

NIGERIA

60 years

Plenty Potential

...Little Actual



Resource Rich & Cash Poor

*Presentation by Bismarck Rewane
CEO, Financial Derivatives Company Ltd.
1st October, 2020*

Promises at Independence - 1960

1960... *Talk is Cheap*



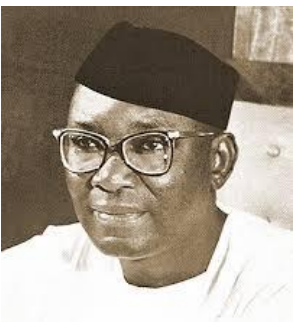
Nigerians must at once play an active part in maintaining the peace of the world and in preserving civilization.

Tafawa Balewa (1912 - 1966)



The Government should guarantee social justice and personal security.

Chief Obafemi Oyèníyí Awólówọ̀ (1909 - 1987)



Africans should cultivate spiritual balance, social regeneration, and become mentally emancipated.

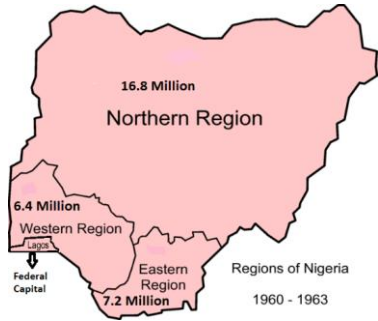
Nnamdi Benjamin Azikiwe (1904 - 1996)



The Nigerian must have absolute liberty to practice his belief according to the dictates of his conscience.

Ahmadu Ibrahim Bello (1910 - 1966)

Nigeria at Independence – Relatively strong



3 regions and 1 capital



4 airports



2 universities



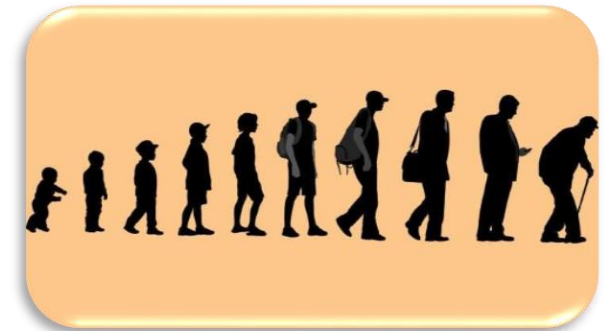
GDP \$4.16n



Population of 45 million



Inflation rate 5.4%



Life expectancy 37yrs

(1960- 2020) – Deteriorating & Cyclical

Economic Indicators

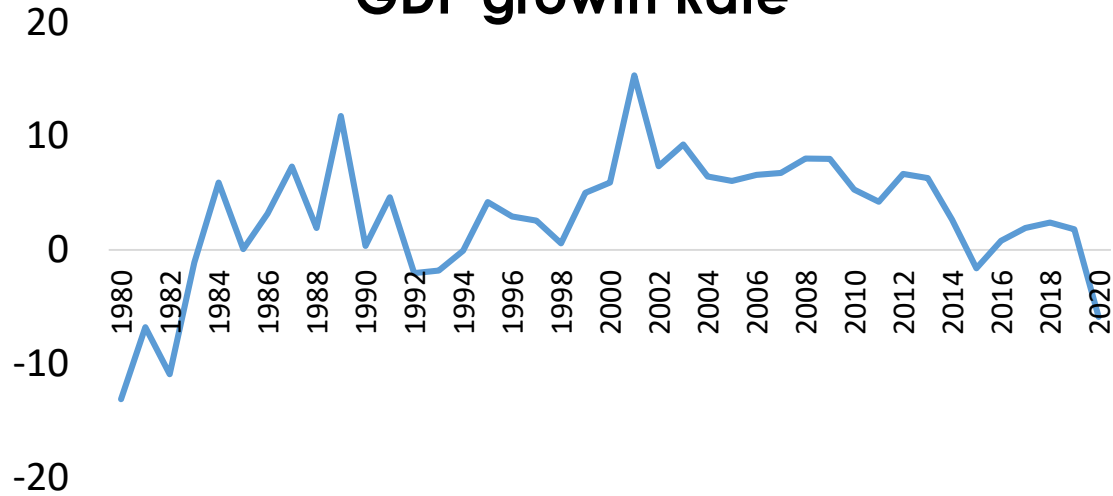
Then

Now

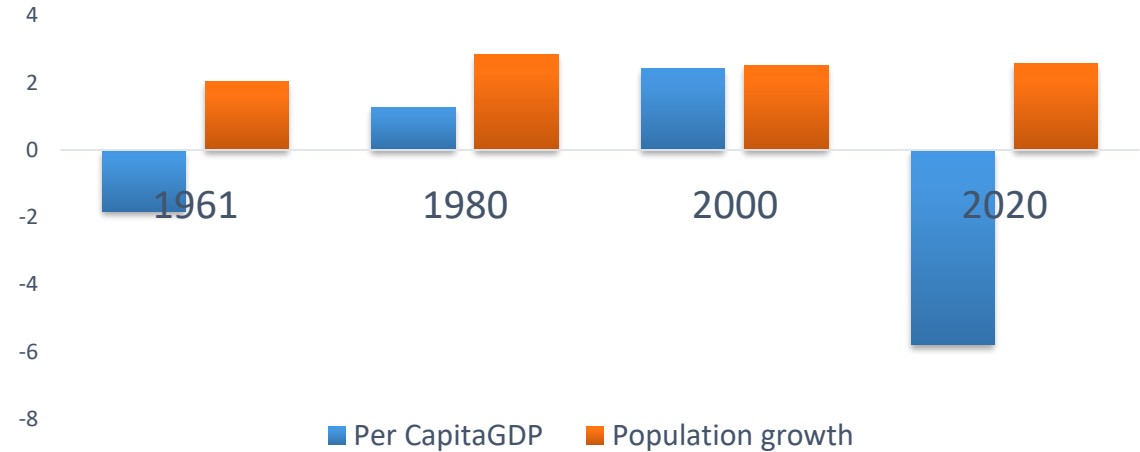
| Economic Indicators | 1960 | 2020 |
|----------------------------|-------------|-------------|
| GDP growth (%) | 0.19 | -5.4 |
| GDP size (\$'bn) | 4.1 | 459.3 |
| GDP per capita (\$) | 92.95 | 2,228 |
| Population (mn) | 45 | 209 |
| Population growth (%) | 1.97 | 2.62 |
| Inflation (%) | 5.4 | 13.22 |
| Life expectancy (Years) | 36.98 | 52.8 |
| Literacy (% of population) | 55.4 (1991) | 59.6 |
| Imports (\$'bn) | 0.71 | 73.7 |
| Exports (\$'bn) | 0.38 | 41.4 |
| Exchange rate (N/\$) | 0.71 | 476 |

(1960- 2020) Deteriorating & Cyclical

GDP growth Rate



Population and GDP growth rate



- ✓ GDP cyclical patterns and subject to shocks
- ✓ Population growth rate \gg GDP growth
- ✓ Oil dependence growing as poverty increases
- ✓ Growing technology sector but weak infrastructure especially in the rural communities

