LAGOS BUSINESS SCHOOL
PAN-ATLANTIC UNIVERSITY

Nigeria Mid-Year Economic Review 2019

Retrofitting the Nigerian Economy: Issues and Drivers

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Choices & Action!

Outline

- Synopsis
- Retrofit
- What should We Focus on?
- Global Macroeconomic Review
- The Nigerian Economy
- The 21st Century Economy
- H2 2019 Outlook
- End Notes

Synopsis

- The Nigerian economy has struggled for **acceleration** since recovery from the 2016 recession. The prospects are still **bright**, but gaining momentum requires making some changes that seem simple on the surface but difficult to make. These changes requiring **surgical strike** mentality and **energetic execution** may be the way out.

Synopsis (contd.)

- Surgical strike is a military terminology for an action that produces an **intended result** against a predetermined and well-defined military target, without or with minimal collateral damage.
- It also means an action aimed at **quick resolution** of a problem or issue in order to prevent it from escalating into a full-blown war!

Retrofit

- To retrofit is to **add a component** to something that never had it when it was manufactured.
  - For example, a 59-year old apartment block that is newly fitted with elevator, central air-conditioning system, shared supplementary non-grid power system and all bedrooms en-suite.
  - The retrofitted unit becomes infinitely more **effective** and **efficient** than its pre-retrofit state.

What's should we Focus on?

- We have conducted severally half-yearly and annual reviews with outlook over many years. Telling the same story!
- Perhaps we should begin to shift focus in our analysis and conversation, taking account of the dynamics of economics:
  - The fading rational, economic man and evolving **socially adaptable man**. (**Kate Raworth**, 2017)
  - By end-July 2019, the **US economy** would have been growing for 121 months at a stretch, being the longest run since records began in 1854! (**Economist**, July 2019)
  - The rising and strengthening phenomenon of '**unmodellable behavior**'.
  - The inability of government to effectively **fund growth** and desperate need to make growth trickle down.
  - For Nigeria, the **exploding population** that looks likely to account for about 26.7% of world population growth between now and 2050! (UN

Focus on? (contd.)

- Shift:
  - From GDP growth to measuring **quality of life** and equitable distribution of growth benefits?
  - From whatever-happens to **competing** for resources and attention.
  - From the deception of resource-rich country to **attractive investment destination**.
  - From waiting for investors to come to **actively pursuing** the type of private investors that will make the difference.

Global Macroeconomic Overview

- *"The outlook for the global economy has **darkened**" due to the following major factors:*
  - Tightened global financial conditions;
  - Moderate industrial production;
  - Intensified trade and political tensions; and
  - Large Emerging Markets and Developing Economies (EMDEs) experiencing significant financial market stress.

