



**Desperate times  
call for  
desperate  
measures**

**Ignorance is  
not an  
excuse**

**Result is all  
that matters**

**Hope is not a  
strategy**

*- James Cameron*

# THE NIGERIAN ECONOMY: A TALE OF TWO CITIES

- Formal economy



- Haves



- Urban



- Corporate



- Informal economy



- Have nots



- Rural



- Retail



# THE NIGERIAN ECONOMY: A TALE OF TWO CITIES

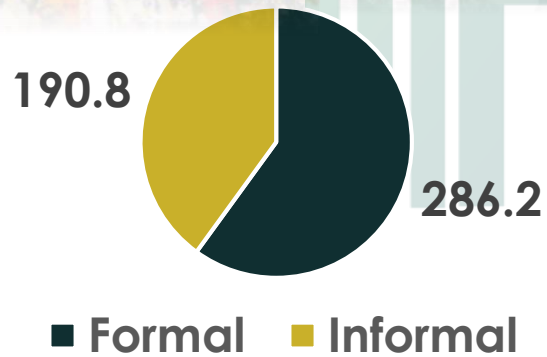
Formal



Informal



GDP (\$'bn)



Haves



Have nots



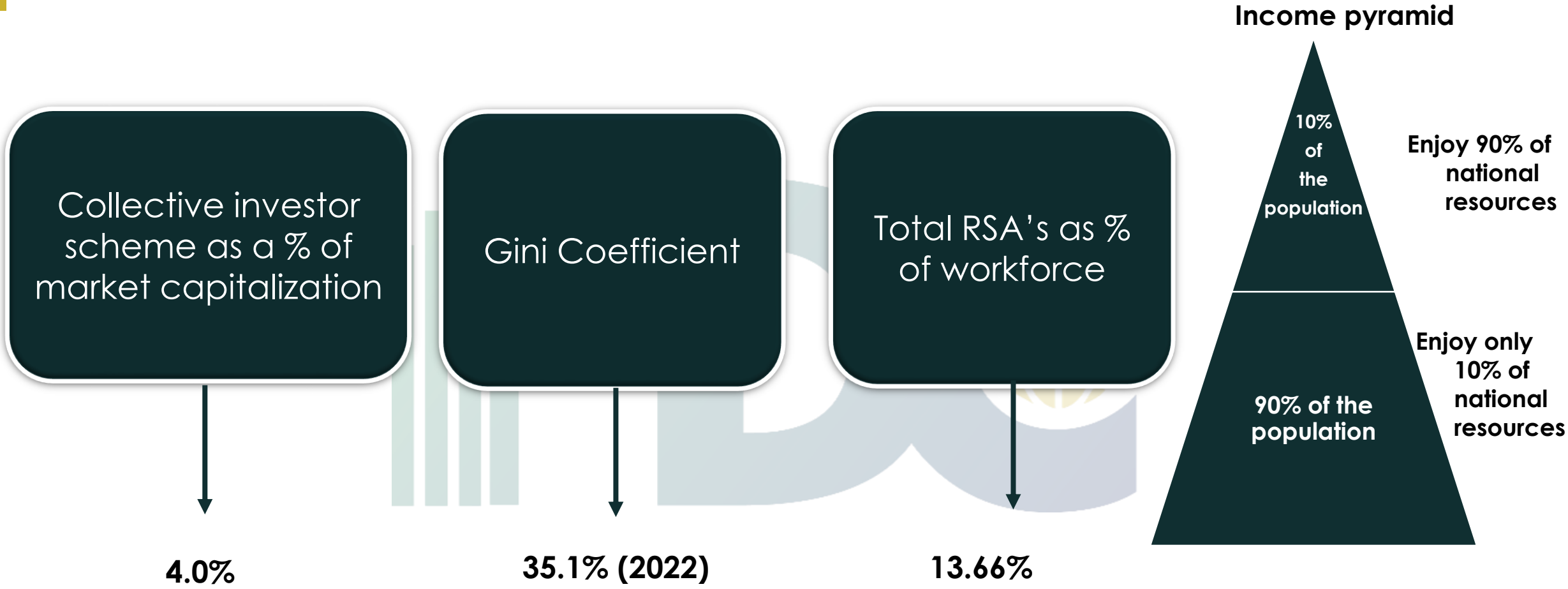
• Three richest Nigerians are wealthier than 83 million others put together -**Oxfam**

• Informal economy accounts for 40% of total GDP

• Nigerian economy is 62% of ECOWAS GDP



# THE NIGERIAN ECONOMY: A TALE OF TWO CITIES



- The Nigerian economy is patronage driven
- Regime relationship determines economic success

- Institutional investors > retail investors
  - Cash = 4% of total money supply
- Informal → Formalization → Formal



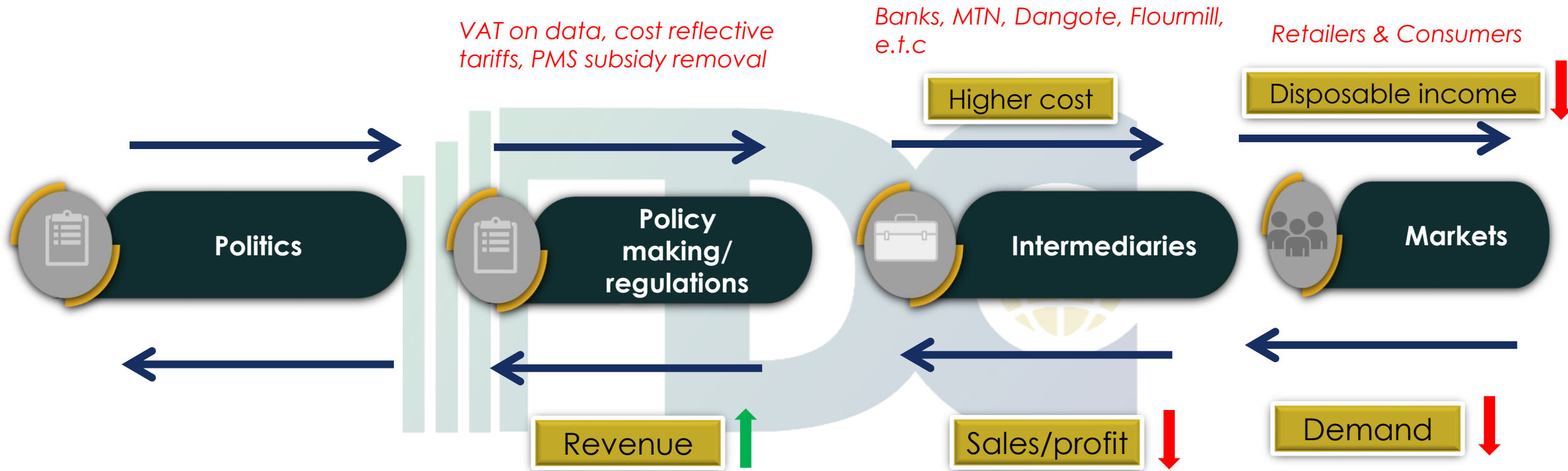
# THE NIGERIAN ECONOMY: A TALE OF TWO CITIES



Potential for crisis and  
social disorder

Compounded by  
regional, ethnic &  
sectarian divides

# POLICY CHANNEL & TRANSMISSION MECHANISM



# CONSTRAINTS TO POLICY EFFECTIVENESS IN NIGERIA

- Policy ineffectiveness mostly blamed on poor implementation and inefficient civil servants/government officials
- The fundamental challenge is that most policies target the formal economy
- Neglecting the bottom of the pyramid (informal sector)
- The informal sector accounts for about 40% of GDP
- And are mostly unbanked population
- When the informal economy is grounded, the formal economy also suffers
- The Nigerian tax system is mainly:
  - Indirect taxes – VAT, tariffs, sales tax, etc
  - Regressive, easy to administer, thin line between taxation & extortion

# VALIDATION – MISGUIDED POLICY INITIATIVE & UNINTENDED CONSEQUENCES

## Pre-cash crunch

### Expectations

- Cash in circulation is only 6% of total money supply
- Suppose money supply declines by 50%, cash in circulation is expected to decrease to 6%

## Post-cash crunch


### Reality

- Impact of Naira cash crunch was much higher – *'non-financialization of the informal sector'*
- The velocity of circulation in the informal economy is 7 times higher than the formal sector
- In H1 '23, currency in circulation surged by 87.05% to N2.6trn
- While cash outside banks jumped by 185.7% to N2.26trn

- GDP tanked and corporates lost sales and income
- Shows the vulnerability of corporates to retail consumers







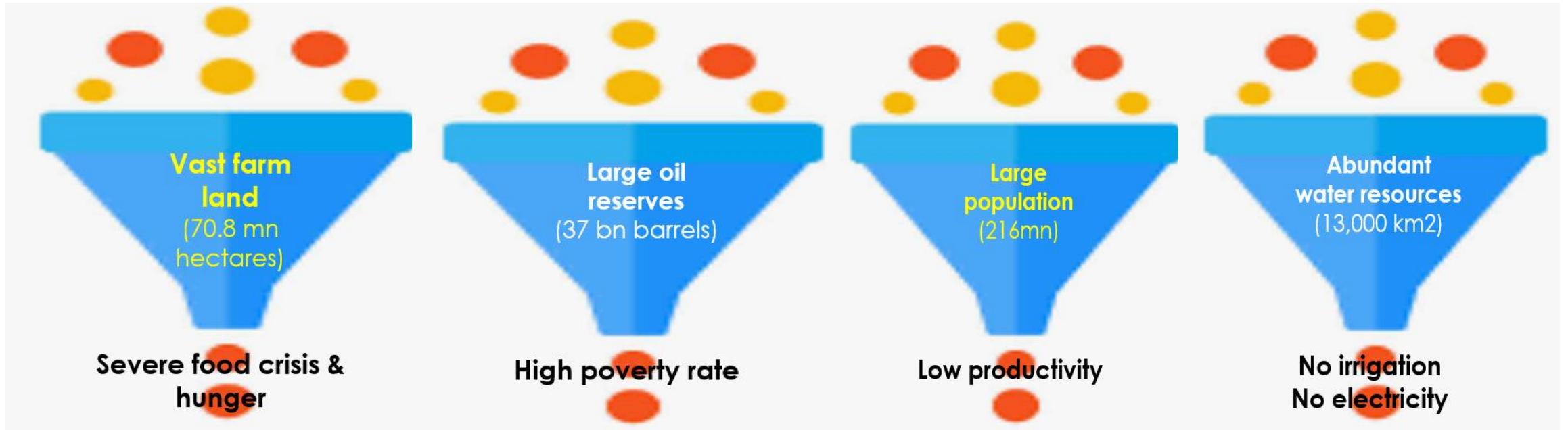
**The Nigerian economy was battered by the currency redesign program. GDP growth slowed to 2.31% in Q1'23 from 3.52% in Q4'22. Then came petrol subsidy removal and exchange rate depreciation.**

**1**

**Nigeria's misery index rose by 8.07% to 56.09% in June 2023 from 51.9% in June 2022. The President, while addressing Nigerians on July 31<sup>st</sup>, announced a N500bn Marshall Plan to resuscitate the economy and ease the financial burden on the people**

**a) Is this the right therapy or another effort in futility?**

# BOTTLENECK ECONOMY

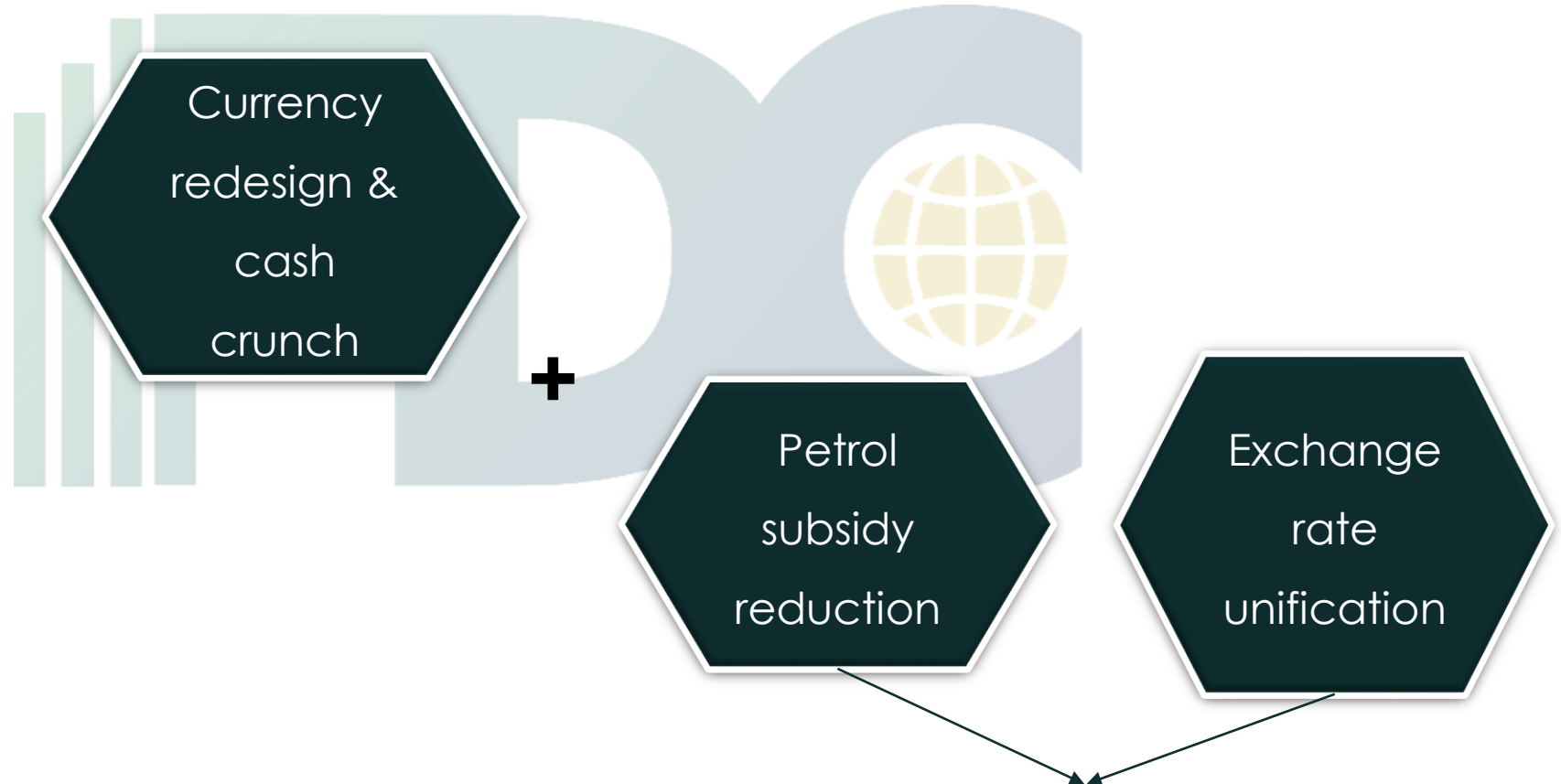


## Bottlenecks

- Sub-optimal resource utilization
- Inefficiencies
- Structural deficiencies

# NIGERIANS ARE SUFFERING & ANGRY

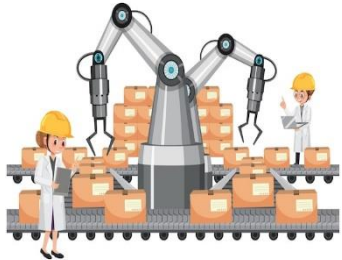
- Misery index  56.12%
- Multidimensional poverty = 62.5%



- ***Moves income from consumers to the government***

# PALLIATIVES – A CONDUIT FOR LEAKAGES

- Total palliative amounts to N500bn, **0.25% of GDP** – “*inadequate dose*”
- Not sufficient to cover the exchange rate losses incurred by companies
- A material palliative should be at least N10trn (5%) of the GDP



- Manufacturing sector support
- **N75bn**



- MSME support
- **N125bn**



- 3,000 CNG buses
- **N100bn**



- Agric support
- **N200bn**



- Grains
- **200,000 MTs**



- Fertilizer
- **225,000 MTs**

- A very pertinent question is: “**how long will it take before the impact is felt?**”



# THE NEXT STEPS

FAAC up 148%  
sharply due to  
exchange rate  
gains and  
subsidy  
reduction



- How are states spending the funds?