Peer Country comparison- Uncompetitive & lagging

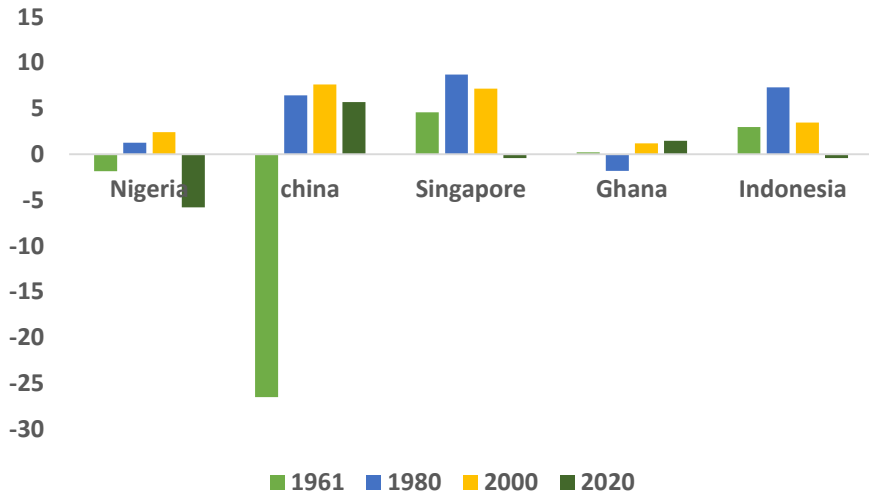
| GDP Growth Rate (%) | 1961 | 1980 | 2000 | 2020 |
|----------------------------|-------------|-------------|-------------|-------------|
| Nigeria | -1.8 | 1.2 | 2.4 | -5.4 |
| china | -26.5 | 6.5 | 7.65 | 1 |
| Singapore | 4.5 | | 7.2 | -5 |
| Ghana | 0.2 | -1.8 | 1.2 | 2 |
| Indonesia | 2.9 | 7.3 | 3.5 | -0.4 |

| Per-capita GDP(\$) | 1960 | 1980 | 2000 | 2020 |
|---------------------------|-------------|-------------|-------------|-------------|
| Nigeria | 92.9 | 874 | 567 | 2,228 |
| China | 89.5 | 194 | 959 | 8130 |
| Singapore | 428.1 | 4928 | 23852 | 58500 |
| Ghana | 183.4 | 402 | 258 | 1700 |
| Indonesia | | 491 | 780 | 4200 |

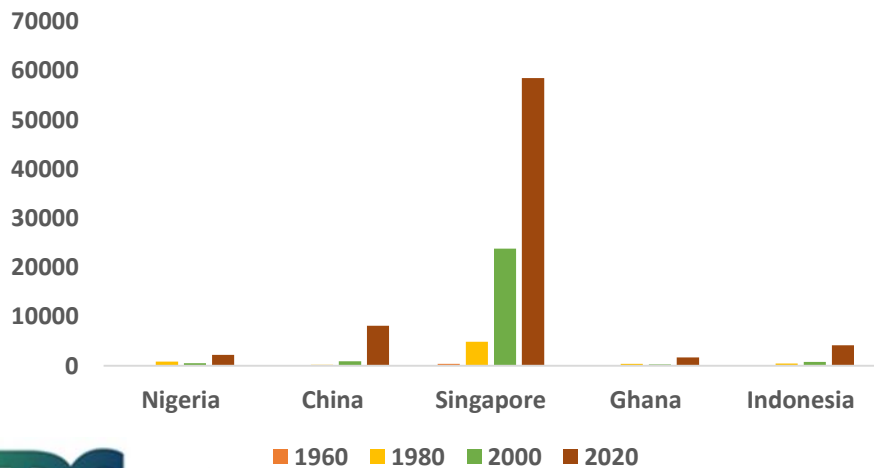
- ✓ Nigeria was at par with comparables in 1960
- ✓ Nigeria fell behind due to oil dependence (curse)
- ✓ Infected by the Dutch disease
- ✓ Economic sub-optimality
- ✓ Boom-bust cycle took its toll
- ✓ Nigeria has a negative total factor productivity(-4.1%)
- ✓ Economy trapped in vicious cycle of poverty
- ✓ Due to structural defects and weak institutions
- ✓ Abject poverty = 40% of the population

Peer Country comparison- Uncompetitive & lagging

GDP growth rate in peer countries



GDP per capita in peer countries



- ✓ In Indonesia, oil revenue as % of total exports declined from 90% to 25% between 1960 and 2020
- ✓ In 1980, Nigeria per capita income (\$874) was 4 times greater than that of China (\$194)
- ✓ China's income per capita is now (\$10,276) 11 times greater than Nigeria in 1980 (\$874) and five times greater in 2020 (\$2,386)
- ✓ China now produces 16% of global output (GDP)

Nigeria- 60 years

Transition and Missed Opportunities



'Had I known is a brother to Mr. Too late'

Nigeria: Transition & Missed Opportunities



(1960-1965)
• Steady state

(1971-1974)
• Reconstruction
• Rehabilitation
• Reconciliation
(3Rs)

(1976-1979)
• Oil shock
• Consolidation

(1983-1985)
• Command economy
• iron fist years

(1993 -1998)
• Military clampdown

(2010-2020)
• 2 recessions
• Partial recovery
• Foundation for transformation

(1966-1970)
• Civil War
• Conflict

(1974-1976)
• Oil boom

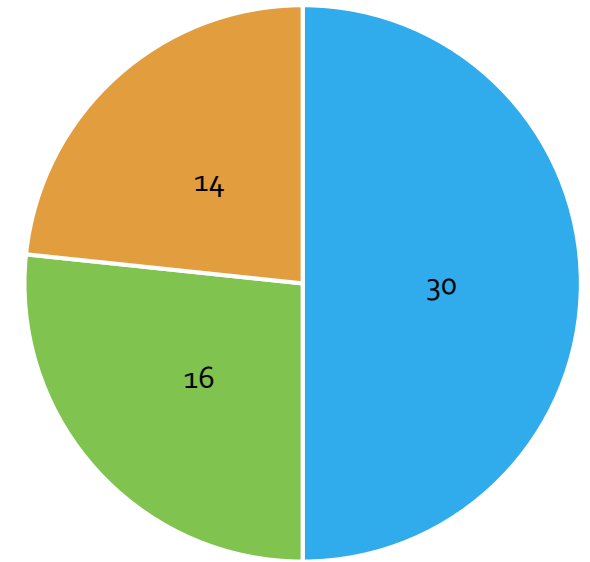
(1979-1983)
• Profligacy

(1985-1993)
• Crony capitalism
• Partial reform

(1999-2009)
• Pseudo democracy
• Economic troubleshooting
• back to the future
• Pension reform
• Telco revolution
• Monetization of civil service benefits
• Debt relief
• ECA
• Build up of reserves

Nigeria : 60 years Transition

- ✓ Military rule – 30years
- ✓ Civilian rule – 16years
- ✓ Retired Military – 14years
- ✓ Population at independence was 45mn
- ✓ Evolution from colony to independent nation
- ✓ Revolution- military coups & civil war (further coups)
- ✓ Transition - military to civilian rule



