Proshare **Confidential**

2018 Outlook of the Nigerian Economy
The Need for an Even Keel

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Executive Summary

The Nigerian economy exited a negative territory in 2017 as Gross Domestic Product (GDP) grew by 0.55% in the second quarter of 2017. This was largely attributed to the increase in oil production and a recovery in oil price. However, the real sector especially sectors such as trade, manufacturing, finance & insurance and information technology is yet to recover fully. Thus growth remains largely volatile, as it remains vulnerable to shocks.

Though leading indicators such as the Production Manufacturing Index, External reserve, nominal currency and price stability have improved, labour force participation remain weak and this lead to a surge in the misery index. As such Nigeria's economic story is still blurring with mixed tunes and though policies put in place are gradually getting clearer, discordant tunes are common in a pre–election year.

The needed precursor for growth is evident, but the possibility of an escape velocity is still in doubt since the real sector remains sluggish and GDP growth lag behind population growth. Therefore as the economy exits the recessionary line, the possibility of a "go slow" economy characterized by tepid growth and rising unemployment cannot be written off especially youth unemployment which could further heighten migration outflows thus denting our growth potential on the long run due to substantial human capital flight.

In the wake of such reality, this edition of Proshare Confidential takes an in-depth look into the global economy, while highlighting that both advanced and developing economies are expected to grow in sync in a long while. Though, most developing economies have adapted partly to on-going off-shore financial risk.

The study further took a cursory review into the monetary policy interventions in 2017, having observed that the monetary authority was willing to ensure price stability and exchange stability though this conflicted with attaining economic prosperity simultaneously. The self-restrictive mandate of the monetary policy made it largely reactionary, while it seemed less concerned about maximum employment, even when there is a profound level of depression in the overall level of well-being.

In 2018, we see monetary policy slanting towards a mid- point to accommodate growth.Thus we can expect a 100 basis point shave to the monetary policy rate accompanied by

a cut to the quantity base. The root penetration of a rate cut will be shallow without reducing the cash reserve ratio.

Our outlook which is in line with most analysts is convinced on sustaining the growth momentum in 2018. In specific the dynamic adjustment path will readjust better in 2018 coupled with strong oil production and stability in oil prices. Such will grease both external reserve and exchange rate positively. At the same time external trade will improve but it will take a longer period to diversify fully the external trade universe of the nation.

The outlook is positive toward the oil sector but retains some aversion to the real sector given both policy inertia and reeling effect from hysteresis. Although the state accrued that margin compression will fall most sectors will be concerned about stabilization rather than expansion.

The report further pointed out that revenue to states and local government will bolster in 2018, but still leave their fiscal capacity diminished. States are faced with the challenge of improving their internal generated revenue in a new norm, whereby they are constrained by huge debt and flagging output to revenue. States that are more tilted to private public partnership will improve their ease of doing business, review tax laws, ensure a more effective land administration, contain recurrent expenditure and leverage more on more elastic road network to thrive better. Although the outlook on states has improved, the states must be cautious of how the nature of fiscal multipliers is used without structurally adjusting to the new reality.

Finally, the study takes a detour to the CFA currency zone, taking a look at the macro dynamics of such countries. The currency block has been able to achieve price stability and economic growth at the expense of individual monetary autonomy. At the same growing higher than the average regional growth, more importantly the relatively cooling off in the Euro has left the peg untested for some time. Regardless the fiscal sustainability of each could threaten the peg on the medium term; the lack of individual domestic money market could limit their choices.

Introduction

In the light of the bolstering global economy and relatively fragile growth in emerging economies, 2018 will be an intriguing one. To add, it will serve as the second leg of the economic recovery and growth for Nigeria which marks the beginning of a medium term.

One cannot put behind the reality that it is also a pre-election year which will most likely provide room for an implementation lag as politics override economic policy.The uncertainty that comes with politics in a period of fragile growth present concerns, thus providing an outlook on the economy has become paramount for economic agents, as a hint on the possible outlook moving forward is critical.

Statement of the Problem

-Per capital income remain low compared to 2014.

-Increase in unemployment and the misery index.

-The real sector remain weak.

-Diminishing fiscal capacity across board.

-Uncertainty accompanied by a pre-election year.

-Rising trajectory in debt.

-The possibility of getting stuck in a go slow cycle, coupled with secular stagnation.

-Low agricultural output due to the herdsmen and farmers crisis.

Objective of the Study

-To give an overview of the global economy and domestic economy in 2017.

-To relate the interaction of the global economy with the domestic economy.

-To provide an analysis on the monetary policy space in 2017.

-Gauge how macro variables fared and the changes in headline risk in 2017.

-To present an outlook on the domestic economy and various sectors for 2018.

-To study the fiscal position of each state.

Methodology and Data interrogation

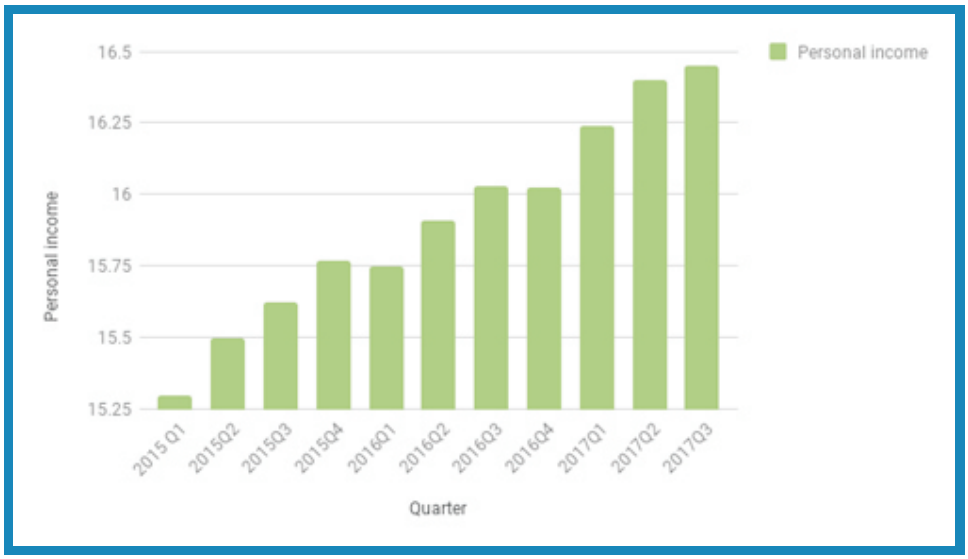
In carrying out this study, secondary data from reputable sources such as the Central bank, National Bureau of Statistics, Economic Associates State Report, IMF, FMDQ, BudgIT and many others were used. At the same time primary data was also used to enrich the study. Essentially, a data hybrid was employed during the study.