Fiscal  
federalism

- Physical infrastructure – *road & bridges*
- Institutional infrastructure (durable) – *education, tourism, technology*

- Retention of 50% of FAAC at Federal level (N1trn)
- N907bn shared



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 [info@alphamorgan.com](mailto:info@alphamorgan.com)



*Policy rate increase of 725bps to 18.75%pa has proven to be ineffective. Inflation has barely budged. Other African countries are more successful. E.g Kenya & South Africa.*

**2**

*a) Is Nigerian inflation defying economic logic?*

# INFLATION CONTROVERSY

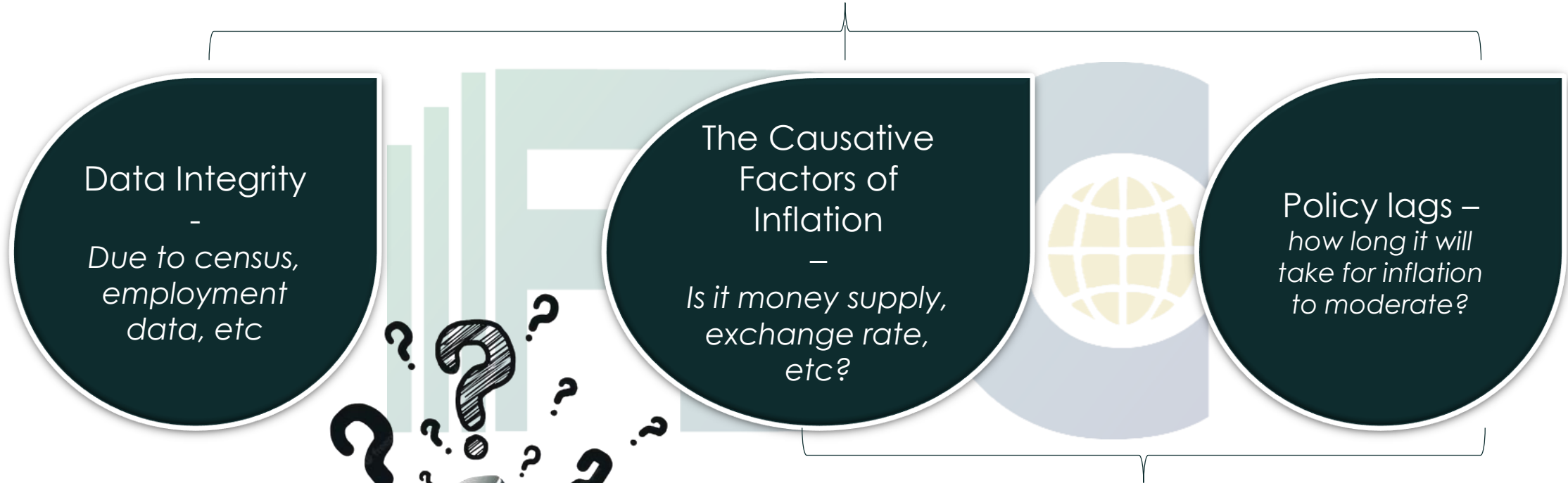
- Now Nigerians are skeptical about Nigeria's official inflation at 22.79%
- They believe that the data is not reflective of the true price level
- Economists are divided as to the quality and integrity of data
- Equally acrimonious are the causative factors and their materiality
- Most controversial is whether inflation is more exchange rate or interest rate sensitive
- Also in contention is whether excess liquidity is the major stoking factor





# WHY THE CONTROVERSY?

## Doubt/controversy about inflation in Nigeria



# STRUCTURAL OR TRANSIENT?

- Depending on your point of view, most people believe that Nigerian inflation is structural
- Meaning that it requires a fundamental shift in the aggregate supply curve
- Universally, inflation baskets are typically reconstituted every 5 years
- The Nigerian inflation basket was last reconstituted (reviewed ) in 2009
- It is therefore 15 years past due for reconstitution



# INFLATION CAUSATIVE FACTORS - ECONOMISTS ARE DIVIDED



## Monetarism

Inflation is always a monetary phenomenon



## Keynesian Theory

Inflation is as a result of excess demand in an economy



## Cost-Push Theory

Inflation arises due to an increase in production costs

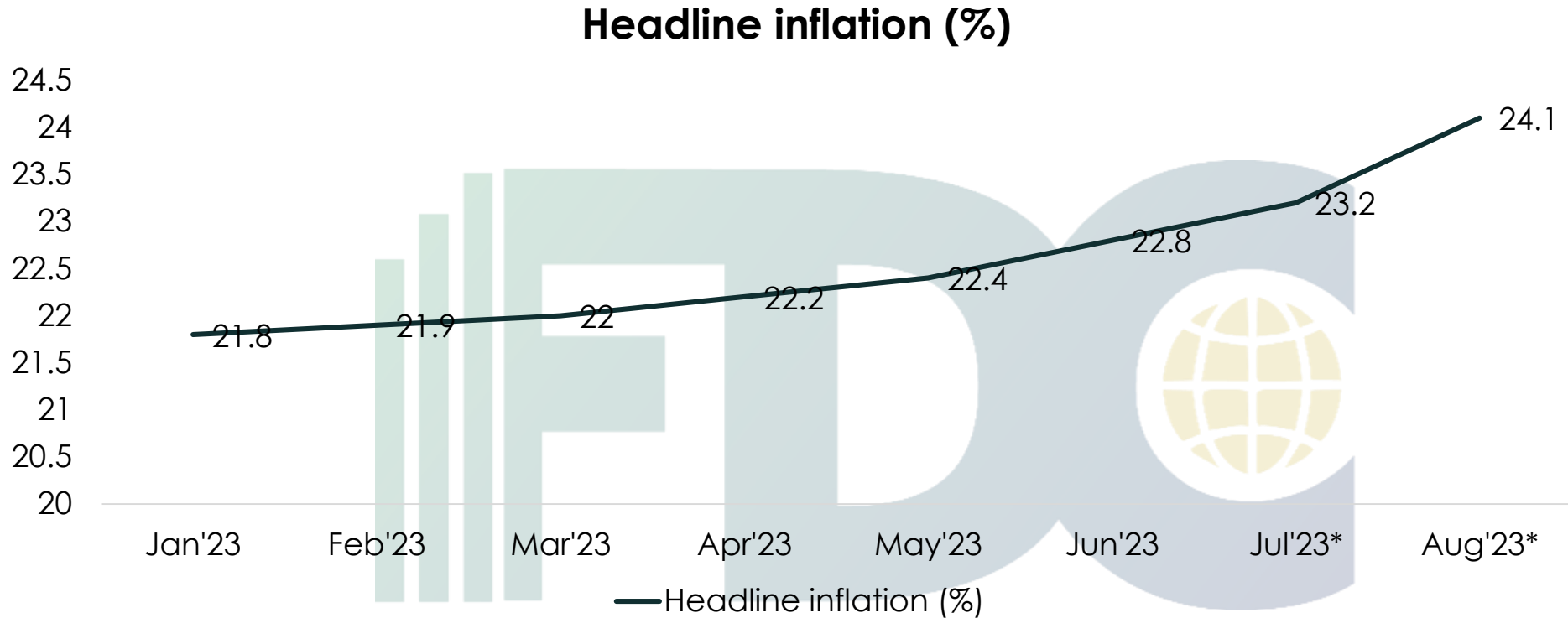


## Modern Monetary Theory

Inflation is a result of resource constraints rather than money supply issues

- Different perspectives/views on inflation causative factors
- None of the views are incorrect

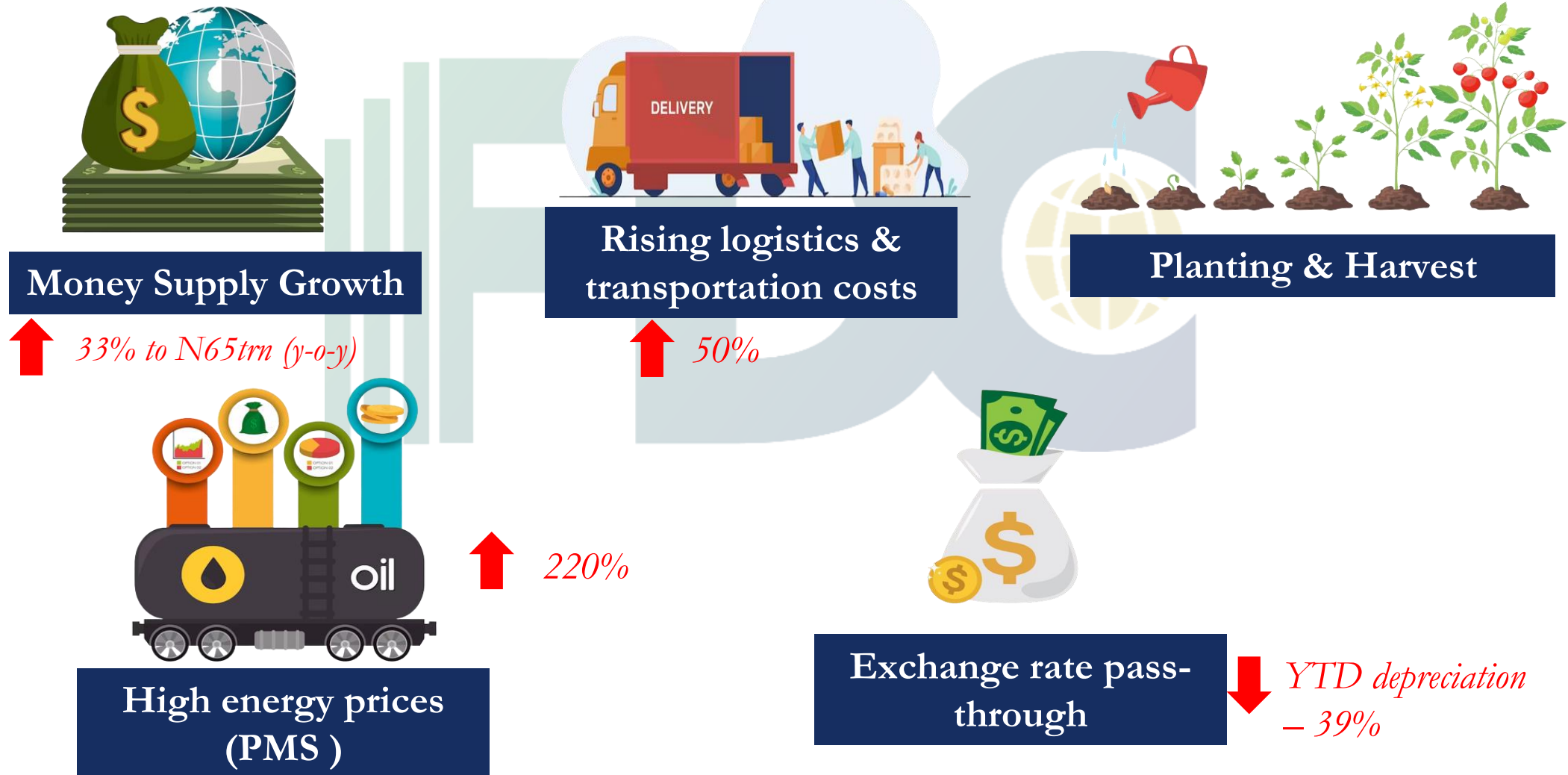
# INFLATION TO REMAIN ELEVATED IN THE NEAR TERM



- Headline inflation soars to 22.79% in June from 22.41% in May
- Projected to increase further in the coming months, partly due to the impact of market reforms

# INFLATION STOKING FACTORS IN NIGERIA

- Inflation affected by seasonality, monetary and cost push factors



# INFLATION BASKET VARIES IN DIFFERENT LOCATIONS

- Inflation is not bifurcated
- Single inflation basket for both the formal and informal economy

## Major Drawbacks/Constraints

- In reality, the price of basic commodities vary between the rural & urban areas
- Inflation basket are different due to location, income level, etc
  - Rural & urban areas
  - Supermarket & local markets
  - Among local markets (Oyingbo Vs Sura)



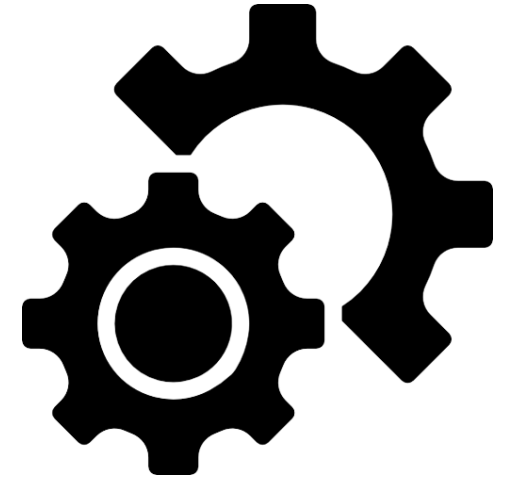
# INFLATION & THE VARIOUS COMPONENTS ON BASKETS

