

AFRICA RISK CONSULTING

Nigeria Monthly Briefing April 2017

Nigeria Summary 6 April 2017

President Muhammadu Buhari (2015-present) returns to Nigeria after two months of medical leave in London (United Kingdom). The success of vice president Yemi Osinbajo in overseeing the government during Buhari's absence exacerbates tensions within the ruling All Progressive's Congress (APC). Central Bank of Nigeria (CBN) governor Godwin Emefiele also finds his position increasingly vulnerable. The CBN and the International Monetary Fund (IMF) publish separate reports about the state of the economy. The IMF is less optimistic than the CBN, calling on the government to lift its foreign exchange controls and end the system of multiple exchange rates. The government raises \$500m through the issue of a 15-year Eurobond.

Buhari returns to Nigeria and resumes office

President **Muhammadu Buhari** (2015-present) resumed presidential duties on 13 March following his two month-long medical leave in **London (United Kingdom)**.¹ While the absence of Buhari reportedly encouraged policy disputes within the government, it also accelerated the rate of economic reform. On his return to **Nigeria**, Buhari said he felt "*much better*"² but the state of his health is unclear. The government continues to refuse to provide additional information about Buhari's health, or the reason for his longer than expected stay in London. There is speculation that Buhari may have received treatment for a brain tumour.³

Buhari chaired his first cabinet meeting on 15 March, and then attended a meeting of the **National Economic Council (NEC)** on 16 March.⁴ The NEC meeting was Buhari's first engagement outside the presidential offices or official residence. While government officials invited journalists to cover the opening of the meeting, they asked them to depart before Buhari spoke.⁵ Buhari does not normally attend meetings of the NEC, the government's highest level source of advice on macro-economic policy.⁶ The NEC chair is vice president **Yemi Osinbajo**, who managed the government during Buhari's absence.⁷ Osinbajo notably accelerated the pace of economic reform, which appeared to have stalled under Buhari.⁸ Under Osinbajo's watch, the government published the **Economic Recovery & Growth Plan 2017-2020 (ERGP)**, and the **Central Bank of Nigeria (CBN)** eased capital controls on foreign exchange (see *ARC Briefing Nigeria March 2017*).

Osinbajo's time as acting president has strengthened his own political standing as a respected technocrat. CBN governor **Godwin Emefiele** may be a victim of Osinbajo's strengthened position. Osinbajo and Emefiele are in a "*fight... the issue of currency depreciation is purely a political power play between the two*"⁹. There were elements of the ruling **All Progressive's Congress (APC)** that wanted to replace Emefiele at the CBN due to his links to the administration of former president **Goodluck**

¹ Reuters, 16 Mar 2017.

² This Day, 13 Mar 2017.

³ Source, private sector executive, Nigeria

⁴ Reuters, 16 Mar 2017.

⁵ Reuters, 16 Mar 2017.

⁶ Reuters, 16 Mar 2017.

⁷ Source, private sector executive, Nigeria

⁸ Source, private sector executive, Nigeria

⁹ Source, businessman, Lagos

Jonathan (2010-2015).¹⁰ Emeziele had shored up his position by echoing Buhari's opposition to currency liberalisation (see below). However, his position now appears more vulnerable.

Osinbajo has insisted that, while acting president, he discussed all significant policy issues with Buhari while he was in London.¹¹ However, there is a sense that, in terms of delivering headline policies, the government worked better in Buhari's absence.¹² This is not entirely Buhari's fault. The tense relationship between the government and the national assembly – since Buhari failed to secure his choice for senate president – has slowed the legislative process,

*"The APC legislature is not aligned with the executive; this tension is reflected in legislative difficulties, including passing the 2017 budget."*¹³

This perception of inefficiency, however, when combined with uncertainty about the state of his health, has weakened Buhari's own position. Sources close to the presidency allege that Buhari has fallen back on trusted advisers he knew prior to joining the APC, in order to shore up support for his leadership.¹⁴ These include chief of staff **Alhaji Abba Kyari** and Buhari's nephew, **Mahmud Tukur**.¹⁵

*"Buhari's pre-APC core group are edging out 'outsiders' and have formed a formidable ring around the president. Osinbajo's influence is whittled down by this inner circle which is said to influence key decisions."*¹⁶

Concerns about Buhari's effectiveness and health have exacerbated infighting within the APC ahead of the 2019 election.¹⁷

*"The APC has to consider other options for 2019 in the event that Buhari's health fails to the point where he can't continue after a first term or, worst case scenario, if he doesn't make it to the end of his tenure. As can be imagined, a lot is going on behind the scenes based on these possible scenarios."*¹⁸

There is concern within the APC that the slow pace of reform and Nigeria's continued economic malaise will damage their electoral hopes prior to 2019. The APC has never defined a meaningful political platform, meaning it remains dependent on the credibility of its personalities rather than policies.

