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

6TH NATIONAL ECONOMIC OUTLOOK: IMPLICATIONS FOR BUSINESSES IN NIGERIA IN 2020

HELD AT ORIENTAL HOTEL, VICTORIA ISLAND, LAGOS

DATE: JANUARY 28, 2020

1.0 Introduction

The 6th National Economic Outlook Session: Implications for Businesses in Nigeria with theme **Managing Potential Risks, Unlocking New Growth Opportunities and Influencing Government Policies** was held on Tuesday, January 28, 2020 at the Lagos Oriental Hotel, Victoria Island, Lagos. The objectives of the Session were, among other things, to x-ray both the global and Nigerian economies in 2019, 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.

In his Welcome Address, Dr. Uche M. Olowu, FCIB, the President/Chairman of Council, The Chartered Institute of Bankers of Nigeria, stressed the importance of the manufacturing sector arguing that it has immense potential to be the powerhouse of the Nigerian Economy. He asserted that in the wake of developments such as the border closure policy and Free Trade Agreement, Nigeria, now more than ever before should look inward to resolve gaps in demand for both consumer and industrial goods.

He also called on leaders and the banking community to support this sector more. Support in terms of greater financial investment, improved infrastructure in areas such as power supply, road networks, capacity building (staff training), as well as special policies to encourage indigenous operators like granting tax relief. Only then would we be able to compete with other African nations and comfortably take our place as the giant of Africa.

2.0 Keynote Address

The Keynote Address was delivered by Dr Joseph Nnnanna, FCIB, Deputy Governor, Economic Policy Directorate, CBN who was represented by Dr. Emmanuel Adamgbe, Special Adviser to the Deputy Governor, Economic Policy Director, CBN. In the keynote address, Dr. Adamgbe asserted the need to put on thinking caps and strategize on implementable measures. There are several low hanging fruits in the fiscal policy space, which include the privatization of the moribund refineries, creation of public works programme to create jobs for our youths and partial diversification from the ownership of NNPC – just to name but a few.

He also explained that the outlook of the Nigerian economy is anchored on higher oil prices and production, continuing reforms in the foreign exchange market, improvements in critical ancillary infrastructure and prospects for improved agricultural performance. Achieving the growth projections require effective implementation of the Economic Recovery and Growth Plan (ERGP), diversifying government revenue sources, sustaining the current foreign exchange stability by the Central Bank, addressing insecurity in the country and increasing the contribution of the non-oil sector. He noted that the diversification should be based on product, income sources, and export diversification.

The outlook of the economy would also be shaped by the following tailwinds: deploying funds to critical infrastructure projects to stimulate growth, sustenance of peace in the Niger-Delta and North-East regions, improvement in oil production, eradication of the Boko Haram and enhancement of growth-stimulating sectors such as manufacturing and agriculture.

He concluded that the outlook for the Nigerian economy in 2020 would be mixed in the midst of global uncertainties and domestic challenges.

3.0 Overview of the Economy

The Overview of the Economy and the 2020 Economic Outlook was presented by Dr. 'Biodun Adedipe, the Chief Consultant, B. Adedipe Associates Limited. Highlights of his presentation are as follows:

- The Nigerian economy is on the right trajectory and full of opportunities for businesses.
- Nigeria should focus more in 2020 on top notch key growth drivers of ICT, Human Capital, Financial services (banking and insurance), Mortgage, Health, Infrastructure (power and logistics), Potable Water, Sewage and Sewerage.
- The economic policies and directions should also focus on enhancing inclusive growth that outweighs population growth and significant reduction in income inequality as well as elimination of extreme poverty.
- Nigeria should follow the example of China who relentlessly reformed and maintained focused implementation of development plans that placed emphasis on delivery of world-class infrastructure within the span of a generation.
- Key Risks in the Global economy Include:
    - Trade wars between USA and China.
    - China slowed to 6.1% in 2019, but for a $14 trillion GDP, that's still massive (annualized) addition of $854 billion which is 2.2 times Nigeria's $387.19 billion!
    - Rising protectionism – 'America First' and 'No-deal Brexit', South African 'xenophobia' and Nigeria's border closure!
    - Emerging Market and Developing Economies (EMDEs) largely, Nigeria included, will suffer from country-specific factors, tighter financial conditions, geopolitical tensions, and higher oil import bills.
    - US-China trade deal will temper stress and dampen growth expectations, while the signing of the first trade deal will enhance growth if implemented.
    - Growing, accommodative monetary policy with 20 out of 32 tracked Central Banks cutting interest rates.
    - New scramble for Africa – Brexit, rising Chinese influence, resurgent USA and mainland Europe.
    - Global growth is projected to grow slightly to 2.5% while the Developed economies are expected to decline from 1.6% to 1.4%
    - EMDEs are projected to grow from 3.5% to 4.1%

    - Trade and geopolitical tension create uncertainties that will increase global oil price, but hamper growth.