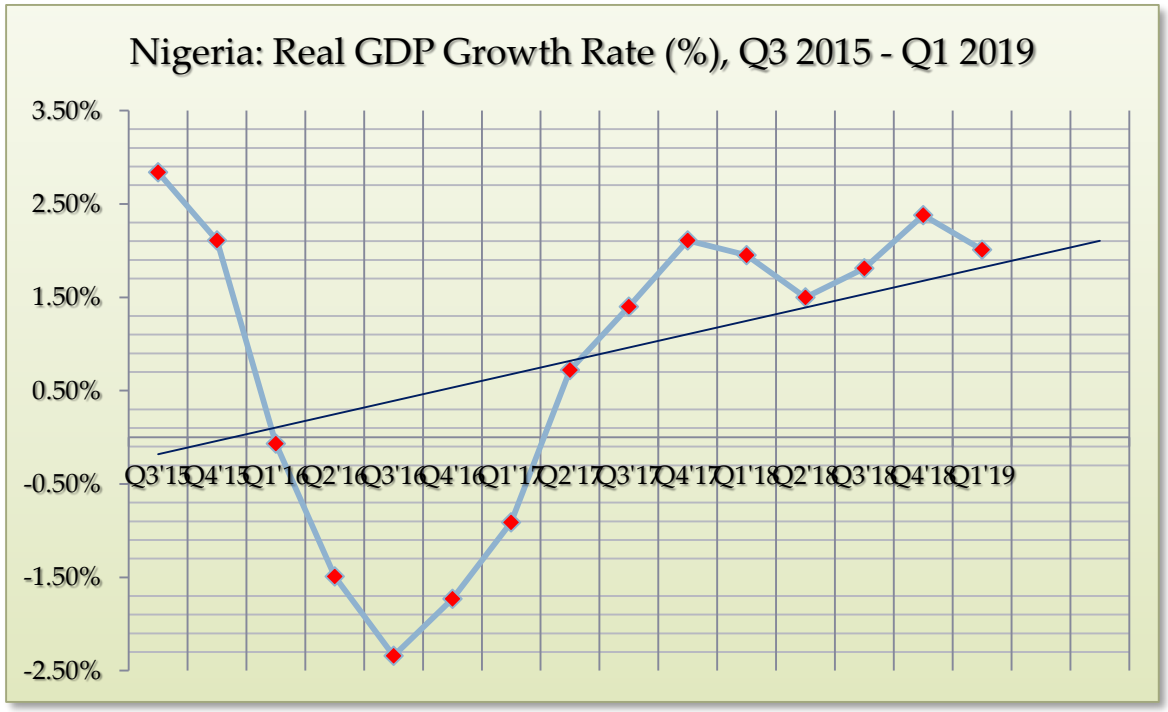
World Bank GEP 2019

Global Macroeconomic Overview (contd.)

- Key issues / risks:
  - Trade wars between USA and China.
  - Slowing advanced economies, especially UK and mainland Europe.
  - Rising protectionism – 'America First' and Brexit.
  - Deeming growth prospects for commodity exporters.
  - Slowing growth in China and other East Asian countries.
    - China slowed to 6.2 percent in Q1 2019, but for a **$14 trillion GDP**, that's still massive (annualized) addition of $868 billion which is **2.46 times** Nigeria's $353.27 billion (Q1 2019 annualized)!
  - EMDEs largely (Nigeria included) will suffer from country-specific factors, tighter financial conditions, geopolitical tensions, and higher oil import bills.
  - Growing risks of global policy uncertainty.
  - Weak productivity gains and climate change effects will adversely impact output and growth.

The Nigerian Economy

The economy is **growing**, but not fast enough.



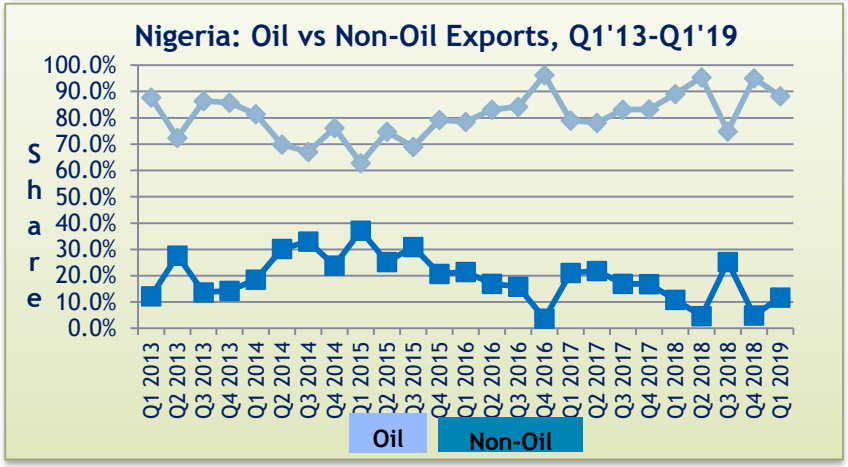
Year	2014	2015	2016	2017	2018	Q1'19
% Growth	6.23	2.82	-1.41	0.83	1.91	2.01

- GDP growth rate slowed to **2.01%** during Q1'19 after recording higher levels of growth in the two preceding quarters. However it was still higher than 1.95% recorded in Q1'18.
- An average of **1.91%** for 2018 was above ***0.83%*** for 2017. The Nigerian economy is primed to hit a peak of 2.65% growth in 2019.

This does not talk to growth **beneficiaries** and income **distribution**.

The Nigerian Economy (contd.)
External Sector

The **external sector** is ***growing strongly***, except for the great influence of hydrocarbons in foreign earnings.



- Foreign trade data suggests strengthening.
  - **Exports** have **expanded strongly** on the back of hydrocarbons earnings!
  - **Imports** dampened between Q2'17 and Q4'17 but ***upturned*** in Q1'18 and sharply in **Q3'18**!

- **Oil** remains the ***prime mover***, accounting for **92.5%** of exports in **H1'18**, **83.31% in H2'18 and 88.24% in Q1'19**, on the back of favourable oil prices and steady production / export.
- This portends **vulnerability**.

- **In Q1'19**, **major export trading partners** were India, Spain, Netherlands, South Africa and France, while **major import trading partners** were China, Swaziland, United States, India and Netherlands.

The Nigerian Economy(contd.)
Public Debt Stock (Mar'19)

The 'noise' about debt is **misplaced** and **counterproductive**!

