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The government's Economic Recovery & Growth Plan 2017-2020 (ERGP) targets restored growth and the development of a globally competitive economy. The government will achieve this through macroeconomic stability, economic diversification and investment in transport and energy sectors. National Bureau of Statistics (NBS) data shows that the economy contracted 1.3% in three months through December, the fourth consecutive quarter of contraction. The Central Bank of Nigeria (CBN) eases capital controls for individuals needing foreign currency for business travel, foreign school or university fees, or international medical bills. Nnamdi Azikiwe International Airport in Abuja closes for six weeks to allow emergency rehabilitation of the runway.

Government publishes Economic Recovery & Growth Plan 2017-2020

The budget and national planning ministry published the **Economic Recovery & Growth Plan 2017-2020 (ERGP)** on 8 March.¹ The ERGP identifies the structural challenges facing the **Nigerian** economy, and provides for greater private sector participation, but its targets are unrealistic. The ERGP provides a comprehensive overview of the government's medium term policy agenda.² While comprehensive, it is not especially radical:

"Most of the plans that have been stated are broadly in line with analysts' expectations."³

The ERGP has three main objectives:

- the restoration of growth;
- investment in human capital; and
- the development of a globally competitive economy.⁴

With regard to growth, the ERGP projects average annual gross domestic product (GDP) growth of 4.62% until 2020, when it will increase to 7.0%.⁵ The government will achieve this growth through macroeconomic stability and economic diversification.⁶ Macroeconomic stability will depend on fiscal stimulus, appropriate monetary policy and improved external balances. The ERGP defines a stable macroeconomic environment as one with low inflation and a market-determined exchange rate regime with sufficient liquidity.⁷ The plan forecasts inflation of 15.74% in 2017, 12.42% in 2018, and 9.9% in 2020.⁸ The ERGP does not specify whether the market-determined exchange rate would entail the **Central Bank of Nigeria (CBN)** allowing a free currency flotation or a continuation of the current system of hard currency injections. The ERGP says the government will review and potentially lift restrictions on accessing foreign exchange for currently prohibited goods and services. With regard to fiscal expenditure, the government will direct 30% into capital spending. To reduce the government's fiscal burden, the ERGP provides for the liberalisation of unspecified state-owned

¹ www.nationalplanning.gov.ng

² www.nationalplanning.gov.ng

³ Source, investment analyst, Abuja

⁴ www.nationalplanning.gov.ng

⁵ www.nationalplanning.gov.ng

⁶ www.nationalplanning.gov.ng

⁷ www.nationalplanning.gov.ng

⁸ www.nationalplanning.gov.ng

enterprises and oil and non-oil assets.⁹ The ERGP projects this will raise 35 billion naira (N) (\$115m).¹⁰ The ERGP says the government will improve tax administration, and increase a tax on luxury goods from 5% to 15%.¹¹ The ERGP aims to increase the tax to GDP ratio from 6% currently to 15% by 2020.¹²

"The plan helps to reconcile the ideological differences between the policy making community in Nigeria; there are those who believe in heavy state participation, those who believe in a free economy and those who agree on a mixed economy. It is a very audacious plan."¹³

Economic diversification will involve the government prioritising key sectors, notably agriculture, energy, small and medium enterprises (SMEs), and manufacturing, to reduce dependence on imports and therefore foreign exchange demand.¹⁴ For agriculture, the government plans to be self-sufficient in rice production by 2018 and wheat production by 2019-2020.¹⁵ The ERGP says this will result in increased employment and reduced food imports. The ERGP is optimistic about the outlook for SMEs and manufacturing, claiming that improved access to foreign exchange and the establishment of special economic zones will drive their growth and reduce unemployment.

The government will invest in infrastructure to help create an enabling environment to support the priority sectors, particularly energy and transport. For energy, the ERGP aims to achieve the delivery of 10 GW of operational capacity by 2020, and diversify the energy mix through increased renewables.¹⁶ The ERGP also targets increased crude production, aiming to increase it from 1.7 million barrels per day (bpd) in 2016, to 2.2 million bpd in 2017, and 2.5 million bpd in 2020.¹⁷ This will increase export earnings and government revenues by N800 billion (\$2.63 billion) annually.¹⁸ It will also reduce refined petroleum imports 60% by 2018, and allow Nigeria to become a net exporter by 2020, to reduce pressure on foreign exchange and avoid a return to fuel subsidies.¹⁹ For transport, the government will seek private sector investment to bridge the deficit.²⁰

