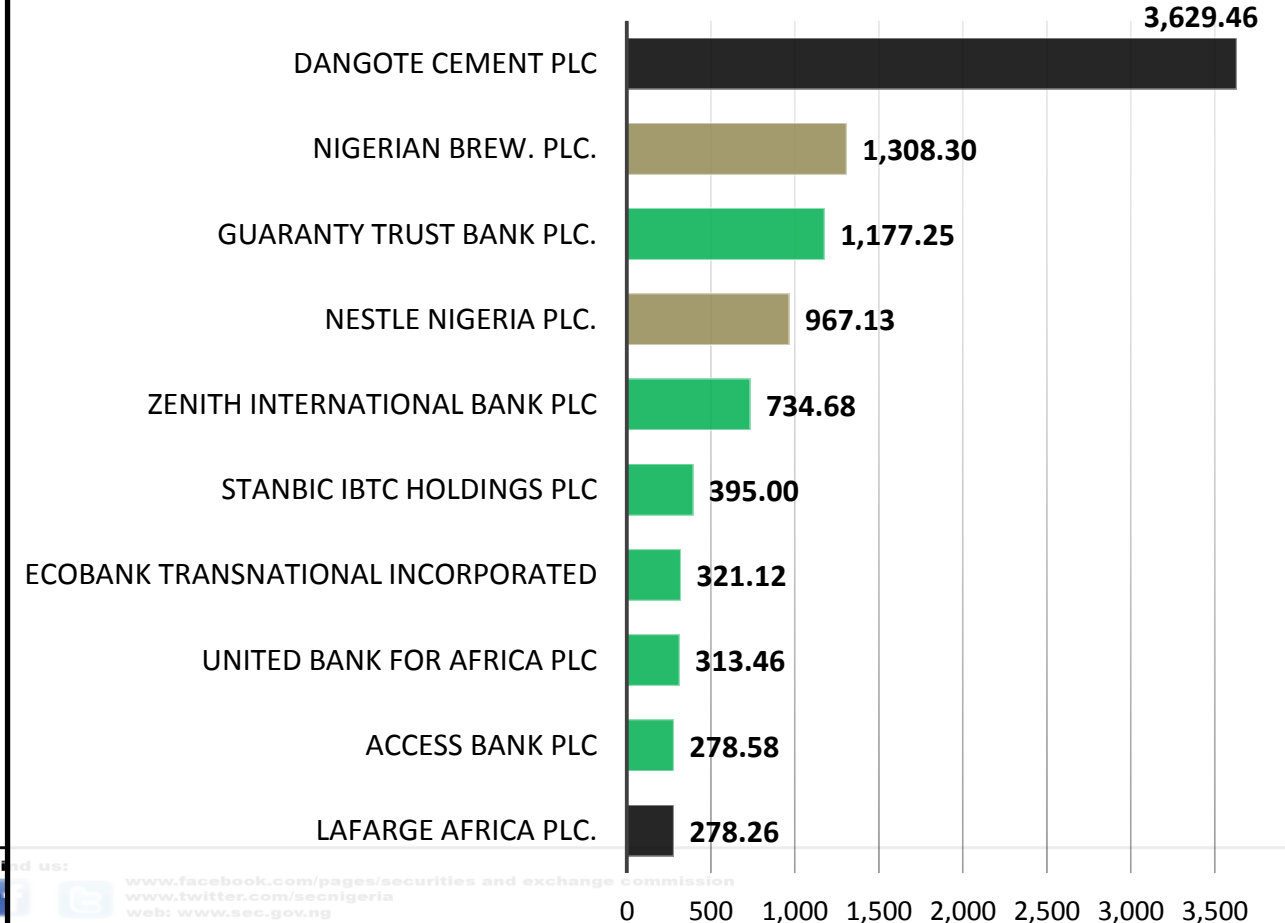
- The Nigeria market in the chart shows:
 - Financial firms (banks) have always dominated
 - The most capitalised was not there 10 years ago.

- Need to diversify listing
- Opportunities are out there
- Embrace technological innovation

2007 MARKET CAPITALISATION (N'bn)



2017 MARKET CAPITALISATION (N'bn)



Product Development Environment

There are emerging products/opportunities in the market

- Derivatives
 - Exchange Traded
 - Trade Repository
 - Central Counterparty
 - Lessons from (sport) betting
- Commodities
 - Spot
 - Futures
 - Merchants to Exchange Model
- Private Companies Debt and Equities
 - Provision of trade information to aid price discovery
- Data and investor services
 - Market data
 - Data centre
 - Surveillance
 - Information and investor services
- Fintech
 - Core market infrastructure
 - Post trade digitisation
 - Artificial intelligence
 - Alternative funding platforms
- Crowd funding
 - Merits
 - Legal issues
- Specialised funds
- Virtual Currency and Blockchain
 - Currency vs token
 - Securities features
 - Regulatory issues
 - Value in blockchain technology
- Regulatory
 - SEC: E-Div; DCS; Electronic Reports and Filing
 - CBN: BVN; NCC for mobile money
 - CAC registration portal
 - Single Window