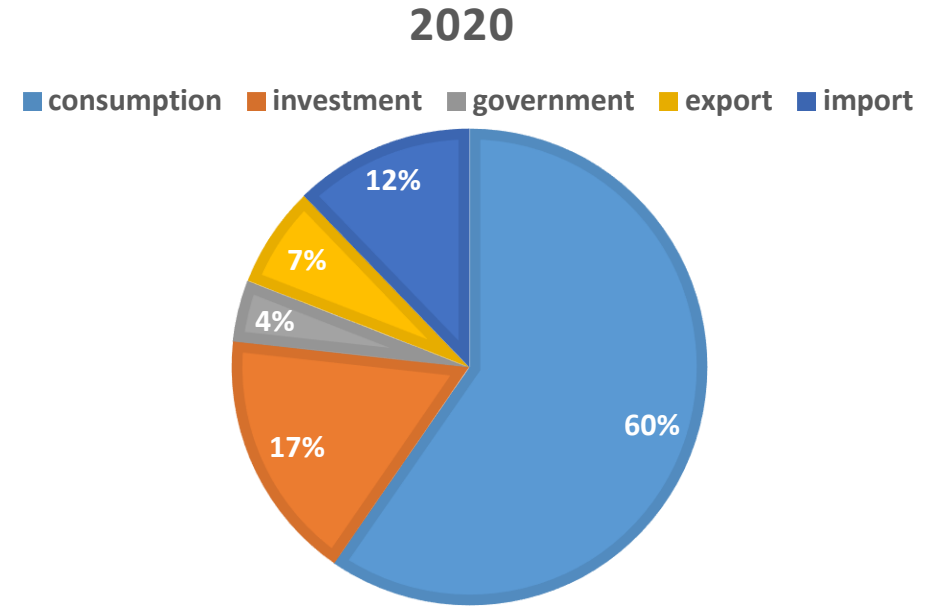
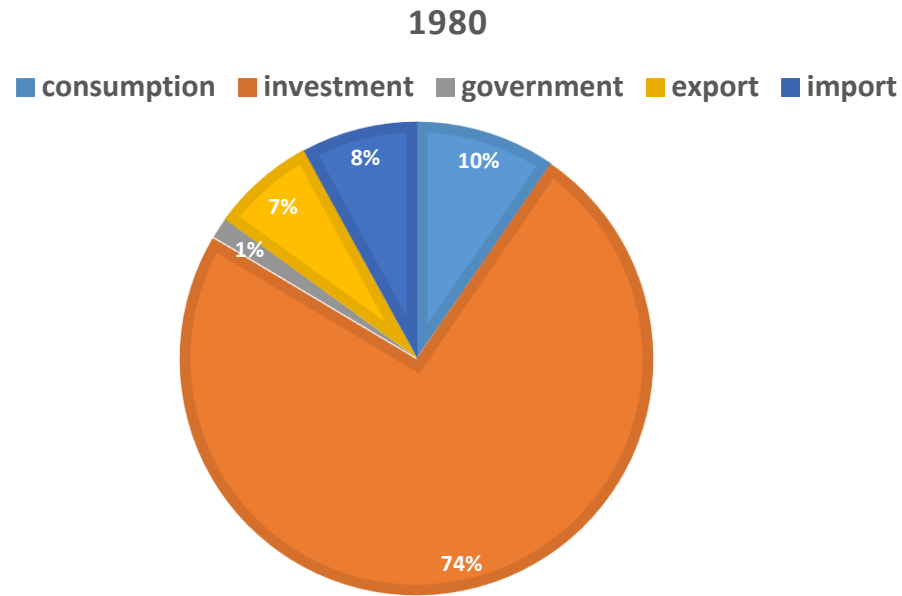
■ Military Rule ■ Civilian Rule ■ Retired Military

Missed Opportunities

Delayed structural reforms

- ✓ Nigeria is resource endowed but failed to take advantage of previous oil booms
- ✓ 2 recessions in 5 years
- ✓ Political instability & policy inconsistencies
- ✓ we did not undertake the requires a set of structural changes to sustain a continuing increase in income and social welfare at the stage of development

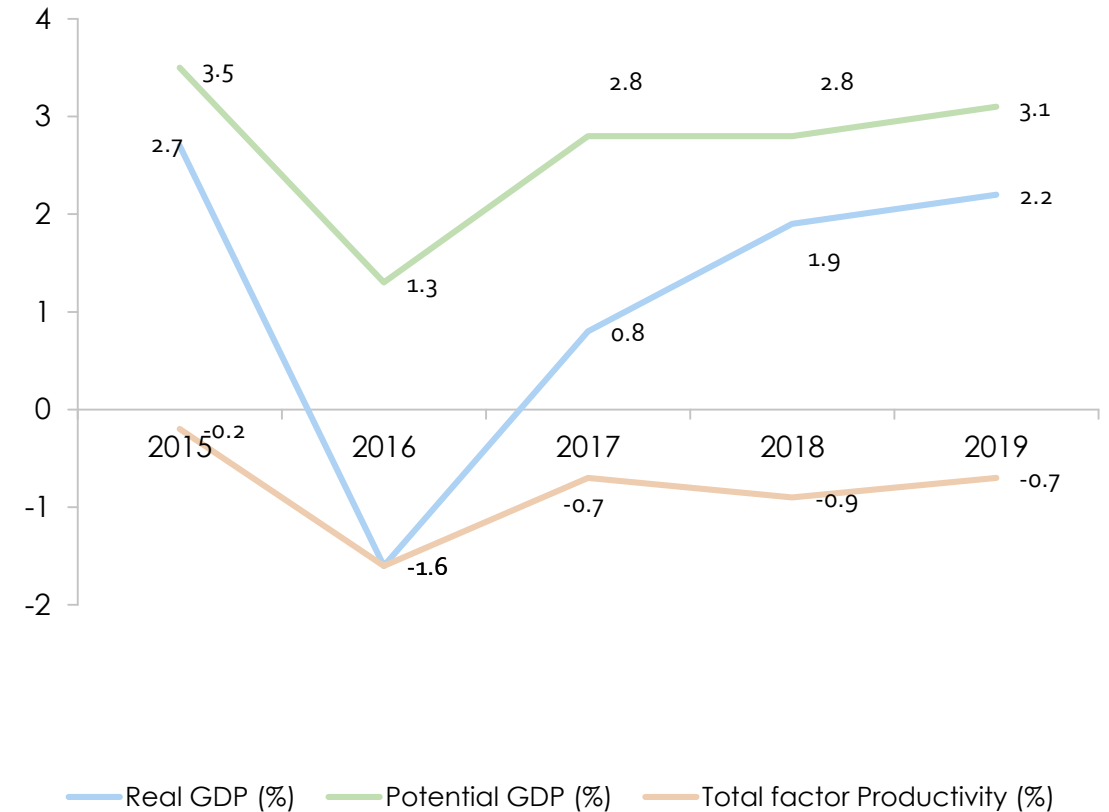
Economic transition in the last 60 years



- ✓ In 1980 the economy was largely an investment led economy with investment size of 74% of GDP
- ✓ The economy has successfully transitioned from an investment led economy to a consumption led economy with consumption as 60% of GDP in 2020 from 10% in 1980.

Sustainable Growth Theories (Big Push Model)

- ✓ Propounded by Rosenstein Rodan
- ✓ Advocates for large amount of investment to spur economic development
- ✓ Investment as a % of GDP currently at 22.47%
- ✓ Expected to increase to 30-35% to propel growth





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-You First-

The Sleeping Giant
Can it be awakened?

Nigerian Economy: Snapshot

| Economic Indicators | 2016 | 2019 | 2020 |
|-----------------------------|-------|---------|-------|
| GDP growth (%) | -1.6 | 2.27 | -5.4 |
| GDP Value (\$'bn) | 404.6 | 475.3 | 459.3 |
| Per-capita GDP (\$) | 2,176 | 2,365 | 2,228 |
| Inflation (%) | 15.6 | 11.98 | 13.7 |
| Exchange rate (N/\$) | 305.0 | 306.5 | 380 |
| Oil price (\$'pb) | 44.0 | 64.0 | 42.3 |
| External debt (\$'bn) | 31.2 | 50.2 | 52.2 |
| Interest Rate (%) | 10.1 | 9.6 | 5.5 |
| Growth of Capital stock (%) | 5.9 | 6.1 4.8 | 4.8 |
| Total factor production (%) | -1.6 | -0.7 | -2.8 |

