

Nigeria's Post Covid-19 Economic Outlook^{1,2,3}

Ayo Teriba

CEO, Economic Associates

ayo.teriba@econassociates.com

Author page: <http://ssrn.com/author=358232>

01 May 2020

Contents	1
Abstract	2
1. Global Realities- Covid-19 Pandemic Intensifies the Twin-Gluts	3
a. Diverging Economic and Financial Paths	
b. How the Divergence has Unfolded	
c. Impact of Covid-19 on the Divergence	
d. Realigning AfCFTA and Eco with Reality	
2. The National Liquidity Challenge- It is High Time We Changed the Narratives	6
a. <i>Types of Illiquidity: The Problems</i>	
b. <i>Overcoming Illiquidity: The Prognosis</i>	
c. <i>Ways of Unlocking Liquidity: The Solutions</i>	
3. Liquidity-Growth-Stability Nexus- Getting the Level of Liquidity 'Right'	9
a. <i>Liquidity Thresholds- Hurtful vs. Helpful Levels of Liquidity</i>	
b. <i>Liquidity Headwinds- How Illiquidity Holds the Economy Down</i>	
c. <i>Confronting Headwinds- How Our Peers Overcome Illiquidity</i>	
4. Liquidity Tailwinds- Global and Domestic Silver Linings	14
a. <i>Global Liquidity Glut and EMEs Liquidity Race</i>	
b. <i>Vast Stocks of Underexploited but Valuable Assets</i>	
c. <i>Time to Realign Income, Assets and Liabilities</i>	

¹ I acknowledge helpful insights from His Excellency, the Vice President of the Federal Republic of Nigeria, Professor Yemi Osinbajo, members of the National Council on Privatization (NCP), Director General of the Bureau of Public Enterprises (BPE), Mr. Alex Okoh and fellow members of the Technical Committee (TC) of the NCP, as well as members of the BPE Workgroup on *Unlocking Liquidity*, former Honourable Minister, Dr. Okechukwu Enalaham and participants at two annual strategy retreats of the Federal Ministry of Industry, Trade and Investment, Economic Adviser to the President, Dr. Adeyemi Dipeolu and fellow members of the Board of Economic Advisers, Professor Ademola Oyejide and participants at the Ibadan School of Government and Public Policy (ISGPP) one-day Workshop on 'Transiting from Bust to Boom: Fiscal, Financial, and Infrastructure Options' held in Ibadan on 31 January 2018, Professor Ibi Ajayi and participants at the Annual Lecture of the Nigerian Economic Society (NES) on 'Harmonization of Fiscal and Monetary Policies in Nigeria' delivered in Abuja on 19 April 2018, Nafisat Olabisi and Maryjane Chigbo for conscientious analysis of data, and Silvia Lambiase for excellent editorial inputs.

² This paper builds on Teriba, A. (2019), '*Unlocking Liquidity in Nigeria*', ssrn.com/abstract=3454652, Teriba, A. (2018), '*Harmonization of Fiscal and Monetary Policies in Nigeria*' ssrn.com/abstract=3163481, Teriba, A. (2017a), '*It Is Time to Resolve Nigeria's Monetary Policy Conundrums*', ssrn.com/abstract=2947533, Teriba, A. (2017b), '*Nigeria's Economic Outlook in 2017*', ssrn.com/abstract=2939899, Teriba, A. (2016), '*This Time is Different: There is a Clear Way Forward for the Nigerian Economy*', ssrn.com/abstract=2813560, Teriba, A. (2015a), '*Nigeria's Post-Election Economic Realities*', ssrn.com/abstract=2628976, Teriba, A. (2015b), '*Nigeria's Economic Outlook in 2015*', ssrn.com/abstract=2563975, Teriba, A. (2013a), '*Puzzles About Monetary Policy in Nigeria*', ssrn.com/abstract=2442602, and Teriba, A. (2013b), '*A Reality Check on Fiscal Policy in Nigeria*', ssrn.com/abstract=2442589. Sections 2 to 4 refine issues raised in Teriba (2019).

³ Except otherwise indicated, data plotted in all the charts are from World Bank's *World Development Indicators* online database.



Abstract

In last decade, the world economy has seen a twin glut in which a commodity glut depressed commodity prices and export values since 2014, while a liquidity glut boosted equity values and capital flows, creating a new reality in which net capital inflows for most countries and regions now surpass net trade inflows. The global Covid-19 pandemic is poised to further widen this divergence between global economic and financial paths. In this paper, we lay out what Nigeria could do to take advantage of such global liquidity and position itself favourably in a global post-pandemic environment in which most of the green shoots will be financial, as trade flows that were frozen by the pandemic will take a while to thaw. By taking the measures we suggest, Nigeria (and indeed Africa) could finally reduce its reliance on exports for the external liquidity inflows required for sustaining economic growth and stability and depend more on available global capital flows.