- Its restructuring favours **cheaper** external debt.
- If Nigeria desires to bridge infrastructure deficit, she MUST borrow!

Category	US$ ml	₦ Ml	Change Q1'19
External (FGN+ States + FCT)	**25,609.63**	**7,860,875.93**	**$335.27 (1.33%)**
Domestic (FGN)	42,721.68	13,113,420.29	**$1,111.24 (2.67%)**
Domestic (States + FCT)	12,942.77	3,972,783.37	**$390.86 (3.11%)**
Sub-Total Domestic	**55,664.46**	**17,086,204.66**	**$1,502.11 (2.77%)**
Overall Total	**81,274.09**	**24,947,080.59**	**$1,837.37 (2.31%)**

- **Why we should not worry about these figures!**
  - What type of loans?
  - What is the cost?
  - What is the tenor?
  - What is the money going into?
  - What we should consider -- Debt/GDP, Debt/Budget, Debt/Infrastructure nexus, and whether a nation can go bankrupt or be liquidated?

Two **risk issues** – **exchange value** of the Naira and **investor confidence**.

They know quite well that if Nigeria looks inward, she can never go bankrupt!

- They don't want you to know that Nigeria ranks lowly 155/174 in Debt/GDP ratio, and 110/160 in infrastructure index.

The Nigerian Economy(contd.)

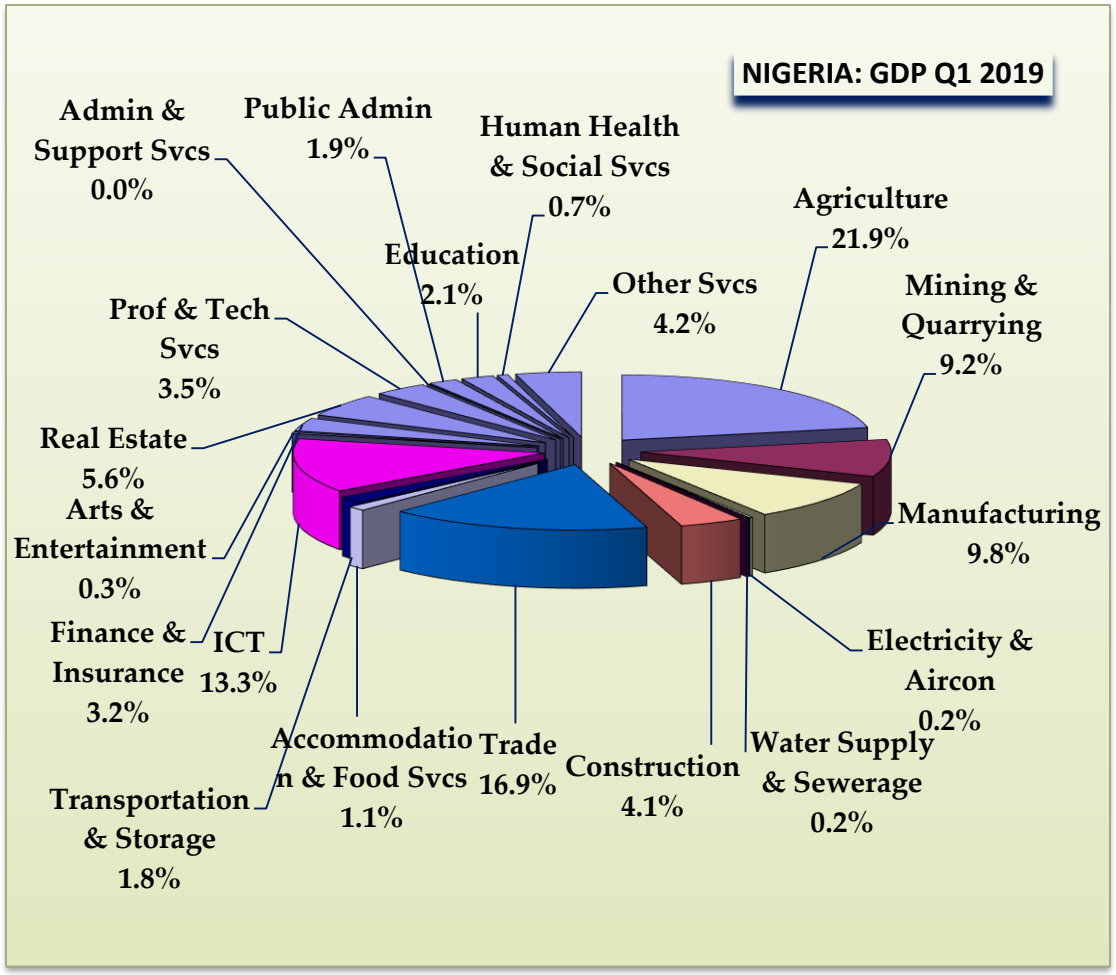
Top-10 Infrastructure and Debt/GDP Ratio