Investment in human capital will involve targeted social inclusion programmes in northern Nigeria and the **Niger Delta** with particular focus on healthcare, education and employment.²¹ The ERGP targets the creation of 3.7 million jobs per year between 2017 and 2020.²²

"The real issues in Nigeria are low productivity, low capacity, poor skills and poor policy choices. The economic recovery plan has some chilling statistics. It places the challenges Nigeria faces in context. The report states that six out of 10 Nigerians live below the poverty line, less than a dollar a day. It suggests that 75% of Nigerians are unbanked. Another report suggests that 2% of Nigerians control 98% of deposits above N25,000 (\$79) in banks. The rest have less than that in their accounts. It tells you that our problems are not being addressed. It tells you that you can have staggering growth and still have inequality in equally staggering rates."²³

⁹ www.nationalplanning.gov.ng

¹⁰ www.nationalplanning.gov.ng

¹¹ www.nationalplanning.gov.ng

¹² www.nationalplanning.gov.ng

¹³ Source, company director, Lagos

¹⁴ www.nationalplanning.gov.ng

¹⁵ www.nationalplanning.gov.ng

¹⁶ www.nationalplanning.gov.ng

¹⁷ www.nationalplanning.gov.ng

¹⁸ www.nationalplanning.gov.ng

¹⁹ www.nationalplanning.gov.ng

²⁰ www.nationalplanning.gov.ng

²¹ www.nationalplanning.gov.ng

²² www.nationalplanning.gov.ng

²³ Source, consultant, Abuja

To become globally competitive, the ERGP targets investment in transport and communication infrastructure through public private partnerships (PPPs), an improved business regulatory environment, and improved information and communication technology capacities.²⁴

The ERGP is a key precondition to securing concessional financial packages from the **World Bank** and other international financial institutions.

*"We're all very relieved to have a plan given its importance in getting some of those concessionary loans released. It's a big plus to have it. What makes this plan different is the implementation; the delivery unit will ensure that it's carried out as expected."*²⁵

The ERGP correctly identifies the issues facing the Nigerian economy. It offers a number of sensible policy reforms, including the emphasis on urgent infrastructure improvements and the increased space for private sector participation. Some reforms, however, are likely to be contentious, especially increased tax, increasing the ERGP's implementation risk. Achieving the broad, and even at times contradictory, goals of the ERGP will test the capacity of the government and the CBN alike. Their track record in policy deliverance suggests that the ERGP's goals may be overly ambitious.

Economy contracts for fourth consecutive quarter

The **National Bureau of Statistics (NBS)** published data on 28 February showing that the economy contracted for the fourth consecutive quarter in the three months through December.²⁶ While growth is expected to increase in 2017 on the back of an oil sector recovery, foreign exchange restrictions, unless lifted, mean it will remain less than optimal. The NBS data showed an economic contraction of 1.3% GDP year-on-year in the fourth quarter 2016.²⁷ This compares favourably to a 2.2% contraction in the third quarter.²⁸ For the whole of 2016, growth contracted 1.5%, the first annual contraction since 1991.

The NBS data goes some way to suggesting a more positive outlook. Fourth quarter GDP increased 4.1% quarter-on-quarter, though this compares unfavourably to 9% in the third quarter.²⁹ Oil production increased to 1.9 million barrels per day (bpd) from 1.6 million bpd in the third quarter. Oil sector output contracted 12% year-on-year in the fourth quarter, compared to 14% across 2016.³⁰ The non-oil sector, however, performed worse in the fourth quarter than across 2016. The non-oil sector contracted 0.3% in the fourth quarter, compared to 0.2% across 2016.³¹ Industry contracted 6.7% year-on-year in the fourth quarter compared to 12.2% contraction in third quarter, and manufacturing contracted 2.5% year-on-year in the fourth quarter compared to 4.5% in the third quarter.³² Services, however, contracted 1.5% year-on-year in the fourth quarter compared to 1.2% in the third quarter. Analysts expect improve oil prices in 2017 to increase incomes and demand to slowly improve the non-oil sector across 2017.³³

*"We are nearing the bottom. Rates of contraction are beginning to slow. 2017 will be a much better year."*³⁴

The government responded to the data saying that increasing international crude oil prices and Niger Delta stability, the recent \$1 billion **Eurobond**, and an increase in foreign reserves from \$23.9 billion

²⁴ www.nationalplanning.gov.ng

²⁵ Source, economist, Lagos

²⁶ www.nigerianstat.gov.ng

²⁷ www.nigerianstat.gov.ng

²⁸ www.nigerianstat.gov.ng

²⁹ www.nigerianstat.gov.ng

³⁰ www.nigerianstat.gov.ng

³¹ www.nigerianstat.gov.ng

³² www.nigerianstat.gov.ng

³³ Bloomberg, 28 Feb 2017.