*"It is an open secret that all is not well with the rank and file of the ruling APC as political activities towards the 2019 general elections are gradually taking shape. The determinant factor that will shape the future or survival of the APC in 2019 and beyond is Buhari. I doubt if the party will retain up to 10 governorship seats at the end of the day. Buhari should not contest in the interest of his party."*¹⁹

The party is increasingly divided between those members who remain loyal to Buhari and those who support former **Lagos State** governor **Bola Tinubu** and former vice-president **Atiku Abubakar**. Both Tinubu and Abubakar have reportedly lost the trust of Buhari.²⁰

*"Tinubu appears to have been side-lined and may have a score to settle for not getting as much as he negotiated for before Buhari took over."*²¹

¹⁰ Africa Confidential, 17 Mar 2017.

¹¹ Source, private sector executive, Nigeria

¹² Source, private sector executive, Nigeria

¹³ Source, entrepreneur, Lagos

¹⁴ Source, within presidency, Abuja

¹⁵ Source, within presidency, Abuja

¹⁶ Source, political analyst, Lagos

¹⁷ Source, political analyst, Lagos

¹⁸ Source, energy sector consultant, Abuja

¹⁹ Source, media consultant, Abuja

²⁰ Africa Confidential, 3 Mar 2017.

²¹ Source, political analyst, Lagos

Tinubu may stand to benefit from the increased political power of Osinbajo, who was Lagos State attorney general under him.²² It was Tinubu who secured Osinbajo's appointment as vice president.²³ While Osinbajo's reputation is strengthened, he still does not have his own domestic political constituency, and is therefore more likely to support a political bid to succeed Buhari than lead one himself. Sources that know Tinubu affirm that he still has presidential ambitions.²⁴ As a politically influential southerner, he retains leverage over northerner Buhari, which will increase as the 2019 election begins to dominate politics,

"Going back to the genesis of the APC, it was a coalition of not so natural bed fellows and the arrangement worked well when there was a common purpose but not so well when it came to ruling. What's going to be the interesting dynamic for 2019 is to see how all these centrifugal forces within the APC shape out. Everything is in a flux in a way that makes the calculations for 2019 quite difficult. Will Tinubu still be able to deliver the South-West? He (Tinubu) must be able to demonstrate that he still has the South-West to use as a bargaining chip next time around. Which zone will make up the difference if Tinubu decides to align with other interests?"²⁵

It is unclear, however, whether Tinubu would look to succeed Buhari from within the APC, or whether he and Abubakar would break away and form the mooted **Mega Party**, consisting of unhappy members of both the ruling APC and the opposition **People's Democratic Party (PDP)**.

"The Young Turks within the APC are ambitious and could decide to form another party to oppose the APC. We can expect to see new alliances and alignments going forward – interesting times ahead for sure."²⁶

Buhari's return has not ended the uncertainty around the presidency. The APC was only united by a desire to seize power from the PDP rather than shared ideological or geographical interests. Buhari must therefore persuade the APC's members that he is their best bet to retain power in 2019. Rumours about the extent of his ill health and the listlessness of his government will weaken his case. Increased political maneuvering will distract the APC from effective governance, further adding to concerns about government inefficiency. Tinubu is well placed to benefit from this cycle.

Central Bank of Nigeria provides overview of economy

The CBN retained its key policy rate at 14% on 22 March.²⁷ The CBN is resisting government pressure to tighten its monetary policy because of strong headwinds facing domestic growth. The CBN also left the cash reserve ratio at 22.5%, the liquidity ratio at 30%, and the asymmetric corridor around the monetary policy rate at plus 200 basis points and minus 500 basis points.²⁸ Nine monetary policy committee members voted in favour of maintaining the key policy rate, with a single dissenter backing a rate increase.²⁹

Following the meeting, the monetary policy committee provided a usually long statement highlighting key economic developments to justify the rate hold. A week later, the **International Monetary Fund (IMF)** published a staff report following Article IV consultation that provides an interesting comparison to the CBN report.³⁰

The CBN noted that negative economic growth has moderated.³¹ The CBN cited previously reported **National Bureau of Statistics (NBS)** data showing that GDP growth contracted 1.3% year-on-year in

²² Source, political analyst, Lagos

²³ Source, western diplomat, Lagos

²⁴ Source, western diplomat, Lagos

²⁵ Source, entrepreneur, Lagos

²⁶ Source, political analyst, Lagos

²⁷ www.centralbanknews.info

²⁸ www.centralbanknews.info

²⁹ www.centralbanknews.info

³⁰ This Day, 30 Mar 2017.

