# THE CHARTERED INSTITUTE OF BANKERS OF NIGERIA CENTRE FOR FINANCIAL STUDIES (CIBNCFS)

## IN COLLABORATION WITH

## B. ADEDIPE ASSOCIATES LIMITED (BAA)

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## AT THE END OF THE

## 5TH ECONOMIC OUTLOOK: IMPLICATIONS FOR BUSINESSES IN NIGERIA IN 2019

## HELD AT ORIENTAL HOTEL, VICTORIA ISLAND, LAGOS

## DATE: FEBRUARY 5, 2019

## 1.0 Introduction

The Roundtable Session on 5th Economic Outlook: Implications for Businesses in Nigeria was held on Tuesday, February 5, 2019 at Oriental Hotel, Victoria Island, Lagos. The objectives of the Session were, among other things, to x-ray both the global and Nigerian economies in 2018; review the expectations of businesses in the current year vis-à-vis global economic and political developments; analyze the implications of the developing economic and political trends for key business sectors in Nigeria and discuss feasible business survival strategies during the prevailing economic conditions. The event was proudly sponsored by Stanbic IBTC Bank, SunTrust Bank, FSDH Merchant Bank, and NPF Microfinance Bank.

In his Welcome Address, the President/Chairman of Council, The Chartered Institute of Bankers of Nigeria, Uche M. Olowu, Ph.D, FCIB noted that, though we are living in a critical moment with insecurity, huge infrastructural deficits, high poverty levels etc., the Nigerian economy is slowly recovering. He argued for the speedy implementation of the Economic Recovery and Growth Plan (ERGP), which would serve as an anchor for the country's industrialization.

The Keynote Address was delivered by Mr. Olufemi Fabamwo, FCIB, Former Director of Currency Operations Department, Central Bank of Nigeria. Mr. Fabamwo stressed that, the divergence in global economic performance and concerns over the slowdown in global economic activities in 2018 arose majorly because of the trade war between USA and China, the slowdown in the Chinese economy and the uncertainties around Brexit. These factors resulted in mounting external debt in Emerging Market and Developing Economies (EMDEs), a gradual increase in global inflation and currency depreciation in some EMDEs.

He highlighted the following key risk indicators for 2019: external shocks, weakening oil prices, reduced OPEC quota to 1.685 mbd for Nigeria, security challenges, political risks/uncertainties associated with the 2019 general elections and delay in the passage of the 2019 budget. His expectations for the Nigerian economy and businesses in 2019 are as follows:

- Domestic outputs would be driven by fiscal stimulus from the increase in oil and non-oil receipts.
- Implementation of the Federal Government Economic Recovery and Growth Plan (ERGP) and Strategic Revenue Generation Initiative (SRGI).
- The Executive Order No. 7 on Road Infrastructure and Investment Tax Deals would likely have a positive impact on growth and employment.

- A decline in oil production, given that the OPEC quota would be cut down by 3.15% to a cap of 1.685 mbd for H1 2019, from 1.73 mbd currently.
- Oil revenue shortfall due to dwindling prices is likely to deplete external reserves, constrain CBN's aggressive interventions, weaken the Naira and raise vulnerability to capital flow reversals.
- Federation Account Allocation Committee (FAAC) disbursements will drop and hamper the implementation of the new minimum wage by States.
- A widening budget deficit, owing to recent fall in oil price, the OPEC quota cut, the new minimum wage, ASSU demands, etc., will necessitate deficit financing.
- Higher inflation at least in H1 2019 on the back of increased election-related spending, continued disruption of food supply chain by insurgency, herdsmen attacks and banditry in some regions.
- The current monetary policy variables, OMO auctions, FX market interventions will all be sustained in 2019.

He concluded that the outlook for the Nigerian economy in 2019 would be mixed in the midst of global uncertainties and domestic challenges. As such, contractionary monetary policies should be expected in order to achieve the price stability objective of MPC. Therefore, expectations and implications for business sectors will be varied.

The Overview of the Economy and 2019 Outlook was presented by Dr. 'Biodun Adedipe, the Chief Consultant, B. Adedipe Associates Limited, with highlights as follows:

- The Nigerian economy is on the right trajectory and full of opportunities for businesses.
- Government (Federal, State and Local) plan for expenditure in 2019 is estimated at about 9.98% of total value of economic activities in 2018. The present and future of the Nigerian economy lies with entrepreneurs who create 90.02% worth of value of economic activities.
- The Misery Index has doubled in eight years from 11% to 23%. The index has however, taken a downward trend since the beginning of 2018, indicating gradual improvement in the quality of life in the near term. This underscores the importance of and critical need for social intervention.
- On government borrowing, he advised that the focus should be on infrastructure projects rather than recurrent expenditure. In order to bridge the infrastructure deficit, Nigeria must borrow as evidenced by Nigeria ranking a lowly 155 out of 174 countries in terms of Debt/GDP ratio and 110 out of 160 in infrastructure index. There is a strong correlation between Debt/GDP ratio and top-10 infrastructure countries.

- GDP growth would range between 2.65% - 2.75% for Nigeria in 2019
- External reserves would drop to $39.75bn
- Crude oil price would average at $54 per barrel and inflation rate at 13.05%.
- On the monetary side, interest rates would remain at double digits, while exchange rates would remain in a narrow range at the official market and the Importer and Exporter window.

Concluding, he stated that the fate of the Nigerian economy still hangs on hydrocarbons – volume produced and exported vis-à-vis the international oil market price. This vulnerability notwithstanding, the resilience and staying power of the average Nigerian provides growth opportunities for those that *look* and *move* in the right direction.