Top-10 Debt/GDP	Top-10 Infrastructure	Ranking in Debt/GDP	GDP Ranking
Japan	Germany	51	4
Greece	Japan	1	3
Lebanon	Sweden	100	22
Italy	Netherlands	64	18
Portugal	Austria	28	27
Cape Verde	Singapore	8	36
Congo	United States	10	1
Singapore	United Kingdom	24	5
Bhutan	Switzerland	129	20
Unites States	UAE	156	29
Nigeria	**78** / 160 (2018_WB)	**155** (21.3%_2017_TE)	**30** (2017_WB)

A simple **covariance test** shows a strong positive correlation between Debt/GDP ratio and infrastructure for top-10 (**63.95**)!

The Nigerian Economy (contd.)

The Economy is Diversified



- **Oil** generates most of the earnings, but accounts for less than 10% of GDP!
  - A disconnect of sort, as its linkage to the rest of the economy is weak!
- **Agriculture** and **Trade** are dominant and hold the best prospect for wealth creation for 'small capital' households!

Q1'19 GDP:

- Oil = 9.14%;
- Non-oil = 90.86%

The Nigerian Economy (contd.)

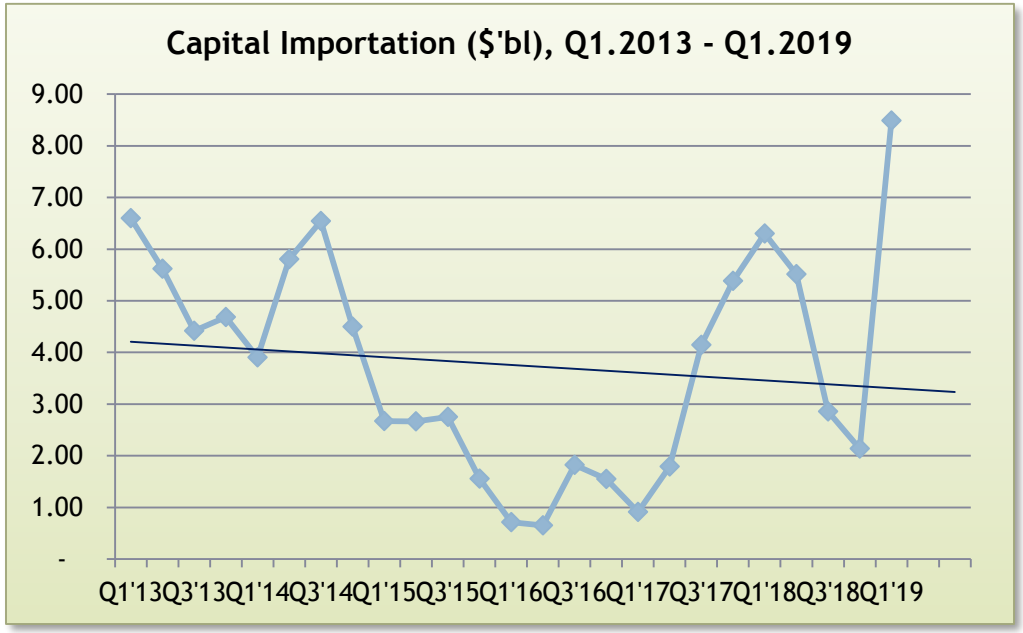
Import Finance Capacity

- With a monthly import bill of ₦1.277 trillion (or $3.31 billion) from Q3 2018 to Q1 2019, current external reserves of $45.044 billion represents **13.61 months**, which is above the minimum threshold of *6 months* (it was 11 months during recession).
- In Q1'2019, importation of machinery and transport equipment accounted for **40.66%** of total imports.
- Sustained **investor confidence** in the I&E Window will keep this stable, taking a lesson from the Argentinian experience of 2018.

To talk **devaluation** in Nigeria's current situation is a dubious argument, given the steady shift in the local production / import nexus.

The Nigerian Economy (contd.)