The Nigerian economy had enjoyed good times fuelled by sustained improvements in global commodity prices in the first fifteen years after returning to democratic rule in 1999 but had also seen bad times since that jolly ride ended abruptly in the second half of 2014 when commodity prices started weakening:

1. *Windfalls from commodity price surges from 1999 to 2014 fuelled a positive economic narrative in Nigeria:*
 - a. *Economic Expansion- growth accelerated so fast that Nigeria's economy rose from the 52nd to 22nd in the world.*
 - b. *Financial Expansion- bank deposits, bonds, equity market capitalization, government revenue and spending surged.*
 - c. *Stability- a strong exchange rate, single-digit inflation and interest rates.*
 - d. *Reduction in Misery- falling unemployment and poverty rates.*
2. *Shortfalls replaced windfalls since the crash of commodity prices in July 2014 and Nigeria's economy has endured:*
 - a. *Economic Contraction- growth reversal, recession, and sluggish recovery to now rank 30th in the world.*
 - b. *Financial Contraction- as bank deposits, equity market, foreign exchange supply, and government revenue shrank.*
 - c. *Instability- Naira lost two thirds of its value against US dollar, inflation and interest rates jumped into double-digits.*
 - d. *Growing Misery- more unemployed, poor, and disenchanting.*
3. *The common thread between the two eras is the quantum of external liquidity at Nigeria's disposal. External liquidity windfalls fuelled expansion and stability and external liquidity shortfalls inflicted contraction and instability, underscoring the fact that meeting an adequate external liquidity threshold is the primary catalyst of stability and growth.*

Nigeria had been in search of ways of stemming the economic decline before Covid-19 pandemic forced the country, like most other countries across the world, into a lockdown that brought the economy to a halt since March 2020 and would most probably end at some point in May 2020, with 2170 confirmed cases and 68 deaths as of 1st of May, when Nigeria must push policies that could brighten the post-pandemic outlook. Unfolding global realities now give Nigeria a chance to leverage its vast public assets to raise external liquidity thresholds enough to switch from contraction to expansion by adopting securitization privatization, liberalization, commercialization policies. The global liquidity glut has seen capital inflows to developing countries double in the last decade and Nigeria is well-placed to get a share of that.

This piece points out that despite negative external income shock, Nigeria remains asset rich domestically. Nigeria's history of oil booms combines favourably with her large population, over half of which are spread in hundreds of urban centres, to bequeath her with huge stocks of valuable public assets. While Nigeria's economic, fiscal, and financial struggles resulting from the decline in income have been conspicuous in news headlines and policy discussions, the solutions that the value of assets owned by Nigeria could unleash have been less so. It is time to broaden the conversation to include the differences that the value buried in vast assets owned by Nigeria could bring to the narratives, evaluate the case for unlocking domestic and external liquidity from them, and explore ways of doing so.

Doing these will change Nigeria's economic, fiscal, and financial narratives by unlocking liquidity needed to strengthen Naira, rejuvenate fiscal, systemic, and foreign exchange streams, break dependence on volatile oil revenue and costly deficits, rebuild infrastructure, diversify, and accelerate growth, eradicate poverty and unemployment, and lay foundations for shared prosperity. In general terms, we must ensure that our policies are well-aligned with unfolding global realities by repositioning to get a good share of the post pandemic financial green shoots: we must push for large FDI/Remittances inflows as our main sources of external liquidity and deploy those into transport and energy infrastructure to boost stability, growth, and trade.

More specifically, we must select the corporate assets we are willing to sell to equity investors to attract large Brownfield FDI inflows, the intangible assets we are willing to license to foreign investors to attract large Greenfield FDI inflows, the financial assets we can securitize to attract remittances, and the lands and built structures we can repurpose, redevelop, and commercialize for lease/sale. We should stop waiting passively to give investors incentives after they arrive, as such investors never arrive. We should learn that it is up to us to strategically offer equity and other investment opportunities as follows:

- a. *Securitize Financial Assets- issue foreign currency bonds based on JV equity stakes*
- b. *Privatize Corporate Assets- sell up to 51 percent of all wholly owned SOEs*
- c. *Liberalize Intangible Assets- break government monopoly infrastructure sectors*
- d. *Commercialize Non-Financial Assets- optimize underutilized lands and buildings.*

We must also articulate clear enough visions of our future by coming up with credible external liquidity and infrastructure roadmaps that our diaspora and foreign investors can invest in, like India, Saudi Arabia, and lately Egypt do.

Keywords: Nigeria, Oil Price, Naira, Exchange Rate, Growth, Stability, Covid-19 Pandemic, Lockdown, Thresholds, Net-Exports, Capital Flows Assets, Lands, Built Structures, Net Worth, Reserve Adequacy, Store of Wealth, Financial Deepening, Securitization, Privatization, Liberalization, Commercialization, Headroom, Eco-Financial Divergence, Outlook, Headwinds, Tailwinds, AfCFTA, Eco.

