

# LBS BREAKFAST SESSION

THE EMBATTLED NAIRA  
**SLUMPS** TOWARDS  
N1,500/\$

AS THE POLITICAL  
HONEYMOON BECOMES  
AN **ECONOMIC**  
**NIGHTMARE**

WHAT **NEXT?**

Presented by Bismarck Rewane  
February 7th, 2024





“Never cut a tree down in the wintertime. Never make a negative decision in the low time. Never make your most important decision when you are in your worst moods. Wait! Be patient, the storm will pass. The spring will come!”

***Robert Schuller***

“A positive attitude can turn a storm into a sprinkle”

***Robert Hensel***

“Stop trying to calm the storm, calm yourself, the storm will pass”

***Anonymous***



# OUTLINE

## THE GLOBAL ECONOMY

Highlights & Impact

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## THE PATH TO MACROECONOMIC STABILITY

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## POLICY RECOMMENDATIONS & SEQUENCE

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## OUTLOOK

February/March 2024

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# IS THE NAIRA JINXED?

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- Forex market looking like an albatross
- In 2023, the Naira exchange rate was on everyone's minds
- In 2024, it is on everybody's lips and minds
- It is hurting the rich, the poor, and the downtrodden
- To better understand the forex rate dilemma of policymakers, we must see what is happening globally
- The Nigerian economy is more integrated with the global economy
- The forex rate is the price of one currency in terms of another







# GLOBAL ECONOMIC UPDATE

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*Major Developments & Impact*

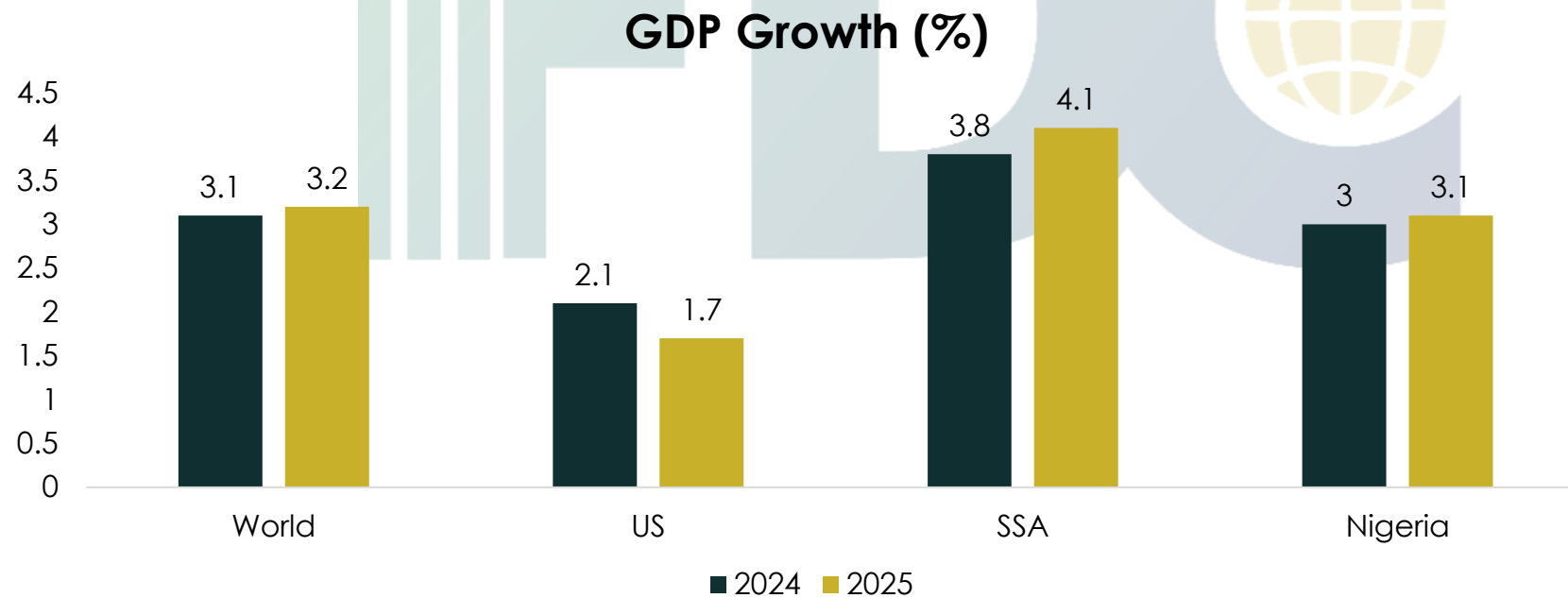


# FED KEEPS ITS CARDS CLOSE TO ITS CHEST

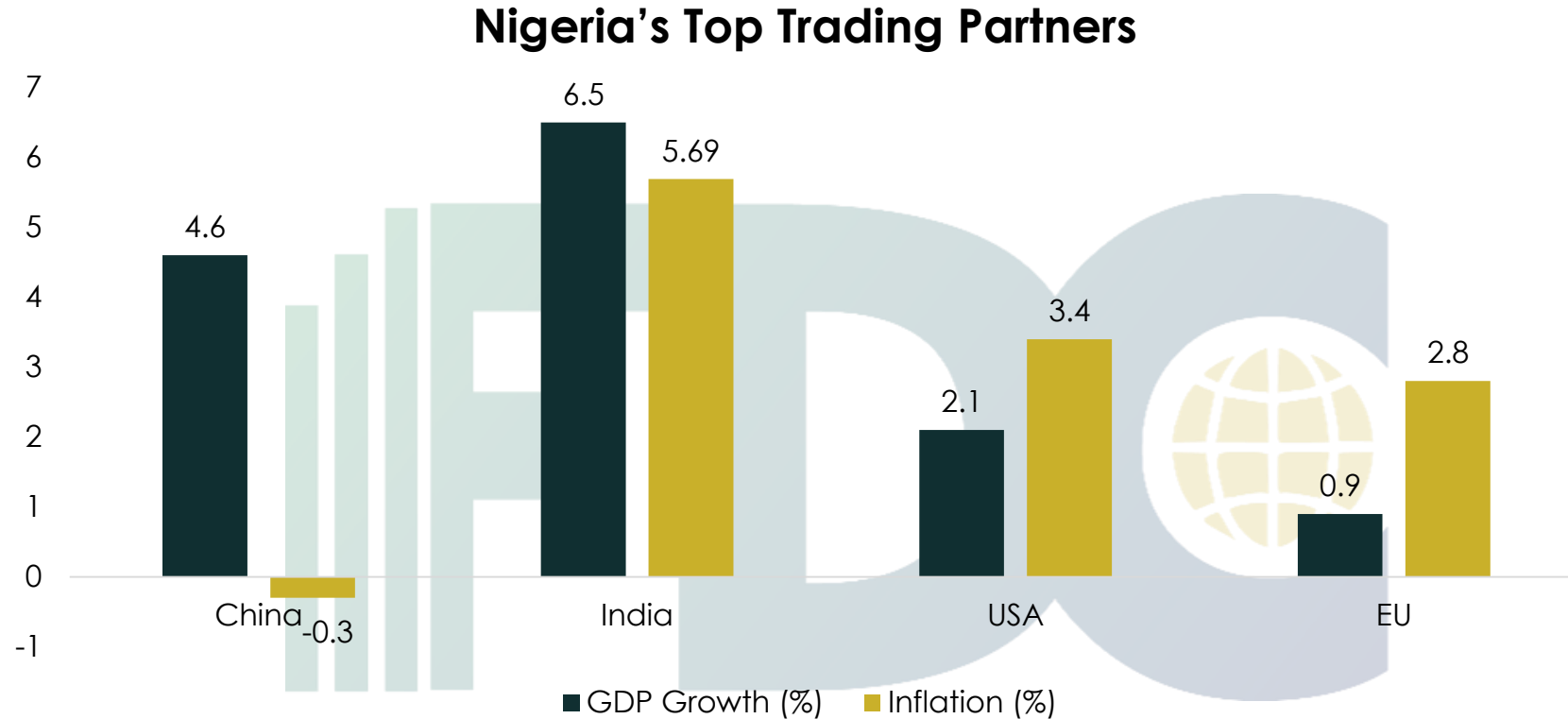
- The Fed and the Bank of England kept their main interest rates steady at 5.25%pa
- Jerome Powell was coy as to when the rate cuts will begin but unlikely at the March meeting
  - 3 cuts instead of 6 expected in 2024
- The US strong jobs report also reduces the probability of a rate cut in a hurry
- As the November elections approach, the Fed will likely stay away from precipitous actions
- US mortgage rates are falling and bond yields are lower than 4%.pa
- The ECB also kept rates at 4%.pa. and is contemplating a rate cut to fight an economy that is technically in recession
- The Chinese economy is facing a cyclical downturn as Evergrande, the big property developer, is facing liquidation

# GLOBAL GDP TO EXPAND BY 3.1% IN 2024

- The IMF in its outlook expects the world economy to grow by 3.1% in 2024, up from 2.9%
- The U.S economy is showing greater resilience
- The IMF's biggest upward revision was Russian GDP, which will grow by 2.6%



# NIGERIA'S TOP TRADING PARTNERS



- Most of Nigeria's trading partners are already or about to begin cutting rates
- This will be followed by the weakening of their currencies, especially China, US, and EU





# NIGERIA TO TRADE MORE WITH COUNTRIES WITH THE CHEAPEST CURRENCIES

- Nigerian international trade will gravitate toward countries with the cheapest currencies

## Leading Import Sources (Q3'23)

Country of Origin	% Share of Total Import
China	23.33
Belgium	11.78
India	9.48
Malta	6.64
United States	5.95



# OTHER GLOBAL HIGHLIGHTS

- The US S&P 500 index reached a new record high (4927.93)
  - The previous record was before the start of the Ukraine/Russia war in 2022 (4796.56)
- Netflix's new subscribers surged by 13.1mn in the last 3 months
- It now has 260mn users in total, pushing it ahead of its rivals
- Vivendis Canal+ offers to buy the biggest pay-TV group in Africa – Multichoice - \$2.5bn
- Aimed at building a rival to Netflix in the world's fastest-growing streaming market
- Canal+ already owns 32% of Multichoice and has made a non-binding cash offer to buy the remaining
- It owns the Showmax platform and wants to invest to scale up the service

A woman with dark hair, wearing a bright yellow textured jacket over a black top, is speaking at a podium. She has her right hand raised with fingers spread. The background is dark blue.

# GLOBAL HIGHLIGHTS & IMPACT ON NIGERIA

Rana Foroohar the FT. economist says

*As the Fed ponders Basel III rules, we should aim for a regulatory structure that is simple and boring*

# HAVE WE LEARNT ANYTHING FROM THE GREAT FINANCIAL CRISIS OF 2008?

The core lesson is that



+

Too little high-quality capital

=



Ends up in tears

Too much debt and leverage



# REGIONAL UPDATES

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*Recent Developments And  
Implications*





# PUT ALL YOU HOLD DEAR UNDER **OUR COVER**



 **Consolidated Hallmark  
Insurance**  
*Anxiety Away, Value Assured*

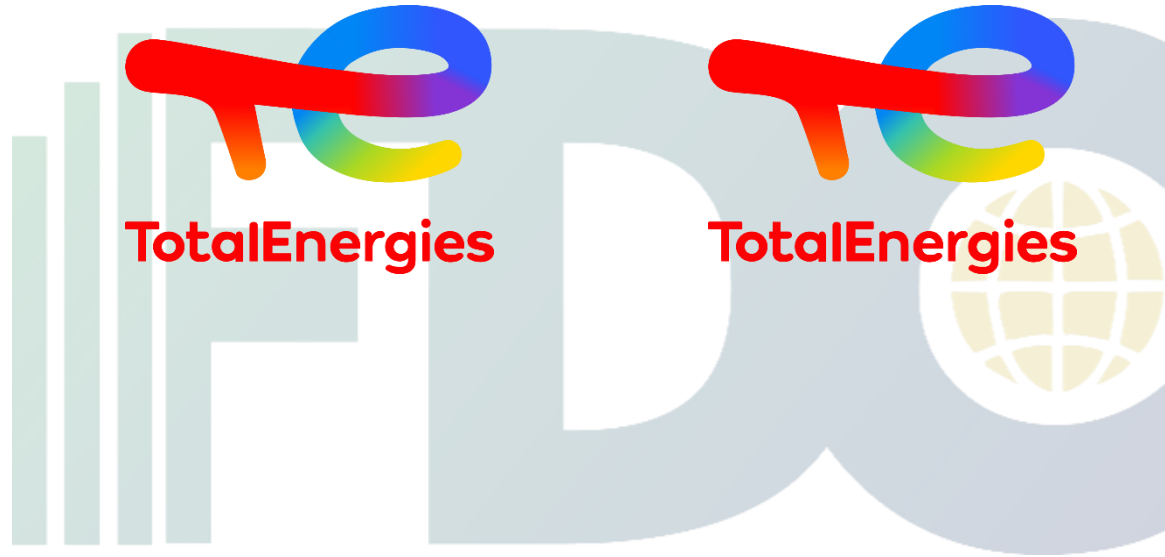
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# THE FRENCH CONNECTION



*Nigerian Upstream*



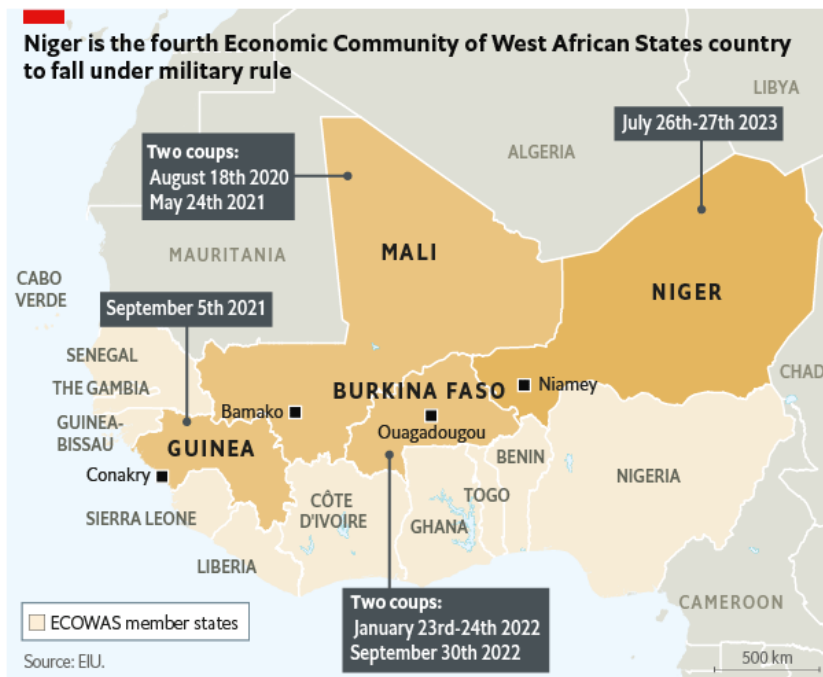
*Nigerian Downstream*



**Cement Industry**

# FRENCH PLAYING THEIR LONG GAME

- As Africa grows, there is a problem with the French-speaking countries
- French playing their long game – life after AfCFTA



- Niger, Mali, and Burkina Faso have announced plans to exit the sub-regional bloc, ECOWAS

- Governed by military leaders since the coups

- Niger – July 26-28, 2023
- Mali – May 24, 2021
- Burkina Faso – September 30, 2022

- Technically speaking, the French do not have currency issues
- Subsidizing/exploiting former colonies
- Have an interest in Nigeria
- The Nigerian leaders shifted their base from London to Paris

# NIGER, MALI & BURKINA FASO EXIT ECOWAS

- The exit of the three countries will have a significant impact on trade and economic development
  - The three countries collectively account for 8% of ECOWAS GDP (\$761bn)
- The exit is likely to affect the flow of goods and services in the bloc
  - Total trade volume from the ECOWAS was \$277.22bn in 2022
  - Niger is a major source of onions while Burkina Faso exports tomatoes to the region
  - Niger shares border with seven states in Nigeria: 8.06% of its trade is done with Nigeria
- The Futa Jalon Mountain is the origin of the River Niger – ***Nigeria's hydropower could be threatened***
- Tariff-free access to goods and services among member states could be affected, leading to increased trade barriers
- Could stir customs and border control issues
- Delayed and increased costs of cross-border trade



## ANTHONY BLINKEN VISITS WEST AFRICA & ANGOLA

- The US Secretary of State, Anthony Blinken, embarked on a four-nation tour in Africa between January 21-26, 2024
- The nations were Nigeria, Cape Verde, Ivory Coast and Angola
- These countries are where China and Russia have made significant inroads
- Key priorities during the visits include:
  - Bolstering security partnerships
  - Enhancing health and economic development in the region
- Ivory Coast borders three countries (Guinea, Mali, and Burkina Faso) that have experienced coups in recent years
- The US plans to provide \$45 million in new funding to support Ivory Coast and its neighbors
  - In preventing conflict and promoting stability amid regional threats
- Regional security talks continued in Nigeria and Angola





# DOMESTIC ECONOMIC PERFORMANCE

*January/February 2024*

# THE NIGERIAN ECONOMY TODAY – SNAPSHOT ANALYSIS

	Dec'23	Feb'24	% Change	June'24(f)
GDP Growth (%)	3.0 (Q4'23)	3.2 (Q1'24)	0.2	3.5 (Q2'24)
Inflation rate (end period; %)	28.20 (Nov'23)	28.92 (Dec'23)	0.72	29
Oil Production (mbpd)	1.32 (Nov'23)	1.42 (Dec'23)	7.58	1.52
External Reserves (\$'bn)	32.91	33.35	1.34	32.5
Forex market Turnover (average \$'mn)	111.68	393.84	252.65	500-800
Exchange rate (N/\$)	1210	1468	17.57	1,400
Stock Market Capitalization (N'trn)	40.92	55.87	36.53	45



# KEY TAKEAWAYS

- **The Nigerian economy is in transition**

- GDP is expected to grow (3.3%) above its population growth rate of 2.45%
- Optimization of capital resources boosting factor productivity
  - *Total factor productivity is expected to increase by 2.4% in 2024 from an estimated 2.1% in 2023*
- Reduced gap between the parallel exchange rate and NAFEM rate
  - *From N529 to N49*

- **But not out of the woods yet**

- GDP growth (3.3%) remains below potential growth (4.9%)
- Inflationary pressures persist: 27-year high of 28.92%
- Negative real rate of return: 17.38%
- Exchange rate instability: Lost 17% (YTD)
- Forex market restrictions and capital controls

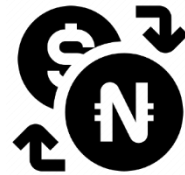
# KEY INDICATORS OF UTTERMOST INTEREST

- The following indicators are of more importance to consumers, corporates, investors and markets





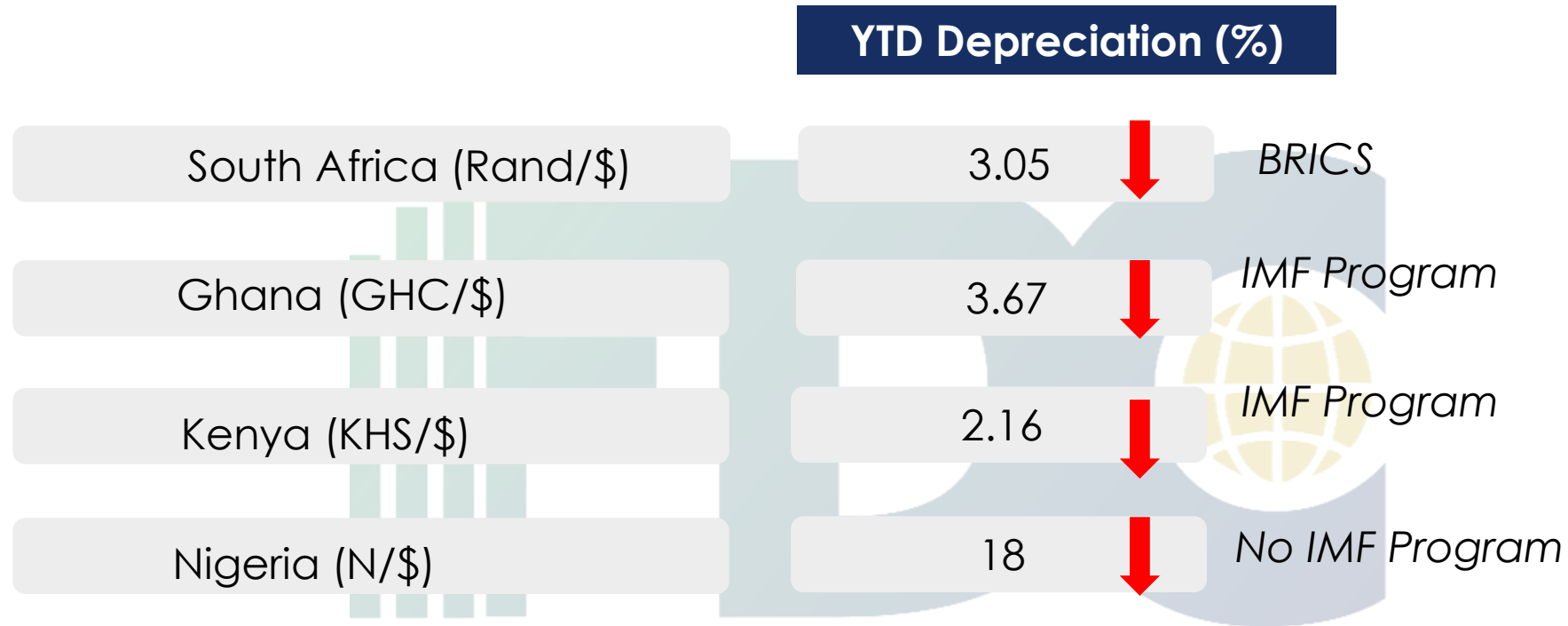
# NAIRA – GOING! GOING!! ??????!!