Of the 10 Indicators

2016

2019

2020

1ST Recession

Slow recovery

2nd Recession



0 positive

5 positive

1 positive



10 Negative

5 Negative

9 Negative

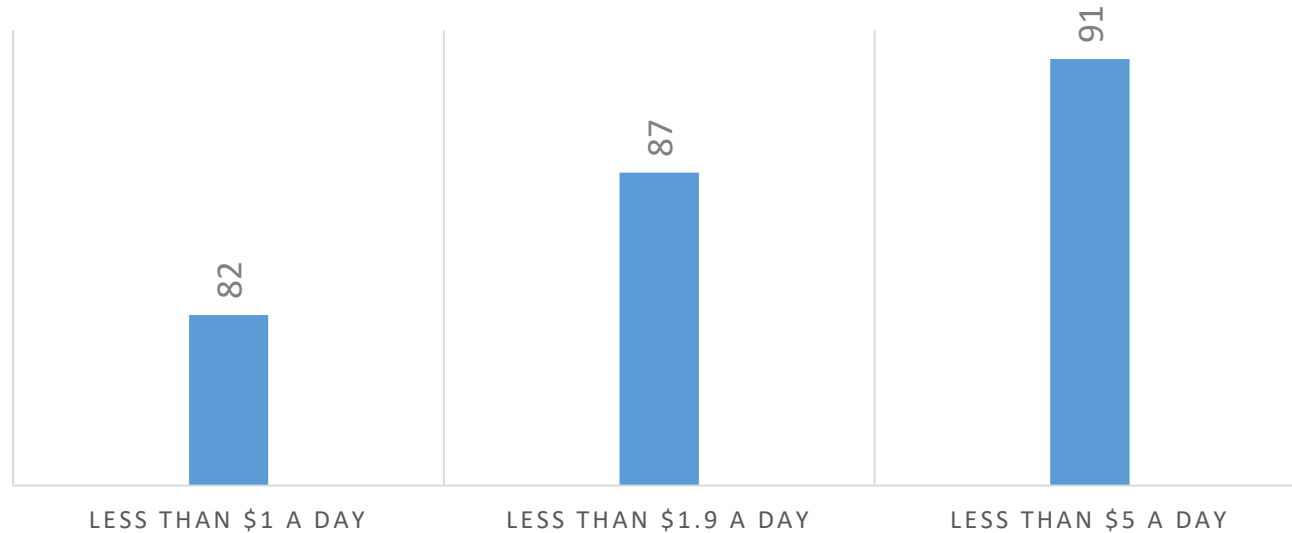
Nigeria Today

Major problems

1. Perverse poverty
2. Low (inefficient) capital/output ratio
3. Growing debt stock and negative productivity

Perverse poverty

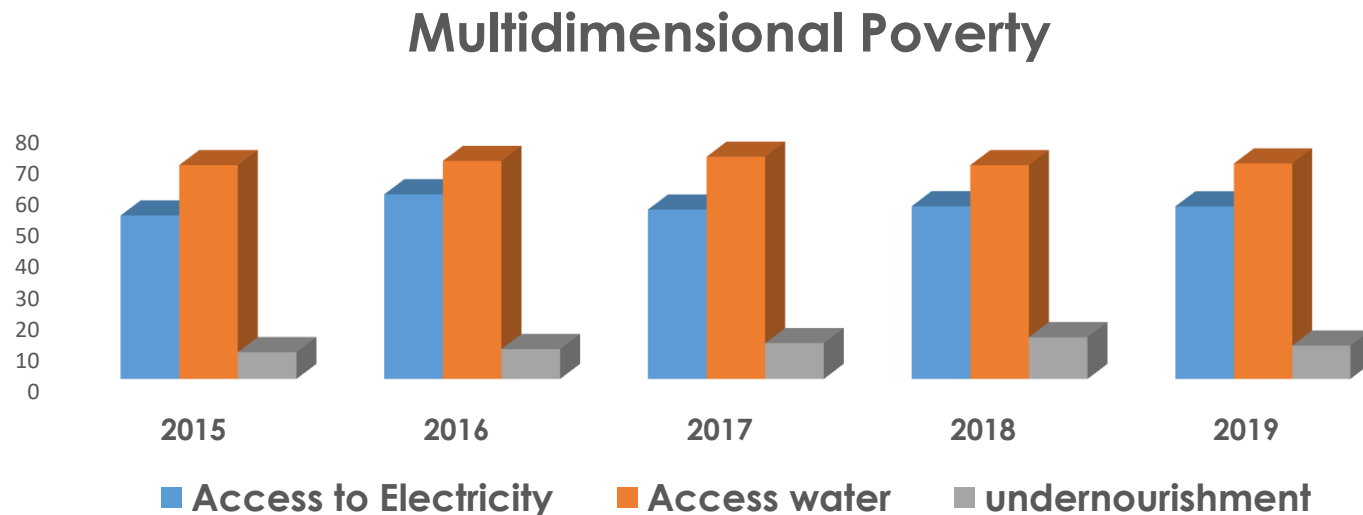
MILLIONS LIVING IN POVERTY



- ✓ **82 million** people live on less than **\$ 1** in a day in Nigeria
- ✓ **87 million** people live on less than **\$ 1.9** in a day in Nigeria
- ✓ **91 million** people live on less than **\$ 5** in a day in Nigeria

Multidimensional Poverty

- ✓ Multidimensional poverty incorporates several deprivations of the poor daily.
- ✓ In the last 5 years, it is observed that about 54.4% and 68% of the population had access to electricity and drinking water respectively which is relatively low compared to peer countries.