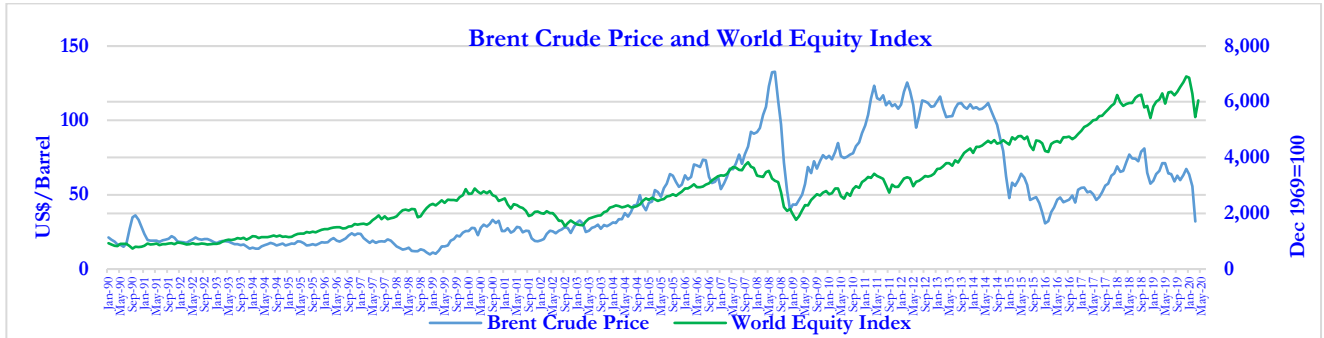
JEL Classification Numbers: E52, E58, E66, F21, F24, F31, F32, F35, F63, H62, O55



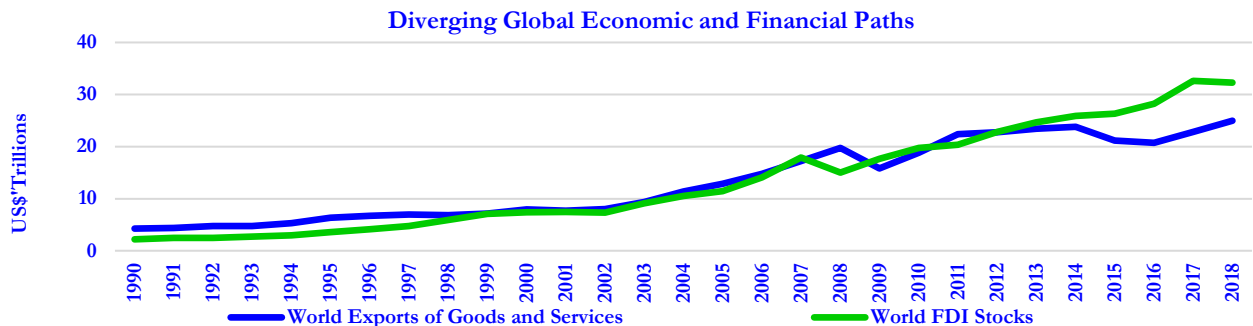
1. **Unfolding Global Realities. Covid-19 Pandemic Intensifies the Twin-Gluts**

2. **Diverging Global Economic and Financial Paths**

We must come to grips with the strategic implications of the *widening divergence* between *weakening global export flows* and *surging capital flows* for countries and companies.



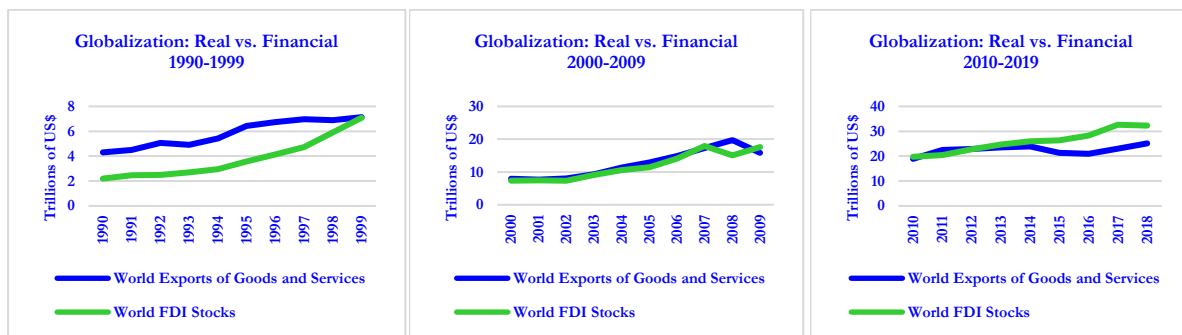
- a. New technologies have boosted supply of shale oil, genetically modified crops, and livestock to the point of creating a *global commodity glut* that weakened global commodity prices, export values, and growth prospects, triggering trade wars and protectionist nationalism among some developed economies.
- b. Decade long quantitative easing by leading central banks created a *global liquidity glut* that boosted equity prices, capital flows, especially foreign direct investment (FDI) and remittances, and capital stocks, triggering a global liquidity race among some developing economies.



- c. Capital inflows are fast displacing net-exports as the main source of external liquidity; countries with investment-friendly policies are now able to attract record levels of capital inflows to underpin their growth and stability.

3. **How the Divergence had Unfolded in the Decades Before Covid-19 Pandemic**

Diverging paths of global real and financial flows raises growth and stability challenges for countries. Nigeria grapples with liquidity shortfalls in fiscal, systemic and forex spheres. This calls for strategic realigning of income, liabilities, and assets.



Global foreign direct investment (FDI) stocks of US\$2.2 trillion were half of global export flows of US\$4.3 trillion by 1990 but remarkably surged to equal exports at US\$7 trillion by 1999.

Global FDI stocks and Exports remained equal forces until the global meltdown of 2008/2009 challenged both but they remained equal at about US\$20 trillion by 2010, each gained a whopping US\$13 trillion that decade.