- The present and future of the Nigerian economy lies with the private sector as the sector created an estimated value of 90.11% in 2019
- The Misery Index has taken a downward trend since the first quarter of 2018, indicating gradual improvement in the quality of life. This underscores the importance of and critical need for social intervention projects. This has been rightly so with respect to N-Power, Home Grown School Feeding (HGSF), Government Enterprise and Empowerment Program (GEEP) and CCT.
- Nigeria ranks a lowly 155/174 in its Debt/GDP ratio, and 110/160 in infrastructure index. Therefore, improved infrastructure will expand capacity to service the debt.
- A simple covariance test shows a strong positive correlation between Debt/GDP ratio and infrastructure for top-10 valued at 63.95%. This revealed that there is a positive nexus of sovereign debt and infrastructure development**.**
- The fate of the Nigerian economy still hangs on hydrocarbons – volume produced and exported vis-à-vis the international oil market price.
- The major drivers of Nigeria's GDP are Agriculture, Trade, ICT, Mining & Quarrying, Manufacturing, and Real Estate. In aggregate, these accounted for 80.7% of Q3'19 GDP.
- The Key Assumptions for 2020 are as follows:
    - Oil price will be US$57/bbl on average
    - Oil production will be 2.18 mbd
    - Exchange rate will equal ₦305/$
    - Inflation rate will decline year on year to 10.81%
    - Nominal consumption will equal ₦122.75trn
    - Nominal GDP will on average equal ₦142.96trn and
    - Total Budget will equal ₦10.59 trillion
- Key Policies that will shape 2020 are as follows:
    - The Africa Free Trade Continental Agreement
    - The CBN Monetary Policy - Multiple exchange rates in management of forex market and development finance to enhance inclusive growth and share prosperity.
    - Finance Act - Expected to reduce budget deficit, fund new minimum wage, and promote SMEs in Nigeria
    - The Eco Currency
    - Early Passage of the 2020 Budget

- 2020 economic outlook projections are as follows:
    - GDP Growth rate: 2.45% – 2.55%
    - Inflation rate: 12.58%
    - Interest rate: Double digit
    - Exchange rate (N/$) N307/$ (official) vs N366/$ (others)
    - Crude Oil price $62.4/bbl

- External reserves $40.25 bn

We expect higher growth this year as a result of favourable oil prices, positive improvement in the infrastructure facilities and stronger demand, as a result of the increased minimum wage.

4.0 Panel Session

4.1 Facilitators

The Panel Session was chaired by Mr. Femi Awoyemi, Founder/Chairman, Proshare Nigeria Limited, and facilitated by the following panelists who were joined by Dr. Adedipe:

- Mr. Samuel Egube, HCIB, Honorable Commissioner for Economic Planning & Budget, Lagos State
- Mr. Joe Ugoala, Director, Policy, Strategy & Risk Management Department, Debt Management Office representing Mr. Kabir Tijjani, Executive Director, Business Development North & Strategy, Premium Pensions Limited
- Mr. Emmanuel Ijewere, Vice President, Nigeria Agribusiness Group and CEO, Best Foods Ltd
- Mr. Kabir Tijjani, Executive Director, Business Development North & Strategy, Premium Pensions Limited representing Dr Lamido Yuguda, Non-Executive Director, Premium Pensions Limited

4.2 Highlights and Recommendations

a. Highlights

- The monetary policy direction of the Nigerian government fits into one of three plans. These include;
    - Fiscal Policy
    - Monetary Policy
    - Commercial Policy
- It is essential for an alignment to exist between these policies. In the event of a gap in one, the other policies should fill this gap to ensure harmonization of government policies.
- There are internal inconsistencies in Nigeria's economic policies. An increase in the Cash Reserve Ratio (CRR) will reduce the lending capacity and ultimately make access to loans more difficult for businesses as this is contrary to CBN's policy of 65% loan-to-deposit ratio. This policy misalignment may impede the prospect for economic growth.
- The Pension Industry in 2020 is beginning to play a more significant role as the catalyst for development in the Nigerian Economy
- The Pension industry currently has ₦10 trillion in assets which could be used to finance infrastructure projects. Such projects should include investment in the power sector, railway and road networks.