Background to the Study

External Economy: Tilting towards a complete rebound

1. American Economy

Fig 1: United States Personal Income from 2015 to 2017 Q3



Source: Bureau of Economic Analysis

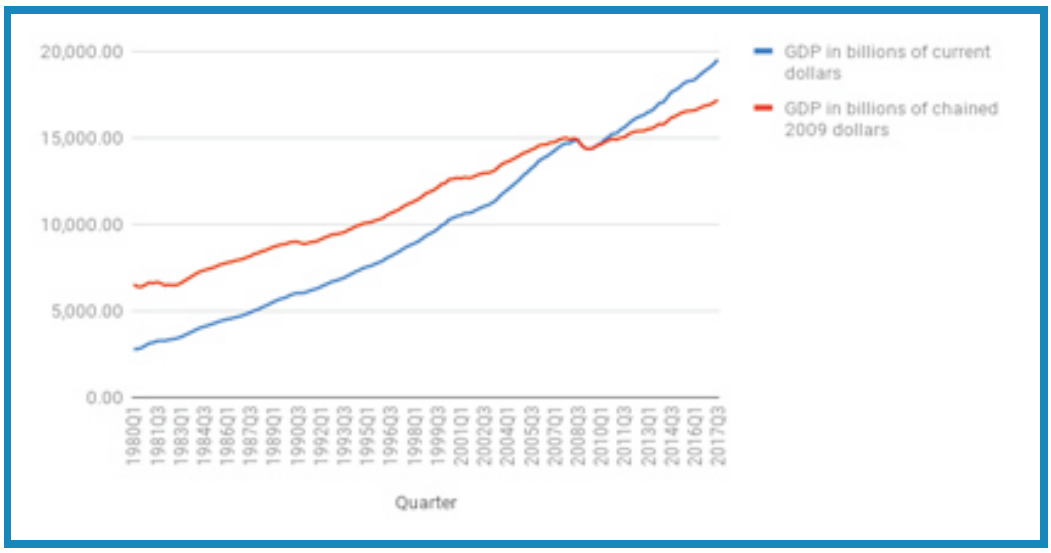
Wage growth in America averaged 3.01% in 2017. The personal income of Americans at the third quarter of 2017 stood at $16.45 trillion, which is a 1.45% increase compared to the beginning of the year. However, the Federal Reserve (Fed) has maintained its gradual transition to a more tightening position, in order to reduce its balance sheet.

The recent appointments of Jerome Powel as the Fed chairman and Marvin Goodfriend as a member of the Fed board by President Trump favours tightening, given the ideological position of Marvin Goodfriend as a hawk.

This further reinforces the position held by many that the policy of gradual tightening in 2017 by the Federal Reserve will still continue in 2018.

Regardless, the Fed will be cautious on its transition to targeting inflation, thereby the soft eye of the hawk could be applied by the Fed. It should be noted that the adoption of a gradual tightening is to avoid triggering another recession and rebuilding armoury.

Fig 2: GDP from 1980 till present Day



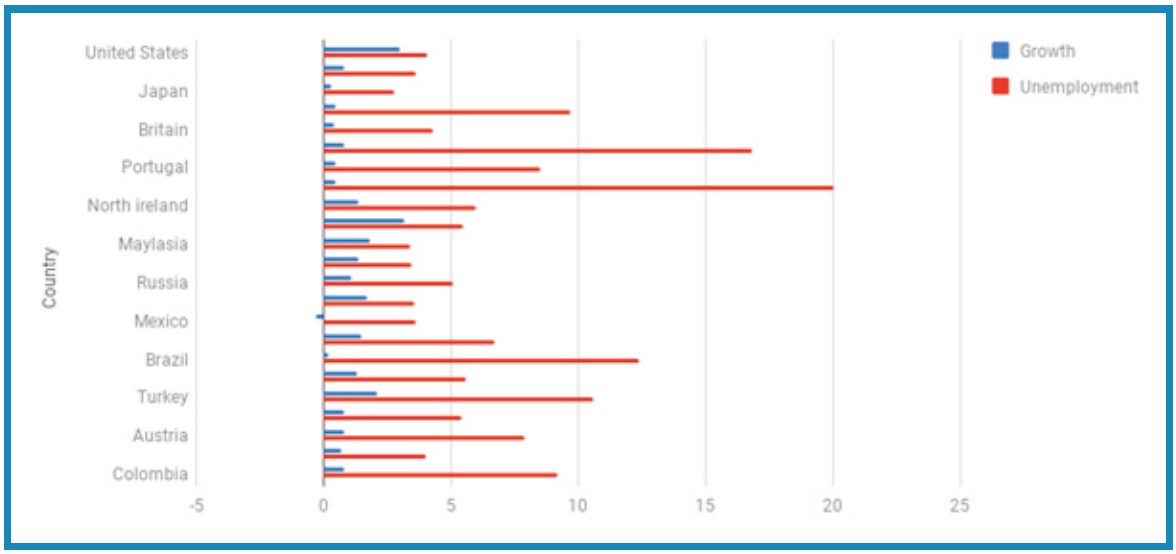
Source: Bureau of Economic Analysis

The American economy sustained a 3.3% growth in the third quarter of 2017, with an average of 2.53% following an increase in business spending and government investment. Evidently the third quarter corporate profit is the largest in the year compared to previous quarters in 2017.

Policy inertia persists in America largely due to the inability to reach a political consensus. Regardless of such headwind, private investment continued to increase.

2. Euro Area

Fig 3: Growth and Unemployment

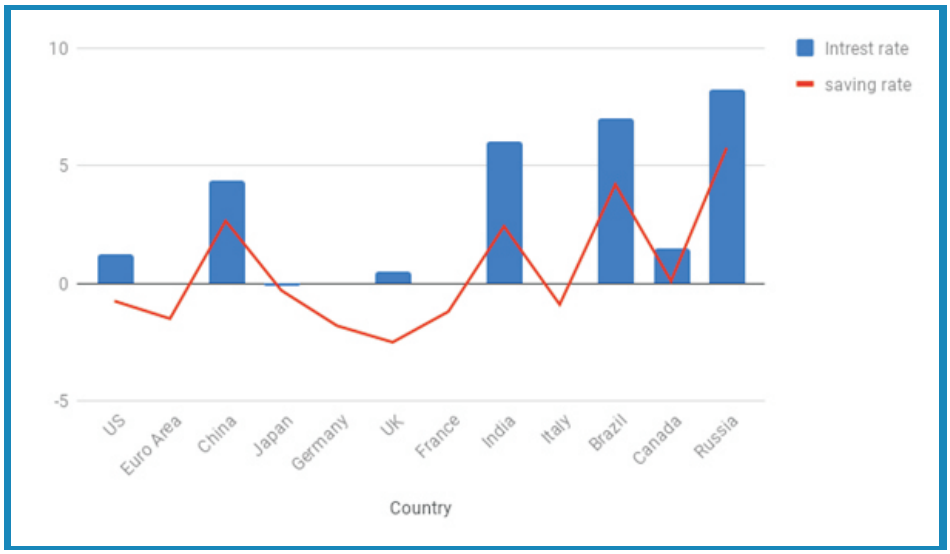


Source: Trading Economics

In 2017, advanced economies especially those in Europe maintained their growth path though certain countries were gripped beyond external shock and political uncertainty. There is however growing macro confidence in the euro area, as growth sustained a surer footing. Regardless of a fall in unemployment, it still remains within high levels.

