

The Impact of the Capital Market on Nigeria's Economic Growth.

Olufemi AWOYEMI *mni*,
Friday, September 23, 2022
Uyo, Akwa Ibom State, Nigeria



5 Things I wish to Cover in Keynote.

- ① The Global **Economy and Investments**; nay Capital Markets
- ② The Current State of the Nigerian Economy & **Key Economic Indicators for the Markets.**
- ③ The **State of the Market** & Key Developments OR Change Triggers
- ④ Imperatives for a **Fit-for-Purpose Capital Market needed** for Sovereign Economic Growth & Development.
- ⑤ Of Chance, Time and Opportunity – **The imperative of Now** (to make changes)!

Introduction.



Introduction

1/2

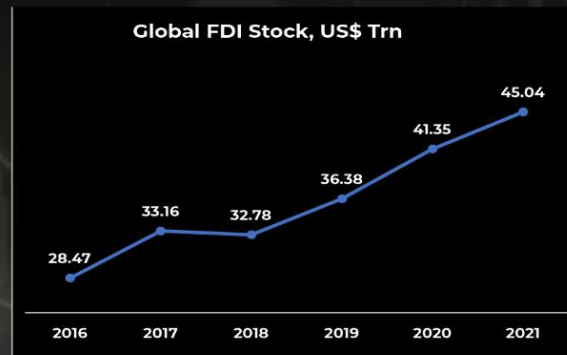
- The Capital Market is buffeted by a variety of issues that require synthesis
- Resolving these issues would greatly determine the future of not just the markets but also the behavior of its participants.
- These topics must be explored in order to prevent self-interested participants from jeopardizing the market's future as a crucial tool for capital intermediation.

The Global Economy and Investments: *Recession Fears and the broader Impact of Inflation on the Global Financial Market.*



The Current State of the Nigerian Economy & Key Indicators for the Markets

GLOBAL EQUITY INDEX & GLOBAL FDI STOCK (US\$ Trn) 2016 - 2021



Source: MSCI, Proshare Research

Proshare.

Global Equity Index & FDI 2016 - 2021

- Ⓟ Inflation rose to a 17-year high of 20.52% in August from the 16.98% recorded in FY 2021 due to the current economic headwind
- Ⓟ However, the Economy expanded with the GDP growing to 3.32% in H1 2022, following a more improved Q1 2022 growth of 3.11% and a 3.54% growth in Q2 2022.
- Ⓟ MPC raised the interest rate by 250bps to 14.0% in July while the PMI also declined to 52.30 in August 2022.
- Ⓟ Foreign reserves decreased from US\$ 40.52bn as of 2021 to US\$ 39.18bn as of August 2022 due to reduced NNPC remittances and CBN intervention

- The aggressive rate hikes signalled global recession and led to increased outflows of equity funds
- Conversely, the 10-year US treasury notes yields rose from 1.5% as of 2021 to 3% as of May 2022, causing many investors to consider fixed-income securities as a better investment alternative.
- The anticipation of a continuous hawkish stance raised the yields higher than 3% and the Fed's hiking cycle is expected to continue

Emerging & Frontier Markets: *The Pressure of Capital Flow Reversal Triggering Domestic Inflation.*



Emerging & Frontier Markets:

The Pressure of Capital Flow Reversal Triggering Domestic Inflation

- Cross-border portfolio investment halted in many emerging markets and some advanced economies in response to the Fed rate hike
- Portfolio inflows to emerging markets began to decline as investors began to bet on tighter US monetary policy and weaker EM currencies.
- While more advanced economies have liquidity buffers from the fiscal spending from previous years, the same cannot be said about emerging markets

INFLATION AND INTEREST RATES IN EMERGING MARKET ECONOMIES (EMES) JULY/AUGUST 2022



	Inflation Rate	Interest Rate	10-year Treasury Yield
Brazil	9.6% ↓	13.75% ↔	3.5%
China	2.5% ↑	3.65% ↔	2.68%
Russia	20.5% ↓	7.5% ↓	10.38%
Turkey	80% ↑	13% ↔	11.3%
India	7% ↑	5.45% ↑	7.26%
South Africa	7.6% ↓	5.5% ↑	10.48%

Source: Proshare Research

Proshare.