YTD LOSS		
2022	2023	2024
23.38%	39%	17%



# NIGERIA NOT ALONE - MOST AFRICAN CURRENCIES UNDER PRESSURE



- Nigeria is not alone
- But the magnitude of naira depreciation is high compared to its peers

# WEAKER NAIRA – A SOURCE OF MACROECONOMIC INSTABILITY

- Weaker Naira is a source of macroeconomic instability and social discontent

Protests in Niger State



Protests in Kano



Social unrest in Plateau



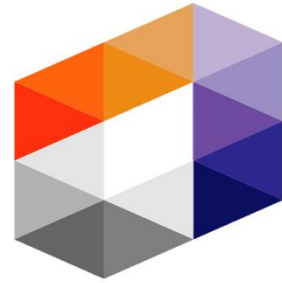
State	Inflation (%)	Ranking
Niger	28.26	18
Kano	28.80	22
Plateau	27.34	9
<b>Headline</b>	<b>28.92</b>	

- Increased riots and protests in Niger, Kaduna, Kano and Plateau due to high cost of living

# WEAKER NAIRA – A MAJOR INFLATION STOKING FACTOR

- The depreciation of the naira is filtering into food and non-food prices
- The solution to the exchange rate will be a panacea to macroeconomic instability

	May 2023	Now	% Change
Rice (50kg)	N35,000	N70,000	100%
Flour (50kg)	N28,500	N50,000	75.4%
Beans (Honey; 50kg)	N30,000	N62,000	106.7%
Onions (1 Bag)	N28,000	N60,000	114.3%
Palm Oil (25ltr)	N29,000	N25,000	-13.8%
Cement (1 Bag)	N4,200	N6,500	54.8%



# Alpha Morgan Capital

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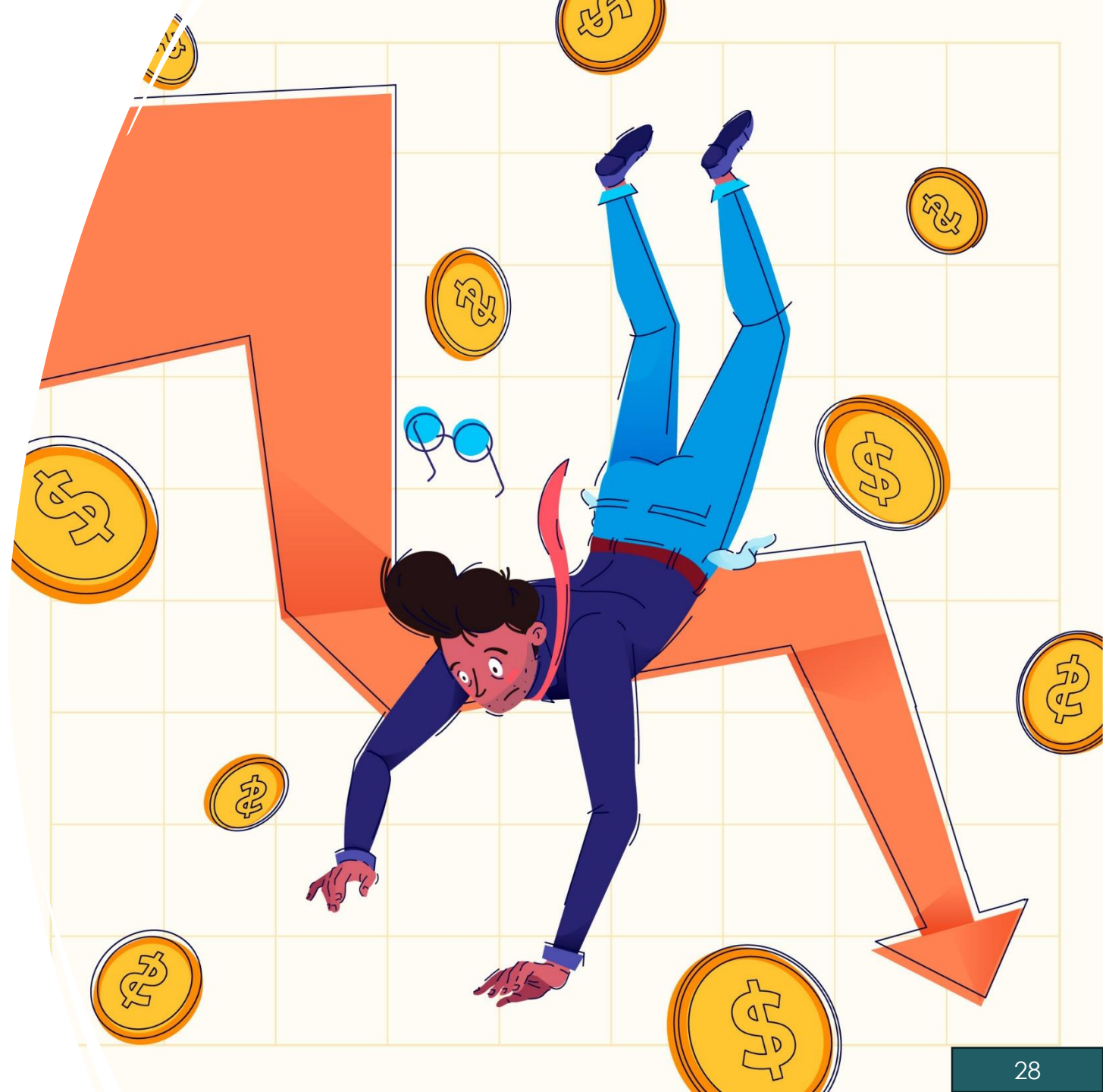


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# WHY IS THE NAIRA FALLING?

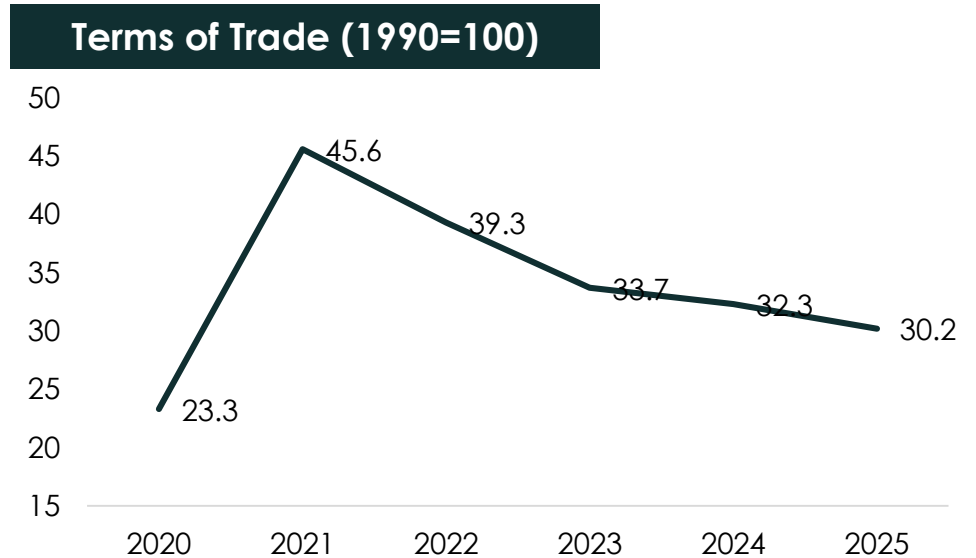
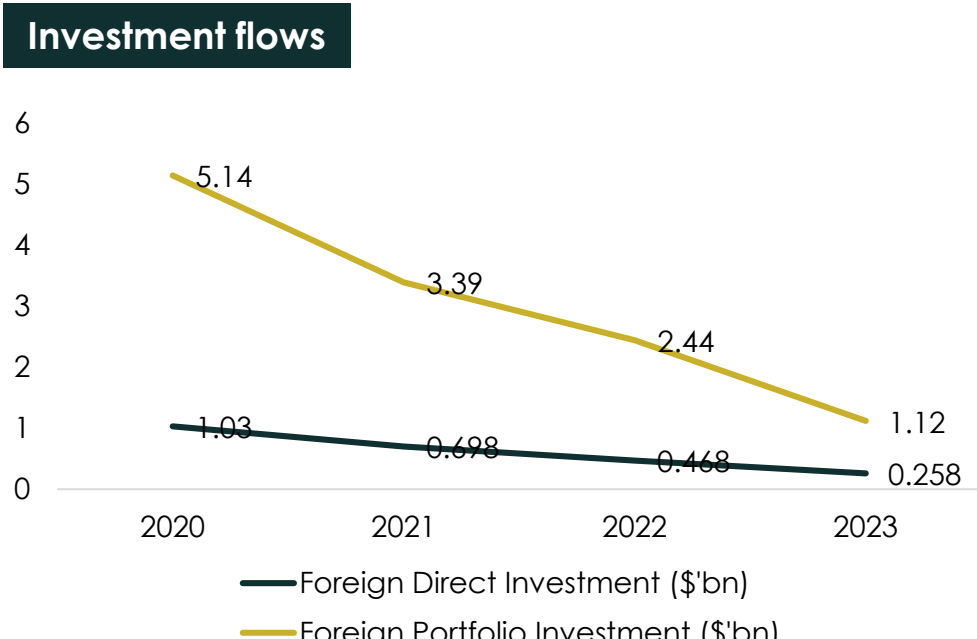
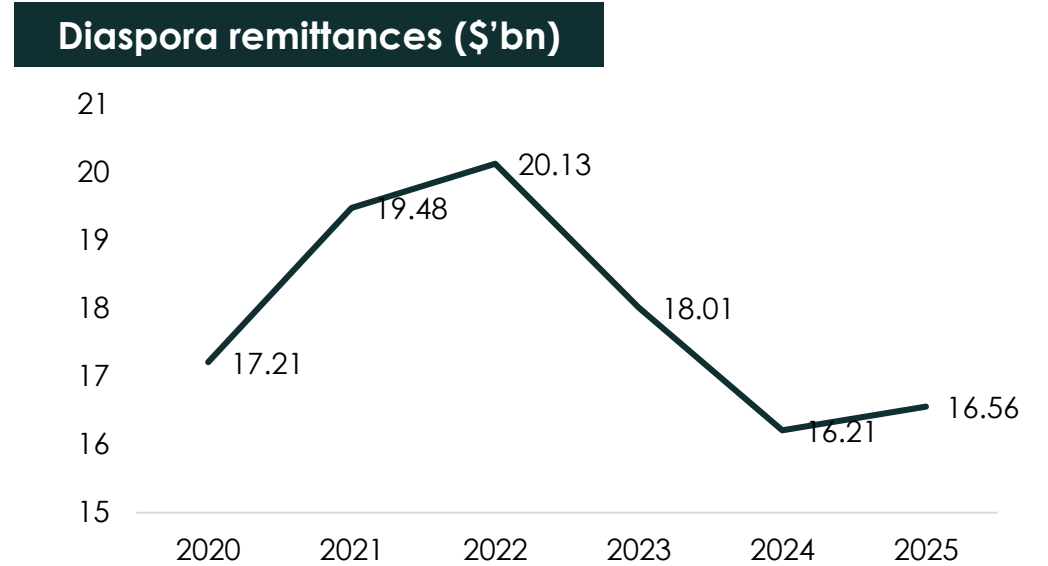
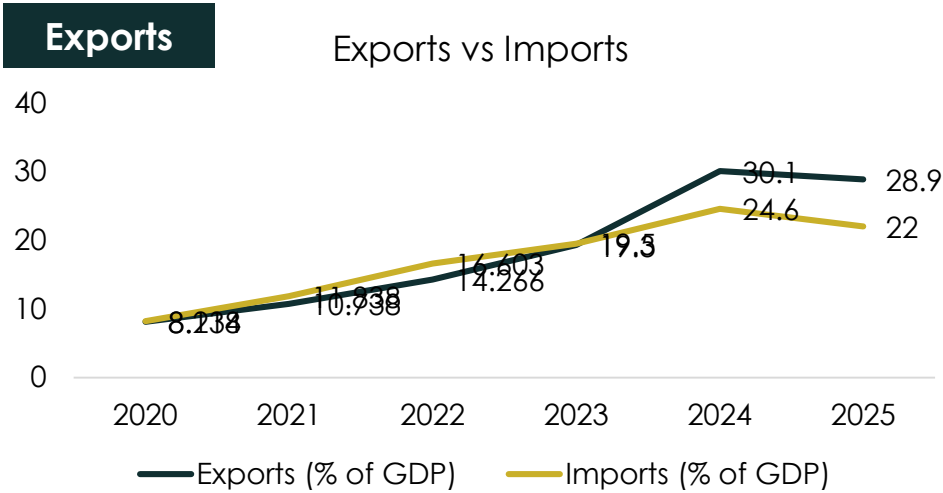
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- Low forex liquidity
- Loss of confidence as a store of value
- Increased naira speculation and fear
- Restrictions and exchange rate control
- Negative real interest rates





# SOURCES OF DOLLAR SUPPLY



# FOREX DEMAND IS A FUNCTION OF.....



## Naira Liquidity

Money supply rose by **51%** to **N78trn** in December 2023



## Domestic Inflation

Headline inflation at a 27-year high of **28.92%**



## Domestic Interest Rates

Nominal (1-year t/bill): **11.54%p.a**  
Real Interest rate: **-17.38% p.a**



## Import Dependence

Marginal propensity to import:  
**0.28**



## Restrictions

Capital controls & restrictions

# TRUE VALUE OF THE NAIRA

Parallel  
Market Rate



**N1468/\$**

NAFEM



**N1433.89/\$**

PPP



**N878.91/\$**

HAMBURGER

N7,700  
\$5.38



**N1431.23/\$**

# TRUE VALUE OF THE NAIRA - OTHER CRUDE METHODS

## Nigeria as a Liquidated Entity

Total Money Supply  
External Reserves

N78trn  
\$33bn

= N2,363/\$



## Nigeria as a Going Concern

Total Money Supply  
Total Exports

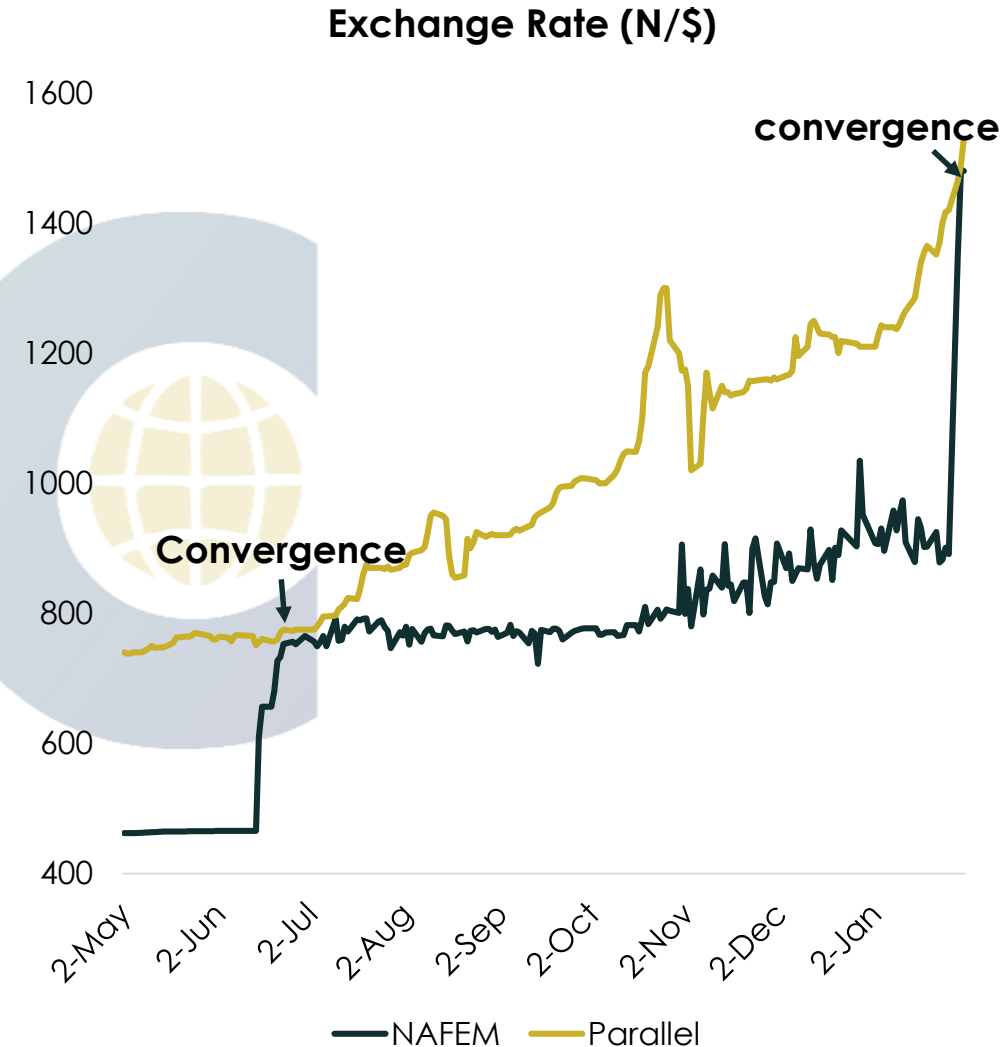
N78trn  
\$64bn

= N1,218/\$



# OFFICIAL DEVALUATION LEADING TO EXCHANGE RATE UNIFICATION

- Official devaluation in the past was followed by greater divergence between parallel and official rates because of disequilibrium
- Led to
  - Further segmentation of the market
  - Increased regulatory arbitrage opportunities
- This time, it is different
- Official devaluation of 31% led to a narrowing of the parallel-NAFEM gap from N529 to N49
- Exchange rate unification is not the same as convergence
  - Unification - creating a single, unified exchange rate system
  - Convergence – a process of different exchange rates moving closer to each other





# BUT RESTRICTIONS REMAIN

- The more the restrictions, the more imperfect the FX market

- Restrictions on banks net open position
- Banks prohibited from operating International monetary transfer services (IMTO)
- Increased application fees for IMTOs
- Fintech not allowed to obtain approval for IMTO
- Limitations of IMTO to inbound international money transactions



# INFLATION VS CURRENCY DEPRECIATION

- Does high inflation cause currency depreciation?
- or does currency depreciation lead to high inflation?
- or do both phenomena occur concurrently?

