WHISPERS

JULY 22, 2024 | VOLUME 14 ISSUE 15

WHEN WE SPEAK, THE WORLD UNDERSTANDS

FDC LIMITED

CONTENTS

The Whispers Overview

Are "palliatives" and the new minimum wage an economic silver bullet or a grenade?

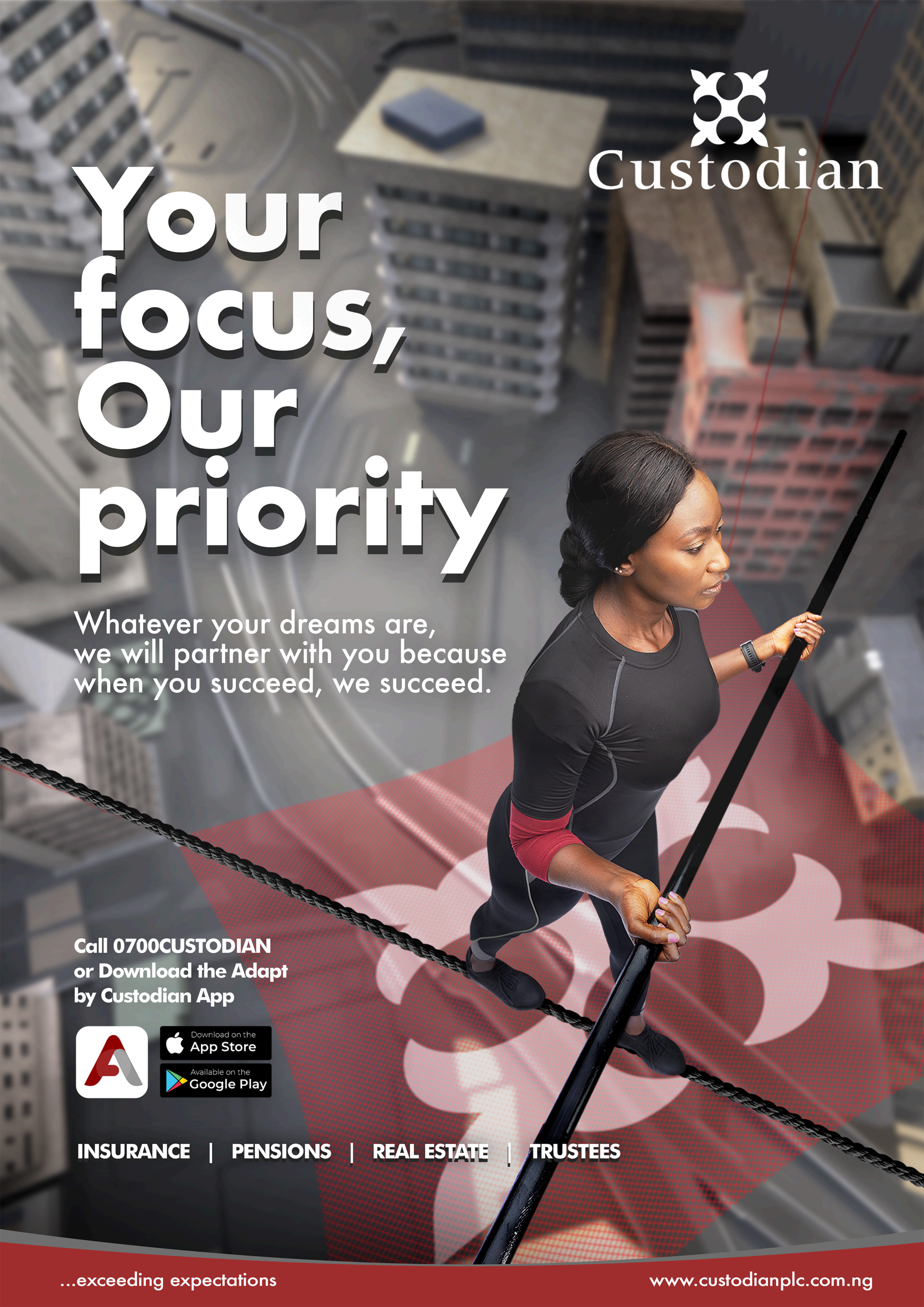
The long-awaited new minimum wage in Nigeria is now set at N70,000, a 133% increase from the previous N30,000. Although this is much lower than labour's demand of N250,000, it seems to be a fair bargain. Also, unlike 2019, this one has a 3-year tenor before renewal. The new minimum wage could be followed by a general wage adjustment for other labour cadre above the minimum wage level. National Youth Service Corp members will get at least N77,000 (minimum wage plus 10%) per month. This could bolster consumer demand and business turnover. However, as Milton Friedman averred, "There is no such thing as free lunch".

The consequential cost of the new minimum wage could heighten fiscal strain in the public sector. The fiscally struggling subnational governments are already crying out. The private sector may have to layoff more workers to be able to comply with the new wage law. At the other end of the spectrum is the inflation risk. The FGN has announced a series of fiscal interventions aimed at boosting productivity and reining in inflation. This includes unconditional cash transfers, a N2 trillion fiscal stimulus, a 150-day free import window for rice, maize, wheat, and cowpea, and the distribution of 20 trucks containing 1,200 bags of 25kg rice each to every state. However, these are not sustainable long-term strategies and could stoke inflation in the long run. To ensure lasting relief, the government should focus on boosting domestic output.