³¹ www.centralbanknews.info

the fourth quarter 2016 compared to 2.2% in the third quarter.³² The CBN did not provide a forecast for growth. The IMF, however, said that without reform to foreign exchange controls and an end to the system of multiple exchange rates, growth will “pick up only slightly”³³ to 0.8% in 2017, on the back of a recovery in oil production.³⁴ With regard to revenue shortfalls, the IMF report notes that the federal government’s interest payments amounted to 66% of total revenue in 2016.³⁵ This compares unfavourably to the 35.4% the government projected in the 2016 budget.³⁶

The CBN also noted that headline inflation had decreased. The CBN cited previously reported NBS data that headline inflation stood at 17.78% year-on-year in February, compared to 18.72% in January, and 18.55% in December, on the back of a slower rate of acceleration in core inflation.³⁷ The decrease was expected due to positive base effects, and depressed household demand.³⁸

The CBN noted contractions in monetary aggregates and credit growth.³⁹ In February, both fell short of provisional benchmarks for the 2017 fiscal year. Money supply decreased 5.73% in February compared to the provisional 10.29% growth benchmark.⁴⁰ Net domestic credit decreased 1.41% in February compared to the provisional 17.93% growth benchmark.⁴¹ Money market interest rates trended in line with banking system liquidity, with the CBN noting relative stability in rates in February.⁴² Total foreign exchange inflows through the CBN decreased 8.87% in February compared to January.⁴³ Foreign exchange outflows decreased 7.32% during the same period.⁴⁴

The CBN acknowledged both external and domestic headwinds. Externally, the monetary policy committee cited the **United Kingdom’s (UK)** pending departure from the **European Union (EU)**, increased protectionist sentiments, a stronger **United States (US)** dollar, and the **US Federal Reserve** rate rise on 15 March.⁴⁵ In the oil sector the CBN noted the risk of an oil supply glut because of increased US shale production, and the uncertain future of the **Organization of Petroleum Exporting Countries (OPEC)-Russian** agreement to cut oil output beyond July.⁴⁶ Domestically, the CBN noted persistent inflationary pressures; output contractions; high unemployment; elevated demand pressure in the foreign exchange market; low credit levels; and weakened financial system indicators.⁴⁷ The IMF prioritised concerns about banking sector pressures following the oil sector credit boom. The IMF said it encouraged “*quickly increasing the capital of undercapitalised banks and putting a time limit on regulatory forbearance*”.⁴⁸

The CBN continues to prioritise price stability, and facilitating a convergence between the official and parallel exchange rate. Governor Emezie said the CBN now has foreign reserves of \$31 billion, and will continue to intervene to shore up the naira.⁴⁹ The IMF, in its staff report, said the fiscal deficit has increased from 3.5% of GDP in 2015 to 4.7% in 2016.⁵⁰ The IMF report noted that the federal

³² www.centralbanknews.info

³³ Reuters, 30 Mar 2017.

³⁴ This Day, 30 Mar 2017.

³⁵ FBN Capital Research, 4 Apr 2017.

³⁶ FBN Capital Research, 4 Apr 2017.

³⁷ www.nigerianstat.gov.ng

³⁸ www.nigerianstat.gov.ng

³⁹ www.centralbanknews.info

⁴⁰ www.centralbanknews.info

⁴¹ www.centralbanknews.info

⁴² www.centralbanknews.info

⁴³ www.centralbanknews.info

⁴⁴ www.centralbanknews.info

⁴⁵ www.centralbanknews.info

⁴⁶ www.centralbanknews.info

⁴⁷ www.centralbanknews.info

⁴⁸ Reuters, 30 Mar 2017.

⁴⁹ Reuters, 21 Mar 2017.

⁵⁰ This Day, 30 Mar 2017.

government's interest payments amounted to 66% of total revenue in 2016.⁵¹ This compares unfavourably to the 35.4% the government projected in the 2016 budget.⁵²

In this environment, the monetary policy committee praised recent government policy steps. The monetary policy committee notably welcomed the government's expansionary fiscal stance and the publication of the **Economic Recovery and Growth Plan (ERGP)** which, if effectively implemented, will contribute to restoring economic growth and stabilising prices.⁵³ The monetary policy committee also praised government efforts to restore peace to the **Niger Delta**, in order to increase oil production. The monetary policy committee welcomed the CBN's new foreign exchange policy, and its contribution to increased liquidity.⁵⁴ There was, however, no indication that the CBN is imminently moving towards fuller exchange rate liberalisation, even though analysts note that price stability may provide a platform for eventual liberalisation.⁵⁵ According to the IMF staff report, a unified foreign exchange market would narrow the gap between the official and parallel rate, and help rebuild investor confidence.⁵⁶ In another policy recommendation, the IMF called on the government to increase the value added tax (VAT) and excise rates.⁵⁷

The CBN is broadly optimistic about Nigeria's economic prospects under the government's fiscal stimulus strategy. Nevertheless, a monetary policy rate cut is unlikely until prices stabilise, inflation moderates, and exchange rates steady. This is unlikely to happen until the second half of the year. The IMF's outlook and policy prescriptions are especially significant, as they may indicate the stance of other international financial institutions ahead of the annual **World Bank** spring meetings between 21 and 23 April in **Washington DC** (US).⁵⁸ Nevertheless, the government remains unwilling to implement long overdue but politically sensitive economic reforms.