## Currency depreciation as a cause of inflation

- Increased cost of imports
- Higher import duty – *exchange rate for custom duty raised by 68.9% to N1,356.88/\$ from N422/\$*

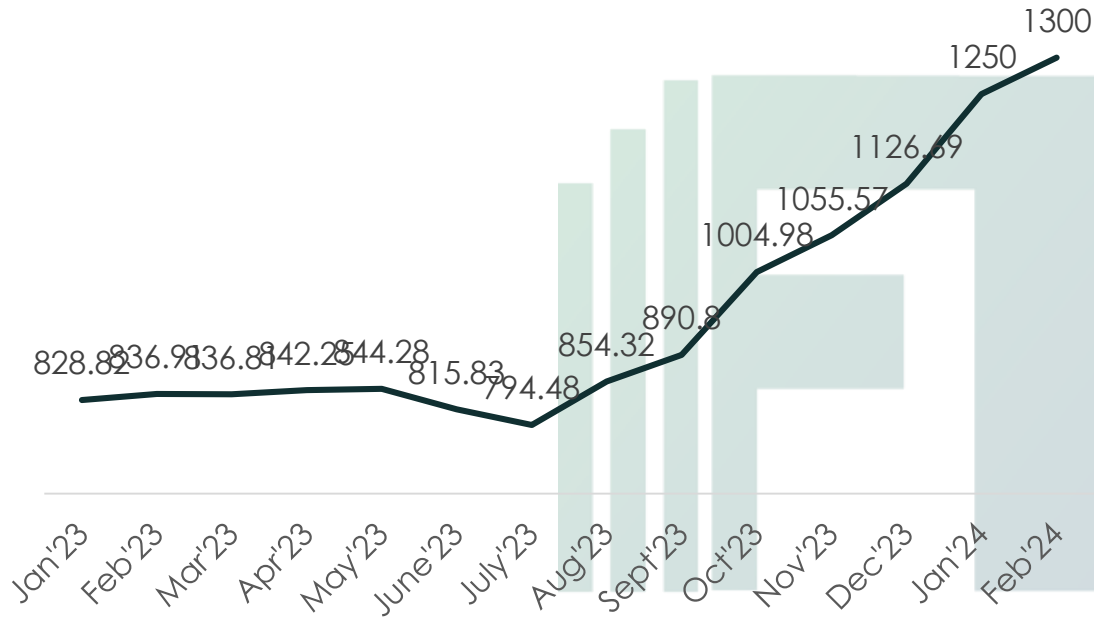
## Spiraling inflation as a cause of Currency depreciation

- Reduced naira value to support flight to safe haven

- In Nigeria's situation, both are happening simultaneously

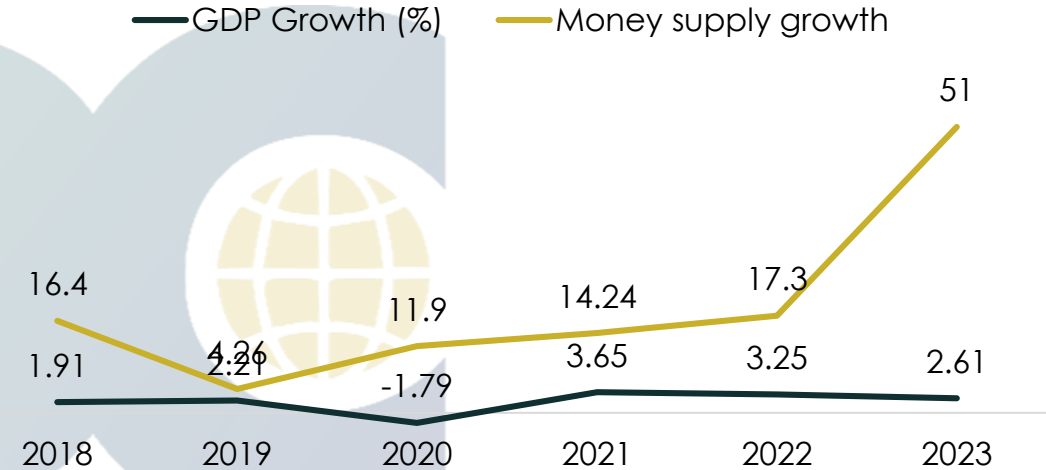
# OTHER INFLATION STOKING FACTORS

## Diesel (N/ltr)



## Money Supply (M3)

### GDP Vs Money Supply Growth (%)



- Diesel price up 55% to N1300/ltr (y-o-y)
- Increased transportation & operational cost

- Inflation is too much money chasing fewer goods
- GDP Growth (**2.61%**) – Money supply growth (**51%**) = Demand-pull inflation (**48.39%**)

# WHAT NEXT?



## Open Auction System

- With CBN as a major participant
- Auction results published
- CBN will increase supply whenever the Naira is under pressure



## Discussions with the IMF

- IMF Policy Support program
- Debt refinancing of existing Eurobond on commercial terms
- New money
- Additional borrowing
- (Total External debt - \$97.05bn)



## MPC meets this month – Feb 26/27

- Expected to increase MPR by 200bps
- Effective lending rates to increase by 500bps



# THE PATH TO MACROECONOMIC STABILITY

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Understanding Lags In Policy Implementation  
In Nigeria & The Concept Of Equilibrium



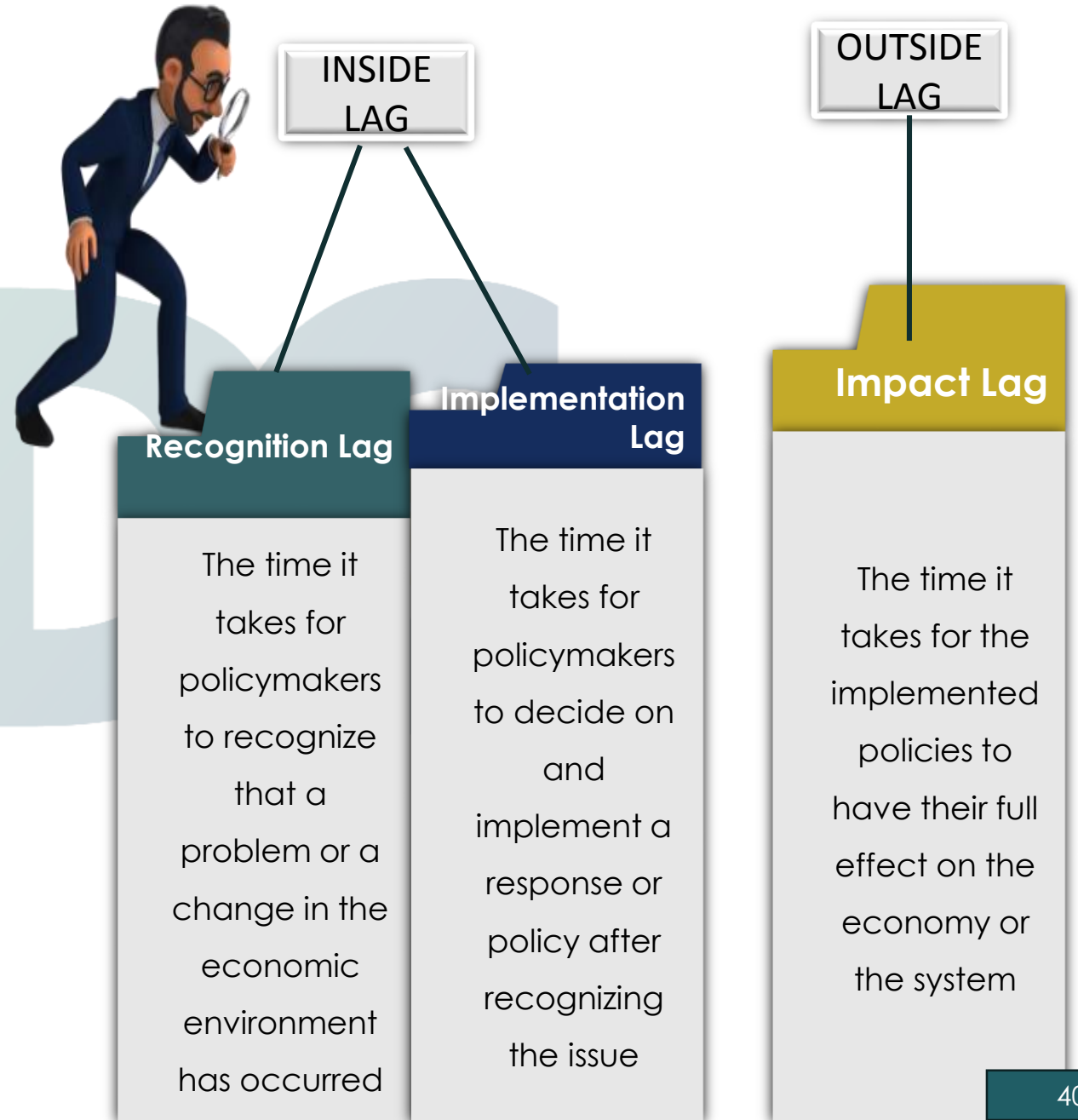
# FUNDAMENTAL ECONOMIC PRINCIPLES

- Fundamental economic principles assume that open economies are efficient, and nation-states are more interdependent
- Markets are basically efficient in the allocation of resources
- Robinson Crusoe economies are fundamentally uncompetitive
- Theories of comparative advantage are valid
- Examples are South Korea (open economy) and North Korea (closed economy)

	South Korea	North Korea
GDP Size	\$1.7trn	\$48.3bn
Global rating	13 <sup>th</sup>	135 <sup>th</sup>
Income per capita	\$33,147	\$800
Share of global trade	Over 2%	Closed economy
Key exports	Electrical machineries, cars and automobile parts	Refined petroleum

# WHAT ARE POLICY LAGS?

- The time it takes for policymakers to recognize and respond to economic problems
- The delays that occur between the time a macroeconomic problem arises and the time a policy response takes effect
- Inside lag – recognition and implementation lag
- Outside lag (impact lag)



# Dangote Sugar has a **NEW LOOK**



## Same Great Quality!



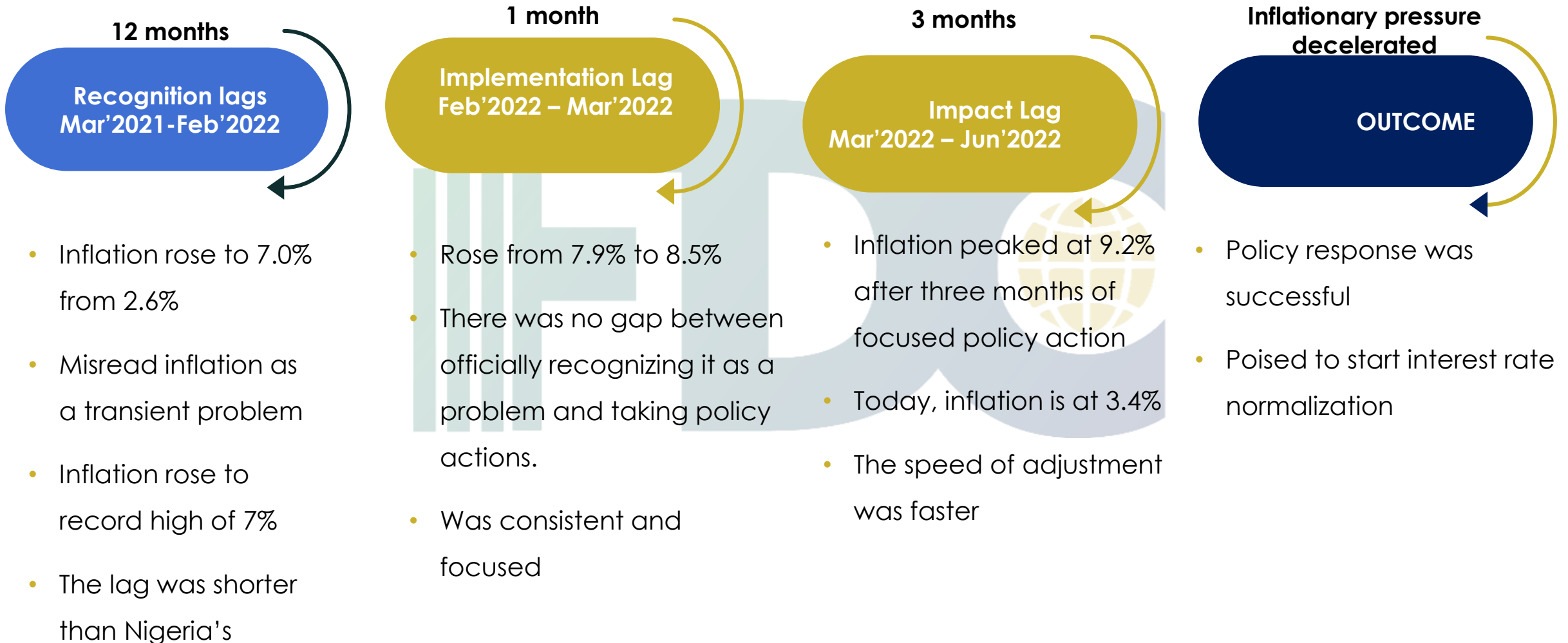
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# ECONOMIC COSTS OF POLICY LAG

- Delays in decision-making can lead to the escalation of economic problems
- Can make policy actions impotent
- Overdose may not be a cure for underdose

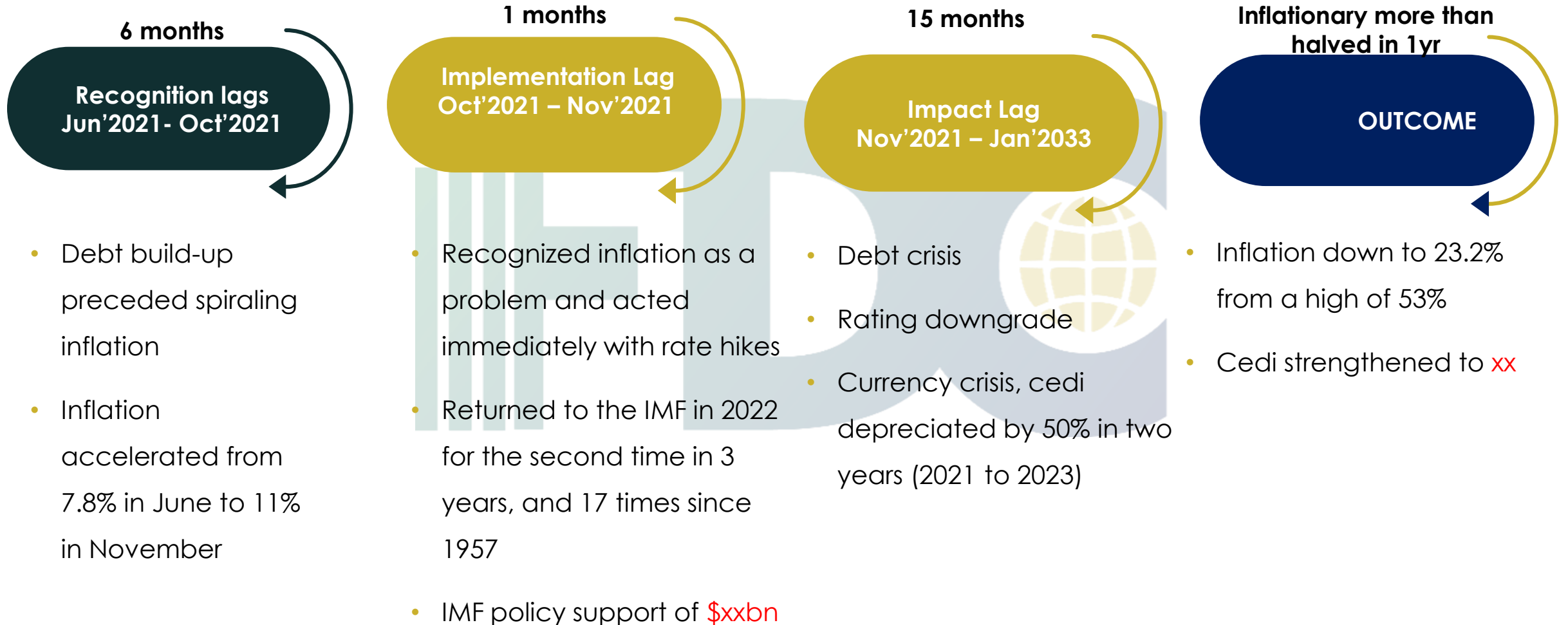


# INFLATION AND POLICY LAGS – THE USA CASE

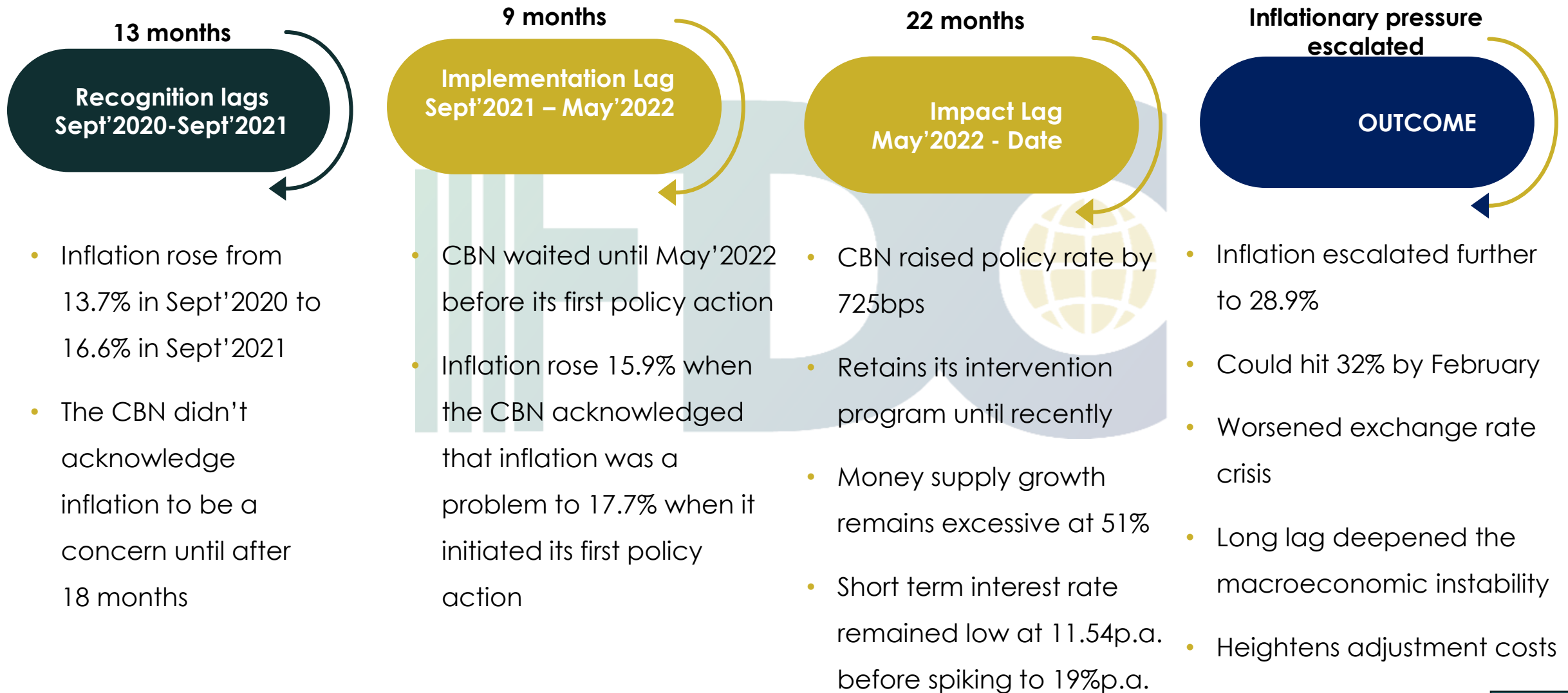




# INFLATION AND POLICY LAGS – THE GHANAIAIAN CASE



# INFLATION AND POLICY LAGS – THE NIGERIAN CASE



# KEY CAUSES OF POLICY LAGS IN NIGERIA

## Inside Lag

- Data integrity
- Institutional weaknesses
- Political considerations
- Complexity of issues
  - Rent seeking
  - Political instability
- Excessive red tape