A Spotlight on the "Shadow Economy" – Nigeria's Informal Sector

Nigeria has around 40 million micro, small, and medium-sized enterprises (MSMEs), with nearly 90% operating in the informal sector. At the global level, it is estimated that this hidden giant employs over 60% of the world's workforce and contributes significantly to GDP, especially in developing economies. In Nigeria, the informal sector constitutes about 92.3% of the total employed individuals. However, factors such as multiple taxation, weak infrastructure, and financial exclusion have limited its performance over the years. Because of the prominence of this sector, the government needs to pay extra attention to ensuring its growth and creating an enabling environment where businesses can thrive.

In this latest edition of Whispers, the FDC Think Tank takes a deep dive into recent economic developments and their impact on your business and corporate strategy.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The role of the informal sector as a driver of economic growth in Nigeria

Since time immemorial, the informal sector has been at the core of economic activities in human societies. This has not changed much today. According to the International Labour Organization (ILO), about 2 billion workers, or over 60% of the world's adult labor force, operate in the informal sector.[1] ILO says that, on average, the sector contributes 35% of GDP in low- and middle-income countries and 15% in advanced economies. This shows how much countries, especially developing ones, depend on the sector for economic growth. For example, the Nigerian Bureau of Statistics (NBS) reported that the informal sector constitutes about 92.3% of Nigeria's total employment as of Q3 2023.[2] This underscores the importance of this sector in creating employment and facilitating productive activities in the economy.

Because of the prominence of the informal sector, it is important for the government to pay extra attention to ensuring its growth and creating an enabling environment where businesses can thrive. This is important because they are primarily active in the services industry that contributes over 50% to Nigeria's GDP growth.[3] However, this is a responsibility that several governments have failed at, especially in Nigeria. Businesses in the informal sector are excluded financially and lack access to infrastructure and social amenities that can help them grow. This is undeserving for a sector that contributes about 50% to the country's GDP as of 2017.[4]

With Nigeria's labour force spanning over 75 million people as at 2023[5], most workers are

1. Timi Olubiyi. 2023. How to tackle the impact of inflation on businesses and households. Punch. https://punchng.com/how-to-tackle-the-impact-of-inflation-on-businesses-households
2. Nigerian Bureau of Statistics. 2023. "Nigeria Labour Force Survey Q3 2023". https://nigerianstat.gov.ng/download/1241455
3. Nichter, Simeon, and Lara Goldmark. 2009. "Small Firm Growth in Developing Countries." World Development 37, no. 9: 1453–64.
4. Nigerian Bureau of Statistics. 2017. "National Survey of Micro Small & Medium Enterprises (MSMEs) 2017". https://nigerianstat.gov.ng/download/966
5. World Bank. 2023. "World Development Indicators database". https://data.worldbank.org/indicator/SL.TLF.TOTL.IN?locations=NG

employed in the informal sector since it's not easy for the government to provide employment for most of them.[6] This is evidenced by the informal employment rate in Q3 2023, which stood at 92.3% of total employment in Nigeria.[7] Also, according to World Bank data, the high level of illiteracy in Nigeria, which was 38% in 2018, acts as a barrier to entry into the formal sector. A recent study by Moniepoint also showed that 51.6% of business owners in the informal sector started a business because they were unemployed.[8] This emphasizes the need for the government to be actively involved in developing this sector.

Challenges facing the informal sector

Despite its importance to Nigeria's economic growth and development, the informal sector is burdened with several problems, e.g., multiple taxation, infrastructure deficit, financial exclusion, less supportive policies and legal recognition, extortion by government officials, and lack of a unified union. These problems are detrimental to the growth of these businesses, as most of them barely last five years. And even worse is that about 90% of the businesses do not earn up to N500,000 profit per month.[9]

The infrastructural deficit is one of the major constraints to the ease of doing business in Nigeria. The power infrastructure is in shambles, with multiple power grid collapses (5 times in the first and second quarter of 2024) and inadequate power to supply the needs of small businesses in Nigeria.[10] This often increases the cost of operations for businesses that depend on alternative sources of power that are usually more expensive. This was worsened by removing fuel subsidies, which increased petrol and diesel prices by about 200%. Nigeria's road network is also deplorable, which often affects the ease of moving goods and services from one place to another. The problem is deeply rooted as it affects other critical sectors like education, manufacturing, etc., all of which are key to improving the informal sector in Nigeria.

Another potent challenge facing the informal sector in Nigeria is the problem of multiple taxation. Since most businesses in the informal sector rarely keep proper records of their business. This makes it difficult to estimate the amount of tax that these businesses pay fairly, and this exposes them to extortion by various tax agents put in place by federal, state, or local governments. The government is aware of these problems, quoting Taiwo Oyedele, the Chairman of the Presidential Fiscal Policy and Tax Reforms Committee (PFPTRC):

> "We think that the informal sector consists of people who are trying to earn a legitimate living. We should allow them to be and support them to grow to a point where they can then have the ability to pay taxes. So we think 95% of the informal sector should be legally exempted from all taxes; withholding tax, company income tax, even payee on their staff, let them be."

This bold statement may hold the solution to easing one of the major problems that businesses in the informal sector face.

6. Awojobi, Oladayo Nathaniel, J. O. Y. C. E. Ayakpat, and Oladimeji David Adisa. 2014. "Rebased Nigerian gross domestic product: The role of the informal sector in the development of the Nigerian economy." International Journal of Education and Research 2.7 (2014): 301-316.