Political-Economy Environment

- Niger-Delta crisis
 - Stability is good for budget implementation
 - Ogoni clean-up
 - 2018 Capital budget for Niger-Delta Ministry and NDDC about N125bn
- North-East crisis
 - Increase Defence spending
 - North East Intervention Capital Fund of N45bn
- Impact of campaign and election years on capital market
 - Table shows campaign year not affecting capital market markedly
- Call for Restructuring
 - Preference staying together
 - Appears more economic than political – improved sharing mechanism
 - Assume certain States now have more or less resources, what will be the likely impact on:
 - Debt financing
 - Privatisation
 - PPP
 - SME financing

Growth in Capital Market (%)

Year	Trading Volume	Trading Value	Market Cap.	Stock Index
1998	79	24	-7	-12
1999	88	3	15	-7
2000	28	101	58	54
2002	12	3	15	11
2003	100	92	77	66
2004	43	96	45	18
2006	38	84	68	38
2007	277	345	144	75
2008	40	14	144	-46
2010	-9	17	59	19
2011	-4	-20	-17	-16
2012	0	4	37	35
2014	2	28	-13	-16
2015	-14	-29	-14	-17
2016	3	-40	-6	-6

Global Environment (IMF WEO-Oct 2017 & EIU)

- ❑ Global growth is strengthening at 3.6% (IMF) and 2.7% (WB)
 - Driven by improved position in some developed and emerging market economies
 - Downside risks – Conflicts and geopolitical tensions, protectionist tendencies and tighter global financial condition as a result of monetary policy normalisation in some developed economies.
- ❑ US – gradual monetary policy normalisation
 - The FED raised rates in March and June 2017
 - Further rate increases expected in December 2017
- ❑ UK – raised its rates in November 2017, its first in 10 years
 - From 0.25% - 0.5%
- ❑ Nigeria – growth projected at 1.2% (WB) driven by
 - Improved oil production
 - Oil price in 2-year high
 - Stronger agricultural activities
- ❑ But...
 - Tighter global financial conditions may result in a possible capital flows reversal
 - Fear of high debt service exist (IMF, WB)
 - AfDB's \$400mn balance of \$1bn approved for 2016 may be used directly for projects

Country/Region	2015	2016	2017	2018
World	3.40	3.20	3.60	3.70
Advanced Economies	2.10	1.70	2.20	2.00
Euro Area	2.00	1.80	2.10	1.90
EMs and Developing	4.30	4.30	4.60	4.90
Sub-Saharan Africa	3.40	1.30	2.60	3.40
United States	2.60	1.60	2.20	2.30
United Kingdom	2.20	1.80	1.70	1.50
China	6.90	6.70	6.80	6.50
India	8.00	7.10	6.70	7.40
Brazil	-3.80	-3.60	0.70	1.50
South Africa	1.30	0.30	0.70	1.10
Nigeria	2.70	-1.60	0.80	1.90

Summaries

- Government budget affect the economy and the capital market
- Thus, capital market players need to pay attention to this effect and their roles
- Government allocated a substantial amount (N2.17trn) to capital project in the 2017 budget
 - But only N450bn has been disbursed; so much still have to be done
- Good news is that the economy is back on the path of growth and prices are gradually falling.
- There is increase in external reserves and forex market is stabilising
- The capital market is recovering as companies post improved earnings
- The President presented the 2018 budget on 7th of Nov., 2017
 - Proposed expenditure is N8.612trn; 15.6% growth over 2017
 - Capital expenses is N2.652trn (30.8%)
 - Deficit is N2.01trn; N850bn will be financed locally; N850bn externally
 - balance of deficit to be financed by privatization proceeds



Summaries (Cont'd)

- If the current macroeconomic environment is further stabilised by the 2018 budget, the capital market is forecasted to grow steadily over time
 - the equities market will benefit from increased economic growth, exchange rate stability, infrastructure and lower interest rate
 - The fixed income market will further benefit if externally-issued instruments are also listed and traded domestically.
- Capital market players also need to take advantage of the ERGP and new technologies
- Emerging products and opportunities in the global and local environment should be explored
- While all these should be analysed in the context of the domestic political and global economic environments



*Successful investing is anticipating
the anticipations of others*

- *Lord John Maynard Keynes (1883-1946)*