## Outside Lag

- Lack of credibility of government institutions
- Lack of policy coordination
- Inconsistent policy priorities
  - Weak policy transmission channels
- Poor policy implementation
- Lack of stakeholder buy-in



# WHAT IS EQUILIBRIUM?

A state where the forces of supply and demand in a market are balanced, leading to stable prices  
*Alfred Marshall*

Equilibrium is a process where markets are dynamic and are constantly adjusting to new information rather than static  
*Friedrich Hayek*

A state of balance or stability in an economic system, where opposing forces or factors are in a state of balance  
*General Definition*

## WHAT IS DISEQUILIBRIUM?

A situation where aggregate demand does not match aggregate supply  
*John Maynard Keynes*

When the market or the economy is not in a state of equilibrium  
*General Definition*



Equilibrium itself has rarely been observed in real life - market prices have a notorious habit of fluctuating

*George Soros*

# GENERAL VS. PARTIAL EQUILIBRIUM

## General Equilibrium

- The simultaneous equilibrium of all markets in an economy
- Where changes in one market can affect others
- Key attributes of general equilibrium
  - Optimal Resource Allocation
  - Inter-temporal decision-making
  - Price Flexibility
  - Market Clearing
  - Complexity
  - Change in economic variables over different periods

## Partial Equilibrium

- Focuses on the analysis of equilibrium conditions within a specific market or a particular economic sector
- Key attributes of general equilibrium
  - Narrow Scope
  - Isolation of a Single Market
  - Immediate Adjustment
  - Price as the Adjusting Mechanism
  - Useful for Policy Analysis in specific markets or industries



# BENEFITS OF AN ECONOMY IN EQUILIBRIUM

## BENEFITS

## HOW IT AFFECTS AN ORDINARY MAN

Better-off

Price stability

- Helps in budget planning
- Reduce uncertainty in prices of goods and services

Efficient resource allocation

- Increase in the availability of goods and services
- Wider variety of choices for an ordinary man
- Improved quality of life

Macroeconomic stability

- Overall economic well-being for an ordinary man

Government policy effectiveness

- Infrastructural development
- Improved public services

Market coordination

- Resources directed to meet consumer preferences
- effectively

Optimal production and consumption

- Access goods and services they desire at reasonable prices



# WHERE DOES NIGERIA FIT IN?

## External Disequilibrium

External Debt  
\$97.5m

Exchange rate  
volatility  
N1,500/\$  
(Naira freefall)

Oil price  
volatility  
83.65%

Trade balance  
2.3%  
Current  
account  
1.3%

## Internal Disequilibrium

Inflation  
28.92%

Insecurity  
- Terrorism  
- Insurgence

Money supply  
growth  
51%

Government  
Policies  
-Bottlenecks

= **Total Disequilibrium**

# IS NIGERIA IN A STATE OF DISEQUILIBRIUM?

- **Yes!**
- But the level of disequilibrium has reduced due to policy changes

	Before (May 2023)			Now (January 2024)		
	PMS (N/ltr)	Diesel (N/ltr)	Variance	PMS (N/ltr)	Diesel (N/ltr)	Variance
Subsidy	198	844.28	-76.54%	630	1250	-49.6% ↓
	Electricity Tariff (N/kwh)	Cost-reflective Tariff	Variance	Electricity Tariff (N/kwh)	Cost-reflective Tariff	Variance
	60	90	-33.3%	60	120	-50.0% ↑
	Official (N/\$)	Parallel (N/\$)	Variance	Official (N/\$)	Parallel (N/\$)	Variance
Exchange rate	462	760	-39.21	1433.89	1468	-2.32 ↓
	365-day T/bill (%;p.a)	Inflation rate (%)	Negative interest rate	365-day T/bill	Inflation rate	Negative interest rate
Interest Rate	7.99	22.41	-14.42%	11.54	28.92	-17.38% ↑

# IS THE NIGERIAN ECONOMY IN DISEQUILIBRIUM?

- Two major problems that policymakers and politicians are faced with
  - Accomplishing growth in a state of disequilibrium
  - Inability to recognize the effect of lags
- The period of promises, implications, policies, and impact
- All along there has been a credibility gap

The assumption is that an open economy faces disequilibrium due to external and internal shocks

GDP per capita	2023	
North Korea	\$800	Closed economy
South Korea	\$33,147	Open economy

## Key Takeaways

- An open economy works
- Being at equilibrium is not tantamount to achieving highest growth level

# SECTORAL DISEQUILIBRIUM

## Financial Sector



### Sources of Disequilibrium

Interest rate subsidy

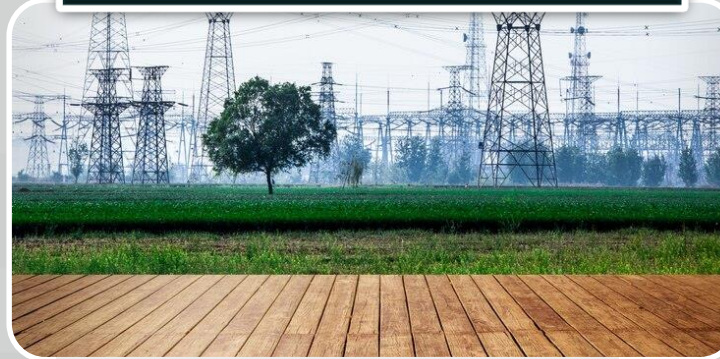
Speculation and arbitrage

Insider deals

Equilibrium in the sector will

- Reduce the likelihood of financial crisis and systemic risk

## Power Sector



### Sources of Disequilibrium

Sub-optimal pricing

Low investment

Lack of energy diversification

Equilibrium in the sector will

- Lead to increased productivity
- Reduce operational costs and enhance competitiveness

## Oil Upstream



### Sources of Disequilibrium

High entry barriers

High capital cost

Regulatory sabotage

Vandalism

Equilibrium in the sector will lead to

- Stability in energy price
- Reduce volatility in transportation cost

# THE PATH FROM DISEQUILIBRIUM TO EQUILIBRIUM

- The closer to equilibrium, the lesser the shocks
- To deal with disequilibrium you have to differentiate between structural and transient issues
- Nigeria has both structural and transient issues

## Structural issues

Low productivity  
Over dependence on oil  
Low export  
Poor infrastructure

## Transient issues

Excessive money growth  
Inflation  
Exchange rate  
working poverty

## Complex and difficult situations and solutions

**How do we deal with these issues?**

Approach creditors and IMF on

- dealing with debt issues
- restructuring and rescheduling our debt

Some new money to deal with our gaps

Institutional reforms





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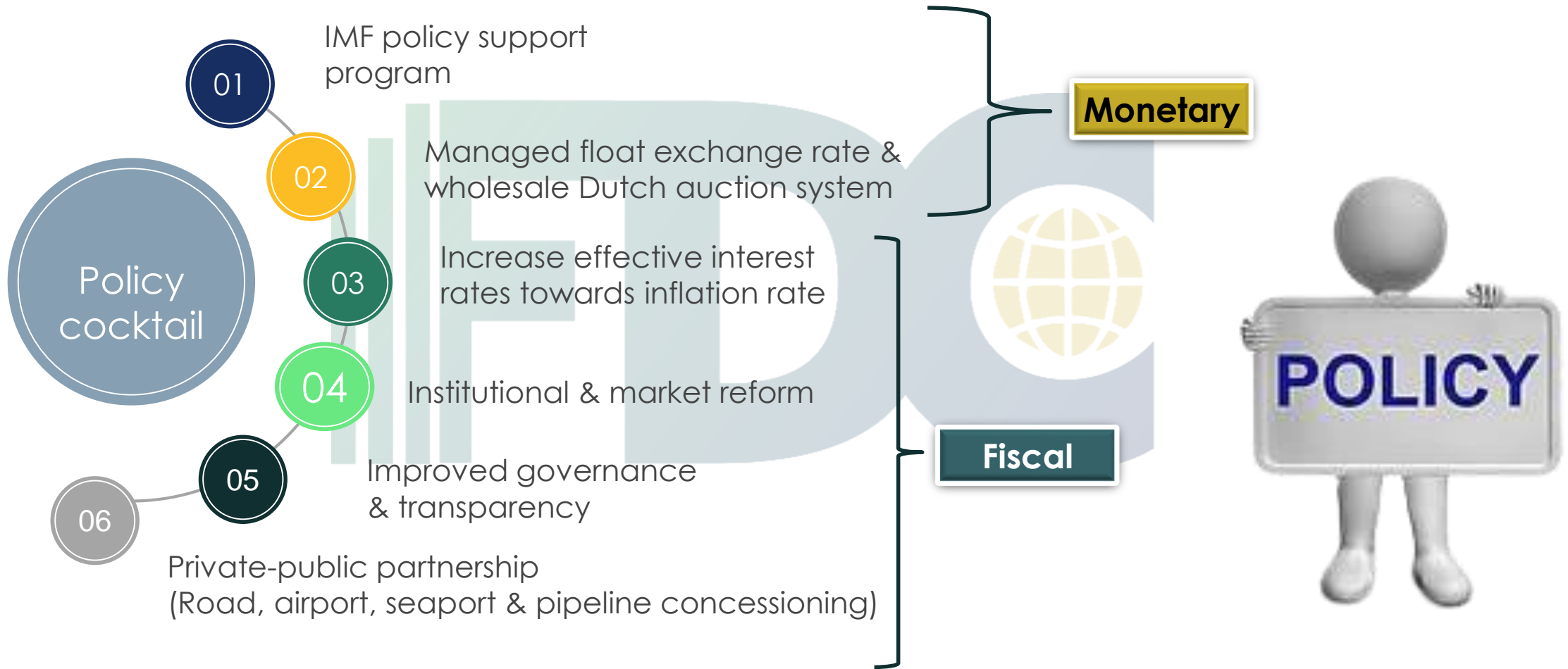
# WHAT NEXT?

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*Policy Recommendations & Sequence  
- Desired Outcome, Unintended  
Consequences and Lags*



# POLICY RECOMMENDATIONS



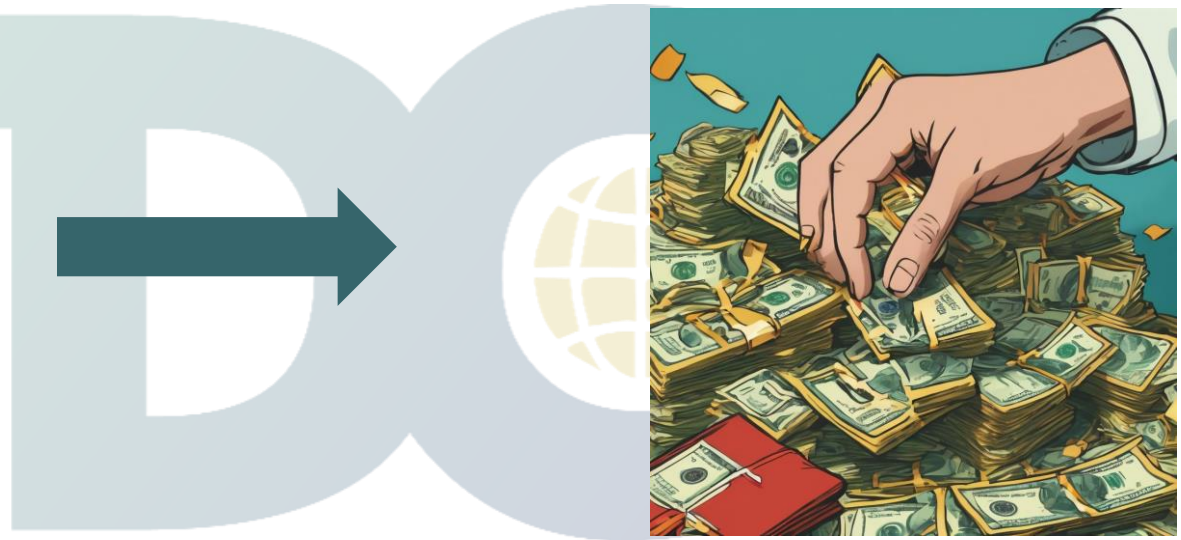
# POLICY SEQUENCING

- Policy sequencing to avoid backlash



**Spend the money first**

*Scholarships*



**Before taking it out**

*PMS Subsidy removal*

*Electricity subsidy removal*

# DESIRED OUTCOME VS UNINTENDED CONSEQUENCES

## Discussion with the IMF

- Rescheduling is a technical default

- Debt refinancing by issuing new bonds with longer maturities
- Policy support program with the IMF



## Desired Outcome

- Access to new external loans
- Improved creditworthiness and market confidence
- Increased international investment flows

## Unintended Consequences

- Required policy implementation may have a negative impact in the short term
- Leading to policy backlash

# AFRICAN COUNTRIES CURRENTLY ON AN IMF PROGRAMME

	Ghana			Kenya			Zambia		
	2022	2023	2024*	2022	2023	2024*	2022	2023	2024*
BOT (% of GDP)	3.893	3.8	3.2	-10.32	-10.7	-11.2	11.558	3.9	5.2
Current Acct (% of GDP)	-2.06	1.5	1.8	-5.083	-4.8	-5.3	3.663	-2.4	-0.3
External Debt(% of GDP)	45.98	45.55	43.82	36.02	40.26	43.36	115	149	147
External reserves (\$'bn)	6.25	5.95	6.24	7.96	8.56	9.46	2.96	2.99	3.04
Currency depreciation (%)	30	28	3	8	21	3	8	21	4
Inflation (end period; %)	52.14	23.2	13.5	9.064	6.6	5.7	9.899	12.7	8.4

Source: EIU

- Selected countries were challenged with a weak external sector and unsustainable debt burden
- Leading to currency volatility and skyrocketing inflationary pressures
- Forcing countries to seek the IMF for a policy support program and loan facility
- Inflation is expected to decline significantly in respective countries in 2024 as currency depreciation reduces



# DESIRED OUTCOME VS UNINTENDED CONSEQUENCES

## Increase interest rates towards inflation

- MPC meets this month – Feb 26/27
- Expected to increase MPR by 200bps
- Effective lending rates to increase by 500bps



## Desired Outcome

- Reduced interest rate differential
- Improved capital inflows and lower naira volatility
- Slower pace of inflation

## Unintended Consequences

- Higher borrowing costs and non-performing loans
- Reduced consumer demand and slowdown in economic growth
- Increased unemployment

# DESIRED OUTCOME VS UNINTENDED CONSEQUENCES

## Open Market Auction



### Desired Outcome

- Price discovery & transparency
- Improved investor confidence and investment flows
- Naira stability

- *With CBN as a major participant*
- *Auction results published*
- *CBN will increase supply whenever the Naira is under pressure*

### Unintended Consequences

- Speculative attack
- Concentration of market power among larger players

# DESIRED OUTCOME VS UNINTENDED CONSEQUENCES

## Gradual Subsidy Reduction (PMS & Electricity)

- Gradual reduction in subsidy in PMS and electricity (cost-reflective tariff)

### Desired Outcome

- Reduced fiscal pressures
- Market efficiency
- Increased private investment in the downstream sector
- Improved electricity supply

### Unintended Consequences

- Heightened inflationary pressures
- Policy backlash and political instability



# DESIRED OUTCOME VS UNINTENDED CONSEQUENCES

## Wage review

- Upward review of minimum wage to N50,000 from N30,000

### Desired Outcome

- Improved consumer demand and savings
- Could support industry profit and overall GDP growth

### Unintended Consequences

- Renewed inflationary pressures
- Lay offs
- Increased labour costs and risk of corporate mortality



# DESIRED OUTCOME VS UNINTENDED CONSEQUENCES

## Public-private partnership

- *Concessione of roads, airports, pipelines, and seaports to bridge the infrastructure gap in Nigeria*

### Desired Outcome

- Efficiency & innovation
- Job creation & economic development
- Quality service delivery
- Faster project delivery & long-term asset management



### Unintended Consequences

- Political & regulatory risks
- Legal & contractual risks
- Market & economic risks

# MACROECONOMIC IMPACT – Q1'24

## Base case scenario

Indicator	Q1'24
GDP Growth (%)	3.2
Headline Inflation (end period%)	31
Exchange Rate (N/\$)	1400 - 1520
Fiscal deficit(2024; % of GDP)	4.2

## Worst case scenario

Indicator	Q1'24
GDP Growth (%)	2.9
Headline Inflation (end period%)	33
Exchange Rate (N/\$)	1590 - 1850
Fiscal deficit(2024; % of GDP)	5.5