Attractive Investment Destination



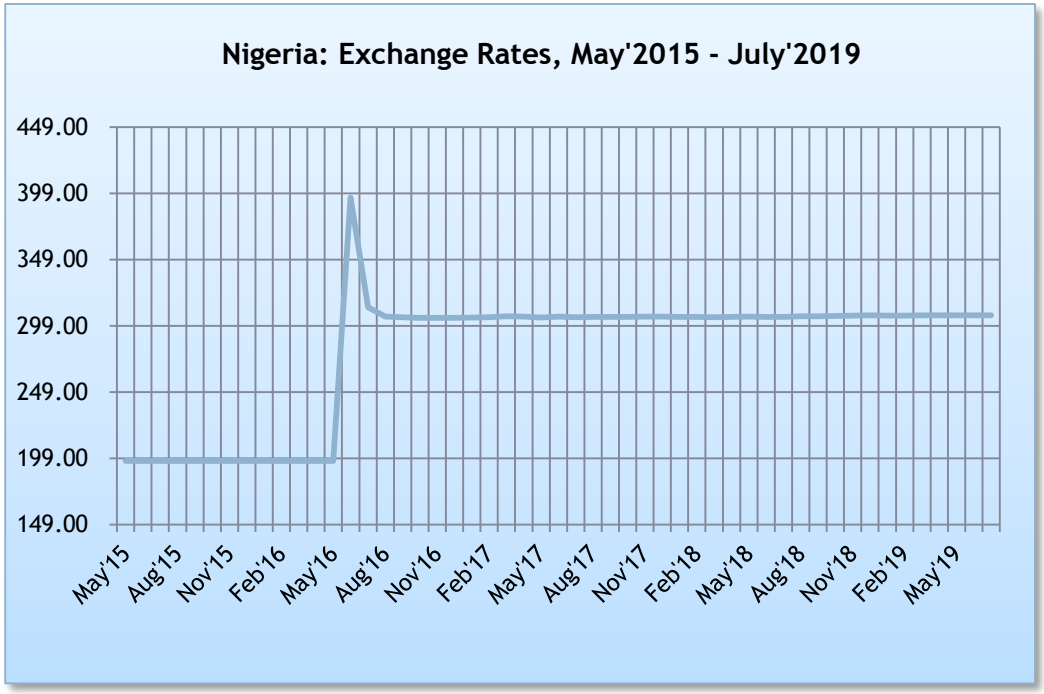
Year	Amount
2013	21.32
2014	20.75
2015	9.64
2016	4.73
2017	12.23
2018	**16.81**
Q1'2019	**8.49**

- Q1 2019 totaled **$8.49b**, already 50.5% of total of **$16.81b** in 2018; 2017 was **$12.23b**, while 2015 and 2016 combined was **$14.77b**!
- 2016 to early 2017 saw loans dominate, filling the gap created by dwindling portfolio investments.
- Portfolio investments (PI) in money market instruments revived and have dominated since Q4 2017 due to more high-yield, low risk instruments open to foreign investors!
- Nigeria remains an **attractive** investment destination. PI accounted for **51%** of total in 2017, **70.1%** in 2018 and **84.21%** in Q1'19!

- But, if the bulk of foreign investment inflows are **portfolio** in nature, the swings are unavoidable and Nigeria is vulnerable!
- There is something foreign investors see in Nigeria that most Nigerians don't seem to see!

The Nigerian Economy (contd.)

Stable Exchange Rates



- Rate remains stable because the CBN has capacity to intervene in the market.
- Some analysts call it 'defending the Naira', but it is a primary function of central banks and necessary **stimulus** for an economy desperate for growth!
- CBN did **$22b** in 2017 and **$48b** in 2018, and still has as at 15th July 2019 **$45.11b** 30-D average!

The exchange rates in the 3 major FX market segments have been **stable** in the last three years!

The Nigerian Economy (contd.)

Stable Exchange Rates

Sub-Saharan Africa Top 5 Destination Cities, 2017 (International Overnight Visitors)				
State	#	Average length of Stay	Spend	Average Spend / Day
Lagos	1.5 million	7 nights	$589 million	$57
Dakar	0.8 million	2.3 nights	$303 million	$165
Kampala	0.5 million	7 nights	$561 million	$168
Nairobi	0.4 million	13 nights	$283 million	$50
Accra	0.4 million	10.5 nights	$507 million	$132

Source: **Mastercard Global Destination Cities Index, 2018**

The Nigerian Economy (contd.)

