



THE NIGERIA ECONOMIC REVIEW: OUTLOOK AND RECOMMENDATIONS FOR 2020

INTRODUCTION

Reports by international multilateral agencies have situated Nigeria's economic challenges around the country's large infrastructure gap, high income and gender inequality, and low financial inclusion. The NIGERIA ECONOMIC REVIEW: OUTLOOK AND RECOMMENDATIONS FOR 2020 is produced by the Chartered Institute of Stockbrokers (CIS) for the purpose of providing policy makers in the Nigerian economy with a deeper perspective on the state of affairs and how economic performance can be radically improved for accelerated growth and development.

MACRO-ECONOMIC INDICATORS

The Economist reported that global economic growth in 2019 was the slowest since the global financial crisis of 2007 - 2009, with the world's GDP rising by just around 2.2%. The major headwinds confronting the global economy in 2019 were the continued trade war between the United States of America and China, uncertainties around BREXIT, tightened oil supply, and generally slowed global trade. While the Advanced Stock Markets collectively posted a growth of 17.9% in 2019, the Emerging Markets posted a modest 14%, with the Frontier Markets trailing at 9%.

In Nigeria, economic policy was largely discharged by way of continual interventions by the Central Bank of Nigeria (CBN), while the Federal Government's decision to close the country's land borders also had significant impact on performance indicators. Figures from the National Bureau of Statistics (NBS) and the CBN showed that, although there were improvements as the year went by, the key parameters of economic performance were significantly below the targets set by the Federal Government's Economic Recovery and Growth Plan (ERGP). Nigeria recorded a GDP growth of 2.28% in Q3, 2019, up from 2.12% recorded in Q2, but still far below the ERGP's target of 4.5%. According to the CBN website, the price of Nigeria's Bonny Light crude had hit \$71.31 as at 27 December 2019. Nigeria's inflation rate stood at 11.85% YoY as at November 2019, but as at the time of writing this report, the National Bureau of Statistics had yet to release its Report on Job Creation and Unemployment. The last NBS' data for Unemployment was in Q3'2018 and showed that 23.1% of the labour force was unemployed. The Federal Government, significantly, finally reached agreement with labour on a new minimum wage structure for the country, and for the first time in her recent history, Nigeria's Federal Government Budget was signed into law ahead of the new year. The Budget provides for aggregate expenditure of N10.594 trillion and represents a fiscal deficit of N2.3 trillion. The Finance Bill which accompanied the Budget may place more burden on tax payers.

FINANCIAL MARKETS AND MONETARY POLICY

The Money Market continued to dominate the Nigerian financial market space with the CBN's interventions in various sectors of the economy. Significant among these measures were the directive that deposit money banks should increase their Loan to Deposit Ratio (LDR) to 60%, and restriction of patronage by local corporate and individual investors in Open Market Operations (OMO) auctions. These contributed to the achievement of a stable foreign exchange rate and an increase in bank credit to the real sector, although Gross External Reserves dropped to \$39.8 bn in November.

CAPITAL MARKETS

The Nigerian Stock Exchange recorded crucial milestones with the \$5.07bn Listing by Introduction of MTN Nigeria and the \$3.8 billion Ordinary Shares Initial Public Offering of Airtel Africa Plc in the review period. However, Low liquidity continued to plague the stock market as The NSE's All Share Index fell 14.6% to close the year at 26,842.07. Market Capitalization, however, closed on a slightly improved figure of N12.958Trn. Analysis of The NSE's historical data showed that between 2007 and 2018, domestic transactions on The NSE dropped by 66.68% while foreign transactions increased by 97.88%. The process of demutualizing The Nigerian Stock Exchange is at its final stage.