# MARKET PROXIES

Energy



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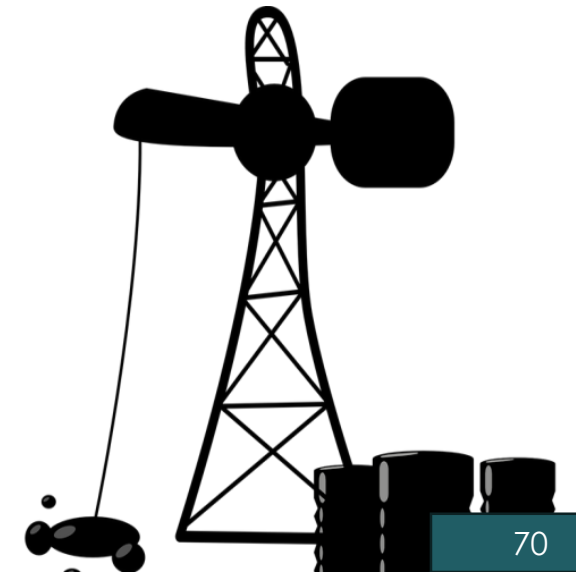
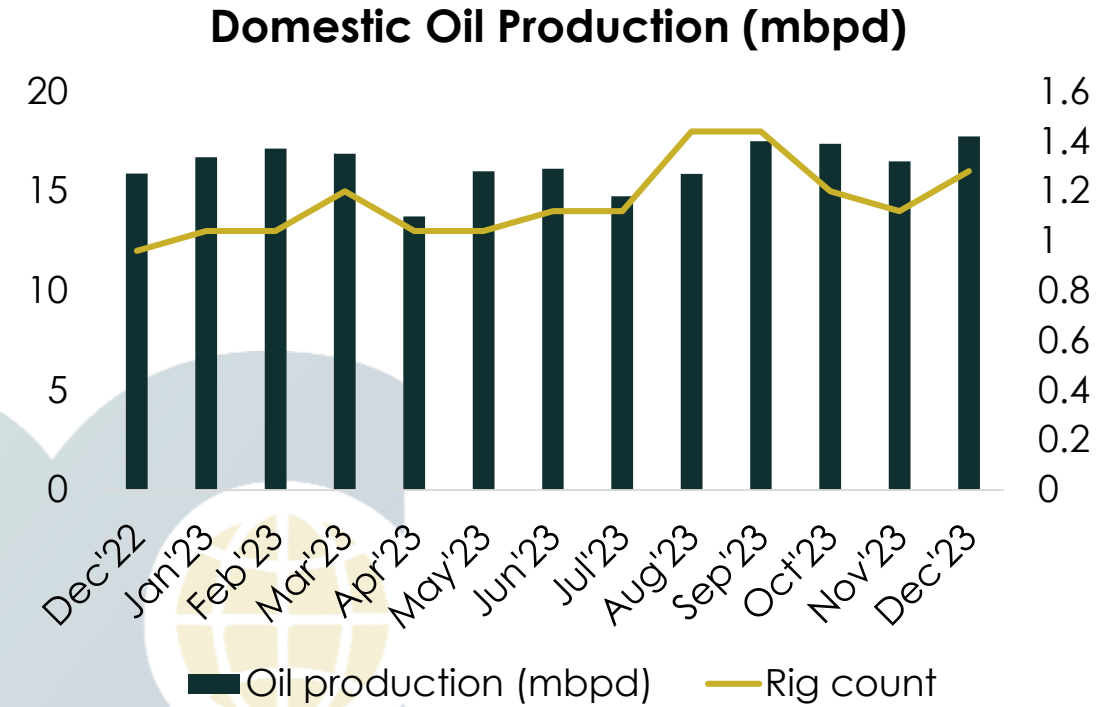
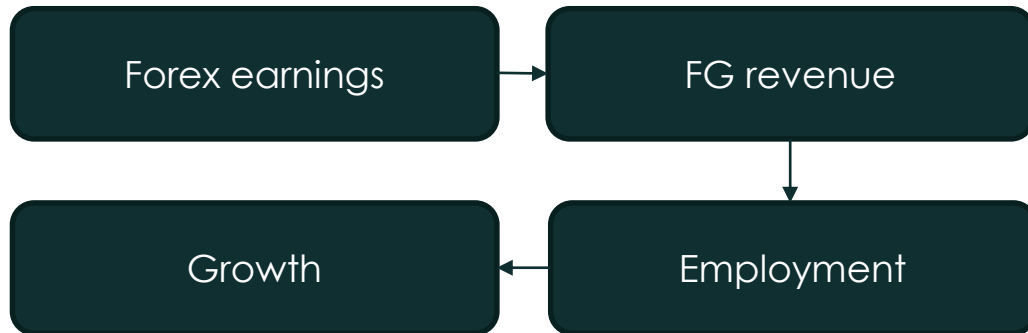
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# MARKET PROXIES - SNAPSHOT

Market Proxies	June 2023	January 2024	% Change
Oil Rigs	14	16	14.29 
Oil Production (mbpd)	1.29	1.42	10.08 
PMI (points)	53.2	54.5	2.44 
Value of transactions (N'trn)	48.64	76.32	56.91 
FAAC Revenue (N'trn)	1.96	1.1 (Dec'23)	43.88 
Ship Awaiting Berth	11	20	81.82 
Money Supply (%)	33	51	18 
Car Accidents/ Fatality	13,656 (2022)	10,617 (2023)	-22.26 
Number of Commercial Bank	21 (2021)	24 (2022)	14.29 
Grid Collapse	7 (2022)	2 (2023)	-71.43 

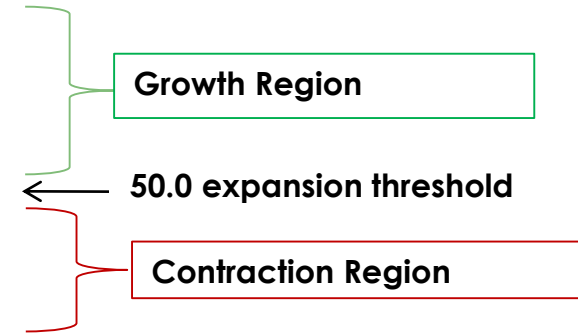
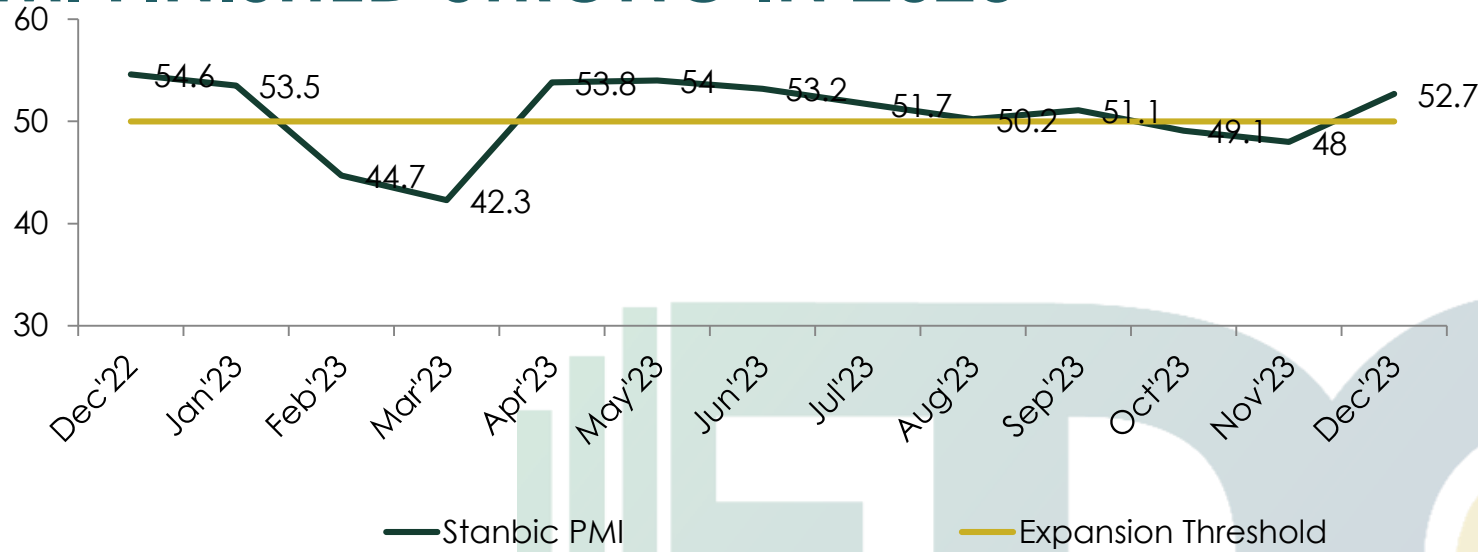
# MORE RIGS, MORE OIL

- The number of operational oil rigs climbs 14.3% to 16 in December 2023 from 14 in the previous month
- This contributed to the rise in oil production by 7.6% to 1.42mbpd in December 2023
- Closer to the new OPEC quota of 1.5mbpd but still a far cry from the 2024 budget benchmark of 1.78mbpd
- Higher oil rigs will have a positive impact on:





# PMI FINISHED STRONG IN 2023



- Private sector activities in Nigeria climbed by 9.79% to 52.7 points in December 2023
- After contracting for two consecutive months
- The current PMI reading was the highest recorded in H2'2023 and second-highest in 2023
- The pickup in consumer demand and economic activities during the festive period supported the rise
- Moreover, output and new orders recovered after declining in the last two months
- Elevated inflation and the naira's depreciation to weaken PMI performance until June 2024 (mid-year) – **MAN**

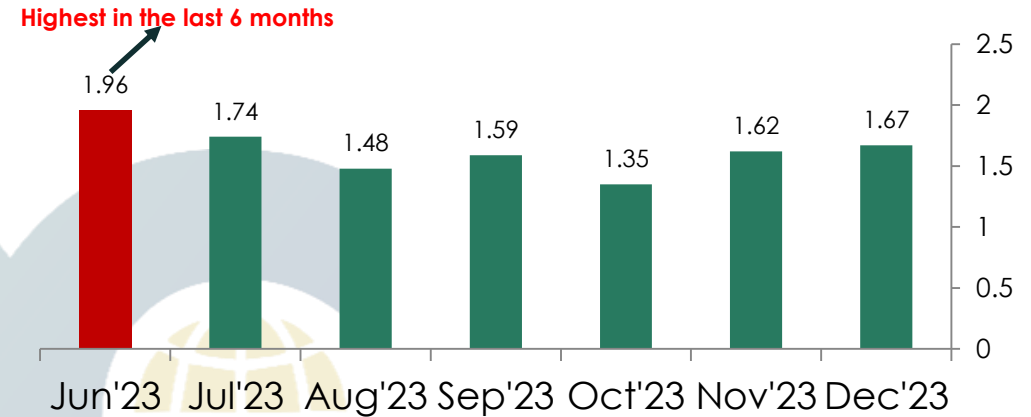
# FAAC ALLOCATION FUELS MONEY SUPPLY GROWTH

- FAAC revenue generated has remained below the peak of N1.96trn

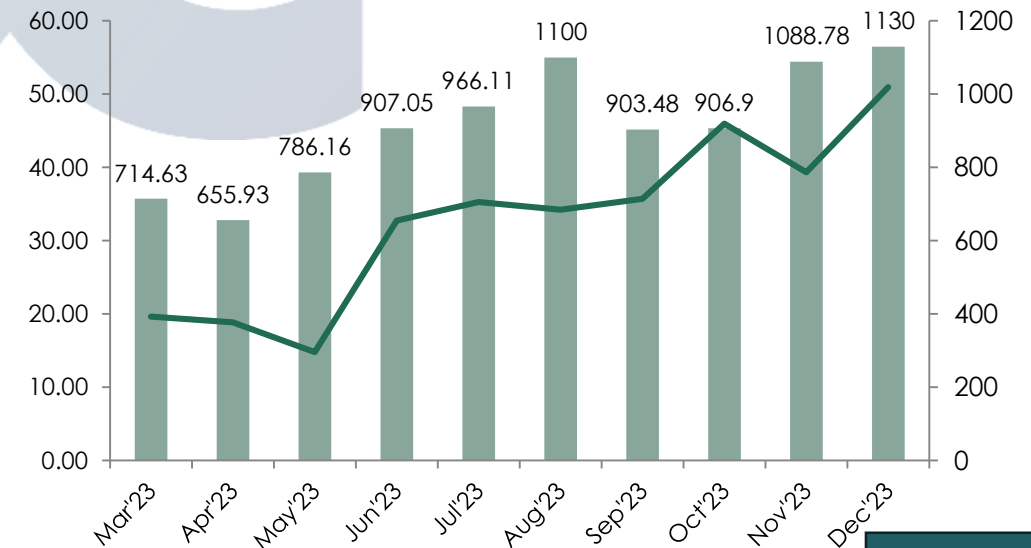
in June 2023:

- Due to declining taxes (PPT, CIT)
- FAAC disbursement to the three tiers of government rose steadily to a peak of N1.1trn in December 2023
- FAAC is a major factor that fuels money supply saturation
- FAAC disbursement likely to increase in the coming month on higher oil prices and exchange rate gains
- This means more naira funds for states to embark on development projects, meet deficit financing needs and salary obligations
  - Could temporarily support consumer disposable income

**FAAC Revenue (N'trn)**



**FAAC Disbursement/M3 (N'trn)**

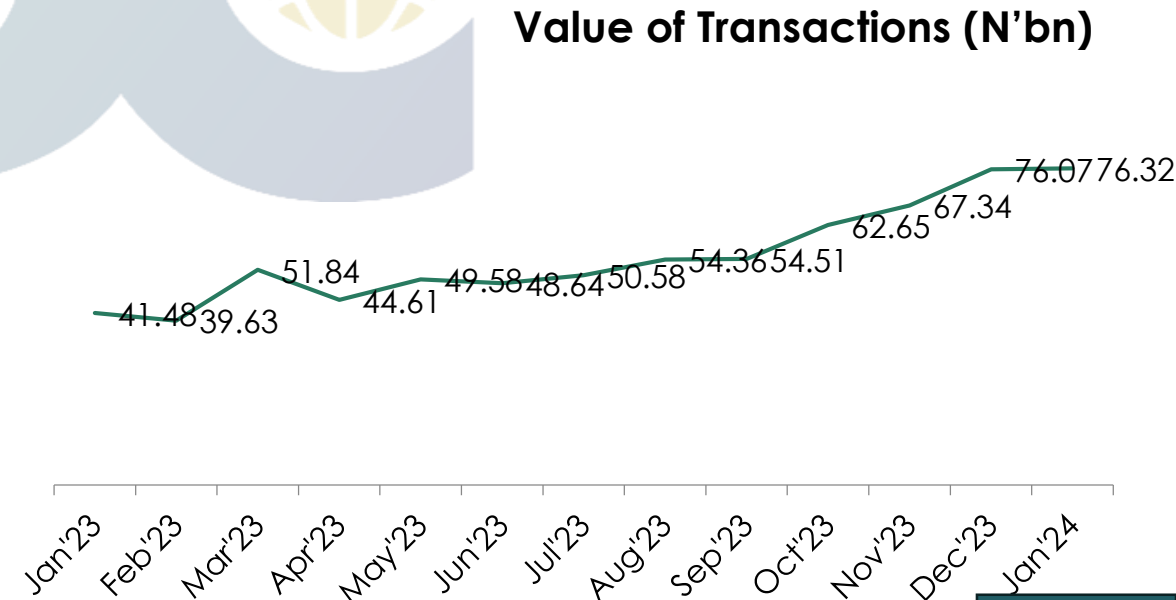




# VALUE OF TRANSACTIONS- HIGHLY DIGITALIZED

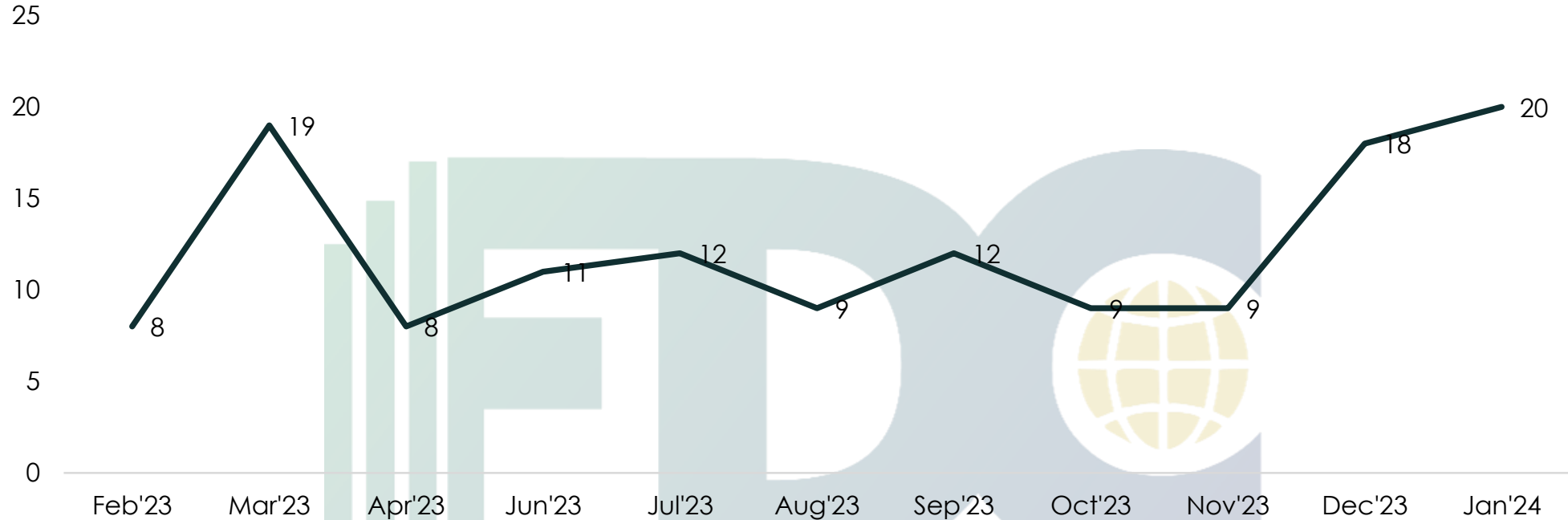
- The total value of transactions rose by 0.33% to N76.32trn in Jan'24
  - From N76.07trn in the previous month
  - Largely driven by the rise in the digital modes of payment (NIP and NEFT)
- The surge in money supply (51% y-o-y) also contributed significantly to the upswing in the value of transactions
- Highlighting the direct proportionality between money supply and the value of transactions
- POS transactions declined 1.38% compared to the Dec'23
  - As electronic and online banking activities improve
- Cheque transactions continued to decline in January
  - In favour of electronic modes of payment

Mode of Payment	Dec'23	Jan'24	Change (%)
NIP	71,950.37	72,114.28	0.23
POS	862.00	850.09	-1.38
NEFT	2,966.09	3,063.90	3.3
CHEQUES	290.47	288.75	-0.59
<b>Total</b>	<b>76,068.93</b>	<b>76,317.02</b>	<b>0.33</b>