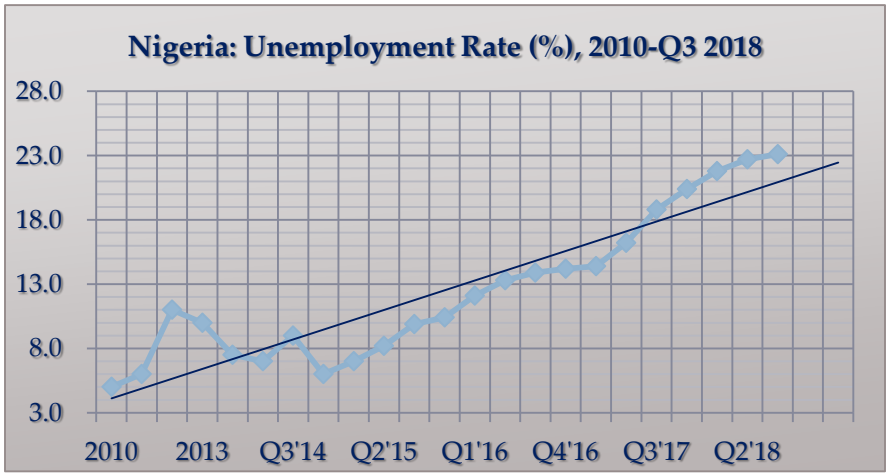
Stable Exchange Rates

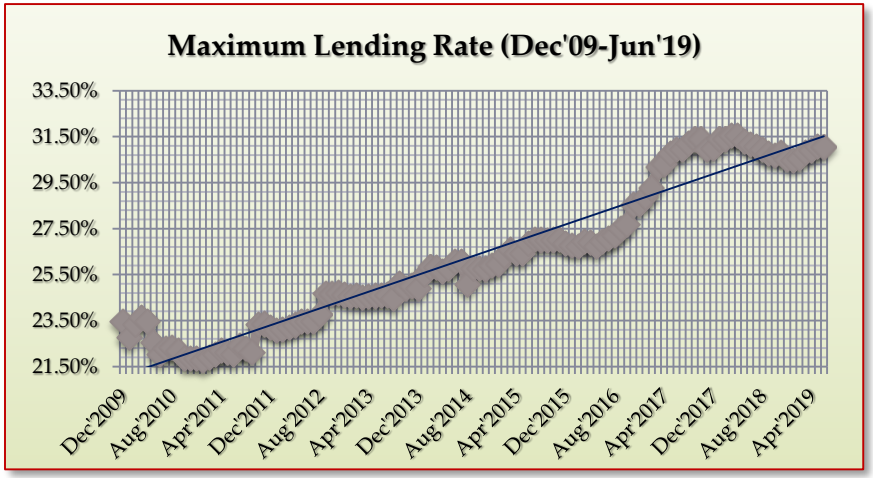
- From the pie chart in slide 14, the major drivers of Nigeria's GDP are **Agriculture**, **Trade**, **ICT**, **Mining & Quarrying**, **Manufacturing**, and **Real Estate**.
  - These together accounted for **76.7%** of Q1'19 GDP!
- There were estimated **202.28 million** Nigerians as at Wednesday, 19th June 2019!
- **Your company** needs to find its bearing in these, by answering the following questions.

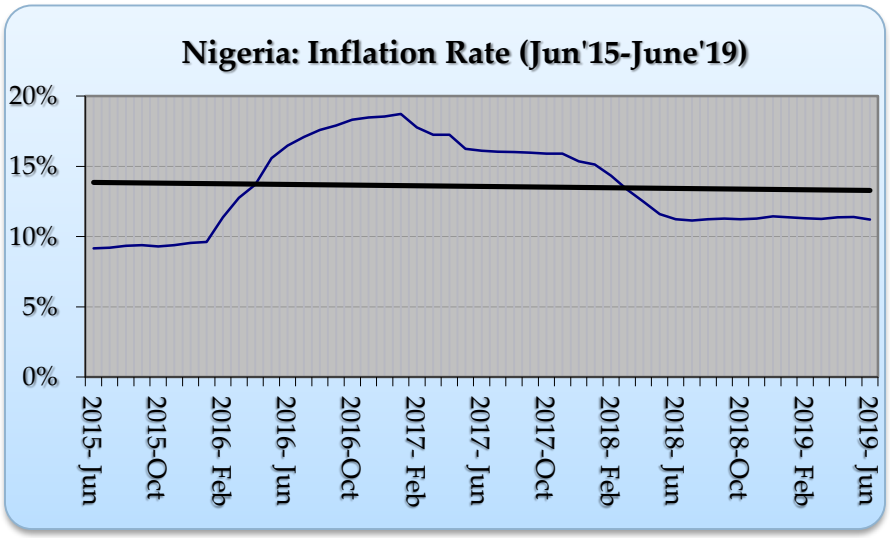
- Who are these people?
- Where are these people?
- How many individuals/corporates in these sectors does **your company** have in its portfolio?
- How, when and from whom can **your company** get them?