7. Nigerian Bureau of Statistics. 2023. "Nigeria Labour Force Survey Q3 2023". https://nigerianstat.gov.ng/download/1241455

8. Moniepoint. 2024. "The informal sector report 2024." 2024 Informal Report - Moniepoint

9. IBID

10. AKYUZ, M., & OPUSUNJU, M. I. 2020. "Infrastructural and performance of small and medium scale enterprises in federal capital territory (fct) Abuja, Nigeria". Journal of Global Economics and Business, 1(3), 93-108.

Financial exclusion is also a serious problem for businesses in the informal sector.[11] Only 12.2% of businesses are able to get loans from traditional banks. Every business needs capital, and because of the nature of the informal sector, getting access to such capital is usually difficult or impossible. Businesses in this sector rarely keep proper accounting records, making it difficult for banks to assess their loanworthiness. Most of them do not have collaterals that can be used to take loans from banks. So, about 70.7% of them end up getting credit from family and friends instead of banks.[12]

The way forward

While the problems may seem immense, the solutions are not far-fetched. There is a growing need for the government to massively invest in public infrastructure, e.g., power, a good road network, etc. This will create an environment where businesses can thrive, and the cost of doing business in Nigeria will fall in the process.

Tax incentives are also effective for formalising and growing the informal sector. Most people think that businesses in the informal sector do not pay tax. Meanwhile, about 88.7% of businesses in the sector have paid some sort of taxes.[13] Rather than excessively taxing those businesses, the government should provide tax incentives and grants to facilitate their expansion. With the proper incentives, some of these businesses will be onboarded to the formal sector, and the government's tax base will increase, hence boosting revenue.

Education and skill enhancement training are also crucial to developing any sector of the economy. The informal sector is not an exemption. Equipping existing and intending business owners with the appropriate skills will help them gain mastery and efficiency in their business, improving productivity.

11. Moniepoint. 2024. "The informal sector report 2024." 2024 Informal Report - Moniepoint
12. IBID
13. IBID

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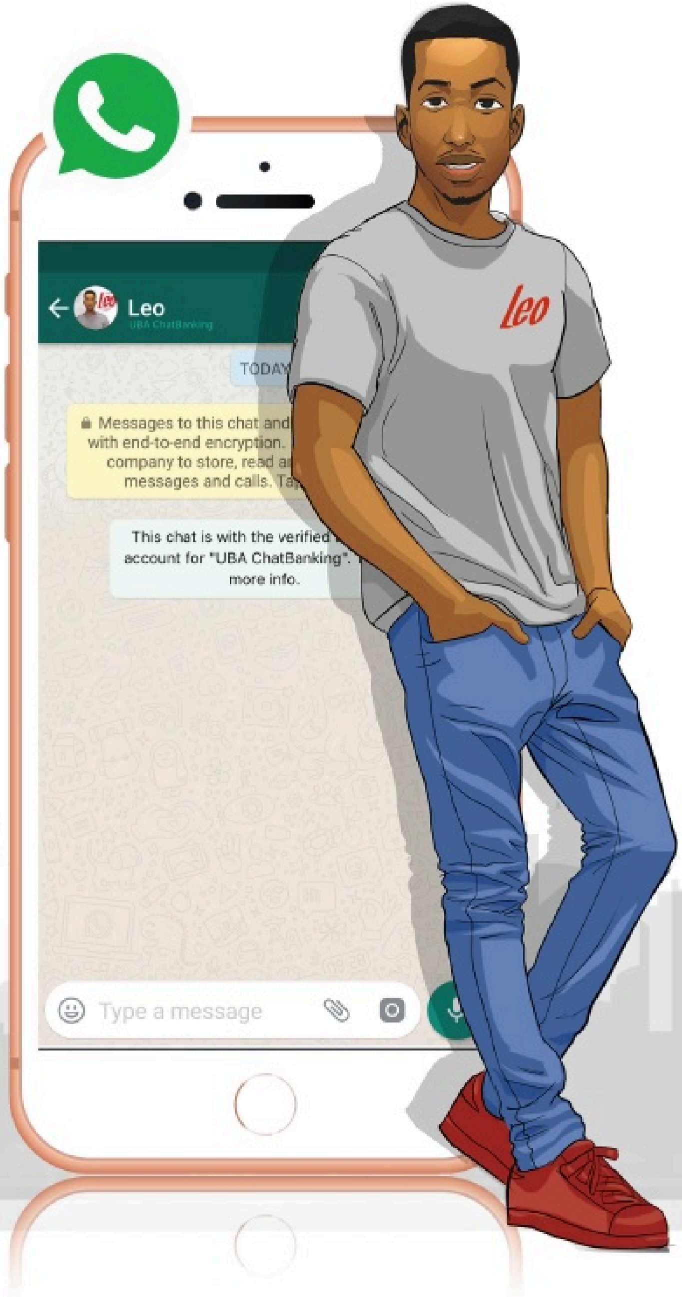