# SHIPS AWAITING BERTH

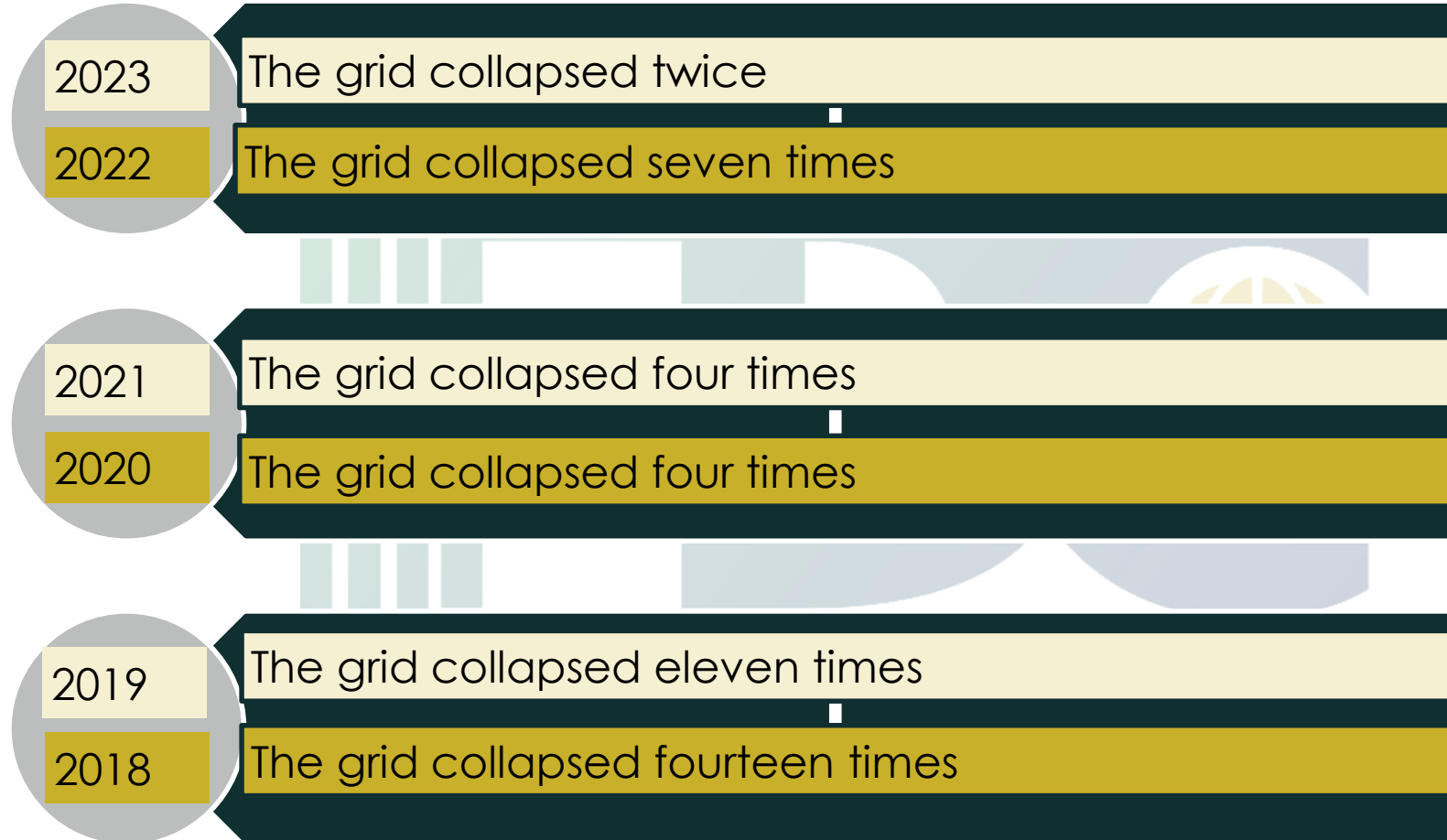
## Total Ship Awaiting Berth



- Ships awaiting berth up to 20 in January 2024
  - 11.1% higher than 18 in December 2023
- Global trade disruptions stemming from the Red Sea attacks weighing on the efficiency of trade operations
  - Leading to longer waiting times for ships

# GRID COLLAPSE

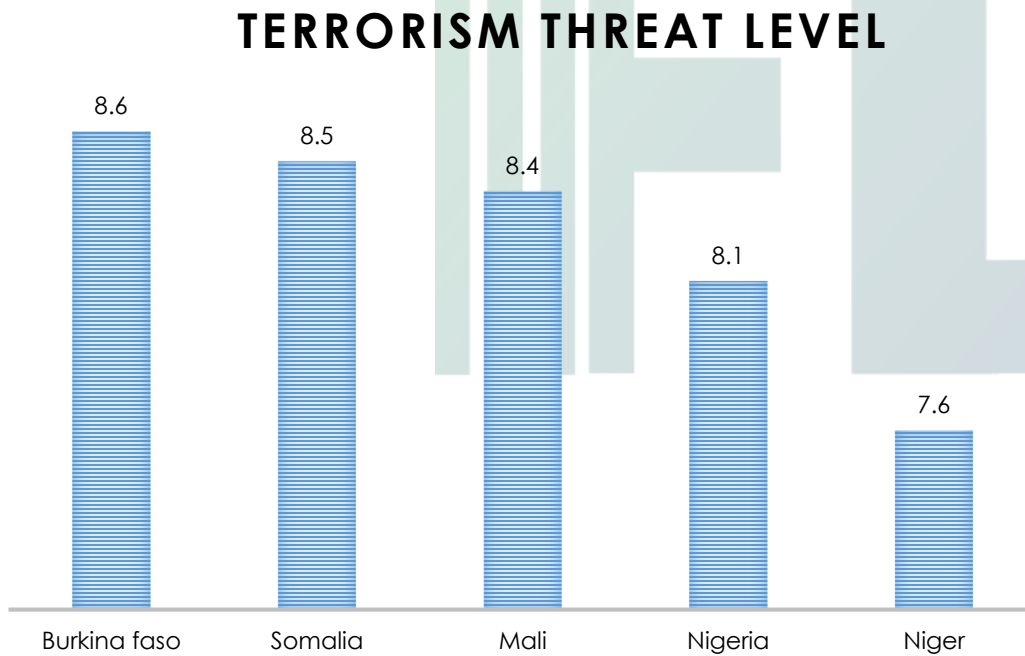
- According to the International Energy Agency report, the Nigerian power grid collapsed 46 times from 2017 to 2023



- Nigeria's grid continued to face issues due to aged infrastructure and vandalism
- Increased dependency on backup generators for 40 per cent of electricity consumption in Nigeria

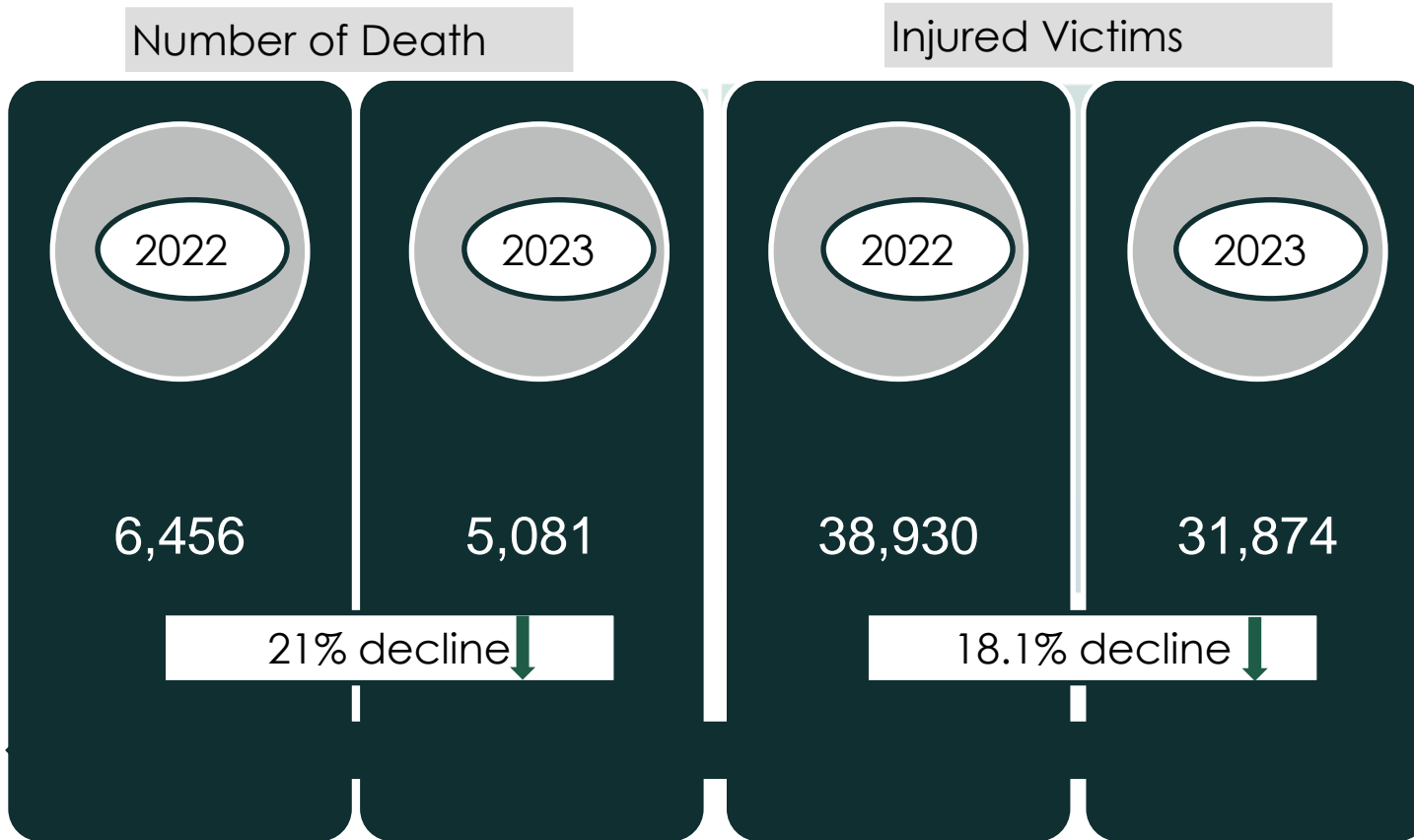
# TERRORISM IN NIGERIA

- Nigeria is one of the countries with the highest terrorism threat levels in the world
- The terrorism index stood at 8.6 points, the 4<sup>th</sup> highest in Africa
- With 395 number in death in the year 2022



# CAR ACCIDENTS & FATALITIES

- On an annual basis, there is a tremendous decline in Road Traffic Crashes (RTCs) across the country
- However, the figure for RTCs and attendant fatalities is unacceptably high despite the decrease



A total of 10,617 RTCs across the country, 22% decline from RTCs recorded in 2022 (13,656)

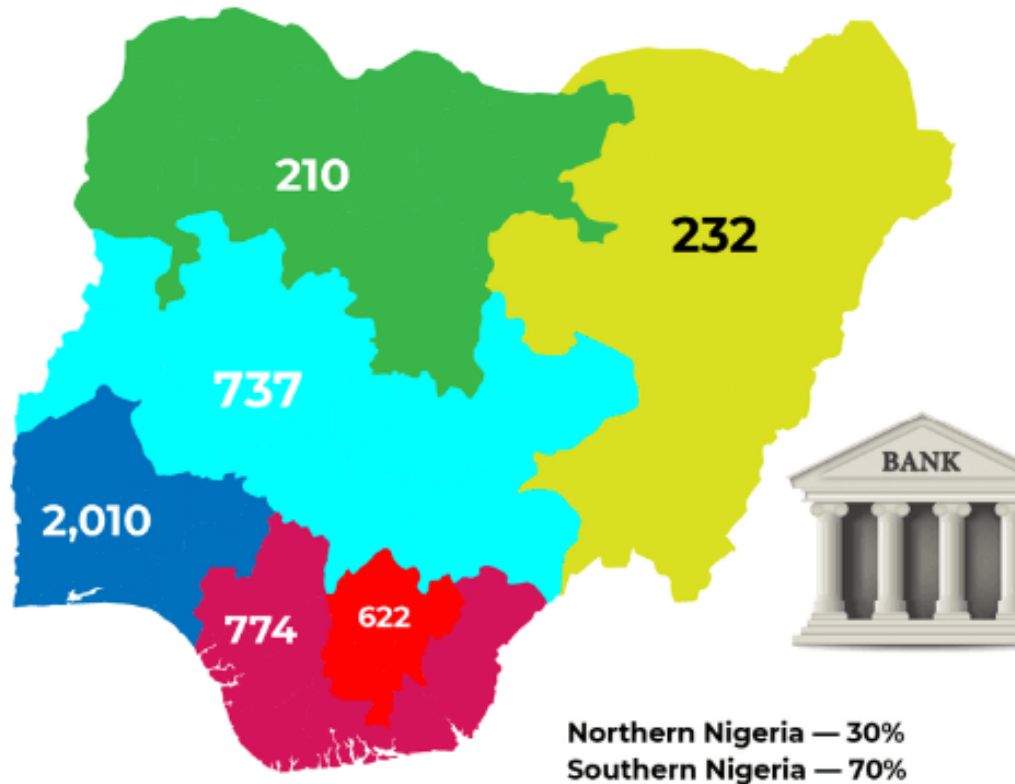


The decline in road traffic crashes could be a result of

- Road concessioning
- Subsidy removal reduced the number of cars on the road
- The fear of kidnappers increasing the use of alternative transportation modes

# NUMBER OF BANK BRANCHES

- Nigeria has a total of 4,585 commercial bank branches
- These branches are owned by a total of 33 banks

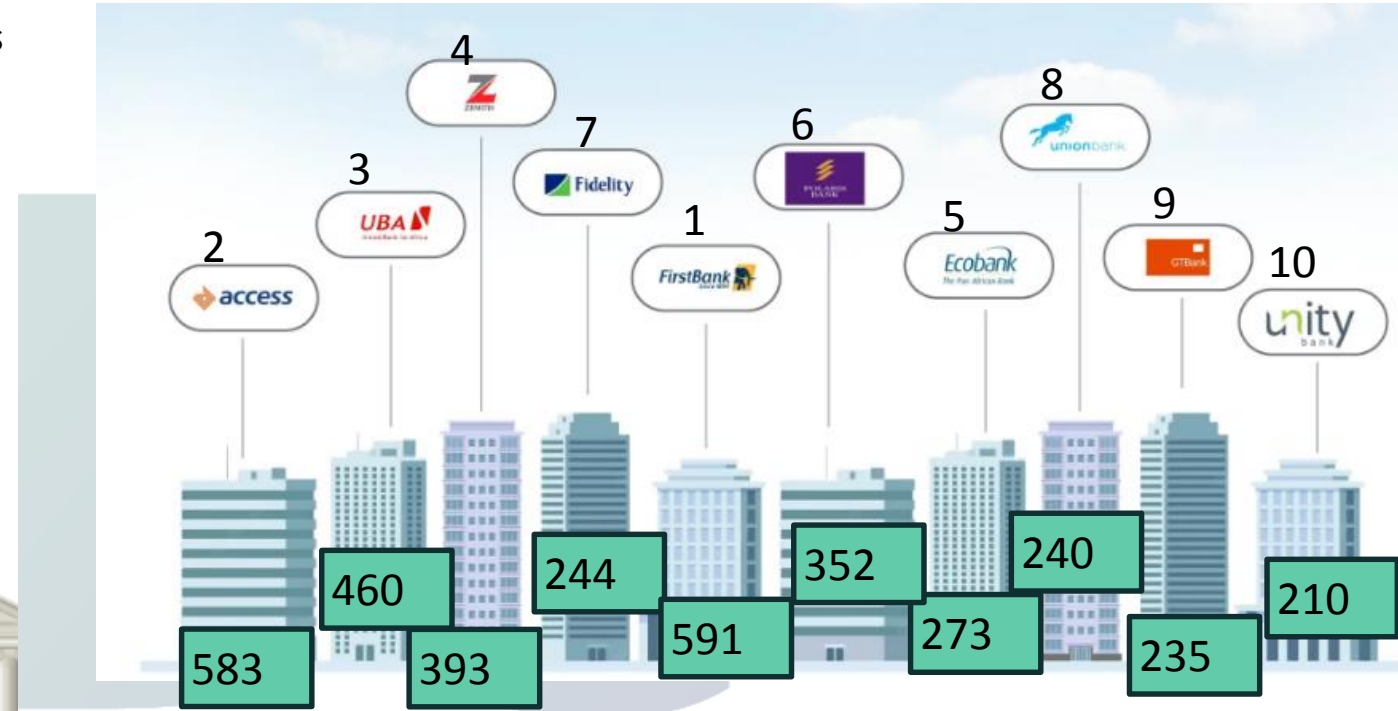


■ NORTH WEST ■ NORTH EAST ■ NORTH CENTRAL ■ SOUTH EAST ■ SOUTH SOUTH ■ SOUTH WEST

Source: Central Bank of Nigeria

Statista

Top 10 banks with the most branches in Nigeria



The number of commercial banks increased by 14.29% from 21 banks in 2021 to 24 banks in 2022  
This indicates there are