Obviously the existing structural pull backs in the single currency block makes the level of unemployment in the region remain a concern. The surge in oil price will further lead to an upward rise in producer price, eventually pushing inflation upwards. Savings rate in the Euro have been negative for some time. In reaction, composite bank lending rate has maintained a downward trajectory.

Fig 4: Interest rate across European Countries



Source: Trading Economics

The United Kingdom is closer to reaching a deal on how best to separate from the single block economy. Regardless, the uncertainty from BREXIT has affected business confidence in the United Kingdom.

The lingering political and policy uncertainty in the United Kingdom is corrosive to output in the economy.Such uncertainty has weighed on business sentiment as business confidence in the United Kingdom weaned to -11, while private investments have shrunk in response to the dip in sentiments.

Fig 5: Business Confidence in the United Kingdom

Source: trading economics

Sub- Saharan Region: CFA franc, creating room for an exception

The uptick in commodity prices has provided some head room for resource dependent countries in Africa. Even though their macro space is better off compared to a year ago, the shock to currency leaves them reeling from the negative turn.

Obviously countries such as Egypt and Angola have not completely recovered from the inflation pressures that erupted from exchange shocks Moreover the weight of high food inflation has made headline inflation resistive to taking a dive.

Though most African countries have either avoided the hard landing, their fiscal sustainability remains weak. As debt to GDP grew astronomically, fiscal cover has become limited and budget deficit has widened.

Certain central banks within the region have been doling out checks to the fiscal side above the stipulated amount. This is an upside risk to fiscal adjustment, at the same time blistering the size of the balance-sheet of the Central bank. The end product is a domineering fiscal end coupled with lean monetary freedom.

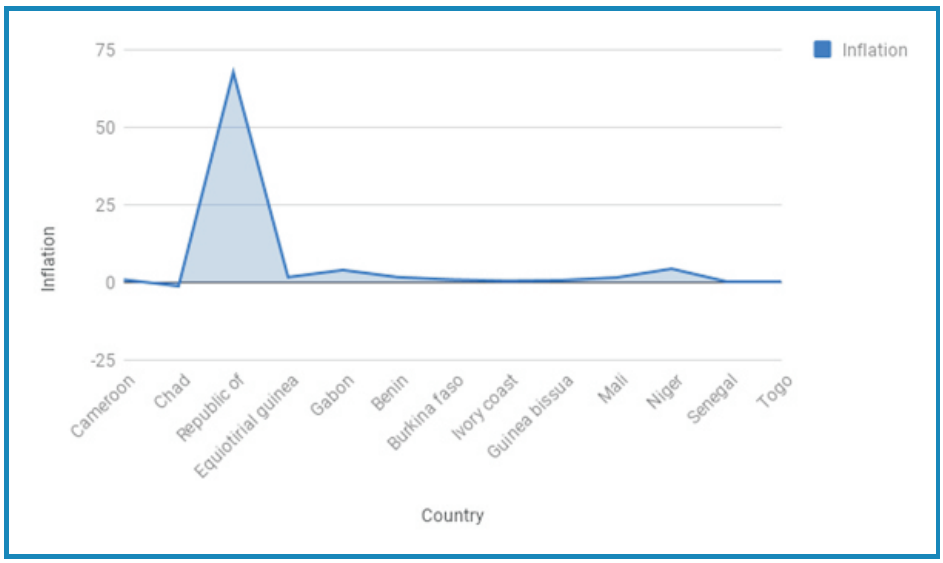
The CFA Franc is a currency that has a fixed exchange rate accompanied with limited monetary authority inventions. This currency is adopted by 11 countries which include Cameroon, Chad, Republic of Congo, Equatorial Guinea, Gabon, Benin, Burkina Faso, Ivory Coast, Guinea Bissau, Mali, Niger, Senegal and Togo.

The inherent nature of the CFA franc as mentioned earlier fused with the blunt interest rate in the Euro.

Such dynamic spared erratic countries within the CFA Franc zone from erratic price shocks compared to their peer.

The Euro block form a large chunk of their trading partners, this is largely due to the relationship with France. Countries like Gabon, Senegal, Mali and Ivory Coast had their foreign revenue depressed, however inflation still remained largely tamed. Therefore the peg insulated the economies of those countries from a price jolt, except Congo which has been experiencing political instability. However, like most African countries suffering from infrastructural glut, unemployment remained high. In addition, economic conditions in the Euro Area gradually improved external trade and remittance back home smoothening out low resource demand from China.

Fig 6: Inflation across CFA zone areas

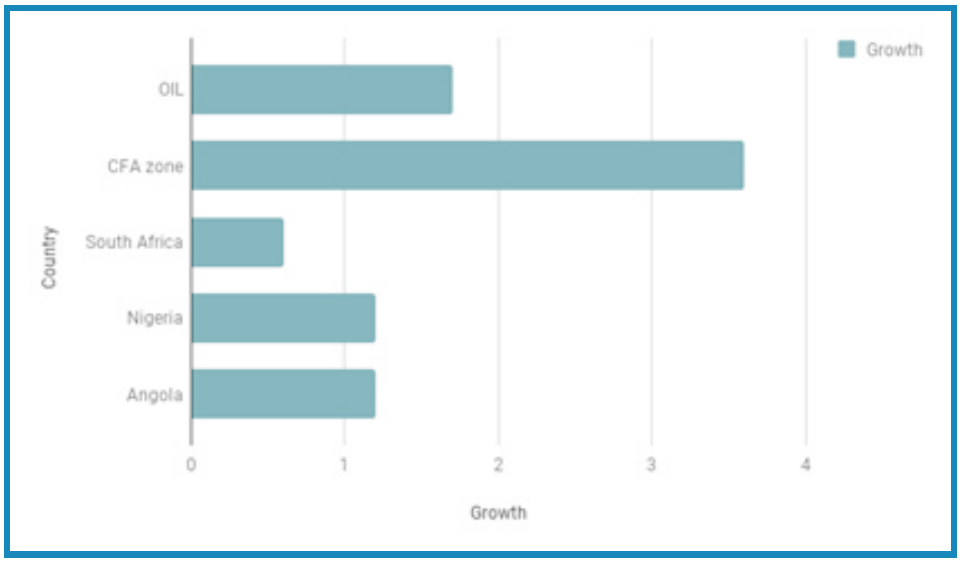


Source: trading economics

In line with projections the output in the CFA is expected to be higher than other parts of the African Sub-region. Average growth in the CFA zone is projected to be 3.2% at the end of 2017, evidently higher than other areas.

Underlining the reality of improved macro fundamentals largely due to exchange rate stability aided by a prolonged dovish policy from abroad.