The S&P FMDQ Nigeria Sovereign Bond Index closed the year 2019 at 481.36, recording a Year to Date appreciation of 34.79% while the NASD OTC closed the year with a market capitalization of N501.14b and the Unlisted Securities Index figure of 697.54. In the review period, the Lagos Securities and Commodities Exchange (LCFE) was licensed while the Securities and Exchange Commission (SEC) launched the Fintech Roadmap for the Nigerian Capital Market, and took significant steps (together with CIS) towards adding Capital Market Studies to the curriculum of secondary schools in the country. The Chartered Institute of Stockbrokers (CIS) meanwhile, stepped up the implementation of its Specialized / Stand-Alone Qualification scheme that now attracts a wider genre of professionals into the industry.

OUTLOOK

- * Global economy will be stable at best, with improved Brexit and US-China relations countered by new US - Iran face off.
- * Two international credit ratings bodies, Moody's and Fitch, had in December, changed their outlooks on Nigeria's from stable to negative. Implementation of the African Continental Free Trade Agreement (AfCFTA) and the Eco currency from July further portends a shaky trade environment.
- * Nigerian Stock Market prices currently at massive discount levels, giving investors significant opportunity for capital gain. Demutualization and insurance sector recapitalization provide additional boosters for market revitalization.

RECOMMENDATIONS

A highly regarded philosophical statement read thus: "It's not the load that breaks you down, but the way you carry it". In the light of the foregoing we wish to make the following recommendations:

1. The Federal Government should review the structure of the entire Nigerian Financial System, significantly raising the utilization and development of the capital market (fixed income and equity segments) to create a balanced and faster growth inclined system. Among the MINT countries in 2018, Nigeria recorded the lowest Stock Market Capitalization to GDP ratio as shown below:

| Country | Stock Market Capitalization as % of GDP |
|-----------|---|
| Indonesia | 46.71% |
| Mexico | 31.46% |
| Turkey | 19.47% |
| Nigeria | 7.93% |

2. The Federal Government should set up an independent Council comprising Banks, Stockbrokers, Mortgage Institutions, Insurance Companies, and Pension Fund Administrators, etc. to more effectively coordinate the mobilization of savings in the country.
3. Federal Government should institutionalize the funding framework for Capital Market Literacy (CML) in Nigeria; financially empowering CML oriented bodies, as is done in France through the IEFPP.
4. The Tertiary Education Trust Fund (Tetfund) should allocate a portion of its fund to the Capital Market Literacy (CML) drive, and to the CIS in particular.
5. As banks control almost the entire liquidity in the Nigerian financial system, they should support capital market investments, including re-introduction of margin lending with improved regulations.
6. CBN, being the dominant institution that currently provides liquidity support for critical economic sectors, should extend its liquidity support to the capital market, including the equity segment.
7. The Federal Government should direct Pension Funds in Nigeria to look beyond fixed income investments and also invest substantially in the equities market for liquidity and stability purposes.

Comparative Data: Proportion of Pension Funds Utilised for Infrastructural Investment in Various Countries

| Country | Assets Under Management (USD) | Amount Invested in Infrastructure (USD) | Percentage of AuM Invested in Infrastructure |
|---------|-------------------------------|---|--|
| Brazil | 310 bn | 63 bn | 21% |
| Mexico | 121 bn | 11 bn | 9% |
| Peru | 24 bn | 3 bn | 11% |
| Nigeria | 20 bn | 0.03 bn | 0.2% |

Source: IMF Working Paper

8. Greater tax incentives should be granted to companies and individuals in accordance with their levels of savings and investments in formal and recognized outlets such as stock markets.

CONCLUSION

The Vision 20: 2020 document projected to make Nigeria one of the world's 20 most dominant economies in 2020. However, it will take a radical shift in strategic actions to make the country realize the dream within the next 5 - 10 years. The Chartered Institute of Stockbrokers lauds the Federal Government and CBN for their work in piloting the economy but urge them to elevate the role of the capital market in the developmental process. We pledge our support for the Federal Government of Nigeria, the CBN and the SEC in their quest to make Nigeria the leading economy in Africa.