- More channels
- increased access to financial services

This can promote financial inclusion



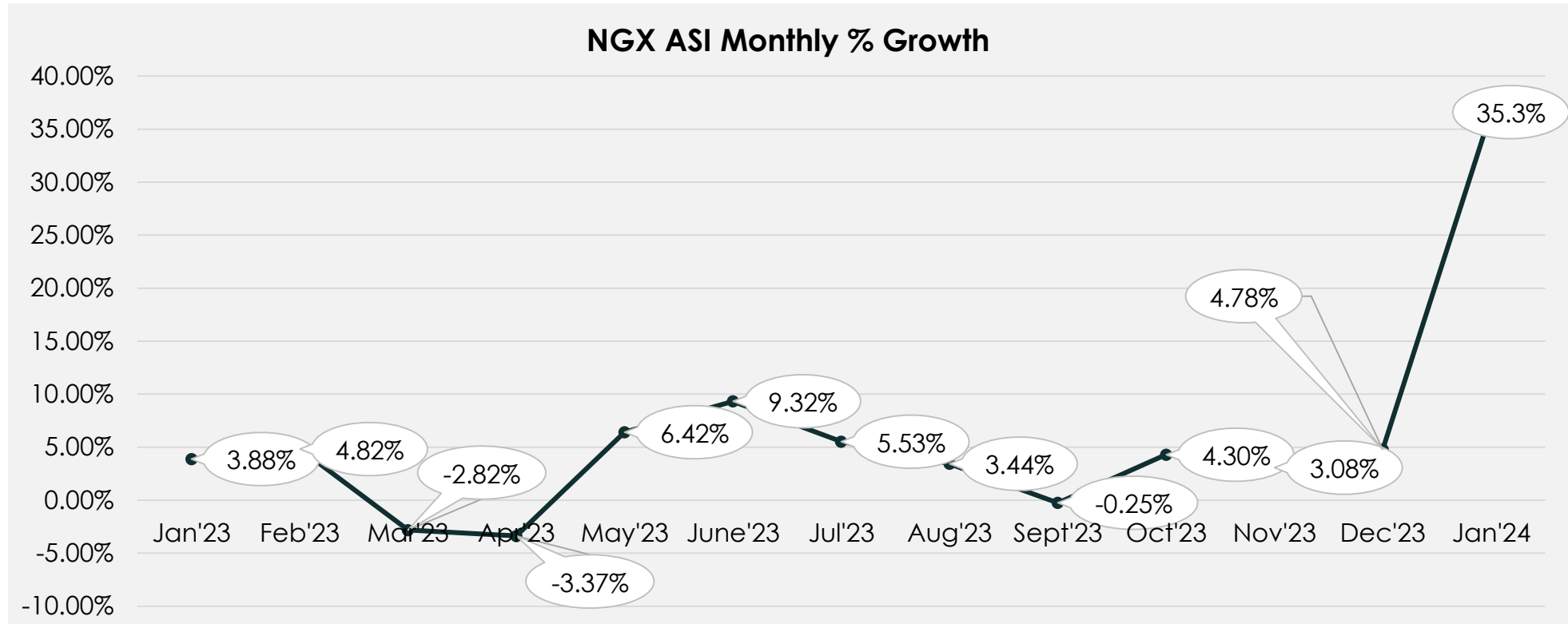


# EQUITIES

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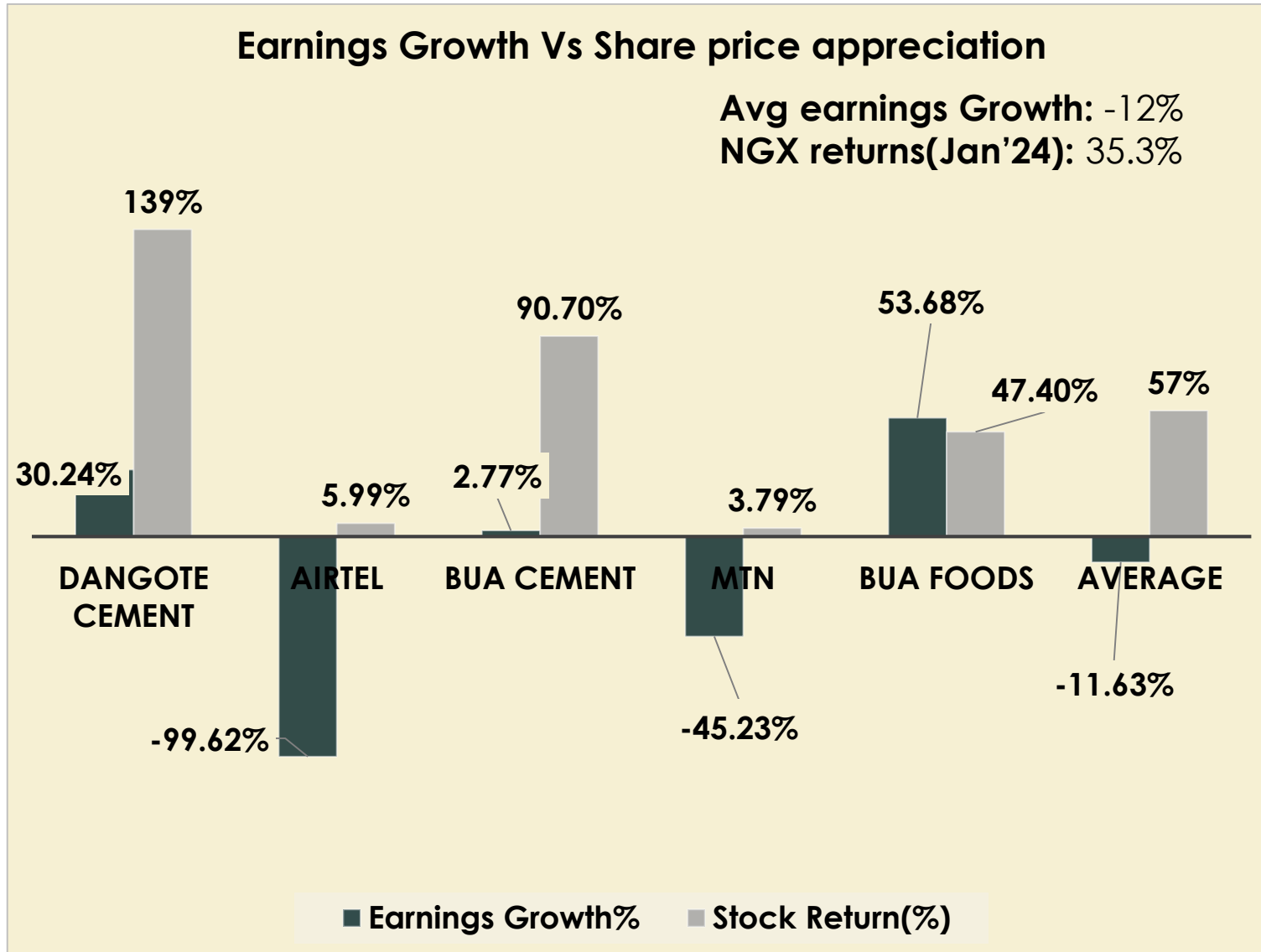
STOCK MARKET

# IS THE NGX BUBBLE HEADING FOR A BURST?



- NGX crosses the 100,000 mark in Jan 2024 (Surges by 35% in one month)

# THE NIGERIAN STOCK MARKET BUBBLE



- Nigerian corporate earnings and share price growth in opposite directions
- Major Nigerian equities experiencing a share price bubble
- An average earnings growth of -12%
- While top five stocks share price appreciated by an average of 57% YTD

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# IS THE NGX BUBBLE HEADING FOR A BURST?

- Not all stocks will be affected
- Major market leaders deepened their market share and top-line growth in 2023
- Top players also recorded a huge operating profit
- Extraordinary items (FX losses) however weighed on bottom-line positions
- **Earnings Adjusted for FX loss = Decline in asset bubble and lower P/E ratio**
- Strategic investors are positioning for long-term innovations and returns rather than speculations

# IS THE NGX BUBBLE HEADING FOR A BURST? MAYBE NOT ALL

## Telecoms

MTN

airtel

Revenue Growth

21.8%

20.2%

Operating profit

13.0%

20.4%

Earnings Growth (%)

-45.2%

-99.6%

**Earnings Adjusted for FX loss(%)**

**28%**

**6%**

Stock Return YTD (%)

4.17%

5.99%

- Income adjusted for foreign exchange losses leads to a decrease in the asset bubble and a reduction in the price-to-earnings ratio

## FMCG

Nestlé

## Brewery

GUINNESS NIGERIA

Revenue Growth

19%

Revenue Growth

20%

Operating profit

41.0%

Operating profit

31%

Earnings Growth (%)

-207%

Earnings Growth (%)

-230%

**Earnings Adjusted for FX loss(%)**

**102%**

**Earnings Adjusted for FX loss(%)**

**77%**

Stock Return YTD (%)

0.00%

Stock Return YTD (%)

-12.9%



# IS THE NGX BUBBLE HEADING FOR A BURST? MAYBE NOT ALL

## Cement



## Cement



Revenue Growth

27.9%

Revenue Growth

28.6%

Operating profit

20.6%

Operating profit

29.4%

Earnings Growth (%)

2.77%

Earnings Growth (%)

-30.24%

**Earnings Adjusted for FX loss(%)**

**30%**

**Earnings Adjusted for FX loss(%)**

**32%**

Stock Return YTD (%)

71.7%

Stock Return YTD (%)

139%

- Income adjusted for foreign exchange losses leads to a decrease in the asset bubble and a reduction in the price-to-earnings ratio

# CONSEQUENCES OF NIGERIAN EQUITIES MARKET BUBBLE BURST

## Impact on Investors

- Investors significantly exposed to Nigerian equities may experience wealth erosion and significant financial distress
- Will dampen investors' confidence in the Nigerian equities market
- May influence future financial decisions and trigger future panic selling
- A bubble burst creates a positive investment opportunity for fresh investors

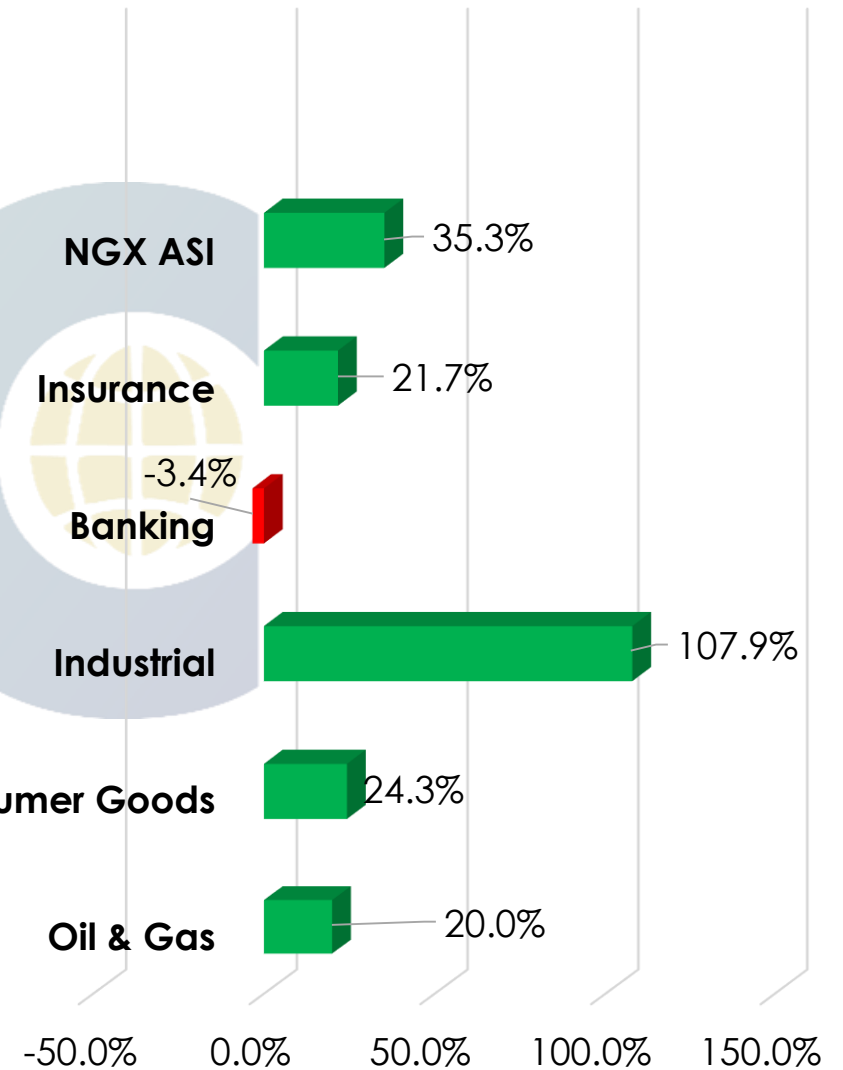
## Impact on the Economy

- Squeezed purchasing power of consumers is poised to exert downward pressure on economic growth
- Institutional investors will be faced with limited investment opportunities, potentially hindering returns on financial assets, limiting job creation, and contributing to economic instability
- Tighter credit conditions due to market uncertainties

# NGX IN JANUARY 2024

- NGX gains 35% in Jan 2024
- The uptrend is a continuation of the strong momentum witnessed last year
- Investors hunting for high returns amid limited investment options
- The industrial sector topped the gainers
  - The price of Dangote shares moved in response to the dynamics of supply and demand
  - Induced by Femi Otedola's significant acquisition of shares in Dangote cement
- Profit-taking sweeps the banking sector into the negative territory close to the end of the month

Jan'24



# NIGERIAN STOCK MARKET OUTLOOK- FEB 2024

- A market correction is anticipated in the Nigerian equities market
- A further hike in interest rates will dampen investor appetite for equities
- Earnings will remain a function of exchange rate losses or gains
- Full-year 2023 corporate earnings are expected to be impacted by challenges in the FX market and inflationary pressures
  - Lackluster corporate earnings are expected to prompt a return of stocks to more reasonable valuations
  - Will slightly dampen investor sentiment
- Underwhelming dividend per share and weak valuations will further ignite a market correction
- Nigerian banks will continue to be a major beneficiary of high yields from investment securities
- Investors expected to trade cautiously



# AVIATION, TRAVEL & TOURISM

---

# DOMESTIC AIR FARES IN NIGERIA SWINGS UP

ONE WAY ECONOMY FLIGHT	JAN 2023 (N)	JAN 2024 (N)	% CHANGE
LAGOS TO ABUJA	55,000	100,000	81.81 ↑
LAGOS TO PORT-HARCOURT	60,00	107,000	78.33 ↑
LAGOS TO OWERRI	50,00	120,000	140 ↑

- This is due to:
  - Growing air travel demand due to increased risk in substitutes.
    - The number of kidnapping activities in the country has been on the rise in the past one year.
  - Rapid currency depreciation, as the IATA rate plummeted to N1,421/\$ from N900/\$ in January.
  - \$700 million in foreign airline funds trapped in Nigerian commercial banks.



# NAIRA'S DEPRECIATION RAISES COSTS AND HAMPERS THE SECTOR

## Action

- Bulk of domestic airlines' costs, including maintenance, training, medical assessments, and fuel, are in foreign currency
- Naira depreciation has led to a 200% surge in aircraft maintenance costs since 2015

## Impact

- Reduced operating aircrafts, closure of airlines, limited maintenance facilities
- Prevalence of illegal charters and flights

## Result

- Increased number of delayed and cancelled flights
- Rise in incidents and accidents
- There have been 3 air incidents in Nigeria in the last three months
- In 2023, 53% of flights in Nigeria were delayed, and 1% were cancelled
- Lagos International Airport experienced a power outage on February 2, 2023

# NAIRA DEPRECIATION ENHANCES INBOUND TRAVEL APPEAL

- The exchange rate depreciation has made inward travel into Nigeria cheaper and more lucrative.
- Hence leading to:
  - Increased inbound traffic
  - Growth in tourism receipts
  - Higher employment and economic growth prospects





# INTERNATIONAL CARRIERS OPERATING OUT OF NIGERIA

- Naira devaluation and unavailability have changed the pattern of traffic
- Over 70% of tickets issued on SOTA (Sold Out and Travel Out) basis are in the US
- The high-cost fares are being forced on the Nigerian market
- The passengers are paying a price for trapped funds
- The blocked funds are now less than \$2.5bn
- The booking profile for February – March shows a decline in outbound load factors to 60-65%
- The load factors pick up for Easter and Ramadan in April
- The average Biz class fare Lagos-London-Lagos is now more than N8m



# INTERNATIONAL CARRIERS OPERATING OUT OF NIGERIA

- With the exchange rate at N1885/GBP, the destination spending budget decimated
- Passengers who made three visits a year are cutting back to one
- Many Nigerians are patronizing budget carriers like Royal Air Maroc and Turkish for international trips
- Royal Air Maroc departure time is 5 am and checking-in is 3 am
- For Dubai-bound passengers Emirates flights from Accra to Dubai with a dog leg on Ibom Air to Accra

# NEW AIRPORTS EVERYDAY

- Nigeria has over 30 airports but only less than 20% fly to other destinations other than Abuja and Lagos



Gombe Lawanti  
International Airport  
Number of Destinations: **1**



Nnamdi Azikiwe  
International Airport  
Number of Destinations: **25**



Murtala Muhammed  
International Airport  
Number of Destinations: **43**



Ilorin International Airport  
Number of Destinations: **1**

- Low connectivity between States leads to:
  - Underutilized Airports, Limited Economic growth, Higher Airline Operational Costs, Inconvenience for Passengers





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# WHY IS FAAN RELOCATING TO LAGOS ?

- The Federal Airport Authority of Nigeria (FAAN) manages and services all commercial airports in Nigeria for passenger and cargo airlines
- Murtala Muhammed International Airport (MMIA) Lagos accounts for
  - 60% of total passenger and aircraft movement in Nigeria
  - 70% of FAAN revenues
- FAAN spent N1 billion in 2023 on flight tickets and Basic Traveling Allowances (BTAs) for frequent travel between Lagos and Abuja
- The relocation will boost operational efficiency, results in significant cost savings and revenue gains, and strengthens stakeholder relations

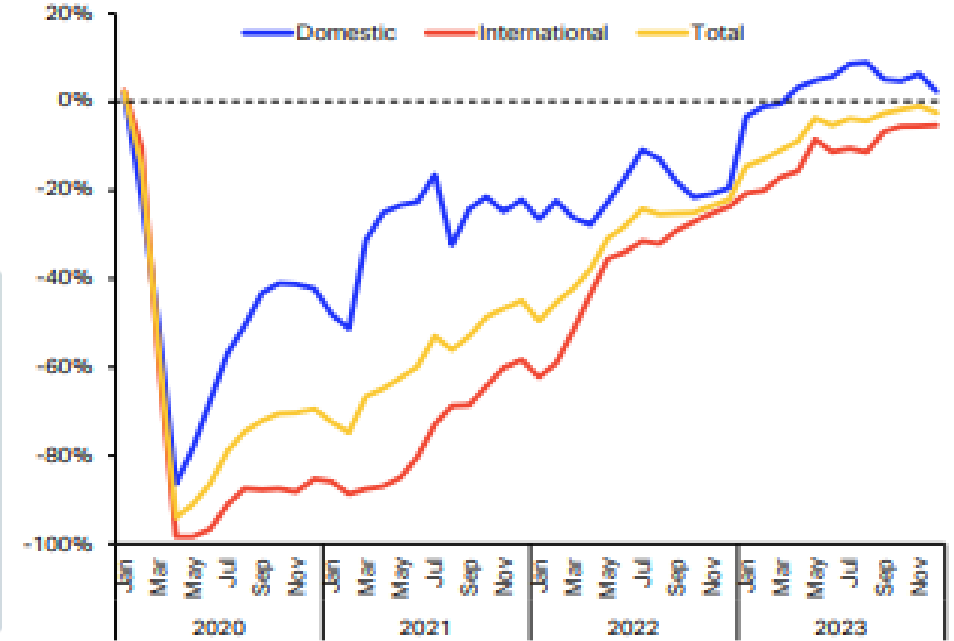
# DEMAND FOR DOMESTIC TRAVEL EXPECTED TO FALL

- Demand for air travel in Nigeria to decline in February due to:
  - Increased cost amid lower purchasing power
  - Weather seasonality effects
  - Increased adoption of digital tools such as Zoom, Google Meet, etc
  - Unsatisfactory on-time performance of flights



# GLOBAL AIR TRAVEL HIT 94% OF PRE-PANDEMIC LEVELS IN 2023

- Global air traffic surged 36.9% y-o-y in 2023, reaching 94.1% of 2019 level
- Driven by domestic travel in key markets such as China, India, and the US
- Domestic flights surpassed the 2019 level by 3.9% while international travel reached 88.6% of the pre-pandemic level
- Stronger global economic growth and connectivity are aiding the sector's recovery as people resume business, education, and leisure travel



Sources: IATA Sustainability and Economics, IATA Monthly Statistics

December Domestic Traffic	2023 vs 2022 (%)	2023 vs 2019 (%)
US	9.6	0.4
China	147.1	8.4
India	8.2	6.0

# AIR CARGO DEMAND DOWN AS MANUFACTURING OUTPUT CONTRACTS

- Global air cargo demand fell by 1.9% yoy in 2023
  - Global manufacturing and export PMI remained below 50, indicating contraction and impacting global trade
- However, demand in December 2023 surged 10.8% yoy, the strongest growth in 2 years
  - Driven by increased adoption of air cargo due to conflict in the Red Sea region
  - Lower inflation in major economies
  - Fall in jet prices by 20% from September to December



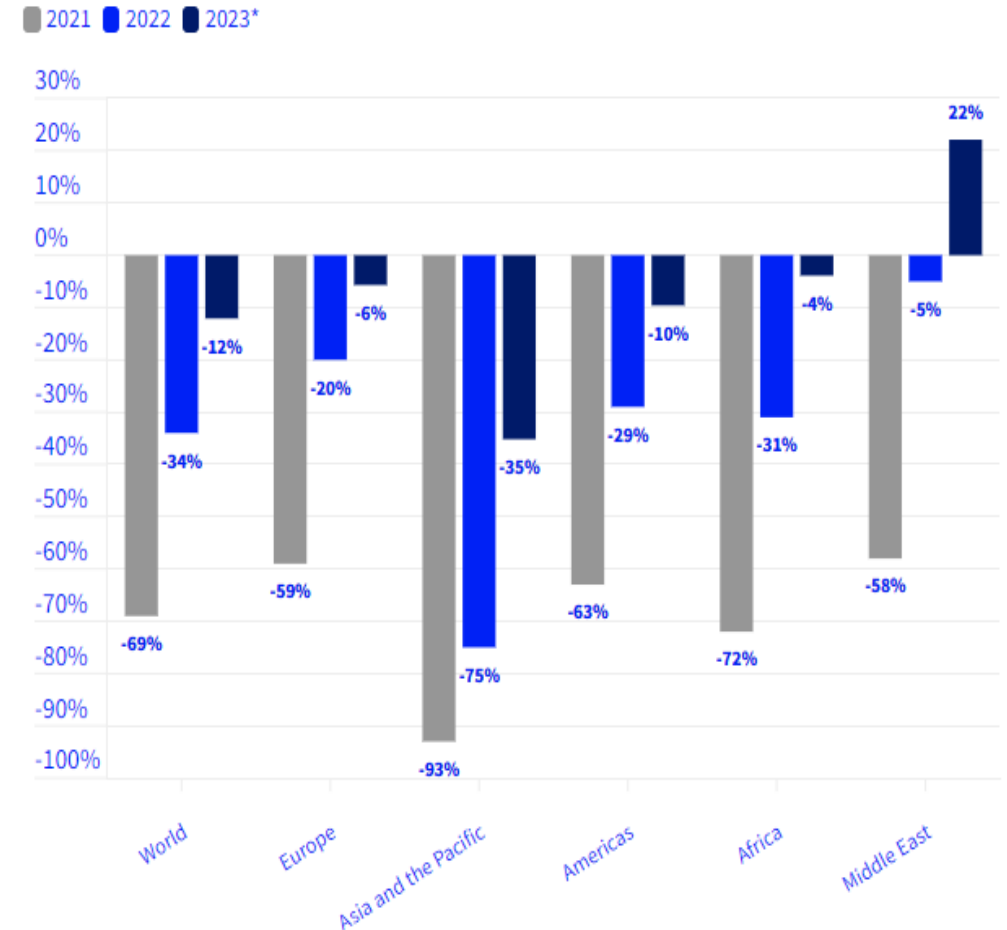
- ✓ Jet Fuel Price have risen by 6.54% to \$111.24/bbl in January 2024 from \$104.41/bbl in December 2023.