Fig 7: Projected growth for CFA compared to other peer countries in Africa



Source: World Bank

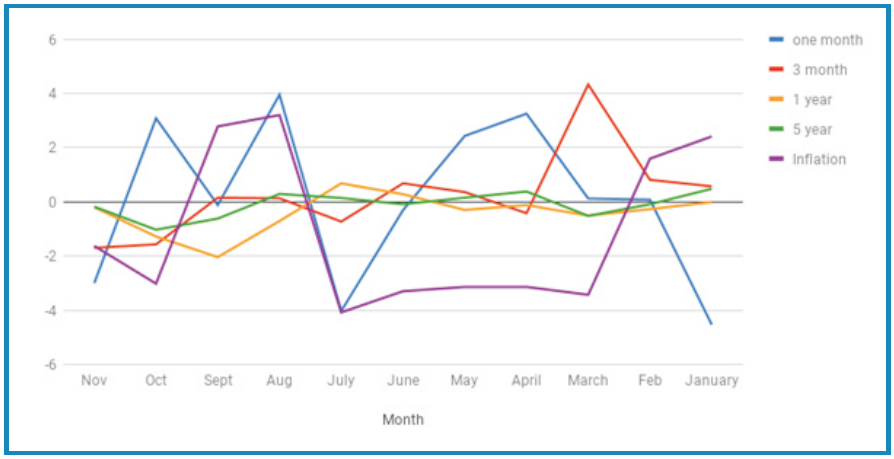
At the same time the small size of such economies coupled with relatively very narrow money market favour the combination of fixed exchange rate regime and capital mobility.

Strikingly the peg remains largely untested as the anchor remains numb at zero rates, while inflation has been within point of tolerance. Regardless the rising trajectory in debt threatens the currency block.

THE NIGERIAN ECONOMY in 2017

Fixed income instrument

Fig 8: Fixed Income and Price Stability in 2017



Source: FMDQ

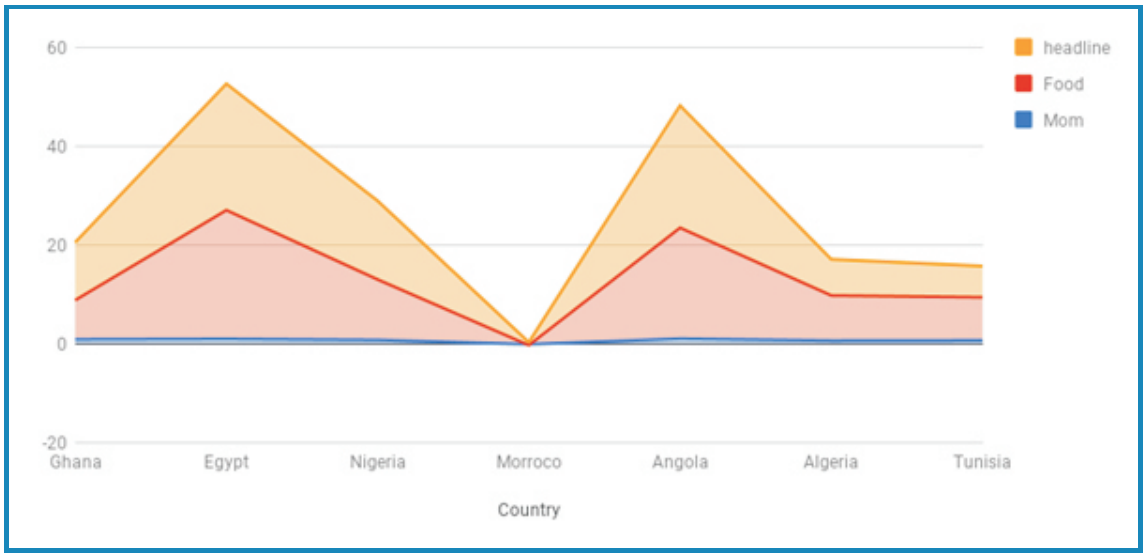
Throughout 2017, the one month paper enjoyed wider swings compared to other instrument given. By nature short term instrument are more vulnerable to swings given their duration. The captive nature of the money market coupled with the frequent entry by the central bank on the back of a tight monetary policy fuelled the swings further.

Apart from been widely used, the one year instrument seem to have stuck a correlation with the inflation on sovereign instrument as they seem to move in tandem for the larger part of second half of 2017.

Wider positive appreciation characterised by the one year paper has gradually fizzled out, putting the one year paper below water. This is due to government policy replacing a chunk of short term funding with long term funding coupled with sourcing external financing: thereby short-circuiting at triggering the negative hold on the short term instrument across board in the fourth quarter of 2017.

The new dynamic have provided the needed scaffold for uplift in the 5 year instrument, which is witnessed.

Fig 9: INFLATION RATES AMONG SELECTED COUNTRIES



Source: Trading economics

As at the beginning of 2017, inflation stood at 18.72% reflective of a shave by 2.82%. The gradual deceleration in inflation was due to a weaning base and the plunge in core inflation. Moreover the tight monetary policy choked the month on month inflation.

In this part of the world food inflation anchor the direction of headline, thereby countries that have control on food inflation have relatively low inflation. At the same time low per capital income negates the perception of a demand pull, rather the increase

in food insecurity justify the reality of cost push inflation in such countries.

At the same time peer countries such as Angola and Egypt has experienced substantial pass through inflation. Moreover in a country where producer price change is not extrapolated. Evidently, forecasting inflation becomes largely limited without an in-depth picture of how producers are affected due to price changes.

MONETARY POLICY IN 2017

Table 1: Monetary Policy Objective In 2017

Objective	Financial stability	Support government objective	Price and Exchange rate Stability	Economic Prosperity	Maximum Employment
Score Card	Conflictive	Selective	Largely	Cautious	Very unwilling

Financial Stability

In 2017, the central bank consistently maintained a fluid liquidity tap to the deposit money banks through the standing deposit facility. This was in an attempt to avert a cash crunch which also prevented the interbank rate from going burst. Though most deposit money banks readjusted their portfolio to risk free assets, the sharp natural rate and the heavy burden of a high cash reserve ratio still remain a weight on interest income. The end product led to a slump in the output in the financial sector. This mixed signal puts financial stability in a conflictive den.

Support Government objective

The central bank has supported government objective through its anchoring programme especially in the agriculture sector. In some circumstances the bank made use of the moral suasion strategy to give steam to the government's agriculture policy. The bank's frequent provision of credit to the federal government, notably through the mirror account corridor was also another means through which the bank offered support to the government.

At the same time, the sharp neutral monetary policy rate posed a huge challenge to the government with regards to its debt financing.

Price Stability

In 2017, the central bank did not hide its resolve to go hard on cost push inflation by leaving its natural rate largely sharp. The dynamic sterilization measures embarked on by the bank further validated this measure as it thinned off month on month.

In such present state of macro nature, the high interest rate was more of an additive tool to stabilize the already diminished foreign exchange supply. Combined with a more robust involvement in the foreign exchange market we observed a largely willing objective of the central bank with regards to price and exchange rate stability. Thus the Central bank did not allow the currency to fully absorb external shocks as it allowed the reserve to partly absorb the shock.

At the same time, the exchange rate corridor remained fragmented, even though premium thinned out. The ability to create a channel for dollar ventilation improved the supply end of the foreign exchange market. This led to a record of $15.7 billion in total foreign exchange transactions in November 2017 alone.

Fig 10: Total Foreign Exchange Transaction In billion ($)

Source: FMDQ

Economic Prosperity

The central bank in 2017 consistently maintained that monetary policy cannot provide the even keel. Thereby it handed over the responsibility of economic prosperity to the fiscal side; it was not surprising to see the bank strike off growth from its play book in 2017.