SNAPSHOT OF THE NIGERIAN ECONOMY



GDP (%)

Q1 2022	3.11
Q2 2022	3.54

Inflation (%)

FY 2021	16.98
July 2022	19.64

MPR (%)

Beginning of 2022	3.11
Q2 2022	3.54

Trade balance (N Trillion)

Q1 2022	-1.89
Q2 2022	1.2

Foreign Reserves (USD bn)

Dec 2021	40.52
August 2022	39.18

Debt to GDP (%)

Dec 2021	22.47
June 2022	23.27

Exchange Rate (N/\$)

Jan 2021	570
Sept 2022	705

Unemployment Rate

Q4 2020	33.3
Sept 2022	NA

CRR (%)

Dec 2021	27.50
Sept 2022	27.50

Av. Crude Oil Production (mbpd)

2021	1.60
July 2022	1.08

Crude Oil Price (\$/Barrel)

2021	70.68
Sept 2022	97.02

Stanbic IBTC PMI (COMP.)

July 2021	55.4
August 2022	52.30

Source: CBN, NBS, Proshare Research

Proshare.

The Current State of the Nigerian Economy & Key Indicators for the Markets

- Inflation rose to a 17-year high of 20.52% in August from the 16.98% recorded in FY 2021 due to the current economic headwind
- However, the Economy expanded with the GDP growing to 3.32% in H1 2022, following a more improved Q1 2022 growth of 3.11% and a 3.54% growth in Q2 2022.
- MPC raised the interest rate by 250bps to 14.0% in July while the PMI also declined to 52.30 in August 2022.
- Foreign reserves decreased from US\$ 40.52bn as of 2021 to US\$ 39.18bn as of August 2022 due to reduced NNPC remittances and CBN intervention

The State of the Market & Key Developments or Change Triggers

- Ⓟ Given its role in capital formation, the Nigerian capital market is an important avenue for growth
- Ⓟ SEC should primarily be focused on the regulation of the capital market. However, Analysts have argued that the regulatory body has laid much more emphasis on revenue generation and veered off its primary role

THE ROLES OF THE SECURITIES AND EXCHANGE COMMISSION (SEC)



Safety

- Ⓟ Ensure safety of innovations to investors
- Ⓟ Protect market integrity

Market/Financial Deepening

- Ⓟ Facilitate innovation to birth new products that serve genuine investor needs