³⁴ Source, official, Nigeria

to \$27.8 billion between October and January, will aid an economic recovery this year.³⁵ The government, on 9 February, sold a \$1 billion 15-year Eurobond, highlighting continued demand for dollar-denominated debt.³⁶ Investors are looking to dollar debt to circumvent concerns about the overvalued naira. This was the first time Nigeria had turned to the international capital markets since July 2013, prior to the international oil price collapse. The yield on the debt was 7.86%, below the initial guidance of 8.5%.³⁷ According to finance ministry data, investors placed more than \$7.8 billion bids.³⁸ The government will list the issue on the **Nigerian FMDQ OTC Securities Exchange** and the **Nigerian Stock Exchange**.³⁹ International media reported on 23 February that vice president **Yemi Osinbajo** has petitioned parliament to approve a \$500m Eurobond before the end of March.⁴⁰ Finance minister **Kemi Adeosun** announced on 21 February that the government wants to secure \$2.3 billion in international borrowing.⁴¹ The government is relying on international borrowing to bridge the budget deficit and implement planned capital expenditure on infrastructure. Adeosun said the government will borrow at least \$1 billion from the World Bank.⁴² Adeosun said the government wants to submit its loan application before the end of the month.⁴³ The World Bank may demand a more flexible foreign exchange policy as a precondition for lending.⁴⁴ According to Adeosun, the government may separately agree a World Bank programme for the power sector.⁴⁵ The government also expects to agree a \$1.3 billion loan with the **Export Import Bank of China (China Exim)** to finance railway projects.⁴⁶ Adeosun said the government is not considering an IMF loan.⁴⁷

The growth figures highlight the overly ambitious economic targets contained within the ERGP. Nevertheless, the outlook is broadly optimistic. Analysts expect growth to begin to improve in the second quarter of 2017.⁴⁸ However, this will depend on the speed of infrastructure repairs in the oil sector and the timely passage of the budget. Publication of the ERGP will facilitate government efforts to secure concessional lending from international financial institutions.

CBN eases capital controls for private individuals

The CBN on 20 February eased some capital controls for private individuals, but not commercial businesses.⁴⁹ While President **Muhammadu Buhari** (2015-present) remains the largest obstacle to a full currency devaluation to narrow the gap between the official and parallel rates, it is not thought the CBN move is related to his continued absence on medical leave.

"Nothing in Nigerian politics moves that quickly, and no major policy announcements will be made without his approval. The lack of movement until now is because Buhari's plan was always to achieve growth and obtain the necessary liquidity before beginning reform."⁵⁰

The easing came after the **National Economic Council**, which advises the government on macro-economic policy, convened on 16 February and called on the government to conduct an urgent foreign exchange review.⁵¹ Nigeria reportedly faces a \$5.5 billion backlog of demand for dollars.⁵²

³⁵ www.nigerianstat.gov.ng

³⁶ Bloomberg, 9 Feb 2017.

³⁷ Bloomberg, 9 Feb 2017.

³⁸ Bloomberg, 9 Feb 2017.

³⁹ Bloomberg, 9 Feb 2017.

⁴⁰ Bloomberg, 23 Feb 2017.

⁴¹ CNBC, 21 Feb 2017.

⁴² CNBC, 21 Feb 2017.

⁴³ CNBC, 21 Feb 2017.

⁴⁴ Reuters, 21 Feb 2017.

⁴⁵ CNBC, 21 Feb 2017.

⁴⁶ CNBC, 21 Feb 2017.

⁴⁷ CNBC, 21 Feb 2017.

⁴⁸ www.nigerianstat.gov.ng

⁴⁹ Premium Times, 20 Feb 2017.

⁵⁰ Source, international investor, Nigeria

⁵¹ Vanguard, 17 Feb 2017.