Rural inflation  
(21.37%) –  
*Price of commodities  
in the rural area*

Urban inflation  
(24.33%) –  
*Price of commodities  
in urban centres*

Food inflation  
(25.25%) –  
*Include prices of  
food items*

Core inflation  
(20.27%) –  
*Inflation less  
seasonalities*



# THE COCKTAIL OF MEASURES TO CONTAIN INFLATION

Limitations of monetary policy in a fiscally dominated economy

Increase forex supply to import goods to push down prices

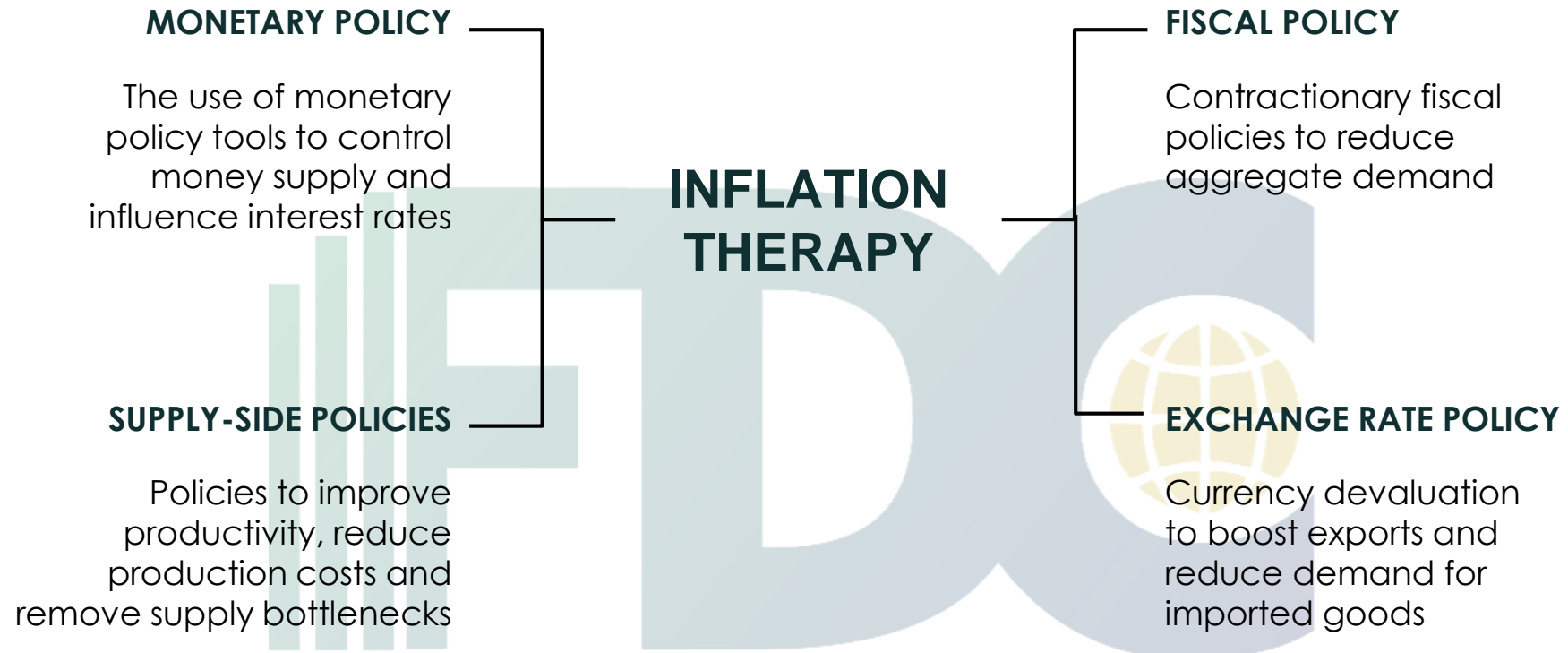


Moving subsidies from consumption to production

Shift in the aggregate supply curve – production possibility frontier



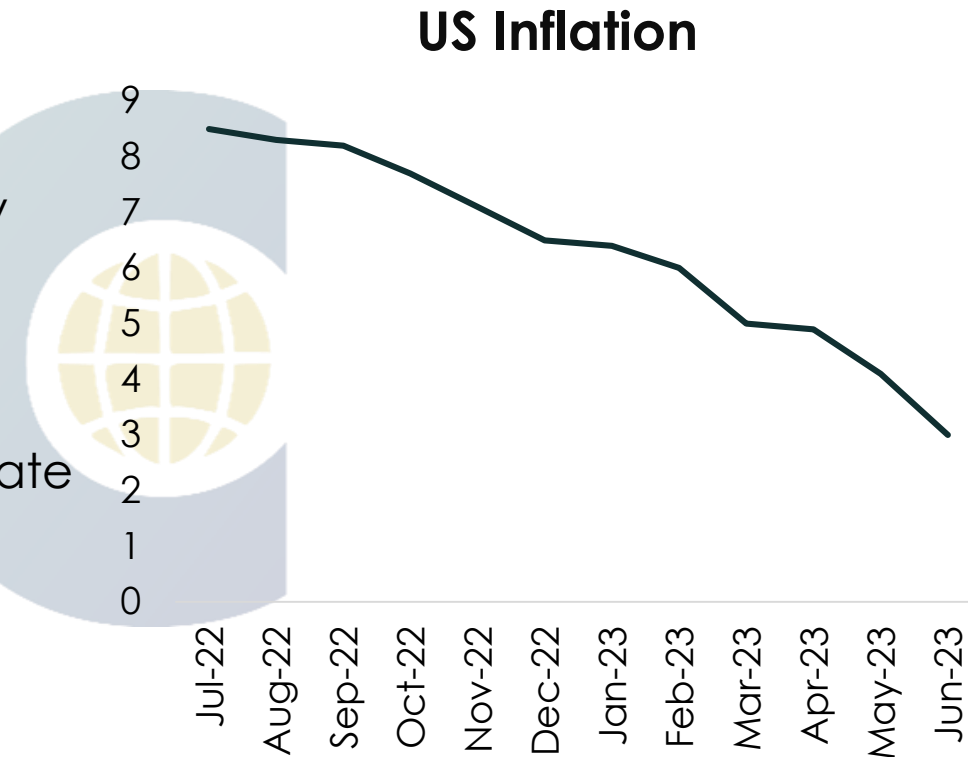
# THE COCKTAIL OF MEASURES TO CONTAIN INFLATION








- The effectiveness of a therapy depends on its timeliness & proper diagnosis
- The appropriate therapy in tackling inflation will depend on the specific economic circumstances in the country

# INFLATION DECLINING SHARPLY IN ADVANCED ECONOMIES

- US inflation declined steadily to 3% in June 2023 from a peak of 9.1% in June 2022 - **Closer to the target of 2%**
- Inflation in the EU & UK also fell to 5.3% and 7.9% respectively
- But monetary authorities maintained a hawkish stance
- Fed Reserve resumed rate hike after pause in June - policy rate raised by 25bps to 5.25%-5.5%pa
- Strong labour market poses concerns on inflation risks
- ECB also raised policy rate by 25bps to 3.75%pa



# NIGERIAN INFLATION DEFIES MONETARY POLICY THERAPY

	Cumulative Policy rate hikes (bps)		Inflation Jan (%)	Inflation June (%)	
 UK	490	↑	10.1	7.9	↓
 South Africa	500	↑	6.9	5.4	↓
 Ghana	1600	↑	53.6	42.5	↓
 Kenya	350	↑	9	7.9	↓
 Nigeria	725	↑	21.8	22.8	↑

• China is afraid of deflation

# HOW EFFECTIVE ARE INTEREST RATES IN NIGERIA?

## Informal Economy

- The informal economy is less sensitive to interest rates
  - Most of the market players are unbanked
  - Return on savings (12.15%pa) is lower than turnover gains
- The informal economy is more sensitive to exchange rates than interest rates
- Return on investment to reduce as the naira weakens
- Higher custom duties, hike in ticket price, etc

## Formal Economy

Interest rates



MPS



MPC



- Marginal propensity to save (MPS) to increase as interest rates rise
- 364-day t/bill rate jumped by over 600bps to 12.15%pa after the July MPC meeting

\*770

Start now. Dial \*770#



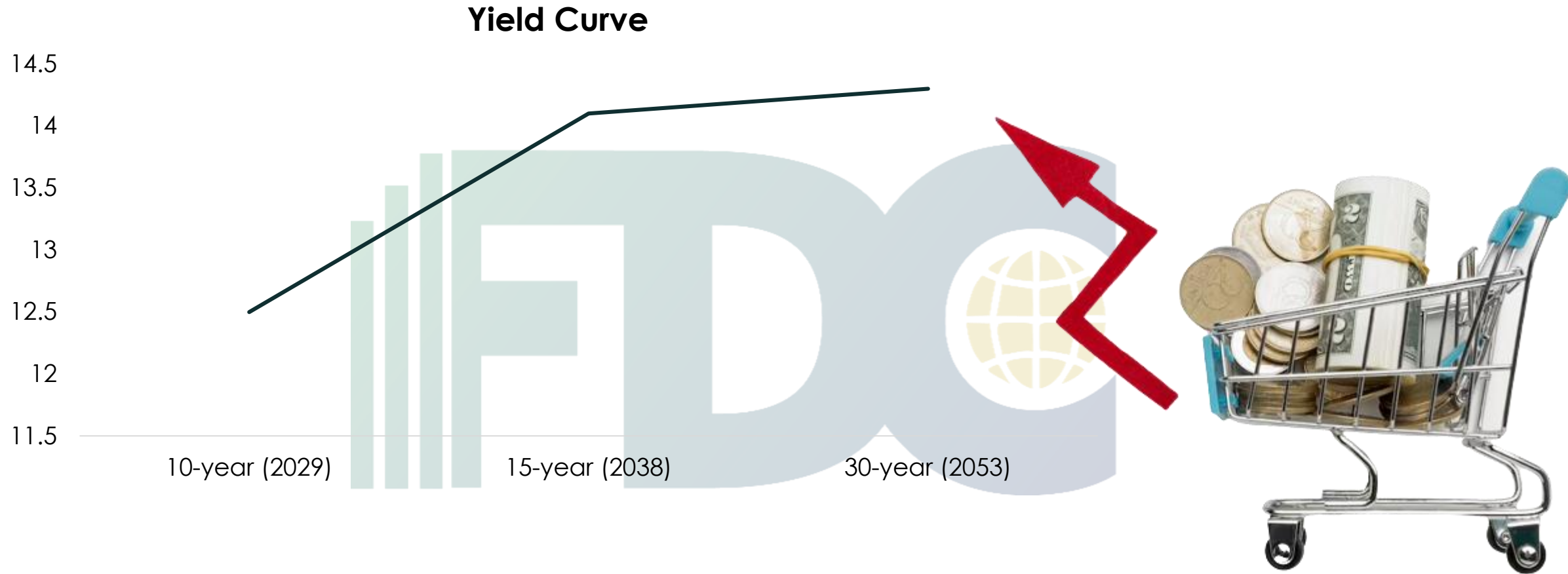
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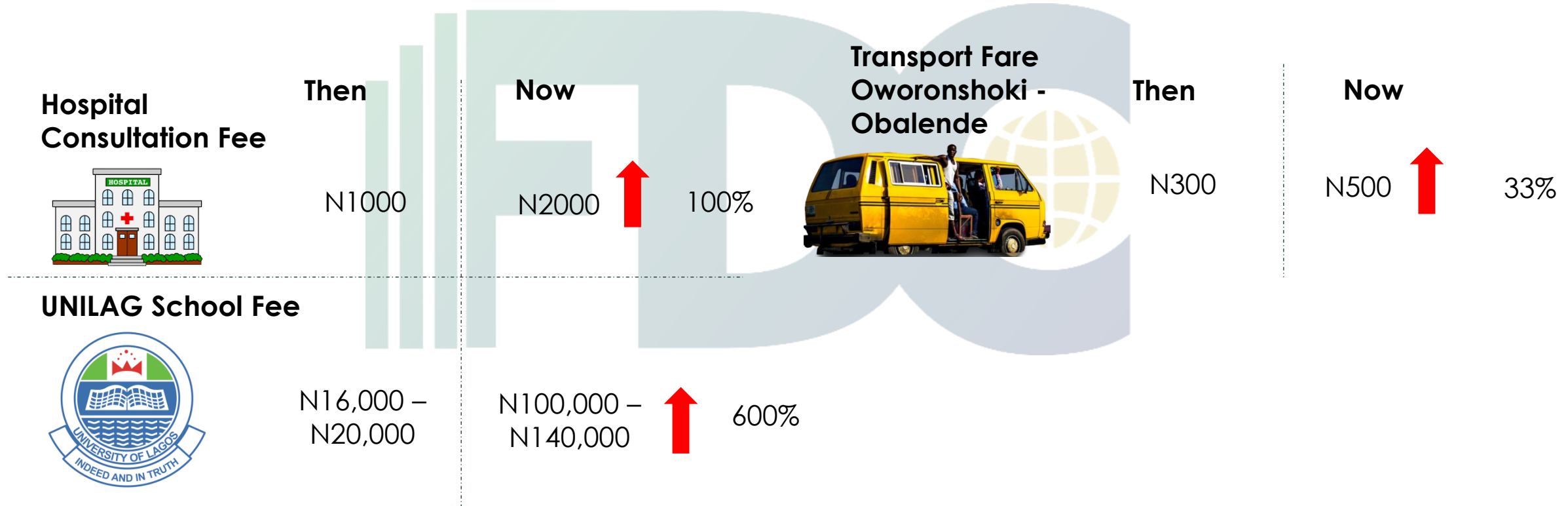
# MARKETS AND INFLATION EXPECTATIONS



- Long-term bond rates are below 20%p.a
- Market expectations are that inflation will decline to below 20% in the long run

# HIGHER INFLATION – IMPACT ON YOU

- Inflation affects both the formal and informal economy
- Disposable income will shrink





3

*After trading within a band of N462-N472.5/\$, the Naira has depreciated sharply by 81.27% at the official window (I&E) following the policy change in the FX market.*

*The parallel market rate also depreciated by 15% to a low of N875/\$. However, since the increase in effective interest rates, the exchange rate has appreciated marginally by 1.16% to N865/\$.*

- a) What is the level of volatility in the foreign exchange market?*
- b) Where is the naira likely to settle and what is the fair value?*



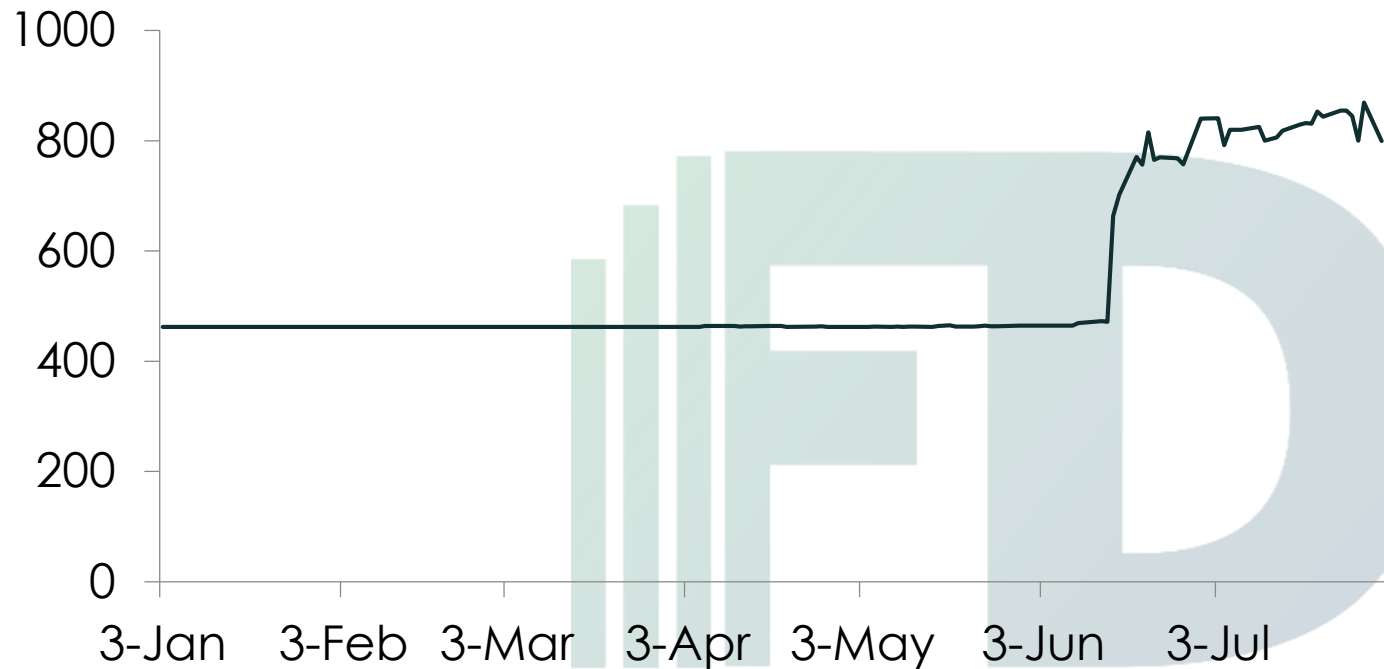
# CURRENCY & MONEY MARKETS - CONCEPT



- Money & currency markets are by nature volatile and efficient
- They respond to both endogenous & exogenous factors
- An **expectation** of a **stable currency** market is **false**

# EXCHANGE RATE VOLATILITY – THEN & NOW

IEFX rate (N/\$)