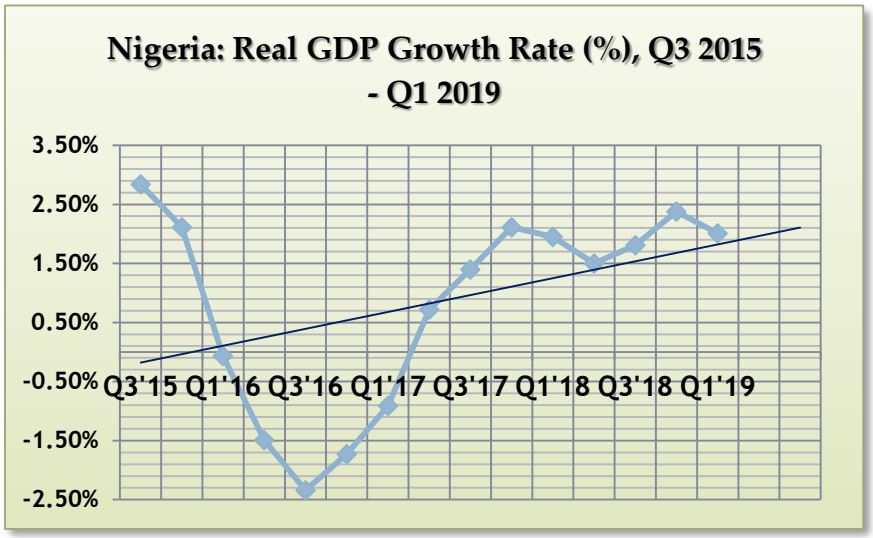
The Nigerian Economy (contd.)

Misery Index



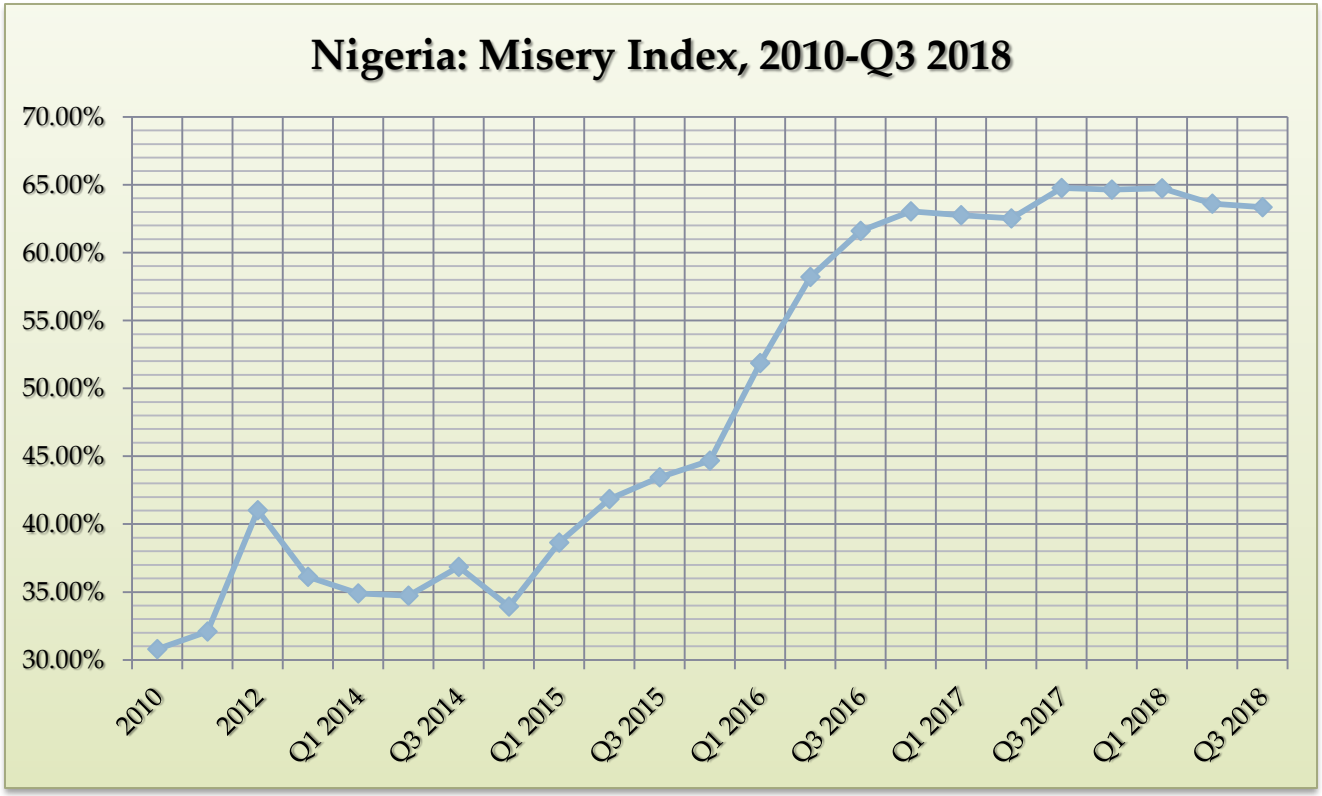






The Nigerian Economy (contd.)