The last decade saw FDI stocks surge by another US\$13 trillion to US\$33 trillion by 2018, while exports struggled to grow by US\$5 trillion to US\$25 trillion.



a. Exports Lost Dominance in the 1990s

Real globalization had raced ahead of financial globalization prior to the 1990s because governments held on to capital controls as they liberalized trade. Slogans like ‘export or die’ underscored the fact that net export inflows were the main source of external liquidity inflows before the 1990s. Global foreign direct investment (FDI) stocks of US\$2.2 trillion were just half of global export flows of US\$4.3 trillion by 1990. Countries however began to liberalize their capital accounts from the early 1990s and financial globalization gained speed as FDI flows and Remittances surged. Consequently, global FDI stocks surged during the nineties to equal global exports of US\$7 trillion by 1999⁴.

b. Exports and Capital Stocks Equal in the 2000s

Both types of globalization remained roughly equal forces until the global economic and financial meltdown of 2008/2009 challenged both, but they remained equal at about US\$20 trillion by 2010, each gaining US\$13 trillion in the decade, effectively making the ‘export or die’ slogan an outdated notion.

c. Capital Flows and Capital Stocks Became Dominant in the 2010s

The last decade has seen financial globalization outpace real globalization with FDI stocks surging by US\$13 trillion to US\$33 trillion by 2018, fuelled by quantitative easing that underpinned a global liquidity glut, while exports struggled to grow by US\$5 trillion to US\$25 trillion, weakened by new technologies that created gluts of shale oil and genetically modified crops and livestock that depressed commodity prices and export values, making capital inflows the more reliable source of external liquidity.

d. Impact of Covid-19 on the Divergence

i. Fallouts of the Pandemic

Following the confirmation of the index case on 27th February 2020, the President acknowledged an outbreak in a nationwide broadcast on the 29th March and announced a temporary lockdown involving inward travel restrictions, and restriction of movement in Lagos State, Ogun State, and the Federal Capital Territory (FCT), in addition to the prohibition of public gatherings already announced in many States. Covid-19 pandemic thus forced the country, like most other countries across the world, into a lockdown that brought the economy to a halt since March 2020 and would most probably end at some point in May 2020, with 2170 confirmed cases and 68 deaths as of 1st of May, when Nigeria must push policies that could brighten the post-pandemic outlook.

Apart from grappling with the epidemiology of this pandemic, Nigeria has also endured:

- a. *Social fallouts*, including *social distancing*, *anxiety and panic buying* of nose-masks, sanitizers, antimalarials taunted as remedies for the virus as people took *precautions*, and *global disconnection*.
- b. *Economic fallouts* as the *weakening of the global oil price* since the lockdown in parts of China in early February threatened to *derail the budget* and *inflict another round of devaluation of the Naira*. These could combine to *precipitate another recession as absence of adequate foreign reserve buffers makes Nigeria's economy vulnerable* to oils price contractions.
- c. *Political fallouts* like the breakdown in OPEC's collusion with OPEC+ countries, travel bans, and export bans on protective kits, as some countries fear they may not have enough for residents.

How long the *adverse* social, economic, and political fallouts for Nigeria would last depends on how long it takes the world to bring the pandemic sufficiently under control for the lockdowns to end. This could be short if the impact of the disease weakens by itself, by changing weather, or a vaccine crops up; but could be long if the pandemic must run its course in full rage without any proven remedy or vaccine.

The uncertainty about how severe the pandemic might get before things get better and uncertainty about the duration of the lockdown bring uncertainty into our assessment of how much of the economic consequences are likely to fizzle out once the lockdown ends how much are likely to persist beyond the lockdown, as knowledge of these will help us to figure out the likely impacts on the economy.

While these assessments are admittedly blighted by uncertainty, it is worth hinting that the shorter the duration of the lockdown, the milder the economic losses will be, as palliatives, furloughing, and

⁴ Data on World Exports of Goods and Services are from World Bank's *World Development Indicators* online database, Data on inward FDI Stocks are from data annex to World Investment Report of the United Nations Conference on Trade and Development (UNCTAD).

moratoria on rents, loans, trade credit, etc. should absorb the likely shocks from two or three months of lockdown without much lasting adverse consequences.

But the longer the duration, the harsher the consequences and the higher the likelihood of the temporary but protracted lockdown inflicting permanent/irreversible economic damages like job losses, bankruptcies, bank failures etc. It has been a little over two months since Nigeria reported its first case on 27 February, and about one-month since we locked down. We are already preparing to unlock in phases from 4th of May. If this works out, we can hope that we will avoid harsh economic consequences.

If for any reason we are forced to retrace our steps and resume another lockdown, then we should brace up for the worst possible economic outcomes that in the African context may likely have social and political backlashes like mass uprisings or even political upheavals. We hope these dismal scenarios do not play out so we can hopefully get back to life as usual by June.