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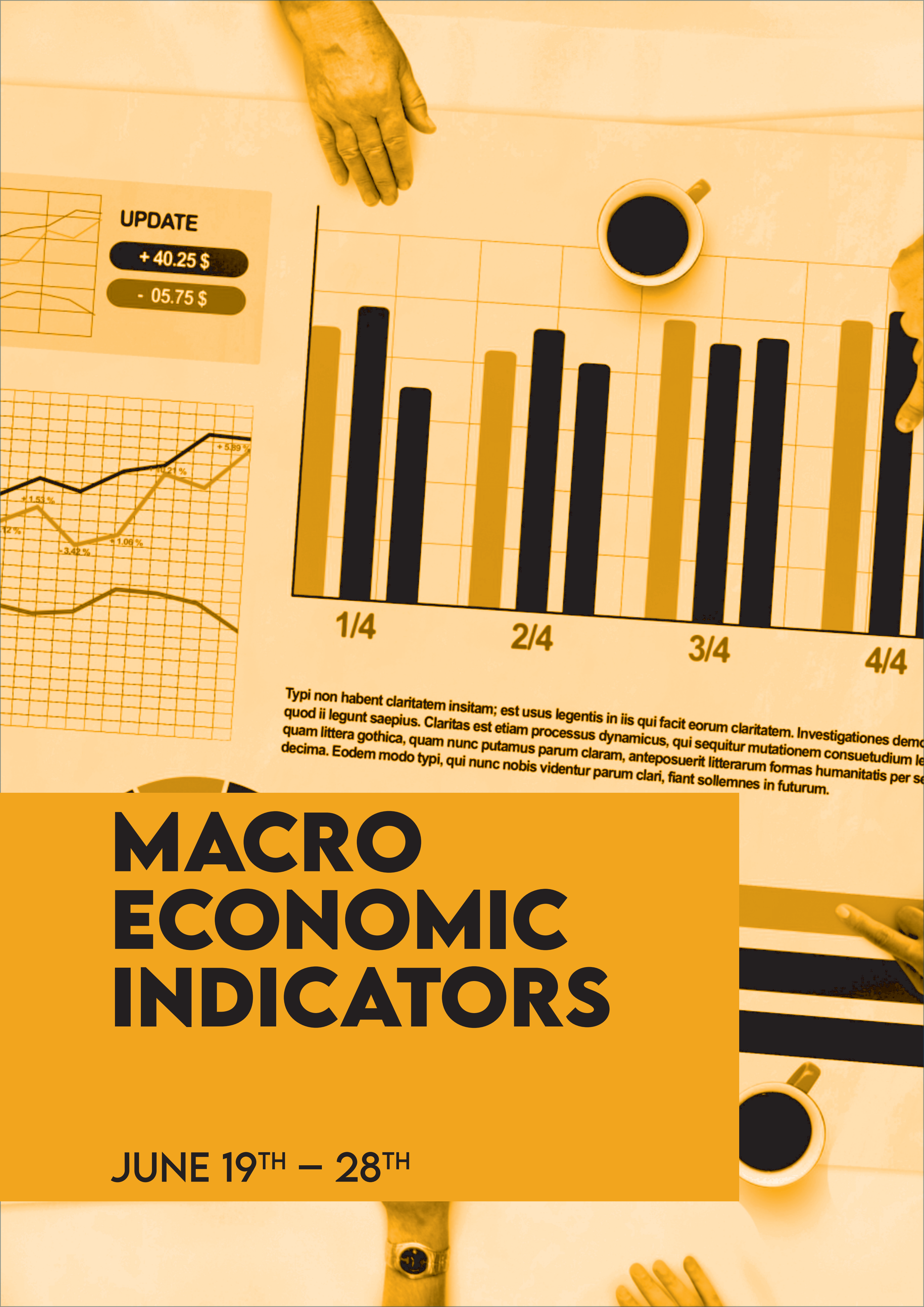


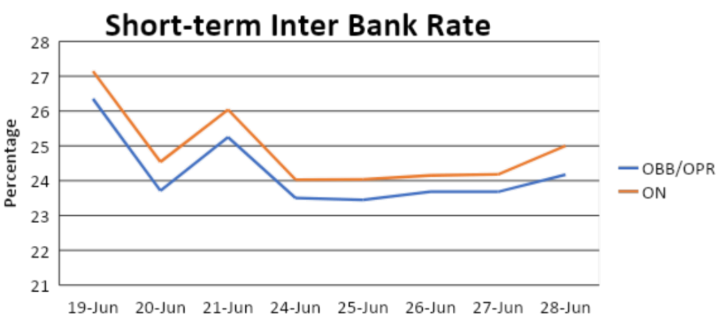
MACRO ECONOMIC INDICATORS

JUNE 19TH – 28TH

MONEY MARKET

Banks' average opening position was N721.04bn long in the second half of June, compared to the average of N257.78bn short in the second half of May. One OMO sale was made during the period, with no OMO repayments. Short-term interbank rates (OPR, O/N) averaged 24.56% p.a. in the review period, 638bps down from the average of 30.94% p.a. in May.

One primary market auction was conducted in the second half of June. A total sum of N284.26bn was allotted, 55.51% lower than the total sum of N638.98bn allotted in the same period in May. However, primary market repayment amounted to N238.74bn. Primary market rates remained flat at the 91-day tenor and 182-day tenor but increased by 18bps at the 364-day tenor, whereas at the secondary market, all yields increased at all the tenors.