The bank however still ramped in its anchor programme; regardless it had a limited shoot compared to the interest rate channel. Thus, we can say that the central bank has been largely cautious on prosperity to avoid triggering inflation.

Maximum Employment

We observed that the central bank was passive on maximum employment in 2017, as it was more concerned about clamping down on inflation rather than achieving growth potentials.

The passive attitude of the monetary authorities made it largely unwilling, as youth unemployment rose to an historic high of 25% in the third quarter of 2017.

FISCAL Capacity

Fig 11: FAAC from Dec 2016 to Jan 2017

Source: NBS

The total amount accrued to Federal Account Allocation Committee (FAAC) for the year 2017 (as at November 2017) stood at N5.701 trillion; thus an average of N518 billon per month.

Although FAAC have experienced some blistering, regardless the accretion in revenue have become irregular. This is due to the heavy concentration on oil receipts and the existing pattern of non-oil revenue.

National Fiscal Gauge in 2017 and beyond:

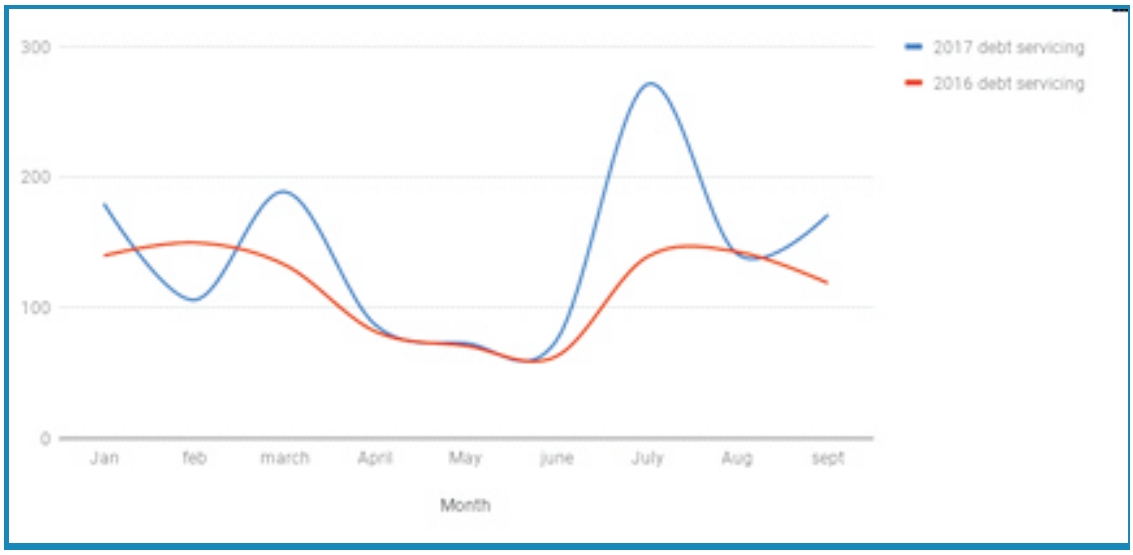
-Nigeria's fiscal capacity have largely diminished due to the dent experienced in revenue.

-Non-oil still remains a laggard, it lagging position has consistently been a challenge for policy makers.

-The high debt consumption coupled with rising debt servicing (Fig 14), puts fiscal sustainability under stress.

-It is not surprising to see certain credit rating organizations flag the red light already.

Fig 12: Debt Servicing in 2017 and 2016



Source: Debt Managing office

Other Macro

Table 2: Other Macro Variables

Variable	Present	Previous
Fiscal deficit or surplus	N(397) billion	N(344.6) billion
Total public debt	N19.39 trillion	N19. 159 trillion
External debt	$15. 351 billion	$11.266 billion
External-debt servicing	$197.22 million	$127.66 million
Domestic- debt servicing	N171billion	N119.73 billion
Capital importation	$4.1	$1.792 billion
Foreign direct investment	$0.117 billion	$0.211 billion
PPP	$5,430	$5670
Per capital income	$2450	$2820
Exchange rate (official)	520	366
Parallel market	360/$	455/$
External reserve	$37. 352 billion	$24
PMI	55.2	55.8
GDP growth	1.44%	0.92%

THE GOOD, THE BAD THE UGLY of 2017

Table 3: Performance of Specific Indicators in 2017

Indicator	Remark	Score
Purchasing Manufacturing Index's	The purchasing manufacturing index's has sustained 8 months of successive expansion, as such sustaining the green shoot for a recovery.	The Good
Exchange rate	The naira strengthened against the Dollar, as it has caved outwards from N520/$ in February to N360.84/$ in December. The recovery in the naira supported the stability in the exchange rate and put an end the overshoot.	The Good
External reserve rate	The external reserve has experienced a blistering from $28 billion to $37 billion, thus reflective of substantial replenishment in the external reserve.	The Good
Capital importation	There have been a rise in capital importation from a low where it struggled to clinch an average of a billion dollars each quarter to $4.11billion at the end of Q3 2017	The Good
Nigerian stock Exchange (NSE)	The Nigerian Stock exchange is one of the best performers behind the Argentina Merval and Mongolian stock exchange in 2017	The Good
Unemployment and Underemployment	Unemployment rose from 16.1% to 18%, while underemployment maintained an upward trajectory. There is consistent rise in youth unemployment and the span for frictional unemployment has widened.	The Ugly
Money supply	Money supply has remained weak as other asset has remained a counterbalancing effect. Moreover the persistent dynamic sterilization has held back money supply from achieving projected growth	The Bad
Micro prudential ratio of banks	Banks prudential ratio such as NPL, Deposit to lending ratio, asset quality, Net foreign asset, gearing ratio still remains weak. Even though there have been resilience so far, there is a need for counter cyclical capital by banks	The Bad
Debt trajectory and rising debt servicing	Even though debt to GDP is 19% far below the threshold of 40%. Regardless the rate of debt absorption within a short period is a concern	The Ugly

Gauging macro indicators as a whole in 2017

Leading indicators such as the nominal currency, external reserve, capital market and inflation has improved but debt and the human index remain weak. Underlying the reality of rising output however poverty and income levels remain lean. Moreover in attempt to provide automatic stabilizers the debt trajectory has shoot up profusely.

OUTLOOK ON THE NIGERIAN ECONOMY in 2018

Possible headline risk in 2018

Off-Shore or External risk

We don't contemplate any real change across geopolitical regions, as rising populist tendency remains. Expectedly the global economy will continue the recovery, though growth in the EU and Japan remain fragile.