Finally, how should we respond to this situation? We should be clear about the responses we are proposing for the lockdown period and those we are proposing for the post-lockdown period. In general, we should prepare for the worst and hope for the best. We must remember that presumption blights precaution, as differences in attitude towards the pandemic in different countries just taught us.

ii. Economic Essence of Covid-19

1. Pre-Lockdown: The Status Quo Ex-Ante

- Slowing global growth and trade via technology induced supply gluts
- Surging global liquidity and capital flows via massive decade long QE
- In-person interactions for work and leisure dominated virtual interactions

2. Lockdown: What the Pandemic Reinforced or Reversed

- Freezing global growth and trade via demand and supply disruptions of lockdown
- Injections of over US\$8 trillion liquidity induced by Covid-19 pandemic
- Virtual interactions grew as frozen in-person interactions led to lockdown

3. Post-Lockdown: What is Transitory or Permanent

- Global growth and trade will be slower as both gradually unfreeze
- Global liquidity and capital flow surges will intensify right after lockdown
- In-person and virtual interactions will continue the battle for supremacy

iii. Post-Lockdown Green-Shoots

On the negative side, global lockdown has cut export and growth opportunities. It is not just that the price of oil is weak. It is also that oil producers cannot get enough buyers, because importing countries are locked down. Exports have been halted. Growth has slowed.

However, a positive side to the story is that, in their efforts to cushion the adverse effect of the lockdown on their people, countries have injected 'about US\$8 trillion', according to IMF's April 2020 *Fiscal Monitor*, thus pumping more money into a global financial system that was already in a liquidity glut. They are giving people money they cannot spend until the lockdown ends. When the lockdown ends, the injections will further increase the liquidity glut in the global financial system.

Some of that liquidity will end up in developing countries that have investment-friendly policies. The combined inflows of foreign direct investments and remittances into developing countries were already more than US\$1 trillion by end of 2018. The *Covid-19 induced injections* might push that above US\$2 trillion by end of 2020. The net effect of Covid-19 on the global economy would be to further *widen the economic-financial divergence*: ensuring more *financial green-shoots* than *economic*.

e. Realigning AfCFTA and Eco with Reality

i. Realigning with Global Realities

African continental single market and West African single currency were conceived in a global environment in which net-exports dominated net capital inflows. They must now be realigned with a new global reality in which net capital inflows dominate net-exports. Nigeria and Africa need to realign with the evolving reality that surging Foreign Direct Investment (FDI) and Diaspora Remittances are more reliable sources of external liquidity than meagre Donor Funds, also known as Official Development Assistance (ODA), or volatile Foreign Portfolio Investment (FPI).

ii. Steps Towards Readiness

In general terms, Nigeria and Africa must align their *policies* with *unfolding global realities* by repositioning themselves through effective investment friendly policies to obtain a fair share of the financial green shoots needed to promote growth and stability; attracting large FDI/Remittances inflows as their main sources of external liquidity; deploying these into transport and energy infrastructure to boost production and trade.

In more specific terms, Nigeria and Africa must *identify the corporate assets they are willing to sell to equity investors* to attract *Brownfield FDI inflows*, the *intangible assets they are willing to license to foreign investors* to attract *Greenfield FDI inflows*, the *financial assets they can securitize to attract remittances*, and the *idle/ underutilized lands and built structures they can repurpose, redevelop, and commercialize for lease/sale*.

Nigeria and Africa should proactively make the above investment opportunities clear to the global investing community, rather than passively waiting for investors to come so they and then provide them with incentives once they are in the country, as it is common knowledge that, unaware of the specific opportunities, investors never enter the country with large enough funds to make impact.

They can offer equity investment opportunities in the following ways:

1. *Securitizing Financial Assets*- issue foreign currency bonds based on JV equity stakes
2. *Privatizing Corporate Assets*- sell up to 51 percent of all wholly owned SOEs
3. *Liberalizing Intangible Assets*- break government monopoly infrastructure sectors
4. *Commercializing Non-Financial Assets*- optimize underutilized lands and buildings.

iii. Credible Roadmaps

Nigeria and Africa should articulate clear visions of the future with national and continental plans that they can engage diaspora and foreign investors with, like India, Saudi Arabia, and Egypt do. They need to optimize under-utilized public assets to open non-tax, non-oil revenue streams that can compensate for lower commodity export and tax revenue, while issuing large-scale equity to replace debt.

4. **The National Liquidity Challenge.** *It is High Time We Changed the Narratives.*

a. Types of Illiquidity: The Problems

Since the weakening of the global commodity prices in the second half of 2014, the Nigerian economy has been weighed down by three types of liquidity stress: fiscal, forex and systemic.

i. Fiscal- Low Revenue and High Debt Burden

News headlines express concerns about Nigeria's weak fiscal situation- dwindling revenue, low capital spending, soaring deficits, growing debts levels, and escalating debt burden. These have led IMF to repeatedly urge government 'to lower the ratio of interest payments to revenue and make room for priority expenditures' in its annual Article IV Consultations with Nigeria, while some local/foreign media organizations and commentators have flagged issues about Nigeria's solvency.