- The challenge is for policy makers and the private sector to create instruments which would facilitate access to funds and ensure safety of returns
- Over the last seven years, urban-rural dweller ratio has switched to ratio 52:48 as more people now live in urban areas than in rural areas. The increase in the number of urban poor is a major risk as there are now 600 slums in Lagos compared to 60 in 2018.
- The Lagos State government has allocated ₦336 billion to education and health care which are priority areas for development.
- Lagos State is running an inclusive government. Therefore, all stakeholders should be actively involved in the design and implementation of government initiatives..
- Agribusiness is not as risky as usually assumed. The wider market opportunities created by the signing of the Africa Continental Free Trade Agreement (AfCFTA) is an opportunity for financiers.
- Nigerians are exploiting the arbitrage opportunities in the tariff structure and this needs to be addressed by the government.
- To ensure safety of investments to key sectors of the economy, the pension industry follows watertight investment guidelines. There is also a limit to the amount of pension funds that could be allocated to infrastructure.
- Nigeria's sovereign debt has the following attributes, among others:
  - 25% of debt is owed by State Governments.
  - Nigeria's Debt-to-GDP is favorable at lower that 20%, compared to other African nations.
- The city of Lagos generates ₦30 trillion in GDP. However, per capita GDP generated from an estimated population of 22 million people is only ₦1.36 million. Ghana generates 5 times the per capita of GDP generated in Nigeria.
- Central Bank of Nigeria (CBN) and the National Pension Commission (PenCom) are working out modalities for workers under the contributory pensions' scheme to access 25% of their Retirement Savings Account (RSA) as equity for personal home investments/mortgages.
- Debt service to revenue is challenged as the rate of revenue is unmatched with the increasing rate of debt.
- Agricultural investors that face challenges with their agribusinesses should contact the Honorable Commissioner for Agriculture in their respective states of residence for assistance

b. Recommendations

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

i. Government

- It is critical for government to incentivize private sector actors to participate in public works programmes that cut across transportation, education, health, security, agriculture, across the country.
- Government should ensure alignment of internal policies (fiscal, monetary and commercial policies) to ensure efficient and impactful implementation.
- Government needs to be more disciplined when channeling debt towards financing infrastructure.
- Agribusiness should further form part of government policy, as this sector has the potential to significantly reduce unemployment and poverty levels in the country.
- The government should give incentives to companies producing in Nigeria to further encourage Made-in-Nigeria goods and services.
- The architecture for measuring actual performance with regards to the Nigerian Budget for each sector of the economy should be implemented. Deliverables by the budget expenditure and what it is meant to address should be clearly defined as assessed. Such assessment should also be made public.
- Budget deliverables should be measured not just by how much is spent or leftover. Rather, ministerial activities should be measured scientifically, using the activity rating scale to determine who retains their portfolio. This will encourage performance of ministries and parastatals, which could cumulate into economic performance. For example: the assessment score for budget performance should be as follows:
    - 80% - Green
    - 79% - 60% - Amber
    - Below 60% - Red

  A minister who is to remain in office should score 80% and above under this architecture. If the minister scores red in three consecutive quarters, he/she can be sacked or deployed to another ministry where he/she can function better.

- The government must address the tariff structure before AfCFTA is fully implemented, if Nigeria is to take full advantage of the agreement. In the same vein, the tariff structure in terms of incentives available to importers in transport equipment machinery and other import items need to be reviewed in order to eliminate arbitrage opportunities associated with re-exports.
- Groups that disrupt productive activity, particularly in the Agric sector e.g. Herdsmen, Boko Haram, Kidnappers, should be classified as terrorists. This is because disruption in production in this sector directly affects food security, which in turn creates food inflationary pressures. This is in line with the International Day of Peace set by the United Nations for 23rd February 2020, in which the theme for 2020 is Food Security.
- The ease of doing business should extend outside major cities such as Lagos and Abuja.
- The government can take advantage of the ₦10 Trillion pension funds for investments into infrastructure.

- In addition, government can also take advantage of the Private Public Partnership infrastructure delivery model to further narrow the infrastructure gap.
- Strengthen Nigeria's competitive advantage in Agriculture by ensuring availability of land, encourage inclusive growth through reduction in rural-urban migration, review the Africa Continental Free Trade Agreement, maximize the favorable climate, ensure security and support the country's infant industries, particularly in food production.
- The government should put measures in place to prevent dumping that could be encouraged by the implementation of the Africa Free Trade Agreement. Our manufacturing sector should also be positioned for greater efficiency through provision of incentives.
- The government should provide an enabling business climate that can facilitate business growth in terms of respect for rule of law and sanctity of contracts to create an enabling environment for investment.

ii. Banks

- Bankers should engage more with operators in Agribusiness to understand the complexities of the business and value chain in order to develop appropriate risk profiles.
- Bankers should not just be interested in supplying funds for businesses. Rather, much of partnership that would increase business successes should be considered as this would reduce incidences of bad loans and recalcitrant debtors.
- Bankers should become more involved in supporting the education and healthcare sectors in Nigeria.

iii. Business Enterprises

- Agribusinesses who face challenges with terrorists should contact the Honorable Commissioner for Agriculture in their respective States of residence for assistance.
- Businesses should be incentivized to pay taxes to boost Federal and State government expenditure.
- Businesses should take advantage of the border closure to provide fast moving consumers goods that can serve Nigerians. This is important in order to address commodity supply gaps caused by the closure.
- There is need for business owners to do human resource re-engineering to improve productivity.
- Business owners need to identify dominant and growing sectors in Nigeria and position their organization to serve these sectors. Design strategies of developing business relationships with them and continually track their activities and performance to unlock business opportunities.

4.0 Conclusion

The economy is likely to experience an average of 2.1% to 2.5 % growth in 2020 if government, banks and businesses adhere to critical paths of improvement and enhancement models as suggested.

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