More interestingly advance and developing economies will be growing concurrently. Regardless certain external risk still remains such as:

Table 4: Offshore – Bucket Risk

Risk	Remark	Score
Financial The possibility of further rate hake by the Fed The possibility of other central banks taking an hawkish position is grim	Although emerging economies are better off compare to the previous year, their flawed structural end still makes them venerable.	High
Global economy	The global economy will enjoy substantial growth, moreover both emerging and advance economies will grow in sync.	Low
Growing geopolitical tension and populists tendency	This will affect trade as it is a risk to export revenue	Low
Oil Revenue Shale oil producers OPEC	The possibility of shale oil producers driving cost lower coupled with further caps by OPEC is a concern.	High
Immigration inflows and outflows	So far economic and political insecurity have led to immigration outflows. The economic condition has rather been averse to inflows. Regardless such play out will affect the nation's human capital negatively in the long run thereby eroding its potential growth level gradually. Moreover with the present state of youth unemployment and underemployment standing at 67.4% and 42.45% immigration outflow will persist as the human Index remains poor.	High

Country Specific Risk

The macro condition of the economy has improved as oil prices increased, providing support for government finances across board.

Regardless the following remain a concern.

Table 5: Country Specific- Bucket Risk

Risk	Remark	Risk level
Policy inertia and lack of complete budget execution	Given, the structural and political economy policy inertia and budget passage delay, this has affected government spending. Eventually, creating effective lags and low response to cyclical shocks.	High
The possibility of a short fall in oil revenue	Non- oil revenue has failed to provide the needed support, due to short fall.	High
Pre-election year	The possibility of politics derailing reforms is a concern and this could affect capital importation negatively at the tail end of the year.	High
Possible cut on the finances of states and local government (SLG)	Although cyclical shock has tampered down, regardless the state are also experiencing substantial diminishing fiscal capacity just as the federal government.	High
Herdsmen and Boko haram	The present herd's men crisis is affecting agricultural output. The herds men crisis in the agricultural belt of the country poses as a risk.	Low

Gauging risk as a whole moving forward in 2018

Risk levels such as oil price and productivity has diminished. On the other hand global risk has largely remained unchanged except financial risk. Where most economies have readjusted, on the other hand Nigeria has not fully adjusted to such risk. Country specific risk in 2017 has fallen but emerging risk such as herd's men is a concern. This evolving risk poses a threat to both the agriculture sector and food security.

Macro Outlook in 2018

Price Stability

Over the years price stability have been threatened by currency disturbances, thereby it is not surprising to see headline inflation jolt as prices of crude swing downwards. The steep nature of price downwards has made the shed off cumbersome. Moreover, the impact of allowing prices to be led by the parallel market has made price readjustment harder.

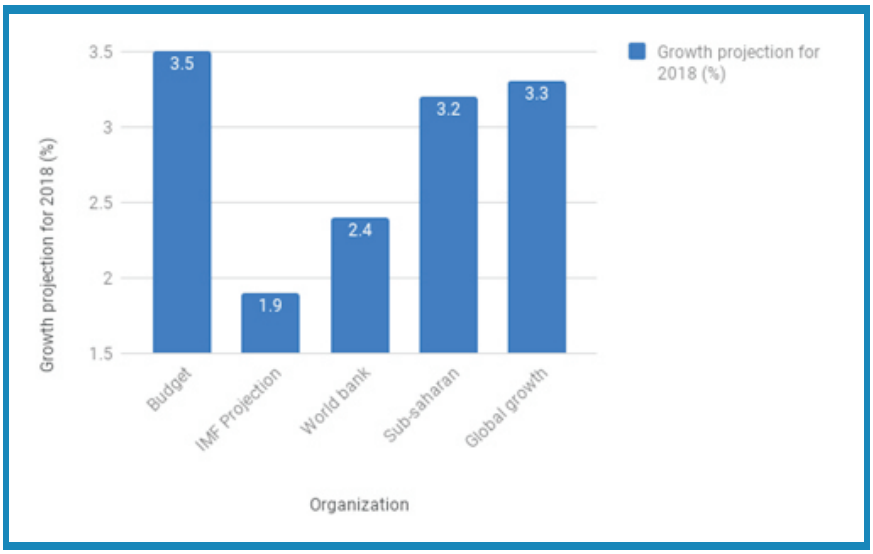
In 2018, there is relatively a minute possibility of a currency disturbance; however the possibility of a recoil in core inflation is likely, thus providing a scenario whereby inflation could travel relatively flat. Regardless, we expect transitory inflation to give way though this is dependent on the gradual readjustment of price to its earlier path, as earlier monetary shock fizzles off. However, the bad wagon effect on price could remain due to government's reluctance, thus our forecast for inflation in 2018, largely stands at 12%.

Growth

In 2017, growth has been cyclical driven as improvement was largely as a result of the oil sector, as most sectors remain within the negative zone. Moving forward, it is expected that sectors like construction will grow at a faster pace than 0.4% coupled with a manufacturing sector which would have reached the positive territory.

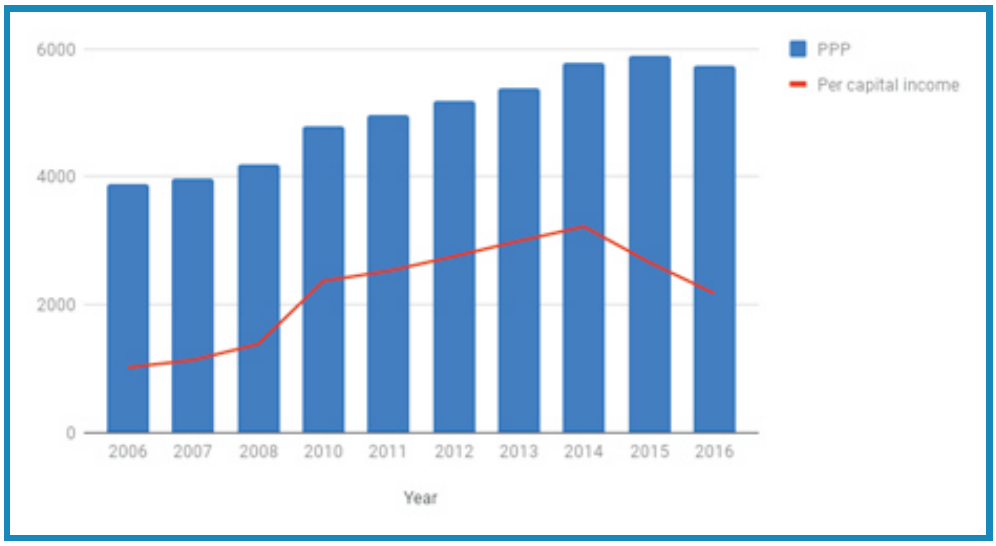
However, the recent slip in telecommunication and financial sector is a threat to robust growth. Thus, we expect growth to lag behind annual population growth and stand between 2.5% to 2.8% in 2017.

Fig 13: Growth projections for 2018



Source: IMF, World Bank, ERGP

Fig 14: Purchasing Parity and Per Capital Income (PPP)



Source: World Bank, Trading Economics

In line with our publication, titled Budget 2018 and the fear of Secular stagnation, we expect growth to have relatively minute effect on PPP.

Thereby in 2018, output will still experience gaps as Nigeria will grow below its potential growth level.

Exchange rate

Given the nature of Nigeria's export as heavily concentrated, shock to oil prices largely triggers currency disturbances.