ii. Systemic- Tight Credit and High Interest Rates

News headlines have harped on the increasing tightness of the Nigerian financial system as reflected in banks' low loan-to-deposit ratios, high lending rates, high interest rates on government bonds, and perennial contraction of the stock market. *The central bank has targeted subsidized funds at sectors it considers as priorities, while directing banks to raise their deposit-to-loan ratios, just as it further tightens monetary policy levers. The federal government has expressed preference for 'cheaper' foreign bonds for which it has very slim headroom.*

iii. Forex- Low Reserves and Weak Exchange Rate

News headlines have since 2015 been concerned about weak foreign reserves position of Nigeria, which made the central bank ration foreign exchange, devalue Naira, and maintain multiple exchange rates. *The fear of devaluation in the face of inadequate levels of foreign reserves has constrained the central bank's ability to ease monetary policy levers to spur growth. Although the IMF has often commended the tight monetary policy stance of the central bank in the Article IV Consultations. The IMF also often called upon the central bank to end the multiple exchange rate regime in its article IV consultations with Nigeria.*

b. Overcoming Illiquidity: The Prognosis

i. Fiscal- Optimize Assets to Maximize Net Worth: Refocus on Assets and Equity

Fiscal conversations in Nigeria should re-focus on **net worth**, not just revenue and debt. *We must situate revenue and debt in the broader context of **assets owned by Nigeria** and the enormous **equity issuance***

headroom the assets bequeath the country in a post-boom situation in which we are asset rich. IMF's 2018 *Fiscal Monitor* aptly affirmed that, 'It's not just what governments owe, it's what they own'.

It is hard not to agree with Gaspar et al (2018) that, 'Knowing what a government owns and how they can put their assets to better use matters because they can earn ... as much revenue as governments make from corporate income tax receipts'⁵. Finding new streams of non-tax revenue will be helpful. *Nigeria's debt liabilities are well-known, but her assets are not*. Harris et al (2019) says, 'When governments know what they own, they can make better use of the assets for the well-being of all their citizens'⁶

Not knowing what we own depress perceptions of our net worth as the bulk of our assets do not come into reckoning in assessing our solvency. Nigeria should list all assets owned by government in a *National Asset Register*, *value them*, and *rationalize/optimize* them to align *use values* and *market values*. We identify ways of unlocking liquidity from *four asset classes*. Large stocks of under-exploited assets owned by the Government mean Nigeria could be sitting on a treasure-trove of assets⁷ whose value could be larger than GDP, not to speak of debt⁸. Since 1997, Hong Kong has funded its capital budget, 'with a slight surplus, with liquidity unlocked from underutilized land'⁹, from which India also gets a tenth of government revenue.¹¹¹² Peterson (2013) lists other examples¹³.

- ii. **Systemic- Deepen Financial System to Underpin Growth: Make Naira a Preferred Store of Wealth**
Financial conversations in Nigeria should be focused on the *store of wealth function of the Naira*, not narrowly on banks' loan-to-deposit ratios or lending rate as the central bank has tended to do. It is important to point out that, *strengthening the Naira* relative to the US dollar (*to make Naira denominated assets the preferred stores of wealth* over foreign exchange and real estate) *is the only way of deepening bank deposits, bonds and equity* to thresholds required to guarantee increased access to financing at low interest rates in Nigeria.
 - iii. **Forex- Maintain Reserve Adequacy to Underpin Stability: Raise External Liquidity Threshold**
Forex conversations in Nigeria should focus on *foreign reserve adequacy*, not narrowly on levels of reserves, devaluation overhang, or multiple exchange rates. We must situate these in the broader context of the *minimum foreign reserve thresholds* that Nigeria must attain to meet *foreseeable payments and capital flow obligations* plus some *precautionary buffer* to insulate the *stability of the Naira exchange rate* against unforeseen adverse developments like the impact of the Covid-19 pandemic on oil price¹⁴.
- c. **Ways of Unlocking Liquidity: The Solutions**
We suggest four ways of unlocking liquidity: Nigeria needs to *securitize* its equity holdings in joint ventures by issuing large-scale foreign currency bonds that Nigerians at home and in the diaspora can invest in, *privatize* state-owned enterprises to attract large-scale brownfield foreign direct investment, *liberalize* infrastructure sectors to encourage inflow of large-scale greenfield foreign direct investments, and *commercialize* idle/underutilized public lands and buildings to open new non-tax revenue streams.
- i. **Assets to Unlock Liquidity From:**

⁵ Gaspar, V, Harris, J, and Tieman, A F (2018), 'The Wealth of Nations: Governments Can Better Manage What They Own and Owe' IMF Blog, October 10, 2018; Dag Detter and Stefan Fölster (2018), Unlocking Public Wealth: Governments could do a better job managing their assets) FINANCE & DEVELOPMENT, MARCH 2018, VOL. 55, NO. 1, <https://www.imf.org/external/pubs/ft/fandd/2018/03/detter.htm>

⁶ Harris, J, Senhadji, A, and Tieman A.F (2019), 'A Global Picture of Public Wealth', IMF Blog, June 18, 2019.

⁷ Audier, A, Bard, S, and Robeux, L (2014), 'The Hidden Value in Government Assets', BCG Perspectives, Bolton Consulting Group. bcgperspectives.com.

⁸ Bova, E Dippelsman, R, Rideout, K and Schaechter, A (2013), 'Another Look at Governments' Balance Sheets: The Role of Nonfinancial Assets' IMF Working Paper, WP/13/95, International Monetary Fund, May 2013.

⁹ Yousefi, S R (2019), Public Sector Balance Sheet Strength and the Macro Economy, IMF Working Paper No. 19/170, Fiscal Affairs Department, International Monetary Fund, August 2019.

¹⁰ Liu, P W ((2014), 'Land Premium and Hon Kong Government Budget: Myth or Reality', Working Paper No. 19, Institute of Global Economics and Finance, Chinese University of Hong Kong, Shatin, Hong Kong.