Source: FDC Think Tank

Tenor	Primary market (June 5th, 2024) (%)	Primary market (June 26th, 2024) (%)	Secondary market (June 19th, 2024) (%)	Secondary market (June 28th, 2024) (%)
91-day	16.50	16.30 ▼	18.79	18.79 ⟷
182-day	17.50	17.44 ▼	20.00	20.15 ▲
364-day	20.67	20.68 ▲	20.60	20.30 ▼

Source: FMDQ, FDC Think Tank

Outlook and Implication

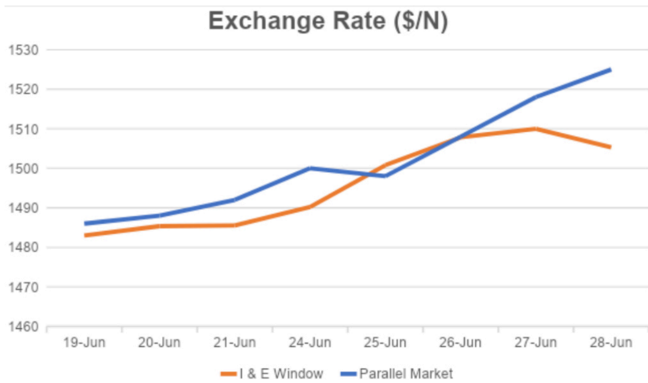
Short-term interbank rates are expected to remain elevated, as we anticipate that the CBN will maintain its current stance in the July MPC meeting. This will likely keep interbank rates bullish, trading in double digits.

FOREX MARKET

Transparency and liquidity in the forex market has improved following reforms by the CBN in the past year. The official and parallel market rates now trade around similar levels and International Oil companies can now sell 50% of repatriated export proceeds which is favourable for liquidity. Some key factors affecting the exchange rate include balance of payments, capital inflows, and trade balance.

EXCHANGE RATE

At the Investors' and Exporters' Foreign Exchange window, the naira depreciated by 1.48% against the dollar to close at N1505.3/$ on June 28 from N1483.02/$ on June 19. Similarly, at the parallel market, the currency depreciated by 2.56% to N1525.00/$ on June 28 from N1486.00/$ at the beginning of the review period due to inflation and increased demand for foreign exchange.



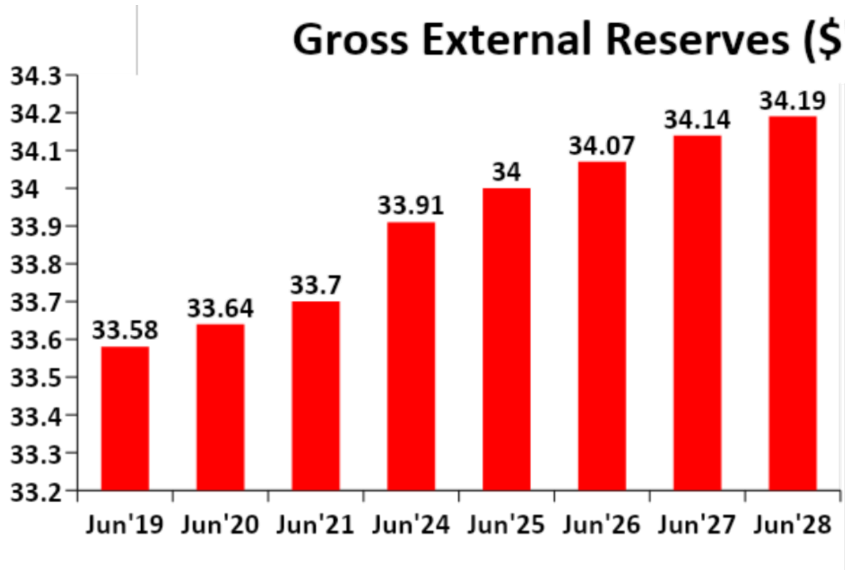
Source: FDC Think Tank

Outlook

The naira is anticipated to stabilize in the near term as the CBN intervenes in the forex market with the help of loans from the World Bank. Additionally, we expect the CBN to remain hawkish in the upcoming July MPC meeting, attracting foreign capital due to higher yields.

EXTERNAL RESERVES

The country's external reserves rose by 1.82% to close at $34.19bn on June 28, up from $33.58bn on June 19. On average, gross external reserves increased by 3.70% ($1.21bn) from $32.69bn in the same period in May. This steady increase in gross external reserves can be attributed to the inflow of a $2.25 bn loan from the World Bank to help stabilize the economy.



Source: CBN, FDC Think Tank

Impact

A sustained increase in external reserves will help stabilize the naira by enabling the CBN to intervene in the forex market as needed. Additionally, it will boost investor confidence in the economy.

Outlook

In the near term, we anticipate a steady improvement in external reserves, driven by projected growth in oil export earnings as the NNPC has announced that it will anchor oil production at 2mbp.

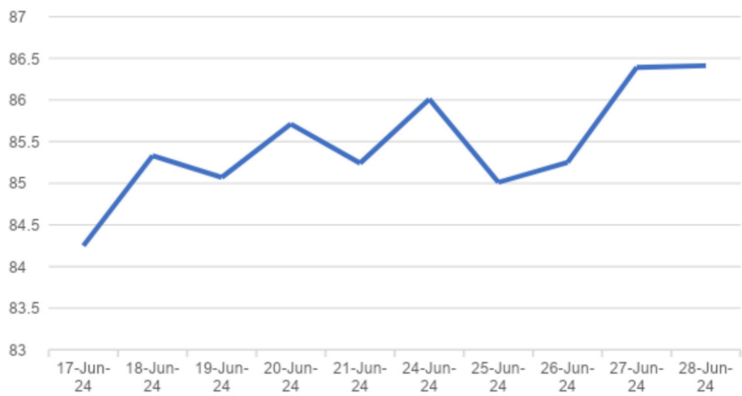
COMMODITY EXPORTS

Nigeria is an export-dependent economy. It derives over 80%-90% of its export revenue from crude petroleum and LNG.