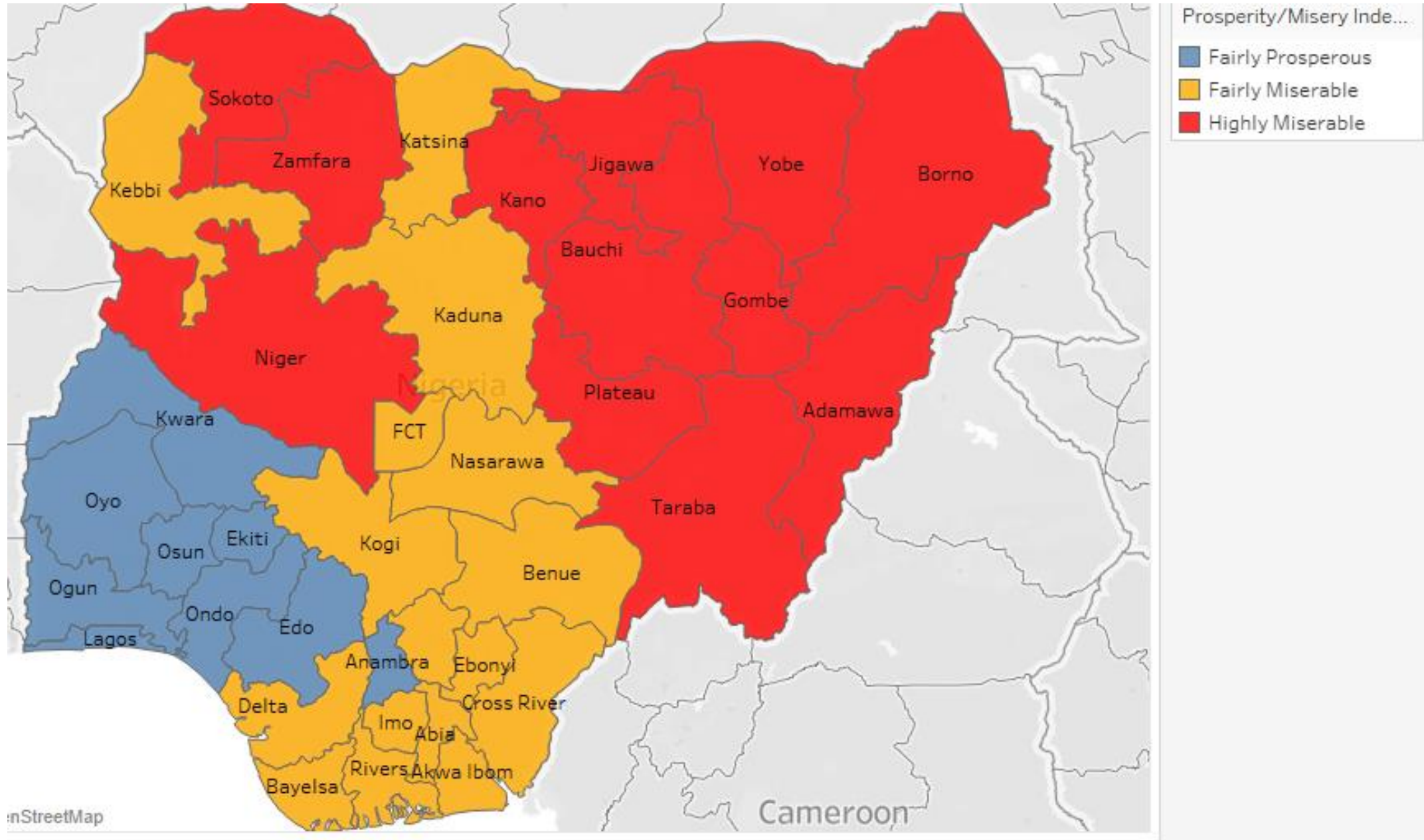
Poverty/Prosperity Dynamics

The facts – Shared Prosperity Vs Shared Misery

- ✓ Protein consumption has been flat in 3 years
- ✓ Meat consumption is 9kg per annum as against MEA's consumption of 36kg
- ✓ Milk is 8.1 litres a year
- ✓ Automobile ownership is 19 per 1000 people



Shared Prosperity Vs Shared Misery



Prosperity/Misery Index Ranking

Ranking:

Above 40% Acute Misery

30-40% Highly miserable

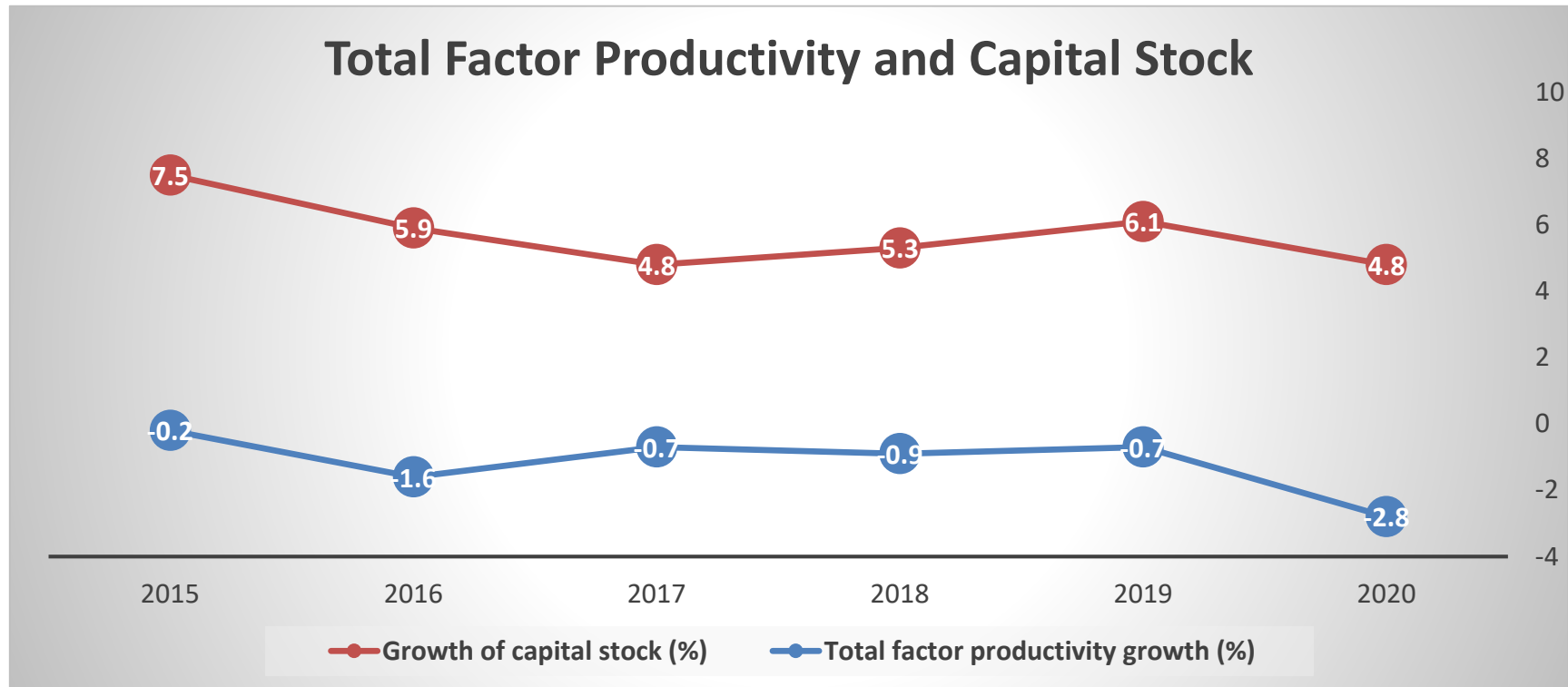
20-30% Fairly miserable

10-20% Fairly prosperous

Less than 10% prosperous

- ✓ The mean prosperity/misery value is 26.3
- ✓ The highest prosperity/misery value is 39.1% (Taraba) while the lowest prosperity/misery 14.2% (Anambra).
- ✓ The dispersion from the mean is 7.05%