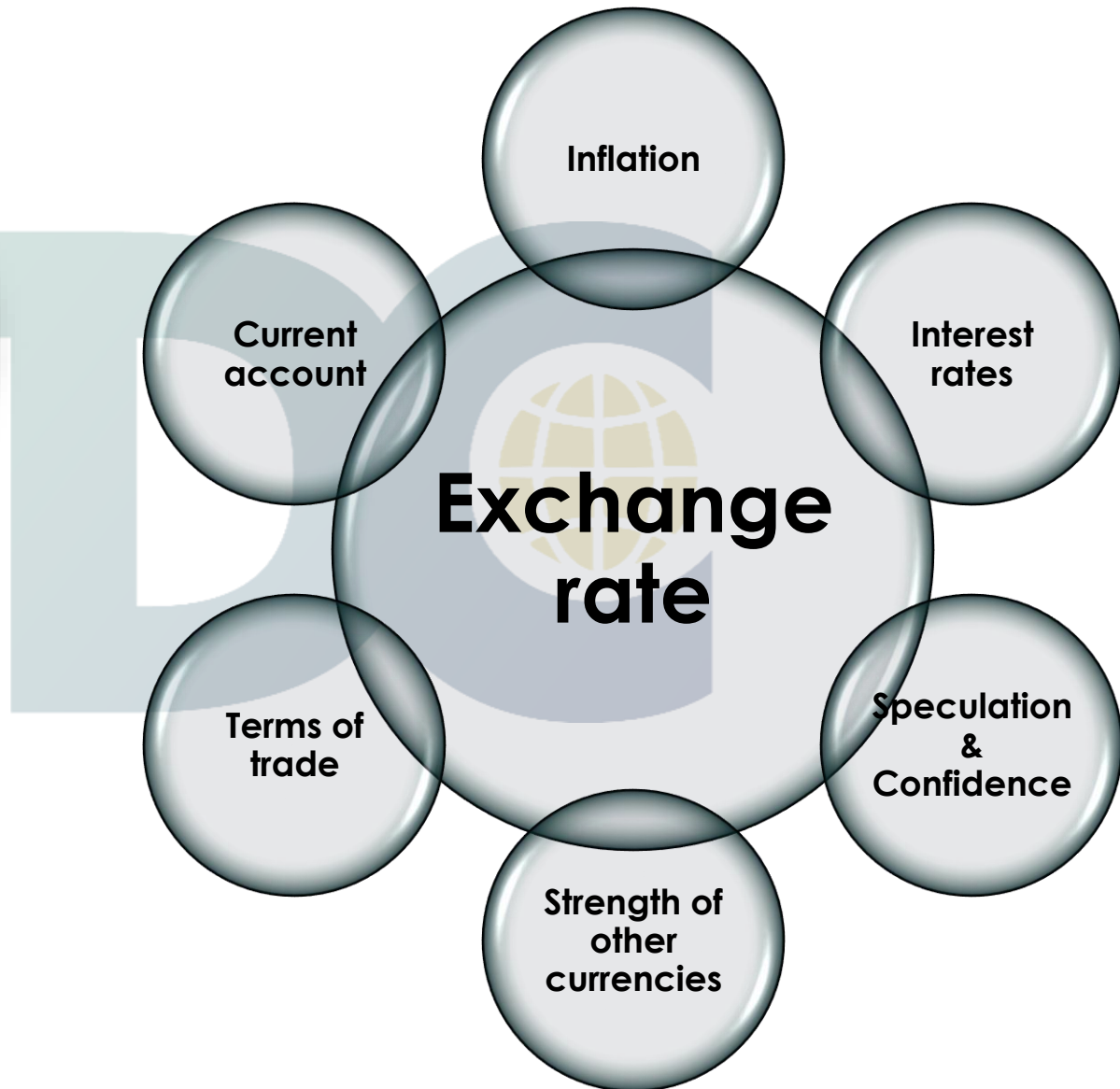
—IEFX rate (N/\$)

Currency	YTD (%)
EUR/USD	-7.96
GBP/USD	-4.83
USD/JPY	-7.69
USD/ZAR	-9.03
USD/EGP	-62.52
USD/KES	-19.83
USD/NGN	-39.00

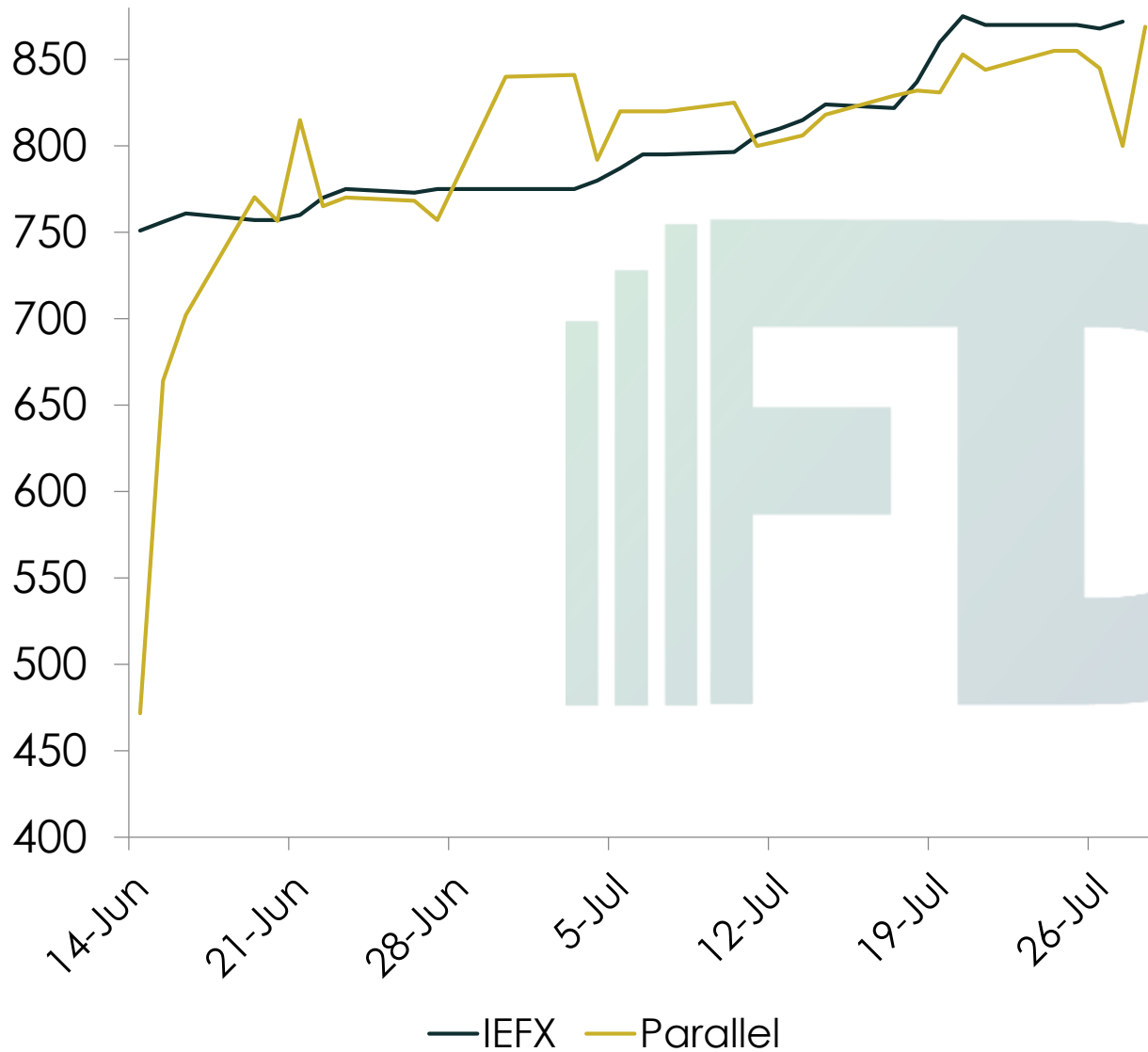
- Exchange rate under the last administration was unrealistic & inefficient
- Volatility in the foreign exchange market in Nigeria now at par with other currency

markets

# FACTORS THAT DETERMINE THE VALUE OF A CURRENCY



# FOREX MARKET IN DISEQUILIBRIUM



- There has been high level of exchange rate volatility since the forex market reforms
- IEFX rate traded within the band of N696.37/\$ - N862/\$ in July
- Closing rate averaged N776.07/\$
- Naira depreciated by 3.9% to a low of N875/\$ from N841/\$ at the beginning of July
- Averaged N764.05/\$
- 8.13% lower than the average of N764.05/\$ in June

# WHAT WILL BE THE TRUE VALUE/REER OF THE NAIRA?

PPP Table (Purchasing Power Parity)

Commodity	=N=	US \$	PPP (=N=/US\$)
Bottle of Pepsi (50cl)	200	0.65	308.88
Beer (60cl)	900	0.90	1000.00
Hamburger (Burger King)	7,500	5.38	1394.05
Indomie (1 unit)	250	0.50	500.00
Nestle Bottled Water (60cl 1 unit)	150	0.32	468.75
Big Loaf Bread	1,150	1.25	920.00
Corrola (2023 Model)	29,800,000	25,000.00	1192.00
Irish Spring Soap (1 cake)	600	1.16	517.24
Chicken Breasts (1 kg)	3,650	3.48	1048.85
Trolley	1,500	5.00	300.00
Peak evaporated milk (pack of 12)	9,000	12.96	694.44
Uncle Ben's rice (5.44kg 1 pack)	15,550	24.66	630.58
Eggs (30 large eggs)	2,200	5.73	383.72
Average PPP			<b>719.89</b>
Naira Price at IEFX			768.00
PPP (%)			
Decision: Naira is		Undervalued	<b>-6.26%</b>

- Naira is undervalued by 6.26%
- True value estimated at N720/\$
- Level of volatility in the foreign exchange rate market to reduce
- As the right policies are implemented

# NEXT POLICY STEPS

## Short-term

**Stable supply of  
forex from the CBN**

**Significantly  
reduce deficit  
monetization &  
money supply  
saturation**

## Medium to long term

**Debt rescheduling  
for new money  
from multilateral  
agents -IMF**

**Fiscal & monetary  
policy coordination  
to build investor  
confidence &  
invisible flows**



# OTHER FACTORS THAT SUPPORT EXCHANGE RATE APPRECIATION

01

Increase in  
oil prices &  
oil  
production

- Will buoy external earnings and increase forex liquidity

02

Reduction  
in global  
interest  
rates

- Will reduce capital flight & demand pressure
  - Could enable Nigeria borrow from the Eurobond market

03

Increase in  
invisible  
inflows as  
investor  
confidence  
improves

- Premised on
  - Institutional reform
  - Good governance
  - Market reforms

# EXCHANGE RATE IMPACT - GENERAL



## Consumers

- Reduced disposable income
  - Higher cost of airline tickets
  - Higher prices of imported commodities
- Aggregate level of consumption to decline



## Corporate

- Exchange rate computation for import duty
- Higher cost of imported raw material purchases
- Huge loss for businesses with high foreign loans
- Limited capacity to pass cost to consumers due to price resistance



## Government

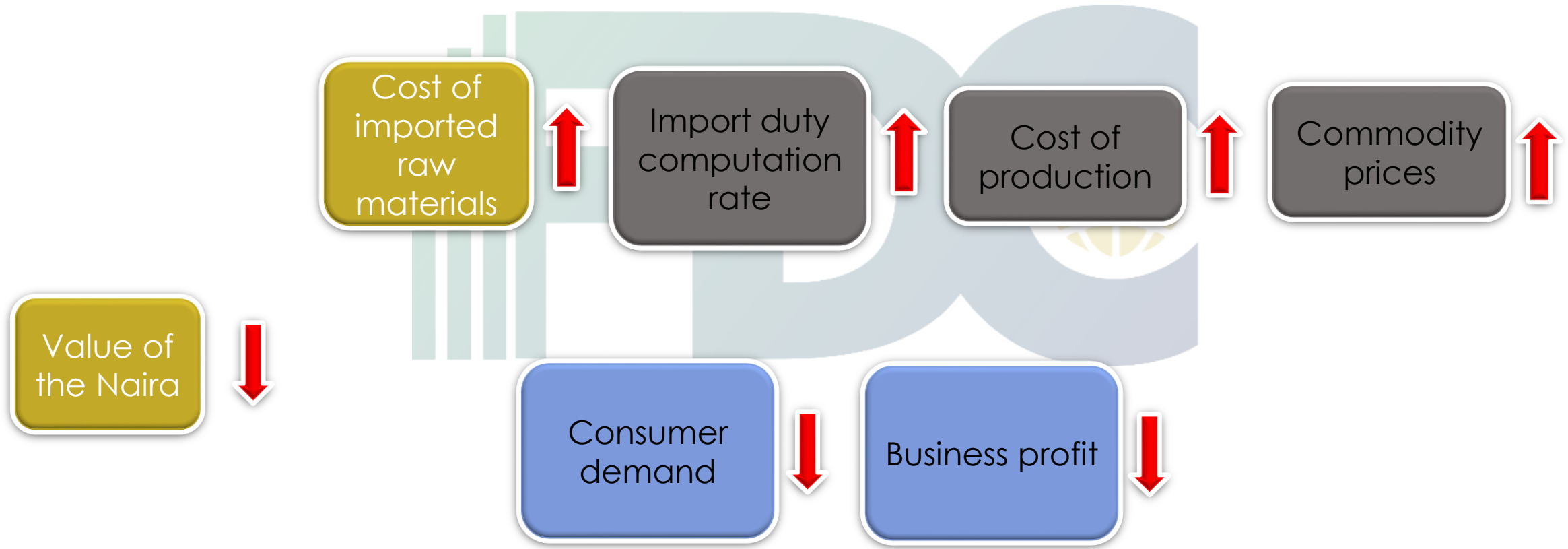
- Higher oil revenue
- External debt to increase
- Government purchases to increase





# IMPACT – FORMAL & INFORMAL ECONOMY

- Both the formal and informal economy are sensitive to exchange rates
- It is likely to be a more effective tool in achieving macroeconomic stability



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4

According to Bloomberg, 2023 GDP growth forecast for Francophone countries is 7%. However, the IMF retained Nigeria's 2023 GDP growth at 3.2% whilst the EIU revised it downwards to 2.3%. West Africa has a cyclical history between stability, instability (military coups) and Democracy; 50% of the French speaking countries are under the military coups and the contagion effect in a Maghreb region. Niger has a 1700km border with Nigeria.