In 2018, we see the Naira maintaining biasness to slow movement for the following reasons:

Table 6: Exchange Rate Heat Map

Factors	Playout
Oil price	Even though oil price have maintained an uptrend, the possibility of price falling below the red line of $39/barrel is slim. We see price as a leg wind.
Oil productivity	In recent times productivity have been capped by the oil producing exporting countries (OPEC). Another round of capping cannot be written off, as the global oil sector remain fluid. We do expect the political end to sustain the calm in the Niger delta, given the underlying importance.
Political end	Certainly, the Federal government will avoid any possible fall in the naira.
Autonomous supply	There has been consistent buffering in the autonomous corridor especially invincible. We don't see any real jolt to such in 2018
CBN	The CBN is willingness to intervene in the foreign exchange window, and this will likely continue.

Interest rate

Evidently, we expect the natural rate to take a shave, which is in line with views of most analysts. As external reserve blisters and inflation wind down a bit further after the first quarter. The CBN has more than enough room to let natural rate take a kill.

We are of the opinion that a 100bp shave to the MPR will take place, leaving the rate at 13%. We do expect a tweaking in cash reserve ratio and bank's deposit ratio, so as to reduce the weight from cash reserve ratio.

Outlook on selected Sectors

Table 7: Outlook on the Micro Economy

Sector	Remark	Score
Oil Sector	The oil sector is gradually reverting back to normalization. We do expect the political side to manage production given the implication on the economy.	A growth level between 15 to 17% is forecasted for 2018
Agriculture	The on-going policy to improve agriculture have continued to enjoy strong reception; thus the agricultural sector will maintain its growth in 2018 position	5.8% growth is projected for 2018
Financial Sector	Improvement in the oil sector will also help the quality of asset of most banks; regardless most banks will try to avoid moral hazards.	3.4% growth is forecasted for the financial sector
Construction Sector	Construction will be buffered by government spending, however we expect the sector to slow down in the second half of the year	2.8% growth is forecasted for the construction sector
Real Estate	Improvement in the construction sector will trigger a direct impact on the Real estate sector. Thus growth is envisaged but minute.	1.4% growth is forecasted for the sector
Manufacturing	Although the manufacturing sector is in a negative zone. It is expected that sustained expansion in PMI and industrial production capacity in 2018 will provide growth. This is because firms will likely readjust better to the cycle as fixed cost is pruned and the degree of margin compression shrinks.	An increase in output by 1.2% is envisaged
Transportation	The transportation sector has been in the green zone largely due to government's policy to provide a more elastic network.	Growth is envisaged
Accommodation	Accommodation will be on the margin for some time as household continues to limit their spending	0.80%
Electricity	The improvement in electricity output with regards megawatts will bolster growth in the sector	Growth is envisaged
Trade	The weakening in per capital income will be a headwind to the trade sector	Marginal

Outlook on States

The diminished fiscal capacity of most states played a substantial role in depressing the household consumption. Therefore providing an outlook on the state has become important at this point. Moreover we take a glimpse on how best they intend to improve their productive capacity, especially in the face of rising unemployment.

Table 8: Projection for Specific States

State	Budget projection	Remark
Abia	The budget projection for 2018 stands at N140billion • Capital expenditure for the period stands at N72.4 billion • Recurrent stand N67.6 billion	The outlook is positive for manufacturing notable textiles and footwear production. The building of an industrial park couple with the expenditure policy switch policy will bolster the outlook especially in accordance with its huge capital spending
Adamawa	The budget projection as approved by the Adamawa State for 2018 stand at N177.9 billion	A large part of this will be spent on Capital Projects. However, the presence of ethnic clashes and the prolonged period of terrorist attack serve as a headwind. On the other hand, the state does enjoy a competitive advantage in sugar production and it's a tourist site.
Akwa-Ibom	The projected budget is N651 billion • Recurrent expenditure stand at N97 billion • Capital expenditure stand at N437.67 billion • Consolidated revenue Charge stands at N120.85bn	The huge expenditure on capital implies the budget is forward looking as it seek to improve its productive base.
Anambra	Anambra proposed a budget of N166.9 billion Recurrent expenditure stood at N66.39 billion Capital expenditure stood at N103.1 billion	Anambra is maintaining its capital spending policy which is supported by building an asphalt plant to reduce cost and ensure employment.
Bauchi	The state project a N167.9 billion budget for 2018 • Recurrent expenditure stand at N68.7 billion • Capital expenditure stand at N100.8 billion • Deficit stand at N53billion	The high deficit is a concern, thus improving internal revenue is important. Regardless the policy of building rural roads will help the state, being a predominantly agrarian economy.
Bayelsa	The total budget projection for 2018 stands at N295 billion Statutory allocation make up N200 billion of the revenue. Value added tax's make up N8.5 billion Internal generated revenue stand at N24billion Capital receipts stand at N62 billion	The revenue projections are in tad with reality, although higher than 2017 budget: which had a projection of N221 billion. The heavy concentration on oil revenue makes the budget vulnerable to shock.
Benue	The total budget value account for N178 billion • Recurrent expenditure stand N77.08 billion • Capital expenditure account for N100 billion	The budget tend to be more forward looking as it seeks to improve agriculture and leverage on its location. Regardless the persistent herdsmen threatens the budget
Borno	The state presented a N170 billion • Recurrent expenditure stands at N 61.87 billion • Capital expenditure stands at N108 billion	The state have been scourged by insecurity, moreover the outlook of the state largely favors reconstruction.
Cross-river	The total Budget projection for 2017 stands at N1.3 trillion Capital expenditure stands at N910 billion and Recurrent expenditure stands at N390 billion	The budget is a forward looking one. However revenue projections are overly optimistic for a state that generated N116.08 billion in 2016. Moreover the previous budget in 2017 stood at N301 billion. We are cautious on the projections.
Delta	The senate approved a budget of N308 billion • Recurrent expenditure stood at N167 billion • Capital expenditure stands at N150.5billion	The state has a huge recurrent expenditure, which could stall growth. The debt obligation is a concern especially for a state with relatively huge concentrate revenue pool. Regardless the capital expenditure is a legroom.
Ebonyi	The state presented a budget of N208 billion • Recurrent expenditure is N165billion • Capital expenditure stand at N46 billion	The disparity between recurrent and capital is a concern. Moreover the huge recurrent base leaves little room for growth. The budget is tailored towards consumption
Edo	The state projected a 146 billion budget for 2018 15% higher than the previous budget N79.8 billion for capital budget N66.8 billion for recurrent expenditure	Projections are in tad with reality, regardless the concentration on oil revenue is a concern
Ekiti	The budget presented is projected at N93.09 billion Recurrent expenditure stand at N66.47 billion Capital expenditure N32.1 billion	The high recurrent expenditure coupled with a lean revenue base limits the state's growth potential.
Enugu	The state presented a budget of N98.59 billion • Capital expenditure stood at N33.49 billion • Recurrent expenditure stands at N 60.7 billion	Although the state is carrying out fiscal retrenchment, regardless the low capital expenditure remains timid.
Gombe	The state projects for a N104.9 billion • Recurrent expenditure stand at N51.9 billion • Capital expenditure stands at N52.9 billion	The budget is positive on human capacity building and agriculture but capital to recurrent expenditure is marginal. Moreover the state have to improve its PAYE.
Imo	The state budget for 2018 is projected at N190 billion • Capital expenditure stands at N 132.9 billion • Recurrent stands at N57 billion	The huge capital expenditure is a leg room for growth but the huge salary remain a concern.
Jigawa	The state presented a N134.7 billion budget for 2018 • Capital expenditure stands account for N67billion • Recurrent expenditure stand at N67.4billion	Jigawa is an agrarian economy, thus the outlook on the state support crop production. However the rising recurrent expenditure, especially debt provides room for caution.
Kaduna	The state projected budget for 2018 stood at N216billion • Capital expenditure amount to N131 billion • Recurrent amount to N85billion	The state is an agrarian economy and its robust location provides the state room to leverage on the existing transport network
Kano	Kano presented a budget projection of N234 billion for 2018 • N151.9 billion is projected for capital expenditure and • 81.9 billion was projected for recurrent expenditure	The outlook favours a positive given the emphasis on capital expenditure