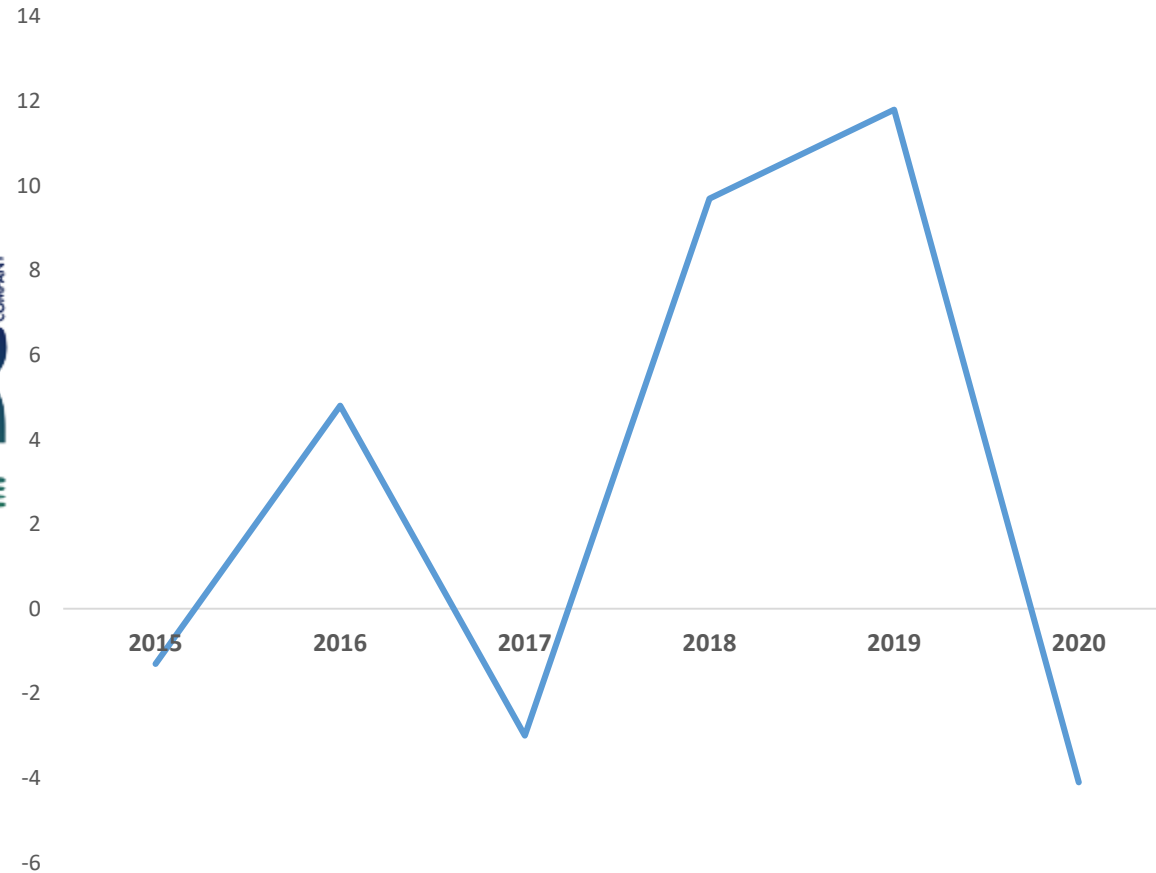
Low capital/output ratio



- ✓ Negative total factor productivity growth rate at -2.8% in 2020
- ✓ Declining capital stock growth rate from 7.5% in 2015 to 4.8% in 2020
- ✓ Need to boost capital stock and total factor productivity

Declining gross fixed investment

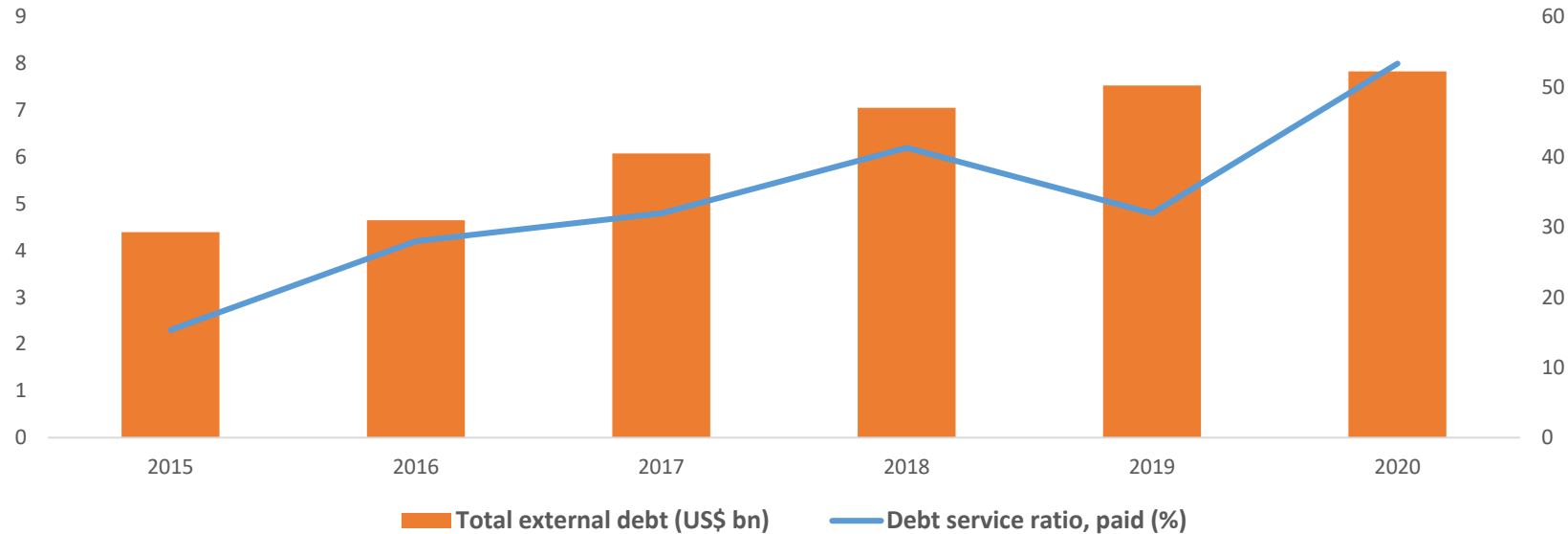
Gross fixed investment



- ✓ Negative Investment growth rate at -4.1% in 2020
- ✓ Investment size is 17% of total GDP
- ✓ Need for aggressive Investment in human capital i.e. education
- ✓ Aggressive investment in physical infrastructure

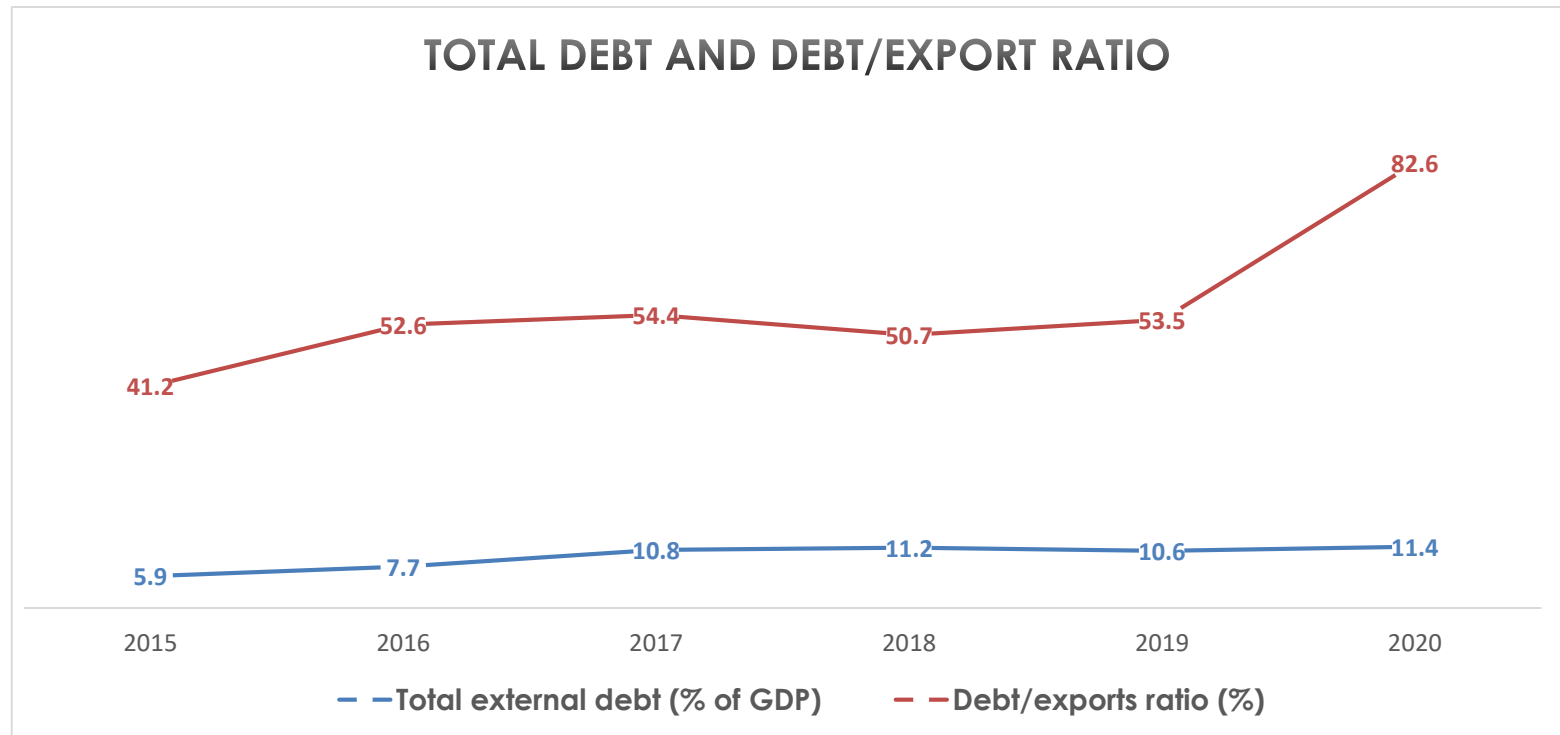
Growing debt slide & negative productivity