- a) **What is responsible for this wide disparity between GDP growth in English and French speaking countries?**
- b) **What are the near-term consequences of the crisis in the Niger republic**
- c) **What are the implications of**
  - i. **Military intervention**
  - ii. **Of a failed expedition?**

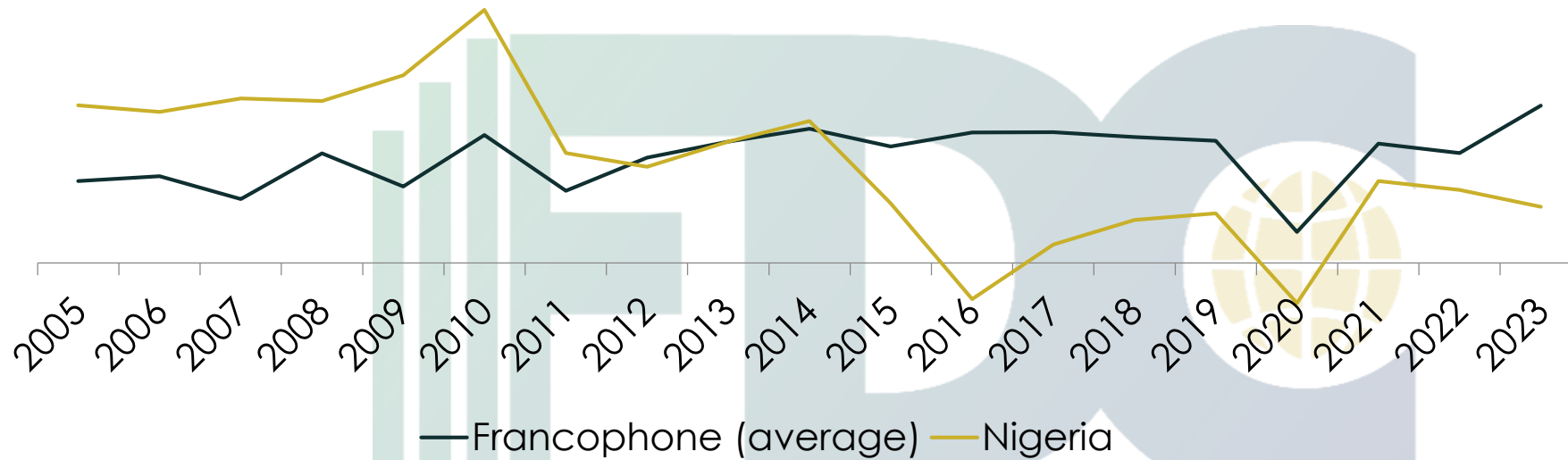
# IMF REVISES GLOBAL GDP GROWTH FORECASTS UPWARDS

- Global GDP growth revised upwards to 3% from 2.8%
- Reflecting the resilience of the world economy despite interest rate hikes
- Britain no longer expected to fall into recession partly due to
  - Strong consumption & post-Brexit uncertainty
- US economy grew by more than expected in Q2'23
  - Recorded 2.4% growth (y-o-y) from 2% in Q1'23
- However, weak manufacturing output to shrink Germany's economy by 0.3% in 2023
- SSA GDP expected to slow to 3.5% from 3.6%



# GDP GROWTH – NIGERIA VS FRANCOPHONE AFRICAN NATIONS

## GDP Growth



- Nigeria constantly outperformed the Francophone African countries until the global oil price shock in 2016
- GDP growth yet to return to pre-crisis levels

# FRANCOPHONE AFRICAN COUNTRIES – LESSONS TO LEARN

**Benin**



**Ivory coast**



**Mali**



**Senegal**



**Burkina Faso**



**Ginuea Bissau**



**Niger**



**Togo**



- These countries have implemented various economic policies and reforms that have attracted foreign investment and foster economic growth
- Industrialization
- Infrastructure development
- Improved business climate
- Economic diversification
- Price stability has also supported stable growth in the region



# FACTORS HOBBLING GROWTH IN NIGERIA

01

High level of  
mismanagement  
& missed  
opportunities

02

Structural rigidities  
& bottlenecks

03

Intense forex  
scarcity

04

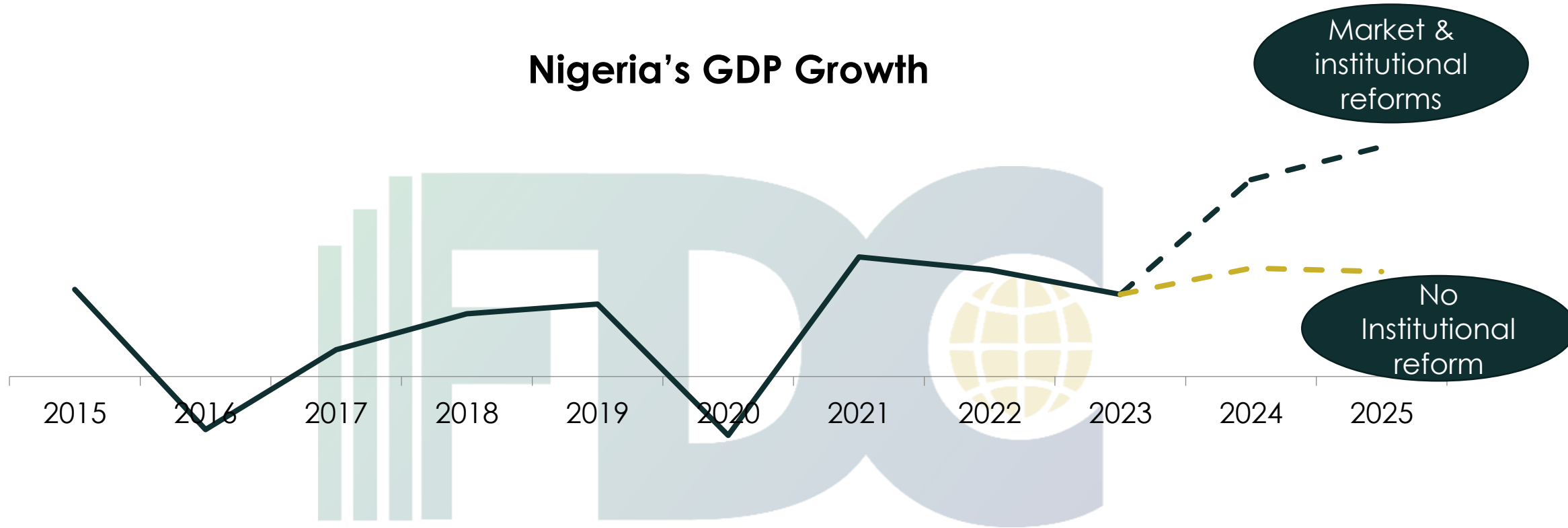
Exogenous shocks

05

High Inflationary  
pressures

# WHAT COULD LEAD TO SUSTAINED ECONOMIC TAKEOFF IN NIGERIA?

## Nigeria's GDP Growth



- Full implementation of market and institutional reforms will lead to sustained economic growth in Nigeria
- Will lead to increased level of investment flows



# NIGER COUP D'ÉTAT

- Military Junta seized power from Niger's democratically elected President - Bazoum
  - President is a key western ally in the fight against Islamist militancy in West Africa
- ECOWAS imposed various sanctions to discourage the coup d'état
- France & EU have also condemned unrest
- About \$2.2 billion external loan (40% of its 2023 budget) expected from external partners have been seized





# NIGER COUP ATTEMPT

- Sanctions from ECOWAS
  - Suspension of all commercial transactions with Niger
  - Froze Niger's State assets in the Regional Bank
  - Froze assets of the state and enterprises in commercial banks
  - Suspends all financial assistance with regional banks
- Financial sanctions could lead to default on Niger's debt repayments
- Banking sanctions to have limited impact on Niger citizens due to its high level of financial exclusion



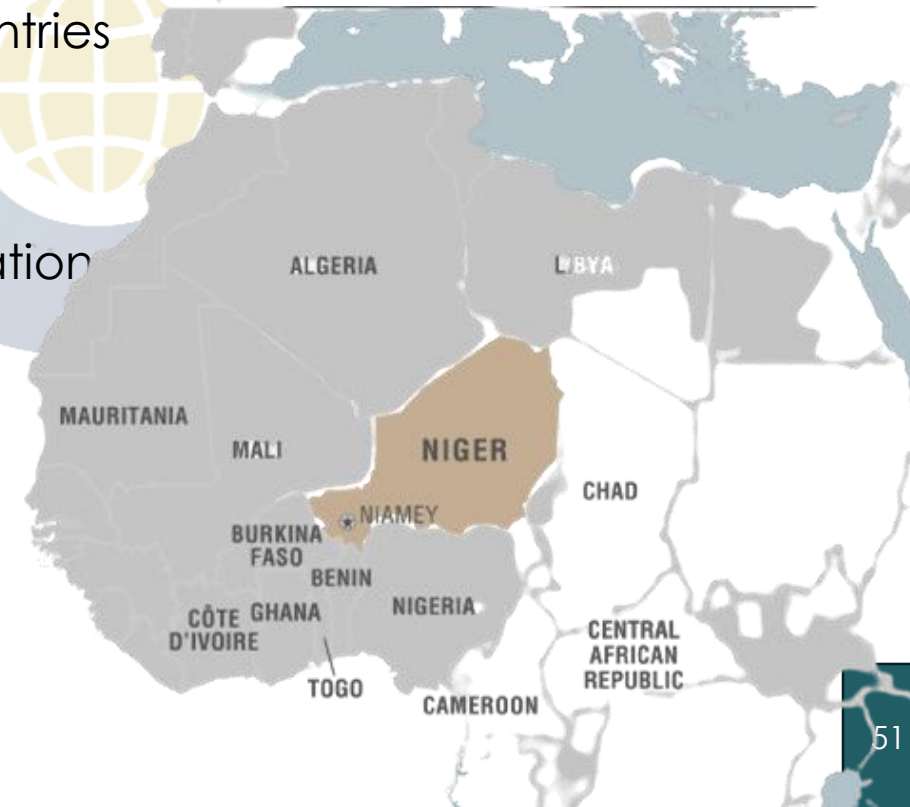
# NEAR-TERM CONSEQUENCES

**Russia could step in as a new patron for the Niger's coup leaders**


- Russia has some influence on some of Niger's neighboring countries – Mali & Burkina Faso

- Embraced military regime in both countries
- Provides them with security assistance

diplomatic backing & information operation support



# NEAR-TERM CONSEQUENCES



**Niger is the 7<sup>th</sup>  
largest world  
producer of  
Uranium**

- Price of Uranium has risen slightly in response to the military coup in Niger
- Prices likely to increase further as political instability could affect supply of Uranium from Niger



# OTHER CONSEQUENCES

Could backtrack  
accomplishments  
of the democratic  
administration



Economic situation  
likely to worsen –  
Niger is one of the  
poorest country in  
the world

Could worsen  
insecurity in Niger and  
its neighboring  
countries



# STOCK MARKET

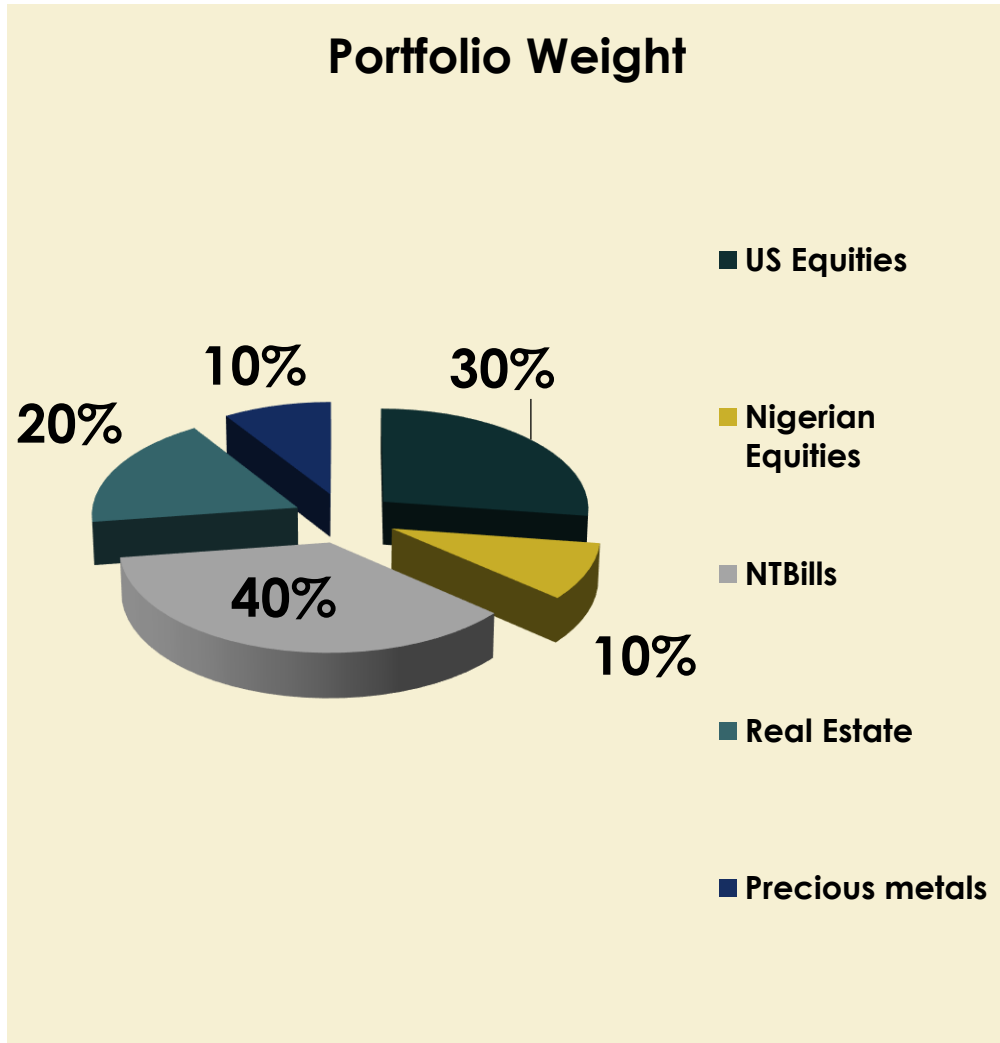
5

The Nigerian stock market lost 1.43% in the last week of July following a 25bps hike in monetary policy rate and the release of underwhelming H1'23 earnings by some Nigerian companies.

Unification of exchange rate took a toll on corporate profitability and effective interest rates are beginning to rise in tandem as the CBN remains committed to tapering inflation. 364-day t/bills spiked by 625bps to 12.15%pa from 5.9%pa. In this new policy environment,

- a) **What kind of portfolio structure will you recommend for investors to maximize return and minimize risk?**
- b) **What is the impact of policy changes on the risk of defaults on state government bonds?**

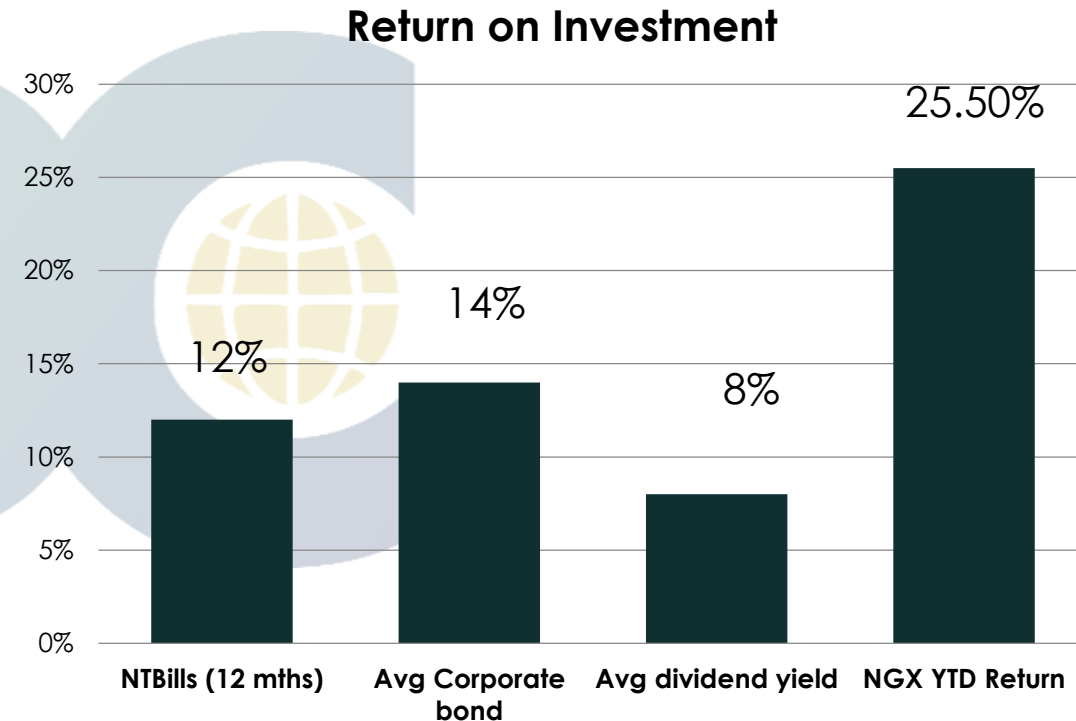
# BALANCED PORTFOLIO STRUCTURE



Assets Classes	Rationale
U.S Equities	<ul style="list-style-type: none"> <li>✓ Hedge against currency risk</li> <li>✓ Decelerating inflation</li> </ul>
Nigerian Equities	<ul style="list-style-type: none"> <li>✓ Need for portfolio diversification</li> <li>✓ Investment in valuable capitalized stocks with strong growth fundamentals</li> </ul>
NTBills	<ul style="list-style-type: none"> <li>✓ 40% of funds invested is secured in a risk-free asset</li> <li>✓ Certainty of capital preservation</li> </ul>
Real Estate	<ul style="list-style-type: none"> <li>✓ Need for portfolio diversification</li> <li>✓ Increased demand for real estate to hedge against rising inflation</li> </ul>
Precious metals	<ul style="list-style-type: none"> <li>✓ Safe haven assets</li> </ul>