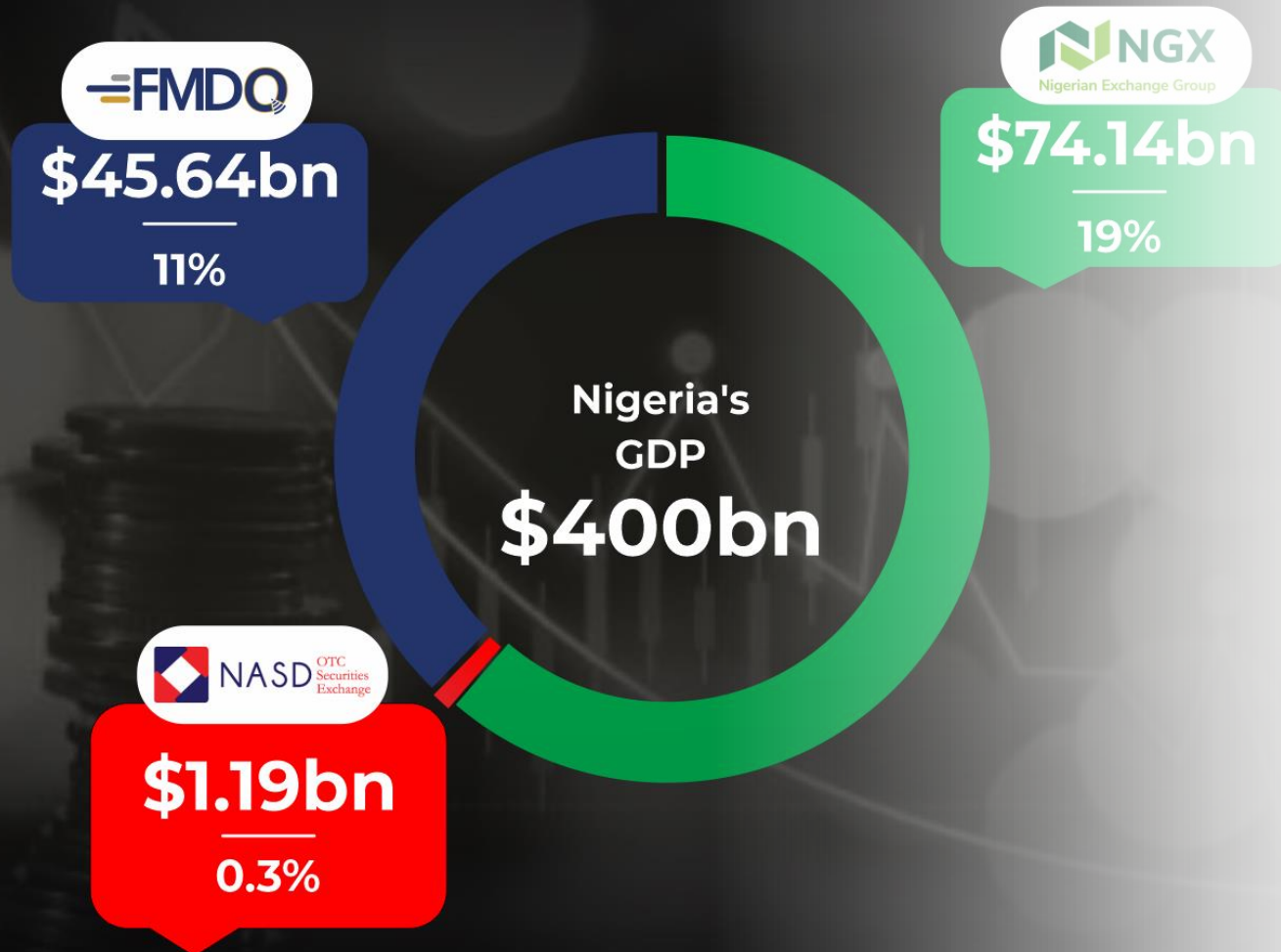
Solution to existing problems

- Ⓟ Provide tools to promote regulatory compliance
- Ⓟ Provide tools to enhance regulatory supervision

Source: SEC, Proshare Research

Proshare.

NIGERIAN CAPITAL MARKET SIZE AS A PROPORTION OF THE GDP IN 2021



- ❏ Experts have argued that the capital market is not a representation of the Nigerian Economy as investors are restricted to the variety of instruments available in the market Unlike advanced economies whose capital market reflect their GDP, such as United Kingdom, USA and South Africa
- ❏ The Market Capitalization to GDP ratio (of the NGX), which stood at 29.7% in December 2007, has declined to 18%, showing that key players in growth sectors in the Nigerian Economy do not have their securities listed on the capital market.

The capital market also faces the following challenges:

- ❶ Lack of collaboration between stakeholders
- ❶ Trust Deficit in Fund Managers
- ❶ High cost of Transaction and Double taxation
- ❶ Outmoded set of guidelines in a Changing World
- ❶ Technology and Market Infrastructure