Total Debt and Debt Service



- ✓ Rising total debt levels in the last 5 years
- ✓ Total external debt reaching \$52 billion in 2020
- ✓ Debt restructuring and rationalization should be prioritized

Growing debt slide & negative productivity

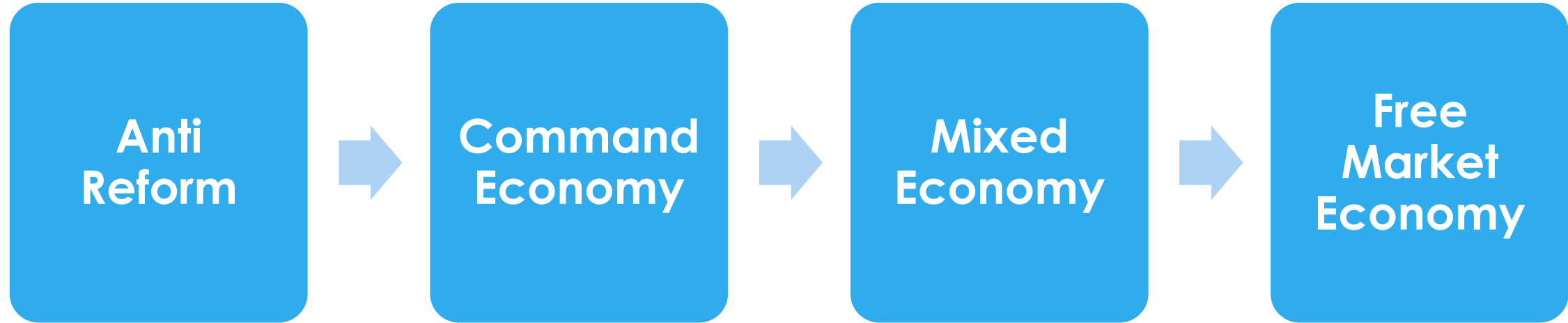


- ✓ Total external debt as % of GDP reaching 11.4% in 2020
- ✓ Rising debt to export ratio reaching 82.6% in 2020 from 41.2% in 2015

*The New African Tiger or Next
Eleven*

Transformational Steps

Economic Transformation – Changing the Thinking



*“The Invisible hand is more powerful than the hidden hand.
Things will happen in well-organized efforts without direction”*

Larry Summers

Nigerian Economy: Today



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| Total factor production (%) | -1.6 | -0.7 - | 2.8 |

Binary Choice

```
graph TD; A[Binary Choice] --> B[Scenario A]; A --> C[Scenario B]; B --- D[Do Nothing]; C --- E[Revolutionary Change];
```

Scenario A
Do Nothing

Scenario B
**Revolutionary
Change**



DANGOTE SUGAR

Guaranteed Sweetness



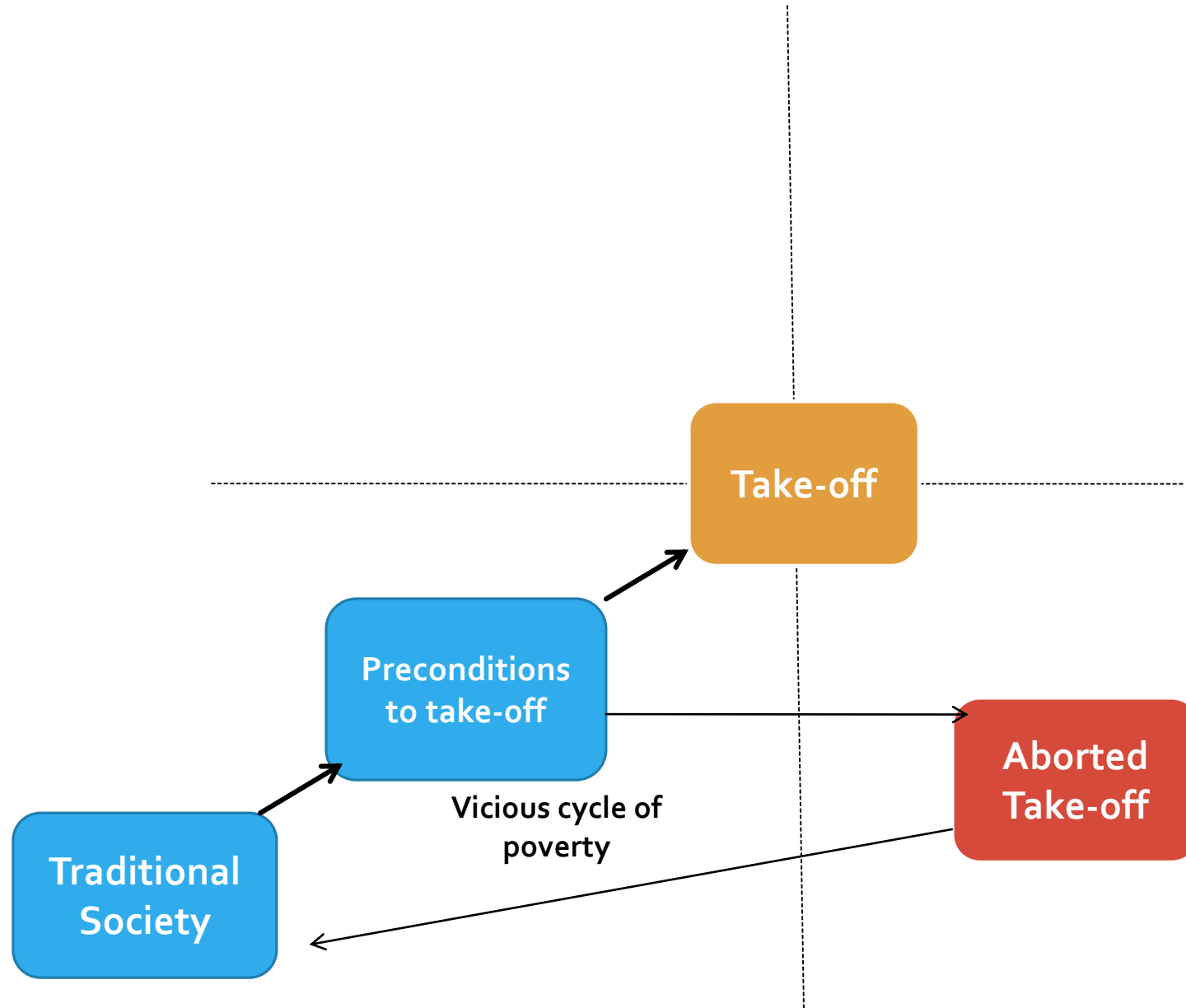
Scenario A: Steady State



- ✓ Oil price stays steady at \$45-\$55pb
- ✓ Production remains at 1.7-1.9mbpd
- ✓ Quarterly oil revenue = \$9bn
- ✓ Non-oil exports increase to 15% of total exports
- ✓ Subsidies in petroleum or removed or reduced
- ✓ New modular refineries commissioned
- ✓ Failed refineries are partly sold & barely rehabilitated

- ✓ Power sector reform is partly implemented
- ✓ Modest new investments in power sector
- ✓ Some rail projects commissioned with limited linkages
- ✓ Partial exchange rate convergence
- ✓ Forex rationing continues
- ✓ International investors are tentative