State	Budget projection	Remark
Kastina	The state projected N211.4 billion • Capital expenditure stands at N160 billion • Recurrent expenditure stands at N51.1 billion	The presence of solar technology provides a leg room for the state. Moreover the state will take advantage of the government's agriculture policy
Kogi	Kogi state presented a budget of N147 billion • Recurrent expenditure stood at N63.8 billion • Capital expenditure stand of N83.9 billion	Although the budget is tailored after growth but the back log salaries unpaid is a concern.
Kwara	The state presented a budget of N181 billion • Recurrent expenditure is projected at N106 billion • Capital expenditure is projected at N75 billion	The state supports agriculture, especially crop production. At the same time the state has huge debt
Lagos	The total budget projection for 2018 stands at N 1.046 trillion Capital expenditure will gulp N697 billion Recurrent expenditure will gulp N347.039 billion The ratio between capital and recurrent is 67 to 33 There is a 28.7% increase in the budget	The outlook on revenue is positive, regardless of the policy of sustaining capital spending. We note that this will encourage productivity. However the debt trajectory is rising, which is a concern in the long run.
Nasarawa	Nasarawa presented a budget of N122.8 billion • Recurrent expenditure account for N45.2 billion • Capital expenditure account for N71.06 billion	The proximity to Abuja provides it enough headroom to improve its Pay as you Earn (PAYE). Moreover, it makes the state a real estate hub as it enjoys such similarity with Ogun State. The huge capital expenditure support productive activity.
Niger	Niger state presents a budget of N128 billion • Recurrent expenditure account for N52 billion • Capital expenditure account for N76.8billion	The budget is more of a rebalancing as the state improves capital spending. At the same bolstering revenue is also important.
Ogun	Ogun state presented a budget of N345 billion • Capital expenditure stands at N237.5 billion • Recurrent expenditure stands at N121.69 billion	The state have leveraged on its proximity to Lagos to improve its revenue base. Thus the huge capital expenditure matched with a sharp internal revenue puts the state on the upend.
Ondo	Ondo state presented a N170.84 billion budget for 2018 • Recurrent expenditure stand at N81.25 billion • Capital expenditure is N68.96 billion	The huge recurrent expenditure, with relatively low revenue mobilization makes our outlook remain cautious. Ondo state needs to improve its internal revenue and ease of doing business.
Osun	Osun state presented a N113.7 billion for 2018; • Recurrent expenditure stands at N85 billion • Capital expenditure stands at N88 billion	The state has huge debt obligation which has diminished the fiscal capacity of the state.
Oyo	The State projected a budget of N267 billion • Capital expenditure is N149.17 billion • Recurrent expenditure stands at 118.37	The state has a huge recurrent expenditure with short fall in revenue recorded in the previous horizon. The huge capital expenditure is welcomed but bolstering internal revenue is also important
Plateau	Plateau state present a budget of N145.58billion • Projected capital spending stands at N69 billion • Recurrent expenditure is stands at N76 billion	The huge recurrent expenditure and the persistent ethnic clash is a downside. Regardless the huge capital spending is a legroom for growth
Sokoto	The state projected a budget of N220 billion N152 billion set aside for capital spending N67 billion is set aside for recurrent spending	The budget is positive on reforming the states taxes, improving power generation, infrastructure and private public partnership (PPP).
Taraba	The budget presented for 2018 is N96.5 billion • Recurrent expenditure is estimated at N53.3 billion • Capital expenditure is estimated at N45.3 billion	Taraba like Plateau state has relatively weak PAYE, thus its revenue is largely blunt. Moreover its huge recurrent to capital ratio is a downside.
Yobe	Yobe presented a budget of N92.2 billion • Recurrent expenditure alone gulps N47 billion • Capital expenditure gulp N42 billion	The outlook favors agriculture and rebuilding. Engines for internal revenue have been decimated by the cycle of violence
Zamfara	The budget presented was projected at N130.7 billion Projected N46.4 billion for recurrent Projected N84.3 billion for capital expenditure	The budget is driven by capital spending which is reliant on refunds from the federal government. Improving rural roads will be critical to improving the productivity of the state.

Source: News Media
**The parameters used here are based on the budget presented, viability, debt and existing output levels of the individual state*
***Of the 36States in Nigeria, Rivers and Kebbi State are yet to present their budget*

Broad Wrap on States

States across the nation find themselves in uncharted waters where fiscal capacity have diminished but the recurrent expenditure is huge. Therefore the needed trade that ensures not just improved macro management policy but adequate adjustment to the new norm have become inevitable.

In this new norm, states that are more tilted to private public partnership, improve their ease of doing business, reviewing tax laws, ensure a more effective land administration, contain recurrent expenditure and leverage more on an elastic road network will thrive better.

Conclusion

In attempt to provide a holistic outlook on the economy, this edition provides a top to bottom appraisal of the economy. Pointing out the possible headwinds in 2017, at the same time identifying how far they have changed in 2018.

The outlook pointed that leading indicators have improved but the macro economy is vulnerable. The real economy is relatively lean, however as the cycle improves the real sector will improve. In 2018, the macro environment will sustain the growth momentum; regardless the economy will still be within a missing growth cycle as projection suggests that the economy will grow below the global average and the annual population.

Per capital income will remain weak, while Purchasing power parity will be sluggish. Obviously we are getting closer to the tail end of the recessional cycle, but a complete policy kit is needed. Policies that are more forthcoming on qualitative growth should be employed.

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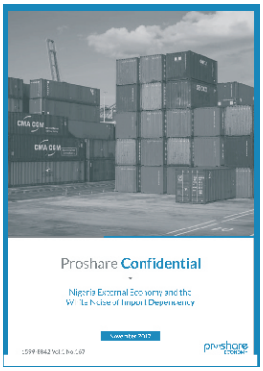

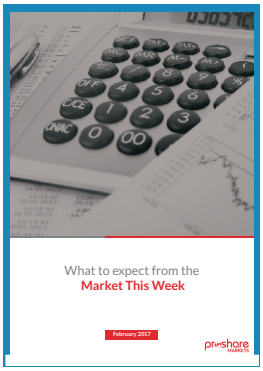

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