The Panel Session was chaired by Mr. Muda Yusuf, Director-General, Lagos Chamber of Commerce and Industry (LCCI), and had four panel members:

- Dr. Folarin Gbadebo-Smith, Director-General, Nigerian Institute of Social and Economic Research.
- Dr. Enase Okonedo, Dean, Lagos Business School.
- Dr. Alvan Ikoku, Jnr, Director, Financial Markets Department, Central Bank of Nigeria represented by Dr. Angela Sere-Ejembi, Deputy Director, Financial Markets Department.
- Mr. Ini Ebong, Group Executive, Treasury & Financial Institutions, First Bank of Nigeria Limited represented by Mr. Oloruntimilehin George, Group Head, Financial Institutions & Multilaterals.

## 2.0 Highlights and Recommendations

### A. Highlights

- The combined effect of CBN interventions, open market operations (OMO), maturing national treasury bills, CBN FX interventions and FAAC allocations to State and Local governments has so far improved the liquidity position of the banking system.
- The capital market declined in 2018 due to the impact of monetary policy normalization in some advanced economies and the cashing out of portfolio investors due to perceived political risks.

- The implementation of the Bi-lateral Currency Swap Agreement (BCSA) with China and the proactive exchange rate management policies of the CBN have sustained the exchange value of the naira and in the process increased the external reserves marginally.
- The Dangote Refinery and Petroleum Plant which will fully take off in 2020 would be a game changer for Nigeria. The Fertilizer Plant which is expected to be commissioned by April/May 2019 would transform Nigeria to a major fertilizer exporter in Africa, conserve FX and boost employment.
- Widening budget deficit and an increase in inflation rate will lead to contractionary monetary policies. This would ultimately lead the banking sector to exercise significant lending restraint and more rigorous due diligence in its transactions with Politically Exposed Persons (PEPs).
- The Federal Government (FG) issued a ₦100 billion Sukuk bond and the proceeds will go into the construction and rehabilitation of key roads across the six geopolitical zones of the country. This will boost infrastructure and create employment.
- The FG and the Bank of Industry (BOI) collaboration in 'Market-moni' and 'Trader-moni' initiatives should have similar effects on commerce and boost economic activities.
- According to the Nigerian Communications Commission (NCC), Nigeria surpassed its 2018 broadband penetration target of 30% by 1.07% to 30.9%. Total number of subscribers, tele-density and internet users rose to 169.1 million, 120.79% and 108.46 million respectively. This should drive deeper penetration of 4G in 2019 and possible roll out of 5G subsequently.
- Oil and gas production is expected to decline due to 3.15% cut in oil production by OPEC and its multiplier effects would be significant on the Nigerian economy. Due to this development, activities in the real estate sector are expected to slow down until after the general elections.
- The private sector remains the greatest contributor to GDP in the country.
- Oil revenue and inflows from foreign direct investments constitute mainly the capital inflows. Capital flight due to interest rate normalization in the advanced economies would therefore, put pressure on capital flows.
- Oil revenue remains the key driver of the Nigerian economy.

- General elections, minimum wage issue and currency intervention policy of the CBN are factors that will impact business performance.
- The informal sector constitutes about 60% of the Nigerian economy, contributing about $200 billion. As such, there is huge potential of influencing the economy in terms of unemployment. Improved access to credit and apparent skill gaps in this sector must be addressed before these potentials can be realized.
- The Central Bank of Nigeria through the Bankers Committee uses moral suasion to get banks to improve SME access to credit.
- Despite having the highest sectorial contribution to GDP, agriculture's contribution to national revenue is insignificant. It is important therefore, to focus on sector productivity in terms of wealth creation and beyond GDP contribution.
- Generally, the strategic issue for whomever among the candidates that wins the election should be how to accelerate economic growth faster than population growth.
- Diversification should also be measured by the share of the global market a particular sector of the economy controls.
- Nigeria should consider producing more complex and tradable goods.

## B. Recommendations

At the end of the session, the roles of different stakeholders in revamping the Nigerian economy were identified as follows:

### Government

- On policy, Human Development Index is a major issue that must be addressed to accelerate growth. There should be a significant increase of investments in the Education and Health sectors, as against the current level of investments in these sectors which is far less than the standard of 15% recommended by UNESCO.
- There is need to carefully manage foreign investments going forward in order to reduce/eradicate capital flight/transfer pricing (like the case of MTN). There should be a cap on the amount of returns a foreign company should make to enjoy tax free status. Exit clauses should also be factored into the process.
- Expand the tax base as alternative way to fund budget deficits.
- Formalize the economy for greater inclusivity, effective diversification and optimization of government expenditure.
- Provide incentives for production of complex and intermediate tradeable goods to expand the formal sector.

- Reconsider concessions given to businesses (especially multinationals) and fix the inefficiency in the taxation system in order to boost government revenues.
- Give equal attention to access to credit, the quantum of credit and categories of businesses that get credit.
- Initiate the first industrial revolution in order to catch up with the global economy.

**Banks**

- Fund research and development projects.
- Strengthen role as financial intermediaries, to deliberately raise the ratio of credit to private sector to GDP from less than 20% to the approximate average of 50% in many other emerging economies.

**Business Enterprises**

- There would be pressures on margins in the first half of the year due to political uncertainties, limited access to credit as well as reduced foreign investments. Businesses should therefore, adopt a conservative approach to activities pending the outcome of the general elections.
- Risks associated with Government policy inconsistencies should be monitored and strategies predefined to mitigate them.

## 3.0 Conclusion

The session was well attended with delegates from regulatory institutions (the Central Bank of Nigeria), deposit money banks, microfinance banks, mortgage banks, merchant banks, professional and educational bodies, government ministries, departments and agencies, as well as other private sector players.

The faculty displayed excellent mastery of the subject matter and the contributions by participants to the discussions were insightful.

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Registrar/Chief Executive
The Chartered Institute of Bankers of Nigeria

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