¹¹ Nallathiga, R (2017, 'Monetization of Urban Land', *Urban India*, vol. 37 (II), July-December 2017.

¹² Annez, P., & Gangopadhyay, S. (2013). 'India's Public land: Responsive, Transparent, and Fiscally Responsible Asset Management-Editors' Note'. India Development Foundation.

¹³ Peterson, G (2013), 'Unlocking Land Values for Urban Infrastructure Finance: International Experience - Considerations for Indian Policy' World Bank Policy Research Working Paper No. 6683, The Urban Institute.

¹⁴ Arslan, Y, and Cantú García, C. (2019), The Size of Foreign Exchange Reserves (October 31, 2019). BIS Paper No. 104a. <https://ssrn.com/abstract=3497858>.

1. *Financial Assets*: Government's minority equity holdings in JVs and cash flows- *Securitize* through diaspora/foreign-currency bonds.
 2. *Corporate Assets*: Wholly owned or majority equity holdings in SOEs- *Partially Privatize* until Government holds no more than 49 percent stake in any entity.
 3. *Intangible Assets*: Rights, Licences, Spectrums, flight Routes- *Liberalize*: replicate GSM/ Pension Liberalization in other sectors
 4. *Non-Financial Assets*: infrastructure networks, lands and built structures- *Commercialize/ Decumulate* assets such as, under-utilized lands and buildings owned by Ministries, Departments and Agencies (MDAs) on prime commercial land across the country.
- ii. How to Unlock
- Specifically, Nigeria could raise domestic and external liquidity thresholds by doing the following:
1. *Securitize* government equity stakes in Joint Ventures by list at home and abroad and issuing foreign currency bonds to give Nigerians at home and in diaspora opportunities to invest while shoring up reserves.
 2. *Privatize wholly or majority owned corporate assets* to attract brownfield FDI.
 3. *Liberalize: break government monopoly* in all infrastructure sectors to encourage entry of foreign investors and get greenfield FDI.
 4. *Commercialize under-utilized public lands/ built structures* by relocating uneconomic activities from prime locations and redeveloping the sites for non-tax revenue streams.
- iii. How much, how easily, and in what sequence? Some rules of thumb.
1. *Close Value Gaps*: First, we need *National Asset Registers* for each of the four asset types. Then, we need to value them to know the gaps between use values and market values. This will give clear ideas about the level of under-utilization and guide how much could be unlocked to close the gaps or optimize asset values.
 2. *Achieve Positive Net Financial Worth*: Since Net Financial Worth or Liquidity is the difference between Financial Assets and Financial Liabilities, it makes sense to generate as much third party-claims (i.e., unlock as much liquidity) from Non-Financial Assets as necessary to boost Net Financial Worth¹⁵.
 3. *Attain Higher Liquidity Thresholds*: We should also unlock enough to raise fiscal, systemic and forex liquidity thresholds to levels required to underpin growth and stability.
 4. *Sequence*: Securitization is the quickest option. Other options could take time to consummate, but special purpose vehicles can be created to securitize any verified income stream from pending privatization, commercialization, or liberalization.
 5. *Develop a National Roadmap*: How much should be unlocked, how easily, and in what sequence should ideally be determined for each asset category in the context of a *National Roadmap for Unlocking Liquidity* in Nigeria that should guide all tiers of government in the same way as the National Pension Act did. Where there is a will, there is a way: each of the four levers require political will, transparency, and general acceptance by key stakeholders. A roadmap can help to articulate the vision needed to strengthen the political will and provide a step-by-step guide from vision to consummation that would help to get stakeholder buy-ins.

Doing these will change Nigeria's economic, fiscal, and financial narratives by unlocking the liquidity country needs to strengthen the Naira, rejuvenate fiscal, systemic, and foreign exchange streams, break dependence on volatile oil revenue and costly deficits, rebuild infrastructure, diversify, and accelerate growth, eradicate poverty and unemployment, and lay the foundations for shared prosperity. Leading developing countries adopt different combinations of these four options to fuel their transformation.

5. Liquidity-Growth-Stability Nexus. Getting the Level of Liquidity 'Right'.

- a. Liquidity Thresholds- Hurtful vs. Helpful Levels of Liquidity
 - Nigeria urgently needs to address three main types of illiquidity.
 - i. Fiscal Liquidity

¹⁵ IMF (2018), *Managing Public Wealth*, Fiscal Monitor, October 2018, shows that net worth or solvency is the difference between total assets and total liabilities, explaining that liabilities are always financial in the sense that they always involve third-party claims or are marketable, while only assets involving third party claims or are marketable are financial; non-financial assets are without third-party claims or are unmarketable, and goes on to affirm that, 'It's not just what governments owe, it's what they own'. Although the same IMF is yet to reflect these insights in its Article IV consultations with Nigeria.