OIL PRICES

During the review period, Brent's price increased by 2.56% to close at $86.41 per barrel on June 28, up from $84.25 per barrel on June 17. The rise was primarily driven by expectations of higher demand during the summer, following analysts' forecasts of a surge in holiday travel. On average, Brent rose by 3.22%, reaching $85.47 per barrel in the latter half of June, compared to $82.80 per barrel during the corresponding period in May.

The EIU expects oil prices to remain volatile, forecasting an average of $83.7 per barrel for Brent crude in 2024 and $80.6 per barrel in 2025. Any threats to oil shipments, especially from potential conflict between Iran and Israel, could push prices above $100 per barrel. OPEC+ is maintaining its reduced output quotas and voluntary production cuts, extending them until the end of 2025. This is expected to support higher prices, despite an initial dip below $80 per barrel in early June when traders took profits after news of Saudi Arabia's plan to gradually roll back voluntary cuts starting in October 2024.



Source: Bloomberg, FDC Think Tank

Outlook

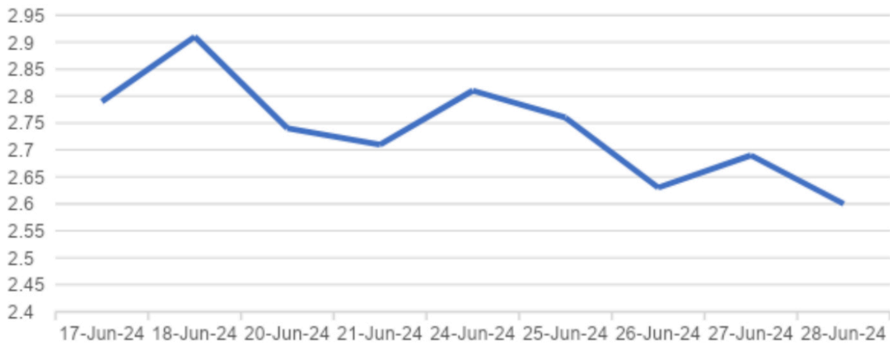
Due to increased summer demand, oil prices are expected to remain bullish in the near term. The American Automobile Association forecasts a 5.2% rise in holiday travel, predicting 60.6 million travelers in 2024, up from 57.8 million in 2023.

Implication

The rise in oil prices is expected to boost Nigeria's oil revenue and improve external reserves, positively affecting the exchange rate.

NATURAL GAS

During the review period, the price of natural gas sharply declined by 6.81%from $2.79/MMBtu on June 17 to $2.60/MMBtu on June 28. This decrease was driven by a robust supply from the U.S., the global top producer, and further supported by lower imports from China, the leading importer of natural gas. On average, the price of natural gas during the review period increased by 4.58%, reaching $2.74/MMBtu compared to an average of $2.62/MMBtu in the corresponding period in May.



Source: Bloomberg, FDC Think Tank

Outlook

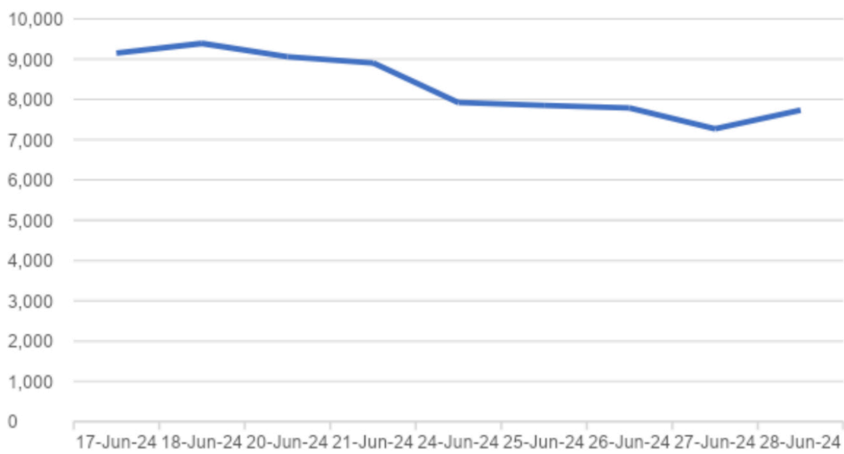
Gas prices are expected to decline in the near term due to the abundant gas supply from the U.S. This decline is further supported by cooler weather forecasts and milder heat predictions for late July.

Implication

A decline in LNG prices will reduce Nigeria's foreign reserves and export earnings. Additionally, natural gas earnings are expected to fall further due to decreased domestic production.

COCOA

The price of cocoa plunged in the second half of June to $7,731/mt from $9,151/mt on June 17. This price decline is mainly attributed to optimism regarding seasonal rainfall in top cocoa-producing countries like Ivory Coast and Ghana, which is expected to bolster production. On average, the prices increased by 1.96% to $8,340/mt in the second half of June compared to $8,179/mt during the same period in May.



Source: Bloomberg, FDC Think Tank

Outlook

In the short term, due to tight supplies, cocoa prices are anticipated to rise. Ghana, the second-largest cocoa producer, plans to defer the delivery of up to 350,000 tons of beans to next season. Additionally, the increase in cocoa prices will be bolstered by a decrease in cocoa inventories held in the U.S., as reported by the International Commodity Exchange.