Proshare **Confidential**

**NSE 10 Years After A Takeover:
The Good, The Bad And Undecided**

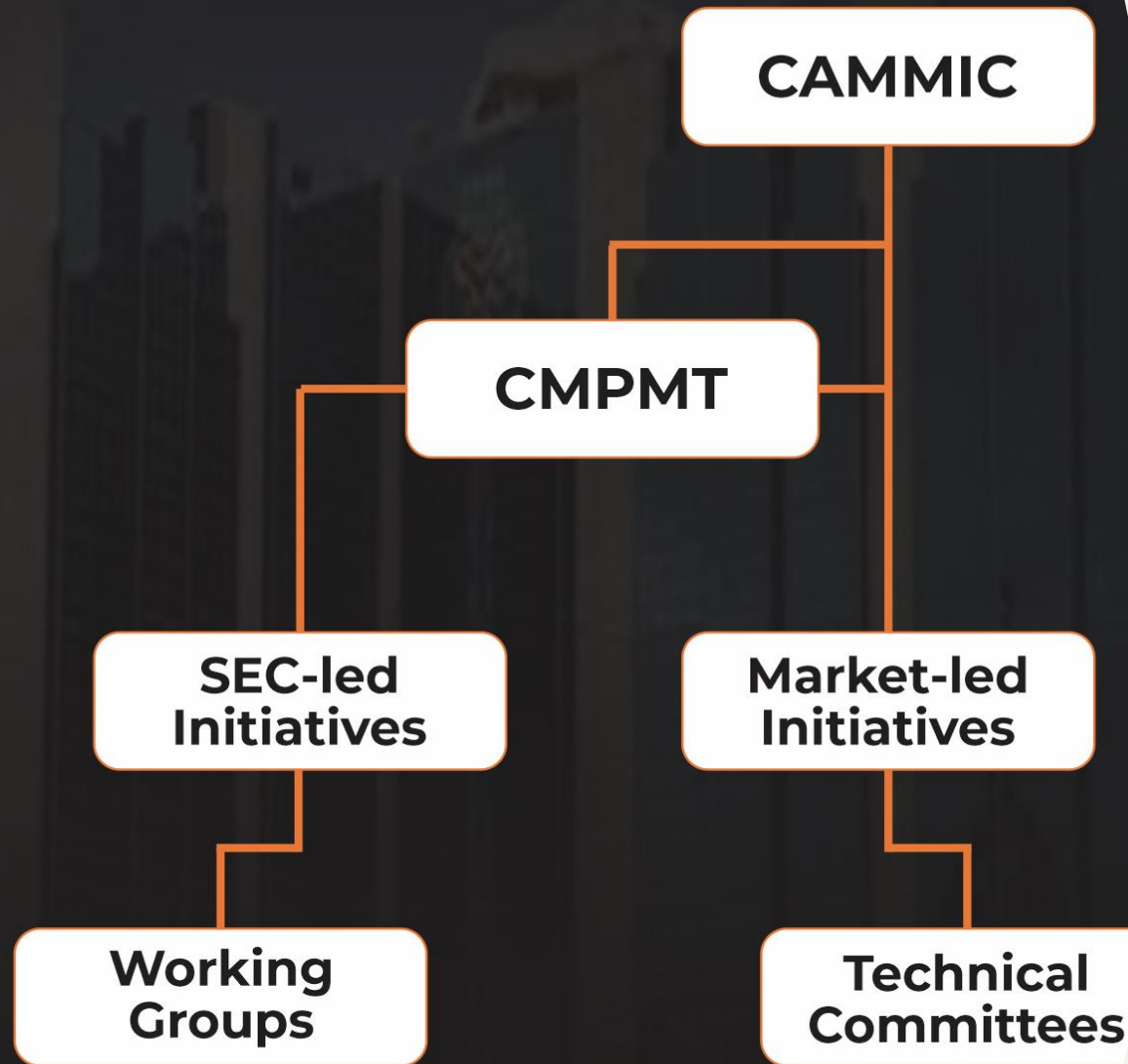
September 2020

proshare
MARKETS

1603 - 8842 Vol. 1 No. 235

For further information see the link below <https://www.proshare.co/articles/nse-ten-years-after-a-takeover-the-good-the-bad-and-undecided>

IMPLEMENTATION ARCHITECTURE OF THE CAPITAL MARKET MASTER PLAN 2015-2025



Imperatives for a Fit-for-Purpose Capital Market needed for Sovereign Economic Growth & Development.

- An ideal capital market is needed for the effective implementation of the existing plans and policy programmes particularly in regard to the **Capital Market Master Plan 2015-2025** which was aimed at deepening the Nigerian capital market.
- There are several grey areas that need to be addressed by SEC, Capital Market Masterplan Implementation Committee and other stakeholders which would lead to proper representation of the plan to promote greater investor confidence, that will aid domestic and foreign participation.

Close.



NIGERIA'S CAPITAL MARKET: OF CHANCE, TIME, AND OPPORTUNITY



Of Chance, Time, and Opportunity



Professional market training. No room for monopoly (Torpedoing the CISI Bill)



New framework for centralized asset depositories (the age of consolidation, and DLT, S4, and AI/ML)



Regulatory focus (pivoting from revenue generation to fit-for-development SEC oversight/regulation)



Review of Ten-Year Rule for Managing Directors (the need for a new regulatory paradigm)



Revising the growth board of equity exchanges into incubators for corporate growth (to widen sector coverage in proportion to GDP)

Source: Proshare Research

Proshare.

Of Chance, Time, and Opportunity

- Ⓟ The SEC's mandate/focus should be on market development rather than revenue generation
- Ⓟ Address overlap(s) amongst regulatory agencies for smoother decision and rule making in and around the capital market (SEC, CBN, FCCPC, FRC, CAC).
- Ⓟ Accountability for Delivering on future-ready market as master-plan execution forms the basis of performance appraisal?
- Ⓟ Pricing of equity assets suggests market weakness
- Ⓟ Centralized asset depositories in the country.
- Ⓟ The monopoly in professional training of capital market 'participants.'



Enlightenment brings about **innovation** to achieve **impact**.
But
For innovation to be meaningful it must be inclusive, equitable, and reliable. Nigeria's capital market and its operators must come to terms with this soft rule

14

Thank You.



**Market
Intelligence.**



**Impact
Research.**



**Digital
Media.**



**Strategic
Advisory.**



**Stakeholder
Relations.**

Proshare.