# GLOBAL TRENDS

- The US Federal Aviation Administration grounded all Boeing 737 Max 9 planes after mid-flight incident
  - Hundreds of flights cancelled daily by top airlines, Alaska Airlines & United Airlines
  - Would impact post-COVID travel industry recovery
- International tourism ended 2023 at 88% of pre-pandemic levels
  - Weighed by the slow economic recovery in China
  - Full recovery expected in 2024 on strong growth in Asia

## International Tourist Arrivals (% change over 2019)



Middle East leads in tourism recovery globally while Asia lags the most due to slow reopening to international travel



# EVERYONE WANTS TOURISTS

- Los Angeles Tourism launched the most expensive and largest global campaign in Paris on February 1
- China applies visa-free travel for citizens of France, Germany, Italy, the Netherlands, Spain and Malaysia until November 30
- Saudi Arabia registered 17 new tourism companies in the previous year, increasing activities for tourists to 1500 from 500
  - Introduced a unified online platform to streamline visa applications and attract foreign visitors
- The Grand Egyptian Museum, after 20 years of construction, is preparing to open in February
- Kenya eliminates visas and introduces electronic travel authorization for international travelers
- Nigeria Launches New Airports





# OUTLOOK

- There will be consolidation and market contraction in Nigeria's aviation sector due to the unfavourable business environment
- Only the strong will survive - Domestic airlines with international footprints such as Ibom Air, Air Peace
- International airlines will reduce prices to mitigate losses as scheduled flights experience weakened demand
- Complete payment of foreign airlines' trapped funds would aid lower prices as lower ticket inventory would be restored



# POLITICAL UPDATE

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# POLITICAL UPDATE

- Supreme Court going with the flow
- Affirming all the incumbents as against the appeal courts
- The judgments were politically convenient
- Dousing most politically tense areas in Kano, Zamfara & Plateau states
- It casts further doubts on the level of political maturity and democratic evolution
- In a strange twist, almost all the winners thanked the President and not their lawyers
- The difference in interpretation of the appeal court and Supreme Court cast doubts on the integrity of INEC and the election process



# POLITICAL UPDATE

- The upcoming elections in Edo and Ondo state will be a major test of political cohesion
- Edo state has always been a bellwether battleground state
- The people have a rebellious streak in their DNA
- Have never accepted local or external oppression or dictatorships
- The battle now is a struggle between technocracy and democracy in all the parties
- It will likely be an epic struggle between knowhow and boot-lickers
- All the polls point to a close battle between technocrats
- There is already a massive spend on digital marketing of the candidates



# POLITICAL UPDATE

- Another critical factor is the concept of zoning
- The Edo central senatorial zone has not produced a governor since 1999
- This election in September will also be a proxy war between godfathers and political grandfathers

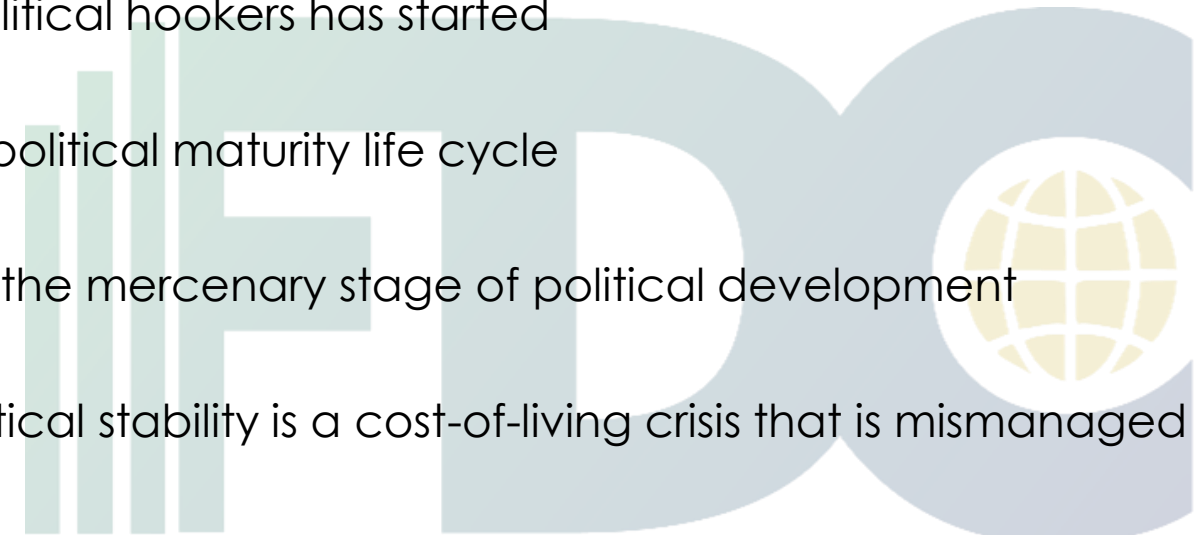
## **Ondo state is another battlefield**

- In Ondo state, the principle of zoning and sharing spoils is in play
- There is a battle between the loyalists to the late governor and those of the party headquarters
- Ondo state is another battleground state whose people resist oppression and external interference





# POLITICAL UPDATE

- Fears of Nigeria becoming a one-party state are misplaced
  - The carpet crossing of political hookers has started
  - This is not a threat to the political maturity life cycle
  - It is more of a function of the mercenary stage of political development
  - The biggest threat to political stability is a cost-of-living crisis that is mismanaged
- 





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# POLITICAL UPDATE

- The battle for 2027 has started
- Realignment of forces, the dumping of zoning, and economic hardship are the key drivers of political sentiment
- The APC is dealing with internal squabbles over
  - Sharing of spoils
  - Technocrats versus Politicians
  - Reforms Vs. Status quo
  - More corruption scandals
- The PDP is limping along with major squabbles as well
- But in the end, it is in the words of Bill Clinton

***“ it is the economy stupid”***

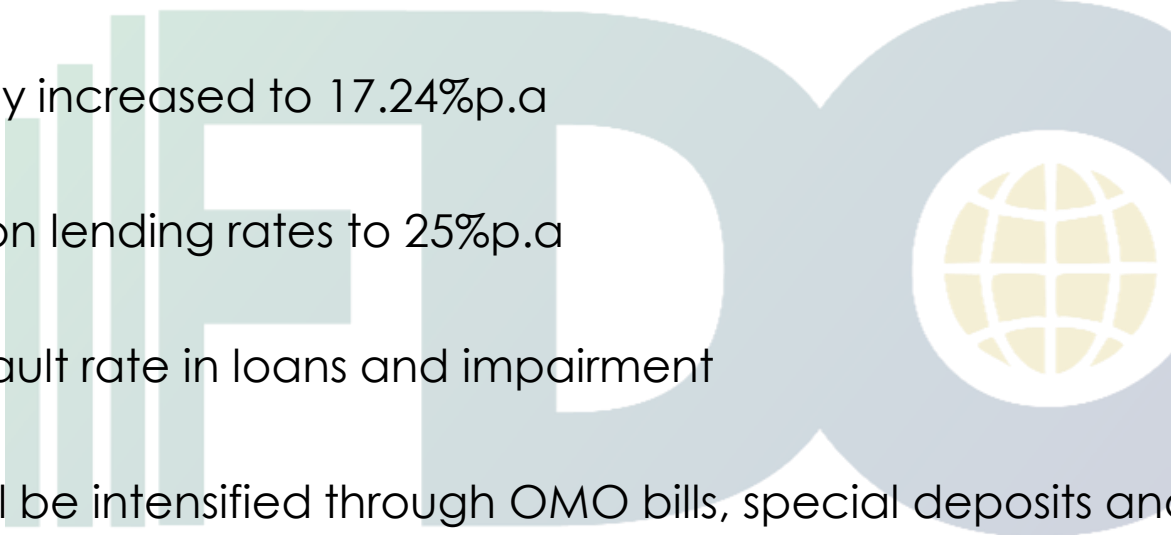


# OUTLOOK FOR THE MONTH

## FEBRUARY/MARCH 2024

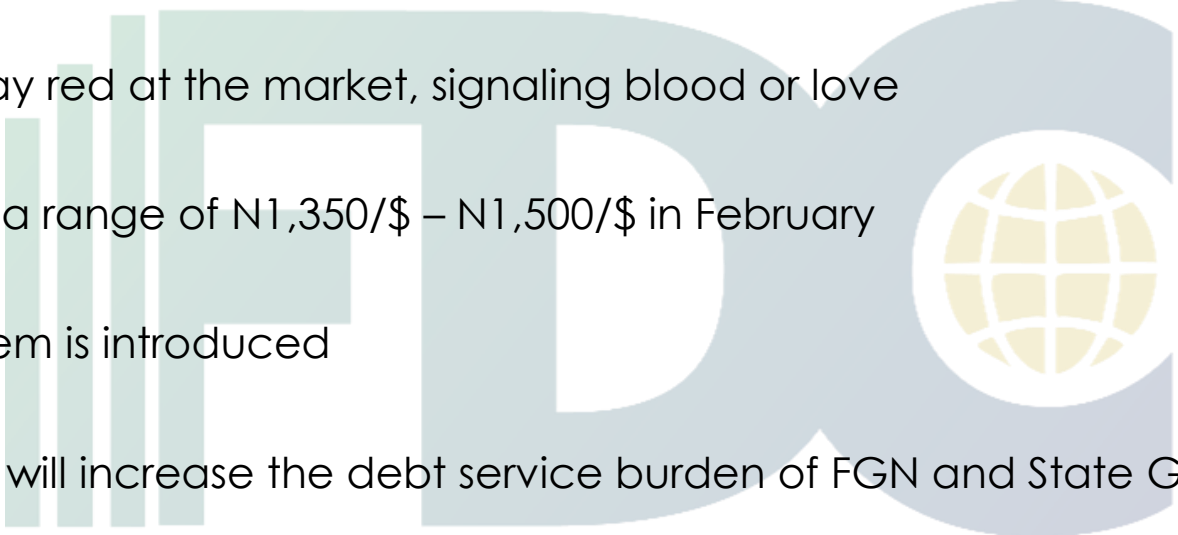


# OUTLOOK FOR FEBRUARY/MARCH

- Inflation data will show another upward trend closer to 30%
  - The MPC will tighten by 200 basis points to 20.75% p.a
  - 90-day t/bill rates already increased to 17.24%p.a
  - With a knock-on effect on lending rates to 25%p.a
  - Leading to a higher default rate in loans and impairment
  - Liquidity mopping up will be intensified through OMO bills, special deposits and higher forex sales
  - The new exchange rate impact on import duty will squeeze margins and profitability
- 



# OUTLOOK FOR FEBRUARY/MARCH

- Expect another round of exchange rate translation losses on corporate results
  - The stock market bubble will be deflated by at least 25% correction in March
  - This will make valentine day red at the market, signaling blood or love
  - The Naira will trade within a range of N1,350/\$ – N1,500/\$ in February
  - Until the new auction system is introduced
  - Higher Naira interest rates will increase the debt service burden of FGN and State Governments
  - Leading to a higher level of fiscal consolidation
  - International airlines will open up more discount fares for Nigerian travelers
- 

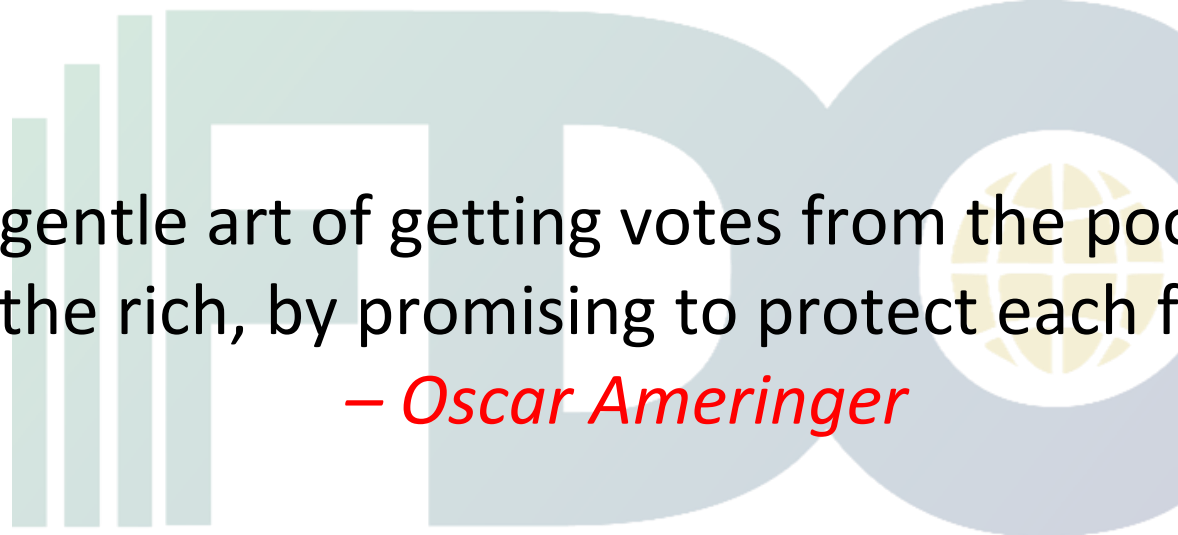




## CORPORATE HUMOUR

Practical politics consists in ignoring facts

– *Henry Brooks*



politics is the gentle art of getting votes from the poor and campaign funds from the rich, by promising to protect each from the other

– *Oscar Ameringer*

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

– *Mark Twain*





## CORPORATE HUMOUR

The road to success is always under construction .

- *Anonymous*



Behind every successful man you will find a woman  
who has nothing to wear.

- *Harold Coffin*

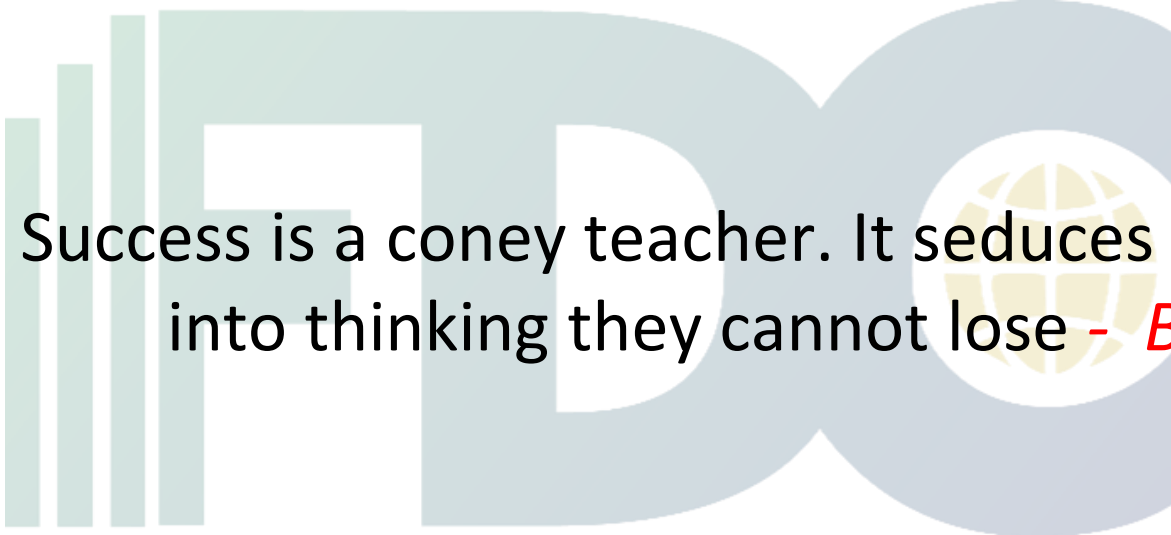
Nothing succeeds like success and certainly  
nothing fails like failure - *Margaret Drabble*



## CORPORATE HUMOUR

Those whom the gods wish to destroy they first call promising .

- *Cyril Connolly*



Success is a coney teacher. It seduces smart people  
into thinking they cannot lose - *Bill Gates*

There is no deodorant like success

- *Elizabeth Taylor*

# CORPORATE HUMOUR

The world is divided into people who do things and people who get the credit. Try, if you can, to belong to the first class. There is far less competition.

- *Dwight Morrow*

Luck like a Russian car generally only works if you push it

— *Tom Holt*

When the inventor of the drawing board messed things up, what did he go back to??

— *Bob Monkhouse*



## CORPORATE HUMOUR

Xerox' a trademark for a photocopying device that can make rapid reproductions of human error perfectly.

– *Merie Meacham*



It's easier to find a traveling companion than to get rid of one. – *Peg Bracken*

The longer the cruise, the older the passengers

– *Peg Bracken*

# CORPORATE HUMOUR

- Like all great travellers, I have seen more than I can remember, and remember more than I have seen. — Benjamin Disraeli

Love is blind and marriage is the institution of the blind. — James Graham

Life is comedy for those who think but a tragedy for those who feel. — Horace Walpole



# CORPORATE HUMOUR

- Love is an ocean of emotions totally surrounded by expenses.  
— Lord Dewar



A woman's best love letters are always written  
to the man she is betraying .

— Lawrence Durrell





**THANK YOU**

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