Implication

Increased cocoa production will enhance foreign earnings and non-oil export revenues, thereby improving external reserves. However, government support for cocoa farmers is essential to bolster production and capitalize on global price increases.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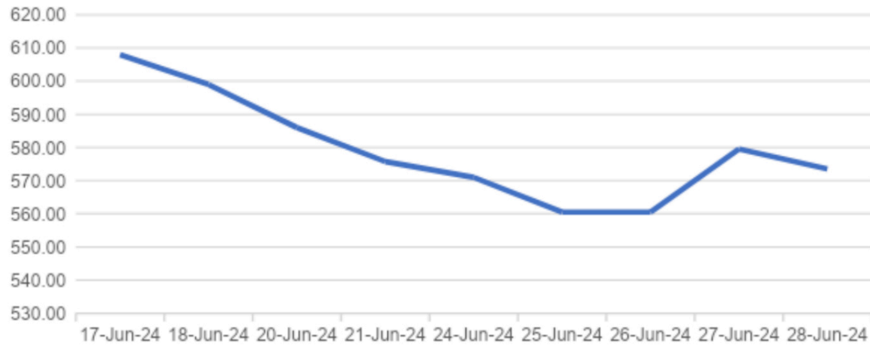
COMMODITY IMPORTS

WHEAT

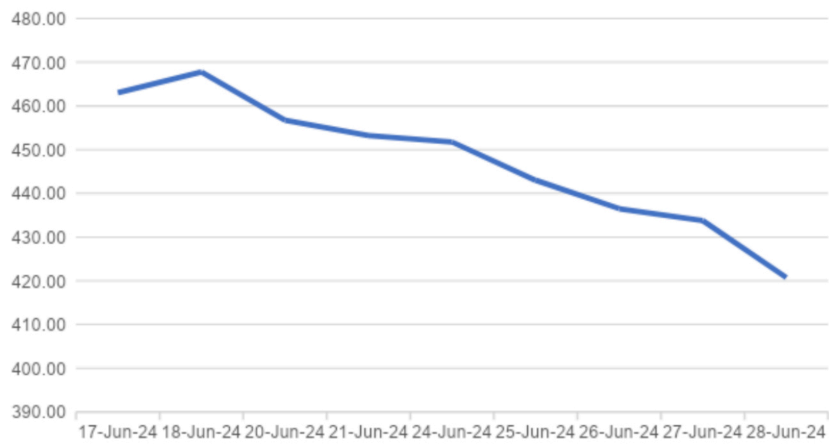
In the review period, the price of wheat fell by 5.35% to $573.50/bushel on June 28 from $608.00/bushel. This decline was triggered by ample supplies from Russia and India, as both countries reduced export duties on wheat. Rapid progress in the U.S. wheat harvest also supported the price. Wheat prices plunged by 15.50% to $579.31/bushel during the review period, down from an average of $685.59/bushel in the second half of May.



Source: Bloomberg, FDC Think Tank

CORN

In the review period, the price of corn plummeted by 9.13%, declining from $463.00/bushel to $420.75/bushel on June 28. This decrease in corn price was driven by larger corn acreage estimates in the U.S. and supported by ample supply in the U.S. Corn prices stood at $447.39/bushel in the second half of June, marking a 2.17% decrease from the average of $457.34/bushel in the second half of May.



Source: Bloomberg, FDC Think Tank

Outlook-grain

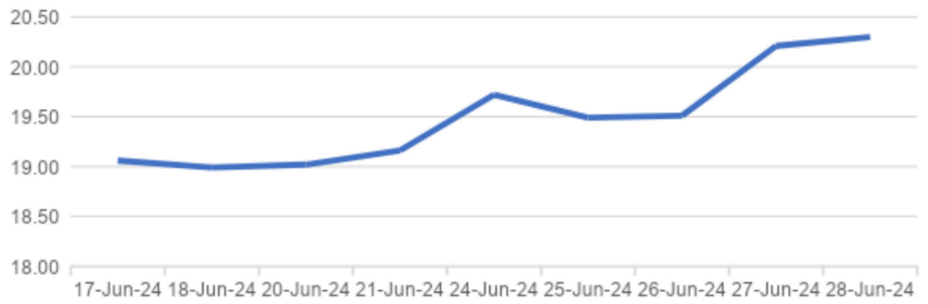
Grain prices are expected to decline in the near term due to abundant supplies from leading producers, such as the U.S., Russia, and India. The U.S. has reported larger-than-expected corn acreage and is advancing in its wheat harvest, while Russia and India are exporting grains at competitive prices.

Impact-grain

The fall in grain prices is anticipated to lower import costs, impacting production expenses for manufacturers and the prices of grain derivatives like cornflakes, wheat flour, and bread. This will mitigate inflationary pressures. The price of 50kg of flour has remained flat at N59,000 over the past month and could start to decline in the near term.

SUGAR

During the review period, the price of sugar rose by 6.51% to $20.30/pound on June 28 from $19.06/pound on July 17. This increase was driven by poor sugar production in India due to crop disease, specifically red rot, and was supported by an extension of restrictions on Indian sugar exports. On average, the price of sugar stood at $19.50/pound in the review period, indicating a 6.51% increase of $18.38/pound in the second half of May.



Source: Bloomberg, FDC Think Tank

Outlook

The price of sugar is anticipated to remain bullish in the near term due to concerns over global production in India and Thailand, exacerbated by unfavorable weather conditions.

Implication

The elevated sugar prices will raise Nigeria's import bill and deteriorate its trade balance. Additionally, they will intensify inflationary pressures as prices of sugar derivatives increase.