# MONEY MARKET INSTRUMENTS OR EQUITIES?

- NGX lost 1.43% in the last week of July
- Underwhelming H1 '23 corporate earnings sent shock waves to the market
- Hike in effective interest rate pulls investors out of equities for risk free securities
- But divergence between the policy rate and effective rates could make investors stick to attractive share prices





# MONEY MARKET INSTRUMENTS OR EQUITIES

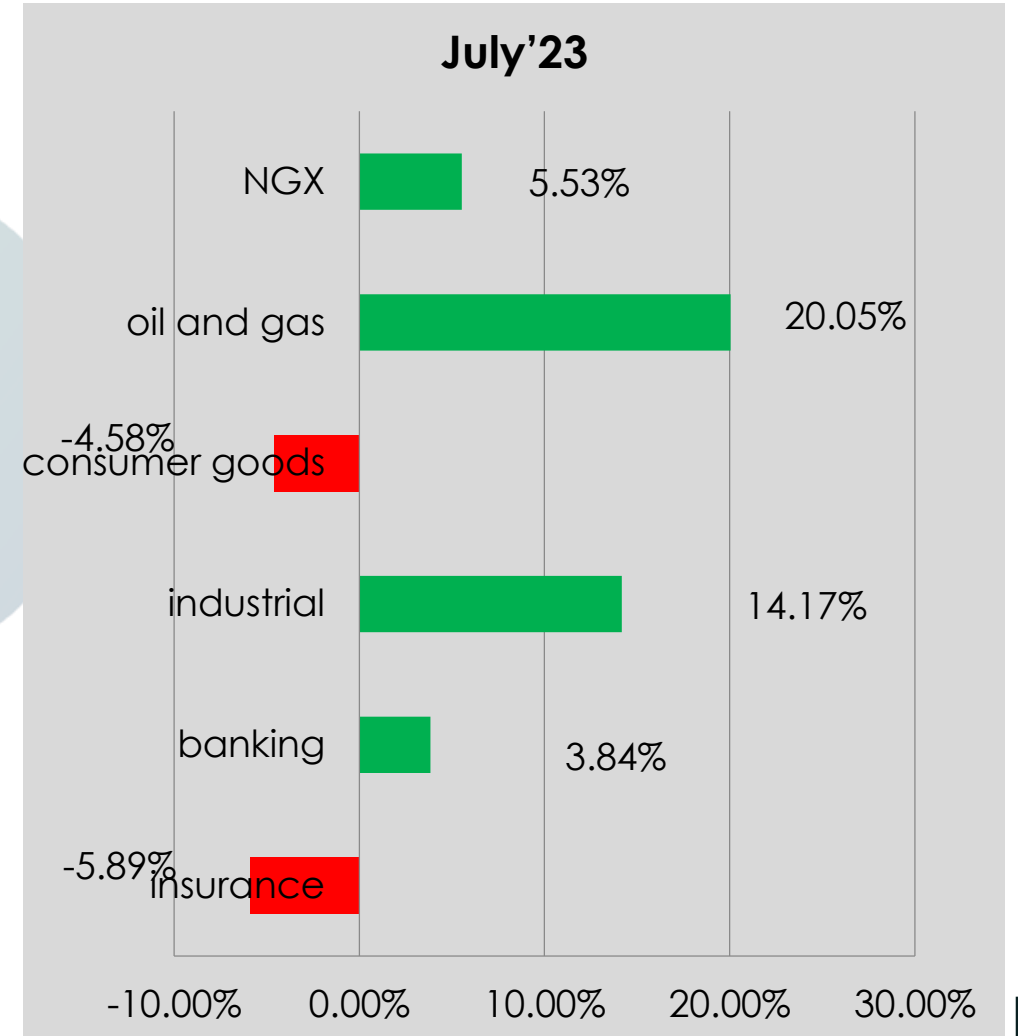
- Contracted margins and poor corporate earnings will slightly dampen investor confidence in teetering Nigerian economy and its impact on stock valuations
- Capital preservation will remain priority for conservative investors
- Long term and conservative investors will watch out for market dip and position in stocks with promising upsides





# NGX PERFORMANCE JULY'23

- NGX gains 5.53% in July
- Slips from a gain of 9.38% in June
- Market performance dampened by underwhelming corporate earnings
- Investors gradually exit equities for attractive fixed income yields
- Oil and Gas sector topped gainers list
  - Blockbuster earnings from industry players
  - Aftermath of fuel subsidy removal





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**STOCK  
MARKET**

**CORPORATE  
EARNINGS**





# HIGHLIGHTS OF H1'23 CORPORATE EARNINGS

10 Major companies recorded an FX loss of N764bn

Revenue surge despite economic challenges

Driven by higher prices, deepened market penetration, increased customer base and demand for digital services

Net finance loss due to huge exposure to foreign denominated loans

FX revaluation losses erodes corporate profits

# IMPACT OF FX UNIFICATION ON CORPORATE EARNINGS

## •Translation gains for some, Translation losses for others

### Financial Institutions

- For financial institutions translation gains today may become transaction loss tomorrow
- Huge impairments due to provisions to reflect the new FX reality
- Revaluation gains for banks with long dollar investments
- Partially offsetting foreign exchange losses

### Manufacturers

- Net finance loss due to increased debt service cost on dollar denominated liabilities
- Huge finance expense will erode corporate profits

# NIGERIA'S OLDEST BANK MADE SIGNIFICANT GAINS

- **FBNH reports significant gains despite huge FX loss**
- Sustainable income growth from core business operations
- Gross earnings surge 83% to N656.6bn in H1 '23 (N359bn in H1 '22)
  - Net interest income up 55% to N237bn (N152.9bn in H1 '22)
  - Non-interest income soars 113.8% to N257.9bn (N120.6bn in H1 '22)
    - 33.19 % increase in electronic banking fees
- Net income surged by 231% to N187bn (N56.5bn in H1 '22)
  - Net gains from financial instruments of N229.7bn, offsets FX loss of N98.4bn



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Strong African  
footprint

Effective business  
models

Restructured risk  
management

Extensive and  
diversified  
customer base



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Since 1894



# NIGERIA'S OLDEST BANK MADE SIGNIFICANT GAINS

- Positive moderation in prudential ratios –all within regulatory limit
- Non-performing loans decelerates to 4.3% from 5.4% in H1'22
- Capital adequacy ratio at 16.5%
- Cost-to-income ratio moderates to 46.8% (68% in H1'22)



# N21BN FX LOSS SWEEPS CADBURY TO A LOSS OF N14.5BN IN H1'23

- Revenue up 28% to N35.6bn (N27.8bn in H1'22)
- Driven by high domestic demand
- Domestic revenue recorded a sum of N18.8bn in Q2'23 (N14.6bn in Q2'22)
- Operating activities soared 113% to N6bn
- FX loss of N21bn sweeps net income by 721% to a loss of N14.5bn (N2.3bn in H1'22)





# MTN NIGERIA ADDED 1.5MN SUBSCRIBERS IN H1'23

- Revenue up 22% to N1.15trn (N947bn in H1'22)
- Double-digit growth across revenue lines
- Subscriber base up to 77 million (74 million in H1'22)
- MoMo PSB wallets spiked to 3.1 million (2.4 million in H1'22)
- EBIDTA margin remains high at 53%
- High energy prices, rising costs engendered a slight drop in EBIDTA margin
- Net income declines 29% to N128.6bn (N181.6bn in H1'22)
  - FX loss of N131.4bn inflates finance cost by 162%





# STATE GOVT-SOURCES OF REVENUE

Internally Generated Revenue (IGR)

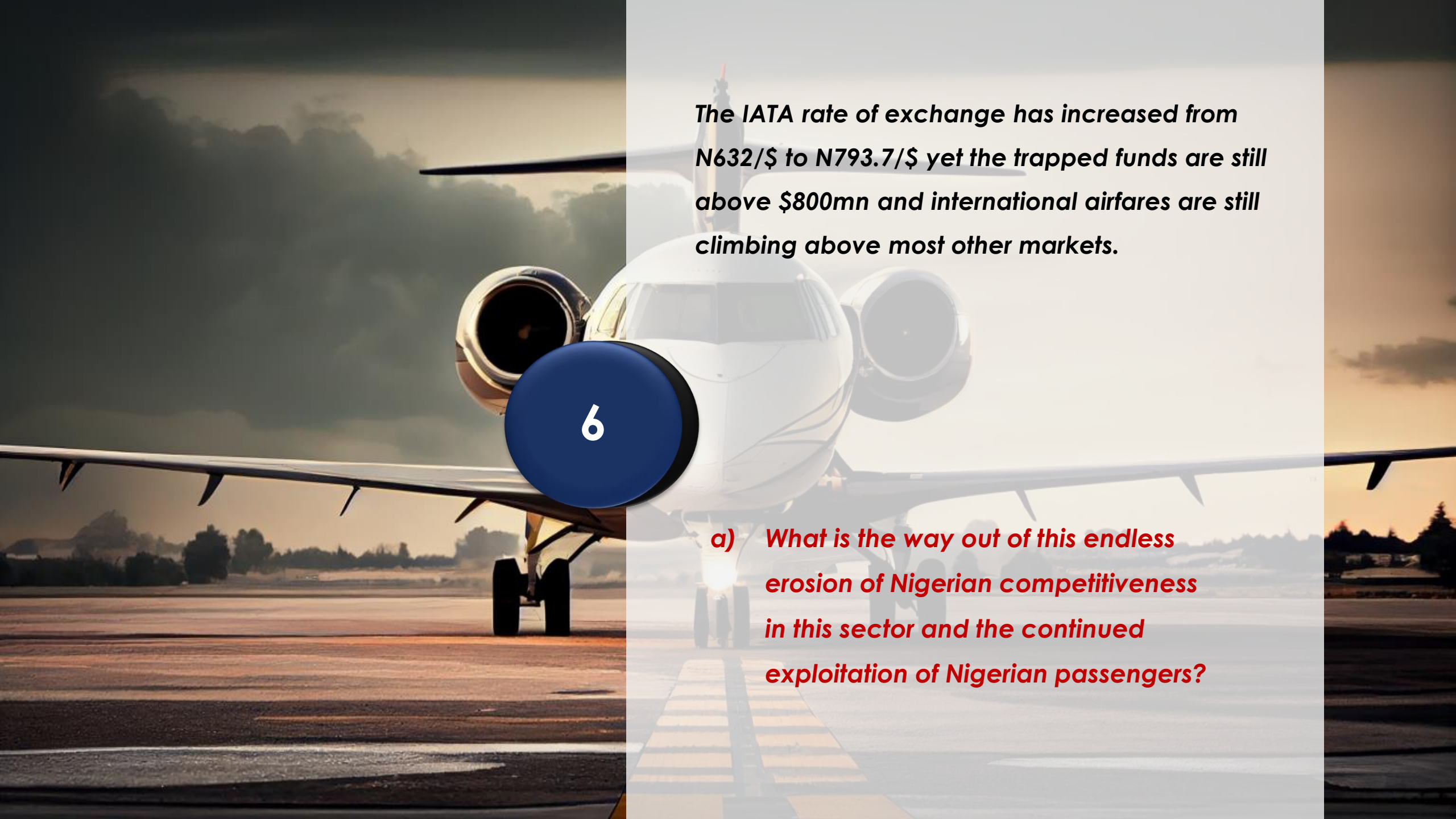
Donations & Grants

Borrowings

FAAC

# RISK OF DEFAULT ON STATE GOVERNMENT BONDS

- With subsidy removal & currency realignment in the forex market
- State revenues will surge and make debt service easier
- Increased state government initiatives to boost internally generated revenues
- Significant prospects for earning income in real estate, transportation, and trade sectors through active asset management
- **Capital and promising innovations by some state governments**
- Commissioning of Imota Rice mills to improve food systems in **Lagos State**
- Commissioning of Lagos blue rail line-**Lagos State**
- **Government bonds will remain attractive to investors because of their low-to-no risk nature**



**The IATA rate of exchange has increased from N632/\$ to N793.7/\$ yet the trapped funds are still above \$800mn and international airfares are still climbing above most other markets.**

**6**

**a) What is the way out of this endless erosion of Nigerian competitiveness in this sector and the continued exploitation of Nigerian passengers?**

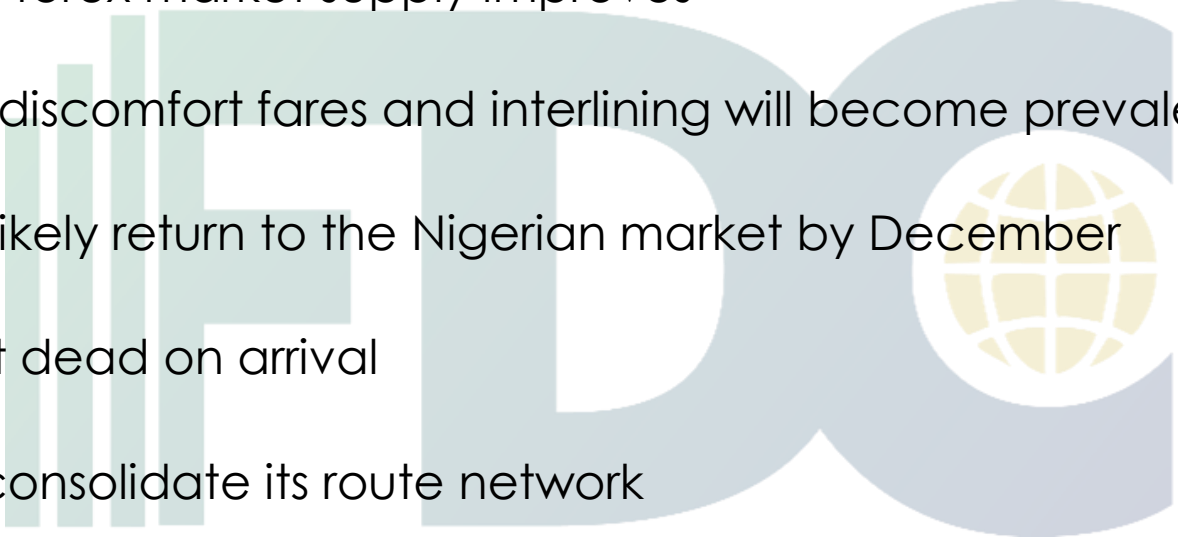


# GROWTH IN PASSENGER TRAFFIC SHRINKS

- The Nigerian aviation sector is shrinking in relative terms
- The growth in passenger traffic and its share of the global market is shrinking
- The average supply in the forex market (I&E) has not kept pace with the current demand and the backlog
- The Dangote cement and Ethiopian airline \$200m swap of trapped debt has reduced part of the arrears
- The inability or unwillingness of upstream oil majors to sell into the market has kept forex supply short