Government raises \$500m on Eurobond market

The government raised \$500m through the issue of a 15-year **Eurobond** on 29 March, highlighting continued demand for dollar-denominated debt.⁵⁹ Investors are looking to dollar debt to circumvent concerns about the overvalued naira. The Eurobond was priced at a yield of 7.5%.⁶⁰ This was the second time that the government had accessed the international bond market, after it raised \$1 billion in an oversubscribed issue on 9 February. The finance ministry has said the proceeds from the latest issue will finance capital expenditure.⁶¹ This is in line with the government's expansionary stance, looking to infrastructure spending to help Nigeria emerge from recession.

Nigeria has a broadly positive external debt burden. Its public external debt stock at both federal and state level is low at 3.6% of GDP,⁶² while Nigeria's total debt to GDP ratio of 13.2% is the lowest in **sub-Saharan Africa**.⁶³ Only its outstanding Eurobonds attract market interest rates. Nigeria's external debt stock in the 2016 calendar year had an average interest rate of 1.6%.⁶⁴ Servicing of external debt in the 2016 calendar year cost the government \$320m.⁶⁵ The **Debt Management Office**

⁵¹ FBN Capital Research, 4 Apr 2017.

⁵² FBN Capital Research, 4 Apr 2017.

⁵³ www.centralbanknews.info

⁵⁴ www.centralbanknews.info

⁵⁵ Reuters, 21 Mar 2017.

⁵⁶ This Day, 30 Mar 2017.

⁵⁷ FBN Capital Research, 4 Apr 2017.

⁵⁸ This Day, 30 Mar 2017.

⁵⁹ Nigeria Guardian, 30 Mar 2017.

⁶⁰ Nigeria Guardian, 30 Mar 2017.

⁶¹ Nigeria Guardian, 30 Mar 2017.

⁶² FBN Capital Research, 14 Mar 2017.

⁶³ Bloomberg, 11 Aug 2016.

⁶⁴ FBN Capital Research, 14 Mar 2017.

⁶⁵ FBN Capital Research, 14 Mar 2017.

(DMO) has a medium-term target of 60/40 domestic and external debt obligations.⁶⁶ In 2016, the ratio for the federal government was 76/24.⁶⁷

While the current debt burden position is positive, debt-servicing obligations are increasing and the likely currency devaluation in the coming months will further increase the burden of external borrowing on the government.

About Africa Risk Consulting:

Africa Risk Consulting (ARC) is a pan-African consulting company that provides timely, relevant information and advice that enables its clients to take informed investment decisions and to safeguard their reputations.

ARC's core consulting services include integrity due diligence and corporate investigations, political advisory and country assessments, opportunity monitoring and reputation risk management. Most relevant to private equity firms is ARC's integrity due diligence and corporate investigations capability. Specifically, ARC offers pre-deal integrity checks to highlight red flags before negotiations start; full detailed multi-jurisdictional reputation due diligence; and supplier and senior hire vetting and repeat due diligence for compliance programmes. ARC is unique in that it offers a 10-day delivery for a routine integrity due diligence. ARC also offers a suite of corporate investigations services from immediate investigation, evidence gathering, e-discovery, forensic accounting and whistleblower support on one end to crisis media management and regular monitoring on the other.

www.africariskconsulting.com

About ARC Briefing:

ARC Briefing is ARC's essential online business information service.

Companies at any stage in their Africa expansion, whether building or communicating an Africa strategy, investing directly, expanding current operations, financing other investors, doing the legal leg-work or researching the Africa growth trend, need ARC Briefing.

ARC Briefing is an online information service keeping you:

- Up to date with Country Chronologies of business-critical events
- In the know via Country Briefings on political, economic, business and operating trends. Written in-country, ARC experts analyse and comment
- Ahead with Country Planner which details future elections, budgets, regulatory changes etc.

www.briefing.africariskconsulting.com

Getting in touch

Please contact us by email info@africariskconsulting.com or call + 44 (0) 20 7078 4080

Follow us on Twitter: [@ARCBriefing](https://twitter.com/ARCBriefing)

⁶⁶ Bloomberg, 11 Aug 2016.

⁶⁷ FBN Capital Research, 14 Mar 2017.