Terms of trade

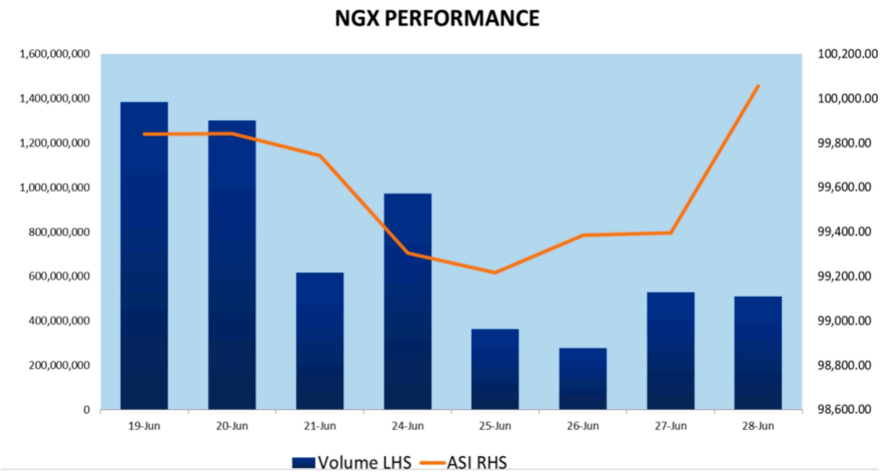
In Q1'24, the country's terms of trade decreased by 0.12% and are expected to remain negative in the near term. This is due to the 2.34% decline in Nigeria's oil production to 1.25 million barrels per day in May from 1.28 million barrels per day in April. Similarly, falling cocoa prices below $8,000/mt and low output will further deteriorate the trade balance.

STOCK MARKET REVIEW

JUNE 19TH– 28TH, 2024

Volume 14 Issue 15

The Nigerian Stock Exchange closed positive from June 19th–28th, 2024. It gained 0.22% to close at 100,057.49 points on June 28th, up from 99,840.95 points on June 19th. The market capitalization rose by 0.21%, reaching N56.60 trillion compared to N56.48 trillion on June 19th.



Source: NGX, FDC Think Tank

The market's YTD return was 33.81% in the reviewed period. The market breadth was positive at 1.75x, as 56 stocks gained, 66 remained unchanged, and 32 lost. The positive performance was fueled by investors' confidence in the listed companies despite ongoing economic challenges such as inflation and a depreciating exchange rate.

The market activity level was positive in the review period. The average volume traded increased by 88.91% to 743.91mn units from 393.80mn units. Similarly, the average value of trades rose by 71.18% to N12.89bn from N7.53bn in the second half of May.

Sector performance was mixed, with three sectors gaining and two losing. The Oil and Gas sector saw a 5.84% increase, followed by the Insurance sector (2.13%), and the Banking sector (0.58%). Conversely, the Industrial sector declined by 0.23%, and the Consumer Goods sector (-0.23%).

SECTOR PERFORMANCE

Industrial	Oil &Gas	FMCG	Insurance	Banking
-0.23	5.84	-0.18	2.13	0.58

TOP 5 GAINERS

CWG Plc, a Pan-African system solutions company providing a diverse range of IT services such as communications and integration, infrastructure, managed support, cloud services, and software, led the gainers' list with a 50.00% increase in its share price. This surge was driven by strong buying interest in the company's stocks. This was followed by John Holt Plc (44.70%), Thomas Wyatt Nig. Plc (37.93%), Secure Electronic Technology Plc (28.26%), and United Capital Plc (26.19%).

TOP 5 LOSERS

The laggards were led by Regency Assurance plc, a leading insurance company, (-14.89%), Jaiz Bank Plc (-11.36%), NEM Insurance Plc (-10.99%), Deap Capital Management &Trust Plc (-10.34%), and Multiverse Mining and Exploration Plc (-9.68%).

TOP 5 GAINERS

Company	June-19 (N)	June-28 (N)	Absolute Change	Change (%)
CWG	5.30	7.95	2.65	50.00
JOHNHOLT	2.17	3.14	0.97	44.70
THOMASWY	1.74	2.40	0.66	37.93
NSLTECH	0.46	0.59	0.13	28.26
UCAP	21.00	26.50	5.50	26.19

TOP 5 LOSERS

Company	May-16 (N)	May-31 (N)	Absolute Change	Change (%)
REGALINS	0.47	0.40	0.07	-14.89
JAIZBANK	2.20	1.95	0.25	-11.36
NEM	9.55	8.50	1.05	-10.99
DEAPCAP	0.58	0.52	0.06	-10.34
MULTIVERSE	12.40	11.20	1.20	-9.68

Outlook

The stock market was positive in the second half of June, with the ASI rising to 100,057.49 points on June 28, driven by renewed investor confidence despite economic challenges. The Oil and Gas, Insurance, and Banking sectors contributed to the market's positive close. In the near term, we anticipate the market will remain bullish, driven by the banking recapitalization exercise and increased stability in the forex market.

WHISPERS OUTLOOK

- Inflation is expected to peak in July as base effects kick in. However, the recent depreciation of the naira could stoke price pressures.
- We expect the exchange rate to stabilize in the near term and trade in the range of N1,500/$ - N1,600/$ as the CBN continues to intervene. On July 18th, the CBN sold $20,000 to each BDC at the rate of N1,450/$1.
- The MPC is likely to raise the MPR mildly by 50bps at its July 23 rate-setting meeting as economic output shows signs of stagnation.
- This could renew investor sentiment in the equities market.