Misery Index (contd.)



The Nigerian Economy
Foreground and Background (contd.)

N-power

- 2.5 million youth in the database as at Feb 2018 and over 0.5 million engaged.

HGSF

- As at 2017, 1,051,619 pupils in 8,587 schools in 4 States, expanded to 1,287,270 pupils in 9 States by June 2017, 7.6 million in 22 States as at April'18, 8.5 million as at July'18 and 9.3 million pupils in 49,837 schools in 24 States catered for by 96,972 cooks as at Nov'18.

GEEP

- As at Nov'18, the beneficiaries had increased to 1,378,804 borrowers.

CCT

- 297,973 vulnerable households in 20 States as at February 2018 out of 455,857 mined from the National Social Register.

The 21st Century Economy

- Following **Roosevelt Institute**, we can describe a 21st century economy as:

- "**reimagining** how government, civil, and business institutions can provide opportunity and security for all Nigerians."

The 21st Century Economy (contd.)

- The 21st century economy bundles **opportunities** and **challenges**, but these will cut across class, race, gender, religion and geography.
- Diversity is **recognized**, **appreciated** and **cultivated** in:
  - Industries and economic activities
  - Competencies and capabilities
  - Capital source
- The Roosevelt Institute's 21st Century Economy work tackles the need for a **new social contract** that:
  - Regulates contemporary business practices;
  - Provides economic security to a larger swath of Americans; and
  - Invests in long-term prosperity for communities across the country.

The 21st Century Economy (contd.)

There are three **key elements** that must feature in setting a 21st century economy:

- **Anchor** the economy around a clearly identified economic sector or activity.
- Deliberately seek and market (offering incentives to) **reputable private partners** in the priority sector(s).
- **Partner** with governments and private investors (in and out of Nigeria) for critical inputs for its economic agenda.

H2 2019 Outlook

View of Washington!

- IMF Article IV Consultation, March 2019
  - Context. Nigeria's economy is still recovering from the substantial **terms-of-trade shock** that triggered the 2016 recession. Over the past two years, the rebound in oil prices, a tight monetary policy, and a convergence in foreign exchange windows have helped reduce inflation and rebuild external buffers. However, persistent structural and policy challenges—including ***a large infrastructure gap, low revenue mobilization, and high dependence on hot money***—constrain growth to below the level needed to reduce vulnerabilities and improve development outcomes. With elections now complete, there is a greater chance for faster policy implementation.
  - Outlook and risks. Under current policies, the outlook remains muted with **growth hovering around 2½ percent**, amidst limited increases in oil production and insufficient policy adjustment four years after the oil price shock. ***Risks are moderately tilted downwards***, driven by additional delays in reform implementation, a persistent fall in oil prices, increased security tensions, and tighter global financial markets.

H2 2019 Macroeconomic Outlook

GDP Growth rate	2.65% – 2.75%
Inflation rate	12.15%
Interest rate	Double digit
Exchange rate (N/$)	N306/$ vs N363/$
Crude Oil price	$54/bbl
External reserves	$48.25 bn

World Bank GDP growth projection is **2.2%** for **2019**, and **2.4%** for **2020/21**

IMF GDP growth projection is **2.3%** for **2019** and **2.5%** for **2019/2020**

End Notes

- The fate of the Nigerian economy still hangs on **hydrocarbons** – volume produced and exported vis-à-vis the international oil market price.
- There are prospects that the rigidities in the oil sector will change by 2020, given the promise of the Dangote Refinery.
- Nigeria needs to reset her economy around its local conditions and culture and find the courage to resist the worn-out Washington consensus!
- The resilience and staying power of the average Nigerian provides **growth opportunities** for those that *look* and *move* in the right direction.
- Nigeria is the right place to be for any forward-thinking entrepreneur and investor!
- Finally, what do you see? ***Opportunities*** or ***chaos***? Its your choice and your call!

What we measure is more important than how we measure!

Thank you

God bless you more

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