The amended CBN capital controls affect private individuals wanting foreign currency for business travel, foreign school or university fees, or international medical bills.⁵³ This covers approximately 20% of foreign exchange demand.⁵⁴ The CBN will provide additional foreign exchange to commercial banks for them to resell to individuals at approximately N366 to the dollar.⁵⁵ This compares unfavourably to the official rate of N305 to the dollar, but is more favourable than the parallel market rate of around N520.⁵⁶ The nature of the foreign currency requirements means it is likely that wealthy Nigerians alone will benefit from the CBN's move. The dual price is unlikely to cause market confusion: Nigeria already has at least five exchange rates, including the official one and a retail rate that licensed exchange bureaus set. The new CBN regulations additionally removed foreign exchange allocations on banks.⁵⁷ Prior to the revision, banks had to set aside 60% of their foreign exchange allocation to the manufacturing sector.

The CBN moved further towards devaluation on 22 February when it provided commercial banks with \$371m at forward exchange rates approximately 15% cheaper than the official rate.⁵⁸ The bids ranged from N315 to N360.⁵⁹ However, investors still await the expected devaluation, which will mark a rush of deal completions.

*"The past couple of years have been frustrating. We have so many deals close to completion, with everything in place. Yet investors aren't willing to move for fear the true value of the currency means their investment loses 50% or 60% of its value within six months. We are all optimistic about Nigeria's long-term prospects. The size of the market and the demographics mean you have to be. The currency issue won't impact this optimism."*⁶⁰

The move will go some way to reduce demand for parallel market foreign exchange thereby reducing currency pressures in line with the ERGP. It will, however, not prove sufficient to close the divide between the official and the unofficial market exchange rates.

Abuja International Airport closes for six weeks

Nnamdi Azikiwe International Airport in Abuja closed for six weeks on 8 March to allow emergency rehabilitation of the runway.⁶¹ The closure of the airport will create a significant bottleneck for travellers. After weeks of speculation, information minister **Lai Mohammed** only officially confirmed the closure of Abuja International Airport on 6 March.⁶² Airlines will instead use **Kaduna Airport**, a provincial city airport serving **Kaduna** (capital of **Kaduna State**).⁶³ The **Federal Airports Authority of Nigeria (FAAN)** has insisted that Kaduna Airport has the capacity to handle international flights.⁶⁴ However, in December, Abuja International Airport handled 4,859 domestic flights compared to 171 at Kaduna State.⁶⁵ In recent weeks, the government has installed a new instrument landing system and carried out ongoing upgrades to the terminal airport.⁶⁶ However, international carriers **British Airways**, **Lufthansa**, **Air France** and **South African Airways** have all rejected the possibility of using Kaduna Airport and instead suspended flights.⁶⁷ Only **Ethiopian**

⁵² Bloomberg, 21 Feb 2017.

⁵³ Premium Times, 20 Feb 2017.

⁵⁴ Premium Times, 20 Feb 2017.

⁵⁵ Premium Times, 20 Feb 2017.

⁵⁶ Premium Times, 20 Feb 2017.

⁵⁷ Bloomberg, 21 Feb 2017.

⁵⁸ Reuters, 22 Feb 2017.

⁵⁹ Reuters, 22 Feb 2017.

⁶⁰ Source, commercial banker, UK

⁶¹ Premium Times, 8 Mar 2017.

⁶² Premium Times, 8 Mar 2017.

⁶³ Premium Times, 8 Mar 2017.

⁶⁴ Vanguard, 6 Mar 2017.

⁶⁵ Reuters, 6 Mar 2017.

⁶⁶ Vanguard, 6 Mar 2017.

⁶⁷ Premium Times, 8 Mar 2017.

Airlines currently appears willing to divert flights to Kaduna Airport.⁶⁸ There are security concerns about Kaduna State. On 23 February, unknown gunmen kidnapped two **German** archaeologists in the state, releasing them three days later.⁶⁹ The government has said it will increase its security presence on major roads in Kaduna State. The shutdown of Abuja International Airport has already had an economic impact, with the postponement until June of the planned **Nigeria International Trade and Investment Conference** on non-oil sector investment.⁷⁰

The emergency closure of Abuja International Airport is indicative of the scale of the infrastructure challenges that the ERGP claims it will address. Due to the persistent risk of delays to infrastructure projects in Nigeria, the closure of Abuja International Airport is likely to last longer than six weeks. The reduced capacity of Kaduna State airport and security concerns will deter travellers. The majority of business travel is through **Lagos International Airport**, which will minimise the economic impact of the closure of Abuja International Airport. However, the closure is politically embarrassing and may encourage the government to embark on long-overdue reform of the aviation sector, where political considerations rather than merit too often determine appointments and contracts.

⁶⁸ Premium Times, 8 Mar 2017.

⁶⁹ Premium Times, 8 Mar 2017.

⁷⁰ Bloomberg, 6 Mar 2017.

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