Possible Outcome – Abortive Take-off



Possible Outcome – Abortive Take-off

| Economic & Social Indicators | Outcome |
|--|----------------|
| GDP growth (%) | 1.8 |
| GDP Value (\$'bn) | 483.0 |
| Income per capita (\$) | 2,000 |
| Meat consumption (kg per person) | 9.0 |
| Milk consumption (litre per person) | 8.51 |
| Passenger cars (per 1000 population) | 19 |
| Mobile phone subscribers) | 919 |
| Personal computers (per 1000 population) | 6 |

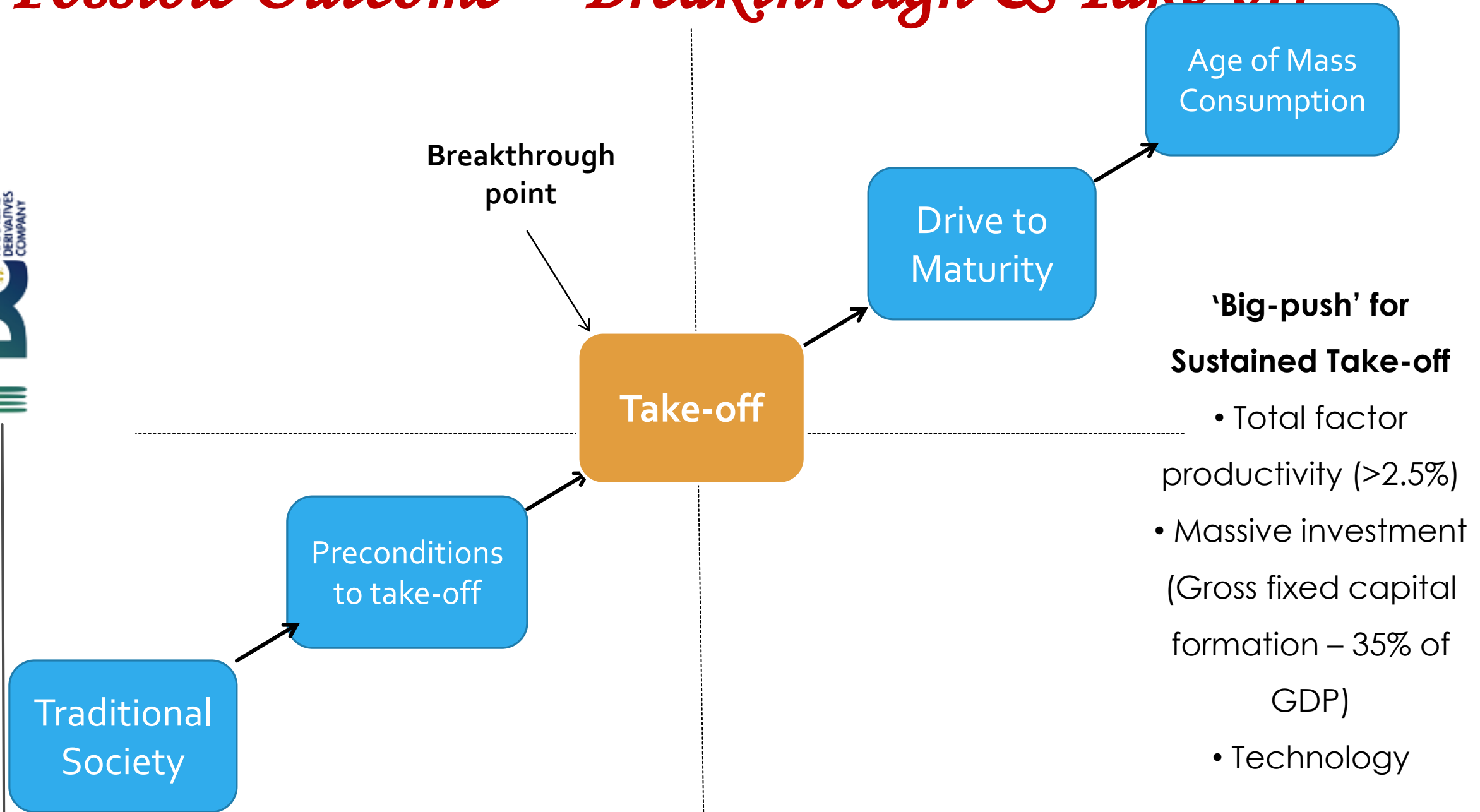
Scenario B – Revolutionary



- ✓ Oil price increases to \$55 – 60pb
- ✓ Production up to 1.9 – 2.2mbpd
- ✓ PIGB is passed – failed refineries sold as scrap
- ✓ Commercialization of NNPC and oil sector reforms
- ✓ Subsidies removed and deregulated pricing
- ✓ CBN unifies exchange rates and maintains flexible exchange rate regime

- ✓ IMF, World Bank, AFDB provide additional support of \$3bn – \$5bn
- ✓ Eurobond restructured giving additional relief
- ✓ FDI surges to \$5bn – \$7bn in 2021/2022
- ✓ Cost reflective tariffs and new investments in power
- ✓ Airports concessioned and hangars and MRO facilities
- ✓ Non-oil exports – cocoa, soya bean, cashew increase by 20 – 30%

Possible Outcome – Breakthrough & Take-off



'Big-push' for Sustained Take-off

- Total factor productivity (>2.5%)
- Massive investment (Gross fixed capital formation – 35% of GDP)
- Technology

Possible Outcome - Breakthrough & Take-off

| Economic & Social Indicators | Outcome |
|--|----------------|
| GDP growth (%) | 8-10 |
| GDP Value (\$'bn) | 700 |
| Income per capita (\$) | 3,000 |
| Meat consumption (kg per person) | 30.0 |
| Milk consumption (litre per person) | 45.0 |
| Passenger cars (per 1000 population) | 70 |
| Mobile phone subscribers | 950 |
| Personal computers (per 1000 population) | 300 |

Resilience & Lessons From History

- ✓ Resource endowment
- ✓ Human capital development
- ✓ Domestic political stability
- ✓ Access to international markets or large domestic market
- ✓ Policy consistency
- ✓ Independence and autonomy of central banks

Transformational Steps to “Take-off”

- ✓ **Removal of constraints**

- ✓ Exchange rate unification
- ✓ Power reforms
- ✓ Elimination of petrol subsidies

- ✓ **Open up bottlenecks**

- ✓ **Catalyst & economic stimulus**

- ✓ Gross capital formation to increase to 30-35% of GDP
- ✓ Double digit growth for a 3-5 year period
- ✓ Shift from recessionary gap to inflationary gap

Conclusion and Key Takeaways

- ✓ Dynamic leadership and strong institutions are crucial in achieving positive economic outcomes
- ✓ Nigeria needs a big-push to breakout of the vicious cycle of poverty
 - ✓ **Economic stimulus & catalyst**
 - ✓ Gross fixed capital formation to jump to at least 35% of GDP
 - ✓ Increased total factor productivity (2.5%)
 - ✓ **Elimination of constraints and structural bottlenecks**
 - ✓ **Building robust fiscal and external buffers**
 - ✓ Fiscal discipline & prudence
 - ✓ Diversification of revenue base

Conclusion and Key Takeaways

| Economic & Social Indicators | Scenario A: Do nothing | Scenario B: Revolutionary Change |
|--|-------------------------------|---|
| GDP growth (%) | 1.8 | 8-10 |
| GDP Value (\$'bn) | 483.0 | 700 |
| Income per capita (\$) | 2,000 | 3,000 |
| Meat consumption (kg per person) | 9.0 | 30.0 |
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| Passenger cars (per 1000 population) | 19 | 70 |
| Mobile phone subscribers) | 919 | 950 |
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Conclusion and Key Takeaways



A

-

Guaranteed failure or Remain in the same state

B

-

45% Probability to succeed

*Thank
you*