# AVIATION OUTLOOK

- International air passenger traffic in and out of Lagos will decline this December
  - Airfares will adjust as forex market supply improves
  - Airlines will open up discomfort fares and interlining will become prevalent
  - Emirates airlines will likely return to the Nigerian market by December
  - Nigerian Air is almost dead on arrival
  - Air Peace will likely consolidate its route network
  - The carrier appears overstretched
  - Its on-line performance has slipped sharply
  - Just as Ibom Air that seems to be struggling
- 



# STATE GOVERNMENTS INITIATIVES TO BOOST IGR

- Edo state has established a tourism agency as part of its efforts to diversify the state's revenue away from oil
- The commencement of the Benin Seaport Project has also commenced
- Ondo State has designed and rolled out a 30-year development plan focusing on people's needs and wants
- Lagos State has cut its public transportation fares by 50% to reduce hardship



# GLOBAL TRAVEL & TOURISM

- Travel recovery to boost the global economy – **IMF**
- Foreign airlines are ditching first class seats to accommodate more passengers
- Uganda Tourism Board visits Nigeria to forge partnerships to grow inbound traffic
- Edo State Tourism Agency (EDTA) launches its tourism digest **With Love, From Edo**



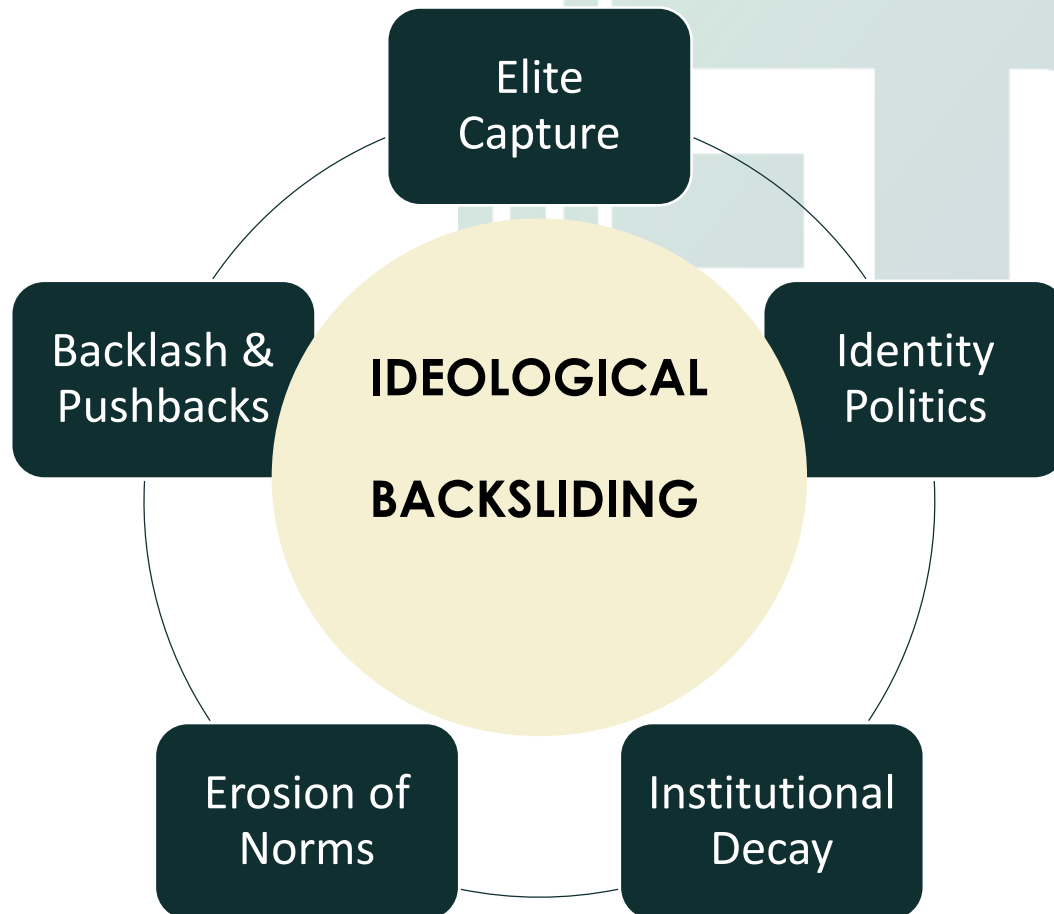
7

*The Economic Intelligence Unit (EIU) is of the view that “The government is more likely to backtrack on currency reform. In June the naira was devalued by 63% to bring it into line with the black-market rate... Will the Naira become a convertible currency before 2028-30?*

- a) What is the probability of ideological backsliding?*
- b) What are the broader implications on growth, rescheduling of debt and investment flows?*

# IDEOLOGICAL BACKSLIDING – A RECIPE FOR A FAILED ECONOMY

- Ideological backsliding and reform backtracking are cankerworms caused by:



"Reforms may face resistance, but backtracking on them is surrendering to the forces of stagnation." - **Barack Obama**

# NIGERIA – A COUNTRY WITHOUT IDEOLOGICAL LEANING

**United States** Conservatives (Republicans) Vs Liberals (democrats)

**United Kingdom** Consecutive Vs Labour

**India** Rightwing Vs Leftwing

**Brazil** Conservative Vs Progressive

**Argentina** Peronists (populist) Vs Non-peronists

**Israel** Likud (Rightwing) Vs Labour (Leftwing)

**Iran** Principlists Vs Reformists

**Nigeria** PDP = APC = LP = No ideology

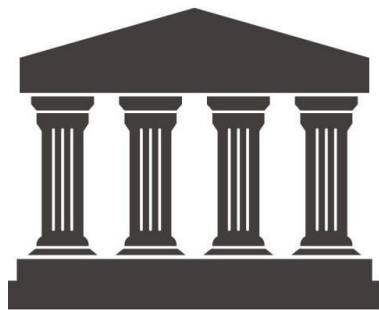
- Nigeria has no political ideological divide
- This is a recipe for getting caught in an ideological whirlpool

# IDEOLOGICAL BACKSLIDING & POLICY REVERSAL POSSIBLE BUT UNLIKELY



## Sale of Refinery

- Sold by Obasanjo in 2007
- Reversed by Yar'Adua in 2008



GOVERNMENT

## Reducing the Size of Government

- Buhari's transition committee recommended 19 ministries
- Buhari later increased it to 27 ministries



## Obajanso's Monetization Policy

- Housing, vehicle, furniture, etc to political office holders were monetized in 2003
- Subsequent administrations backtracked on it



## Okonji-Iweala's National Saving Scheme

- Deduct from FAAC and save in the Sovereign Wealth Fund & Excess Crude Account
- Governors resisted it, and it was reversed

# SUBSIDY REMOVAL HAS A LONG HISTORY OF BACKSLIDING



## 1989 (Babangida)

Removed and backtracked after several protests



## 2012 (Jonathan)

Backtracked after a massive protest



## 2023 (Tinubu)

Will he backtrack  
?

## 1999 (Obasanjo)

Removed and partially reinstated due to protests



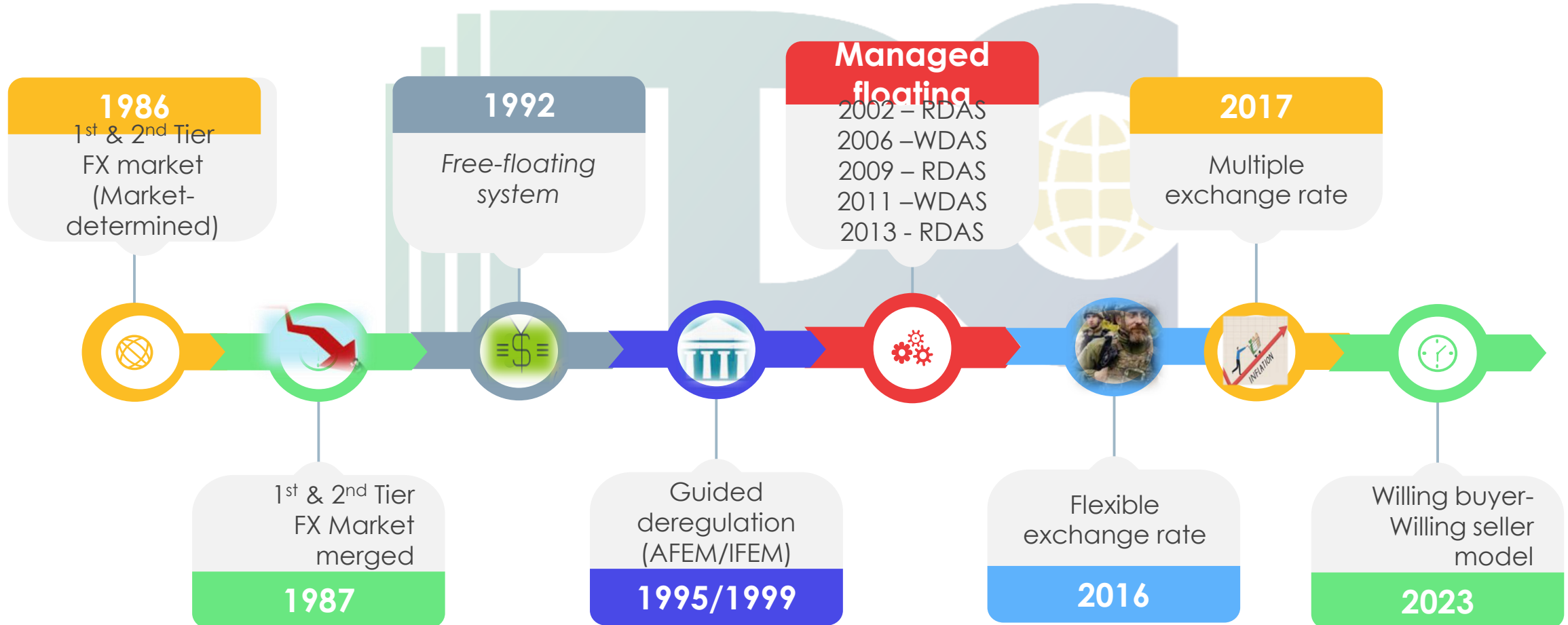
## 2016 (Buhari)

Backslided after a massive backlash



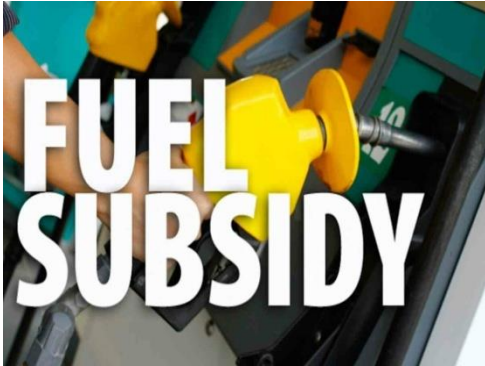
# FOREX MARKET POLICY FLIP-FLOP

- Nigeria's FX system has been in a zig-zig path





# PROBABILITY OF BACKSLIDING



Probability: 60%



Probability: 40%

- **Why is backsliding likely?**
- Pushback by **vested interest**
- No stakeholder **buy-in** before policy implementation
- No requisite measure to **mitigate** negative impact of policy on the households
- **Trust deficit**
- **Weak legitimacy** of government

# BACKSLIDING IS POSSIBLE BUT UNLIKELY

The ongoing reforms may come with **pains**,

more pains,

before the gains

The Pains

VS

The Gains

- Subsidy removal and exchange rate devaluation **impose taxes** on the people and businesses
- **If there is no injection:**
- Loss in Consumer Spending (Estimates): **N13trn**
- Negative Multiplier effect on Investment: **N10trn**

- Annual Subsidy Savings: **N6trn**
- Annual Fiscal gains from FX: **N7.5trn**
- Gross total direct fiscal gains: **N13.5trn**
- Foreign Investment Multiplier Effect: **N6trn**

# BACKTRACKING IS NOT AN OPTION – IT HAS CONSEQUENCES!



Government loses credibility



Fiscal crisis intensifies



Investor Confidence deteriorates



Market distortion escalates



Macroeconomic Instability heightens



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A wooden gavel with a light-colored handle and a dark, tiered head rests on a stack of three white books. The books are on a light-colored wooden desk. The background is softly blurred, showing a dark wooden object, possibly a pen holder or another gavel.

8

*What do you think will be the outcome of the election tribunal and how should Nigerians position themselves for any political surprises?*

# PRESIDENTIAL ELECTION TRIBUNAL IN A DIFFICULT SPOT

- It is almost impossible to predict the outcome of the judiciary in the election petitions
- Historically the Nigerian judiciary has never overturned a presidential election
- The submissions were very professional and compelling
- The supreme court will have to make a political determination and not a legal interpretation
- Deciding on re-run or run-off will have earth-shattering consequences



# PRESIDENTIAL ELECTION TRIBUNAL IN A DIFFICULT SPOT

- The level of electoral fatigue is very high
- A run-off will be an advantage to the opposition
- The level of the Misery index will be sentiment-tilting
- The chances are that the judiciary will go with incumbents for fear of civil unrest and disorder
- The government in power will need to move quickly to alleviate the economic pain and political cynicism



# IS THE CABINET A POLITICAL CAPITAL?

- Nigerians were expecting the appointment of high-level technocrats
- But Nigeria is known for political patronage
- Exchange is not robbery, they say
- The decision of whether to share the spoils or share the tasks is a hard choice
- If there is a re-run, the president will only run on his achievements not promises



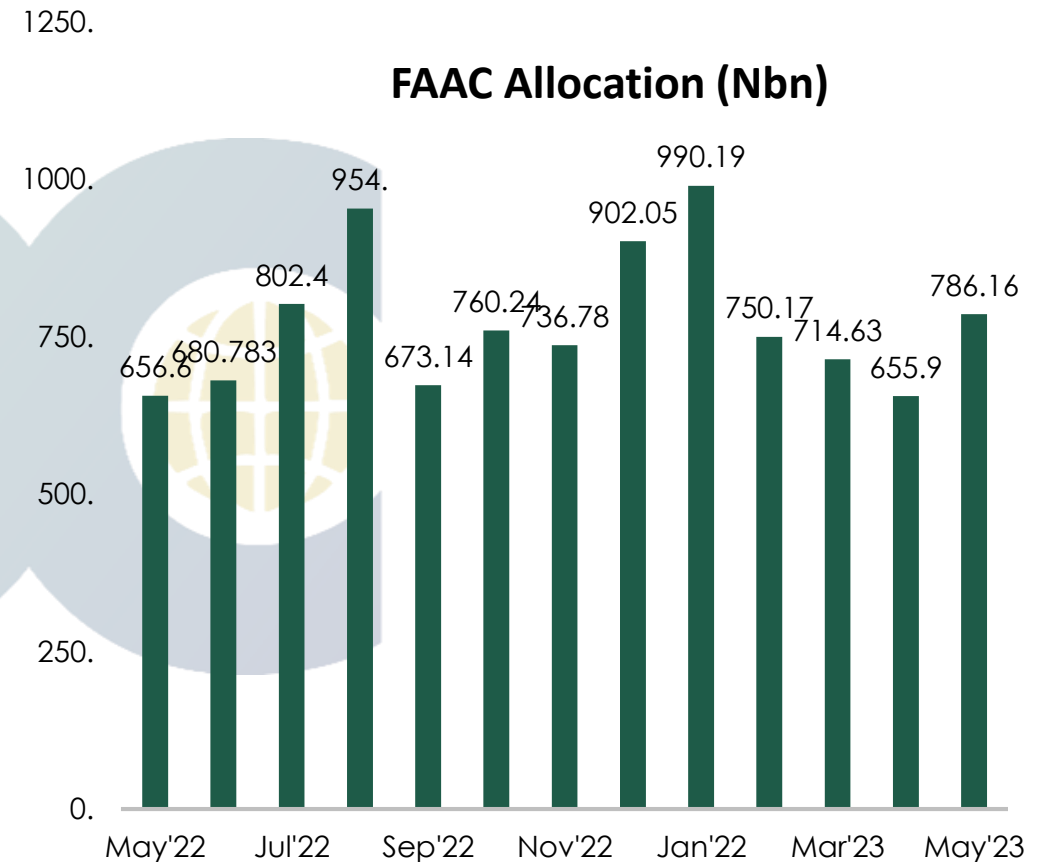


The image is a vertical collage. The top half shows a person in a dark suit standing in a bright, modern office with large windows. The middle section is a blurred image of two people in business attire shaking hands. The bottom half features a close-up of a desk with a pair of black-rimmed glasses, a black pen, and several documents with colorful bar and line charts. The text 'MARKET PROXIES' is centered in the middle section.

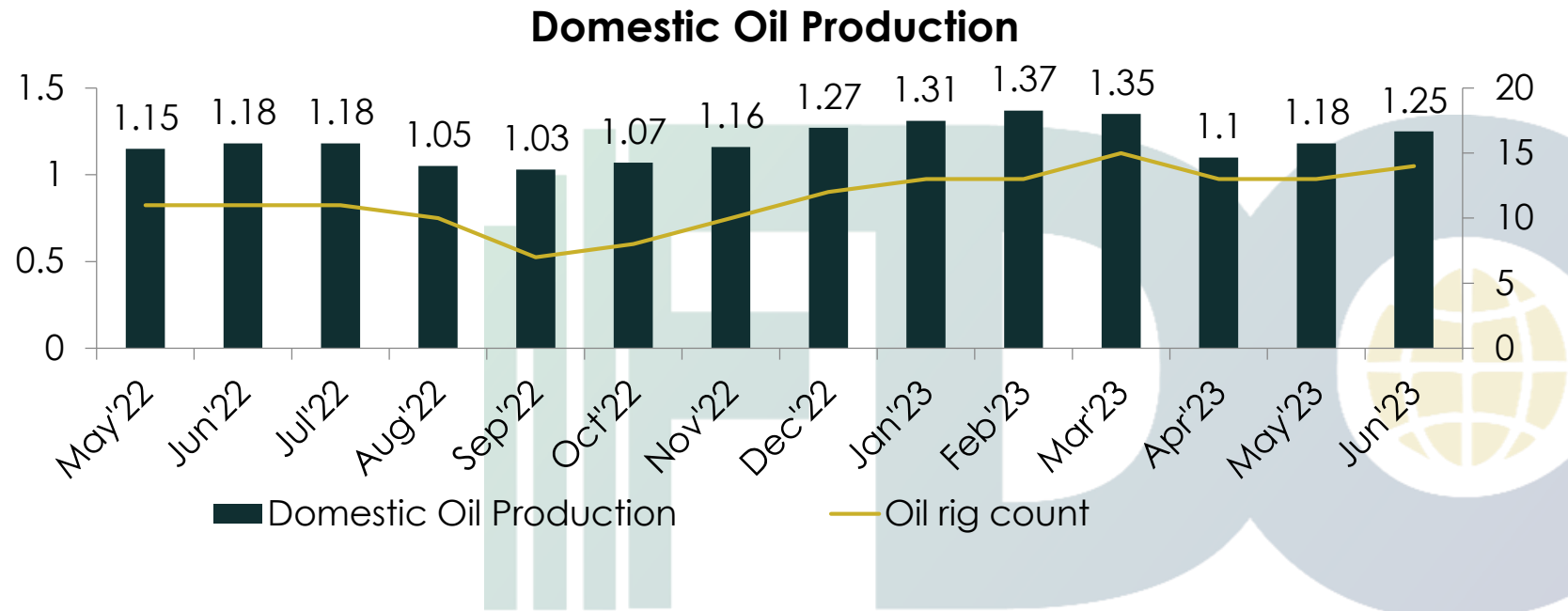
# MARKET PROXIES

# EXCHANGE RATE GAIN TO BOOST FAAC ALLOCATION

- FAAC shared N907.05bn amongst the three tiers of government in July
  - From the total of N1.959trn realized
- The amount disbursed represents a 15.38% increase compared to the amount shared in May (N786.16bn)
- The increase was largely due to the exchange rate difference of N320.89bn recorded in June
- Significant increases in CIT, import and excise duties, VAT, and oil and gas royalties supported the growth in revenue.



# DOMESTIC OIL PRODUCTION



- Domestic oil production increased further by 5% to 1.25mbpd in June
  - As the oil rig count climbed to the highest level of 14 in three months
  - Supported by Federal government efforts to curb oil theft and pipeline vandalism
- Oil production is likely to rise further but remain below the OPEC's quota of 1.74mbpd

# SHIPS AWAITING BERTH

- In July, the total number of ships awaiting berth across major ports in Nigeria fell to 9 from 12 in June
  - Due to the decongestion of the Tin Can seaport
- Apapa seaport remains the most congested port in Nigeria
  - As other seaports particularly in Onne and Calabar are underutilized
- The LCCI revealed that Nigeria loses a whopping N7.6trn annually as a result of congestion in the Apapa and Tin Can ports

Ships Awaiting Berth	Feb'23	Mar'23	Apr'23	May'23	Jun'23	Jul'23
Apapa	2	7	2	4	7	6
Tin Can	3	0	1	3	2	1
Rivers	0	3	2	2	2	1
Calabar	0	3	0	0	0	0
Warri	3	6	3	2	1	1
Onne	0	0	0	0	0	0
<b>Total</b>	<b>8</b>	<b>19</b>	<b>8</b>	<b>11</b>	<b>12</b>	<b>9</b>



**OUTLOOK  
FOR THE MONTH OF  
AUGUST**



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# OUTLOOK FOR AUGUST

- Ministers will be cleared
- Portfolios will be assigned
- There will be many square pegs in round holes
- CBN investigation to be considered by the markets as fishing expectation
- The question of the true level of the Nigeria's external reserves will be considered
- Announced ministers likely to submit supplementary budget based on revenue windfall



# OUTLOOK FOR AUGUST

- The naira is expected to cross the N900/\$ threshold before recovering
- Inflation to increase further in the coming month as the impact of policy reforms fully manifest
- Effective interest rates will increase in tandem with the policy rate



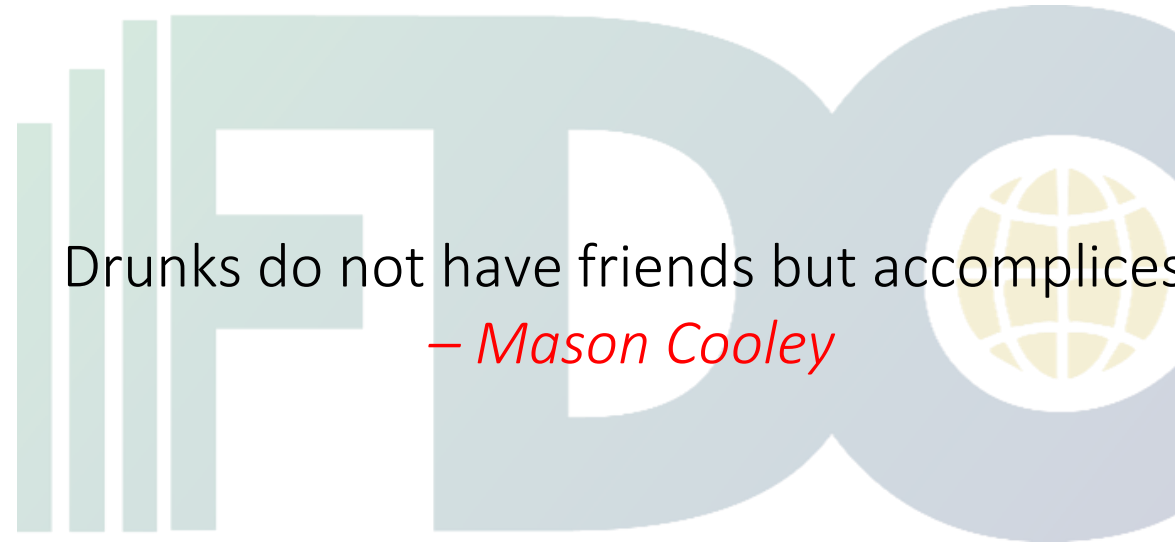




## CORPORATE HUMOUR

I require three things in a man. He must be handsome, ruthless and stupid.

– *Dorothy Parker*



Drunks do not have friends but accomplices.

– *Mason Cooley*

Never accept a drink from a urologist

– *Erma Bombeck*



## CORPORATE HUMOUR

Laziness is nothing more than the habit of resting before you get tired.

- *Jules Renard*



Never serve oyster in a month that has no pay check in it

- *P.J O'Rourke*

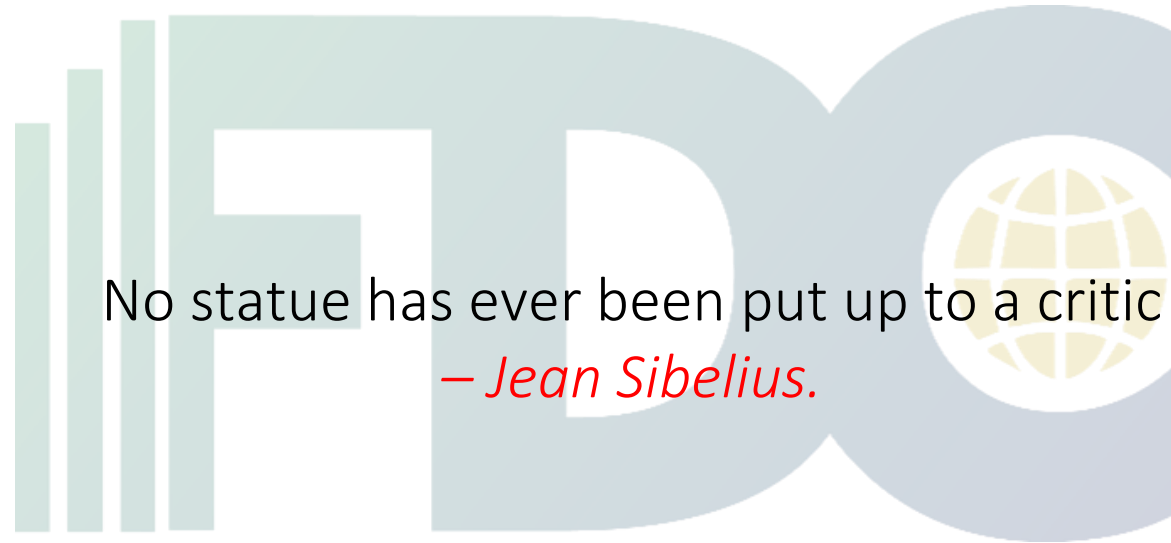
Youth is such a wonderful thing, what a  
crime to waste it in on children

- *George Bernard Shaw*

# CORPORATE HUMOUR

Anything that is too stupid to be spoken is sung.

- *Voltaire*



No statue has ever been put up to a critic

- *Jean Sibelius.*

Better to keep my mouth shut and appear stupid than  
to open it and remove all doubt

- *Mark Twain*



# CORPORATE HUMOUR

Nothing spoils a good party like a genius

- *Elsa Maxwell*

Running is an unnatural act, except from enemies and to the bathroom

- *Anonymous*

The length of film should be directly related to  
the endurance of the human bladder

- *Alfred Hitchcock*



# CORPORATE HUMOUR

The weather is like the government, always in the wrong.

*- Jerome K. Jerome*



It is totally impossible to be well dressed in cheap shoes

*- Hardy Amies*

Politics consists of choosing between  
the disastrous and the unpalatable

*- John Kenneth Galbraith*



## CORPORATE HUMOUR

Women have a passion for mathematics. They divide their age in half, double the price of their clothes, and always add at least five years to the age of their best friend.

*- Marcel Achard*



If you are in the peanut business, you learn to think small

*- Eugene McCarthy*

A man in love is incomplete until he is married. Then he is finished

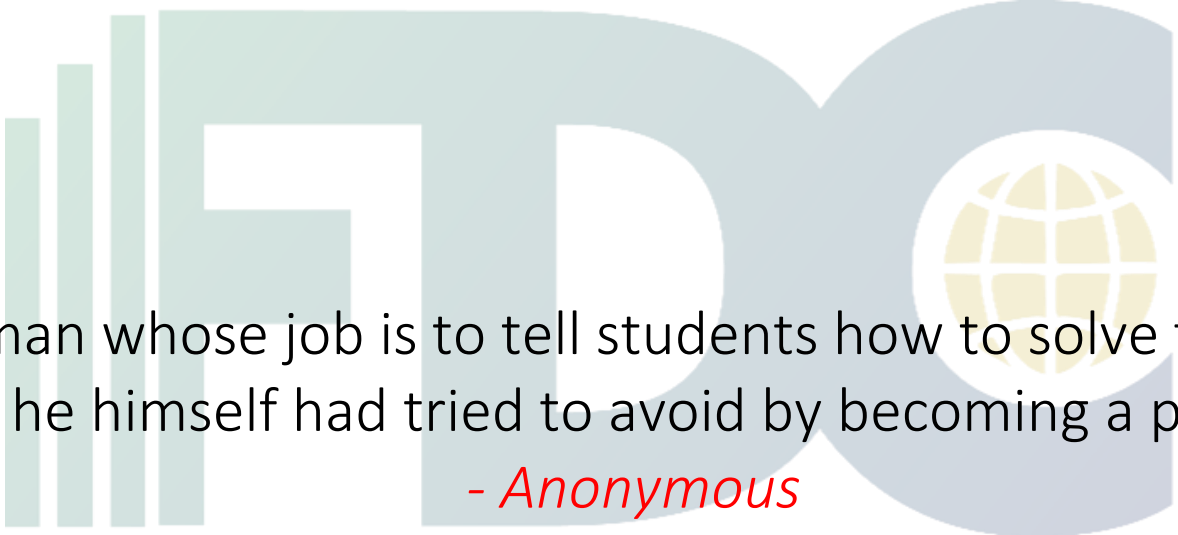
*- ZsaZsaGabor*



## CORPORATE HUMOUR

Behind almost every woman you ever hear of stands a man who let her down

- *Anonymous*



A professor is a man whose job is to tell students how to solve the problems of like which he himself had tried to avoid by becoming a professor.

- *Anonymous*

Generosity is giving more than you can, and  
pride is taking less than you need.

- *Kahlil Gibran*



## CORPORATE HUMOUR

An economist is an expert who will know tomorrow why his forecast of yesterday failed to happen.

*- Lawrence J. Peter*

The safest way to double your money is to fold it over and put it in your pocket

*- Frank Hubbard*

When a girl marries she exchanges the attention of many men for the inattention of one.

*- Helen Rowland*





## CORPORATE HUMOUR

Regret to inform you Hand that rocked the cradle kicked the bucket

*- Anonymous*

My father taught me two things about bills; always query them and never pay till you  
have no alternative

*- Miles Kington*

Raising kids is part joy and part guerrilla warfare

*- Ed Asner*



**THANK  
YOU**

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01-6320213