- ii. Systemic Liquidity
- iii. Foreign Exchange Liquidity

i. Fiscal Liquidity Thresholds

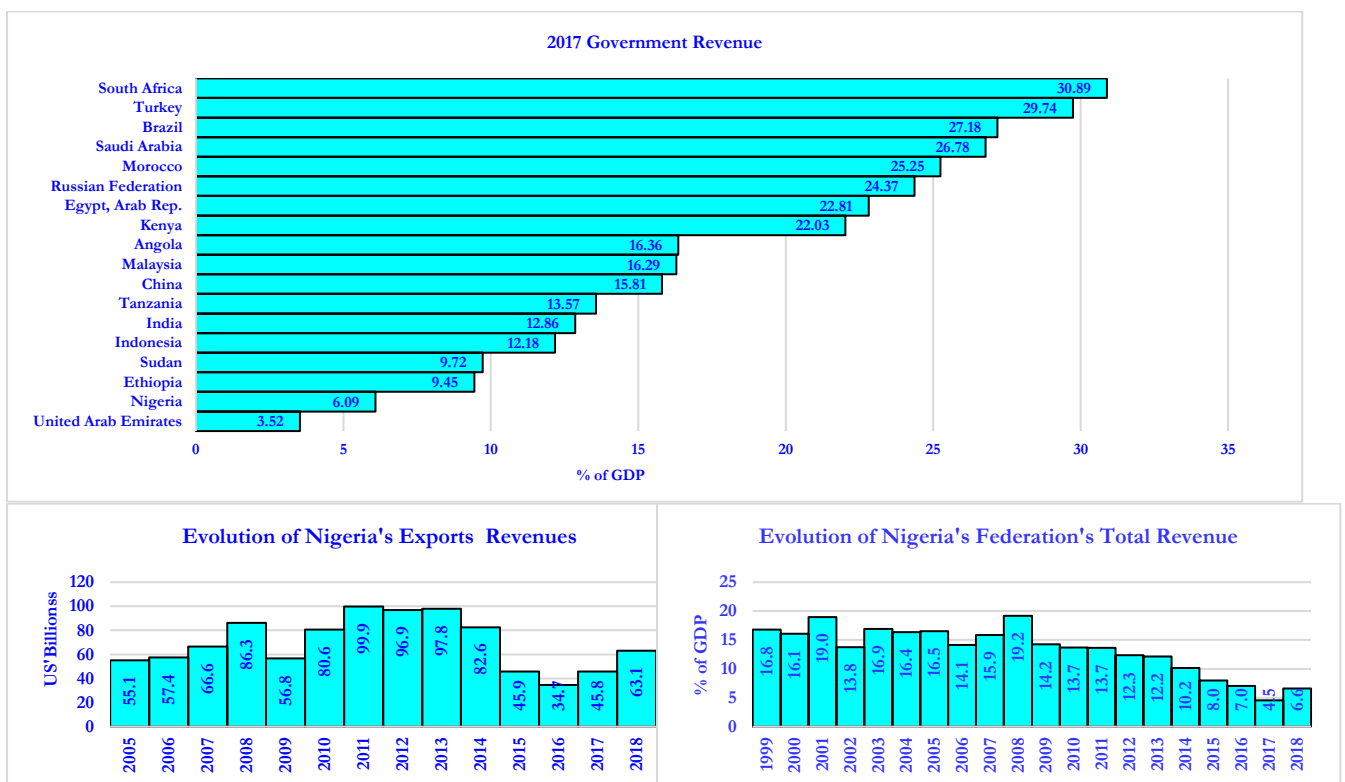
There are three thresholds of fiscal liquidity that government revenue should meet:

- (a.) Recurrent spending (salaries, overheads, and debt service/interest payments)
- (b.) Capital spending
- (c.) Debt repayment and/or Rainy-Day Funds- Fiscal Buffers

At well below 10 percent of GDP since 2015, the total revenue available to the three tiers of Government has fallen so low that they do not cover even recurrent spending threshold of fiscal liquidity, as salaries and debt service each amounted to about 70 percent of Federal Government revenue in 2017, and deficits had to be incurred to meet both in full, with additional borrowings to meet shrinking overheads and a small and contracting capital spending. With less access to debt markets, many States were known to have been unable to meet salary obligations in full, creating unpaid arrears of more than 12 months in a few states.

Oil exports and taxes are the main sources of government revenue in Nigeria. Weakness of the oil price since July 2014 and the oil output losses have combined to see Nigeria annual export earnings fall from an average of almost US\$100 billion in 2010-2014 to average less than US\$50 billion since 2015, with negative implications for government revenue. The concomitant bouts of growth reversal and devaluation since 2015 have eroded corporate profits and household incomes, with adverse implications for tax revenue.

In the face of dwindling export and tax revenues, both recurrent and capital spending have been on the decline, especially as percentage of Gross Domestic Product (GDP) across all tiers of government. Soaring deficits have meant higher debt stocks and higher debt service claims on the dwindling revenue, further restricting funding for non-debt items. Watching interest payments claim well over half of revenue raise red flags about solvency, even when we know that Nigeria is solvent, just illiquid.



Government must open new streams of non-export and non-tax revenue to meet higher thresholds of fiscal liquidity. Most of Nigeria's peers¹⁶ meet much higher thresholds of fiscal liquidity with total revenues ranging between 15 to 30 percent of their GDP, compared to about 6 or seven percent of

¹⁶ Nigeria's peers include BRICS (Brazil, Russia, India, China, and South Africa), MINT (Mexico, Indonesia, and Turkey), African countries with GDP of US\$50 billion or more, and Saudi Arabia and United Arab Emirates from the Middle East.



GDP in Nigeria¹⁷. As mentioned earlier, a good number of them achieve this by opening new non-tax revenue streams that flow from optimizing underutilized national assets.

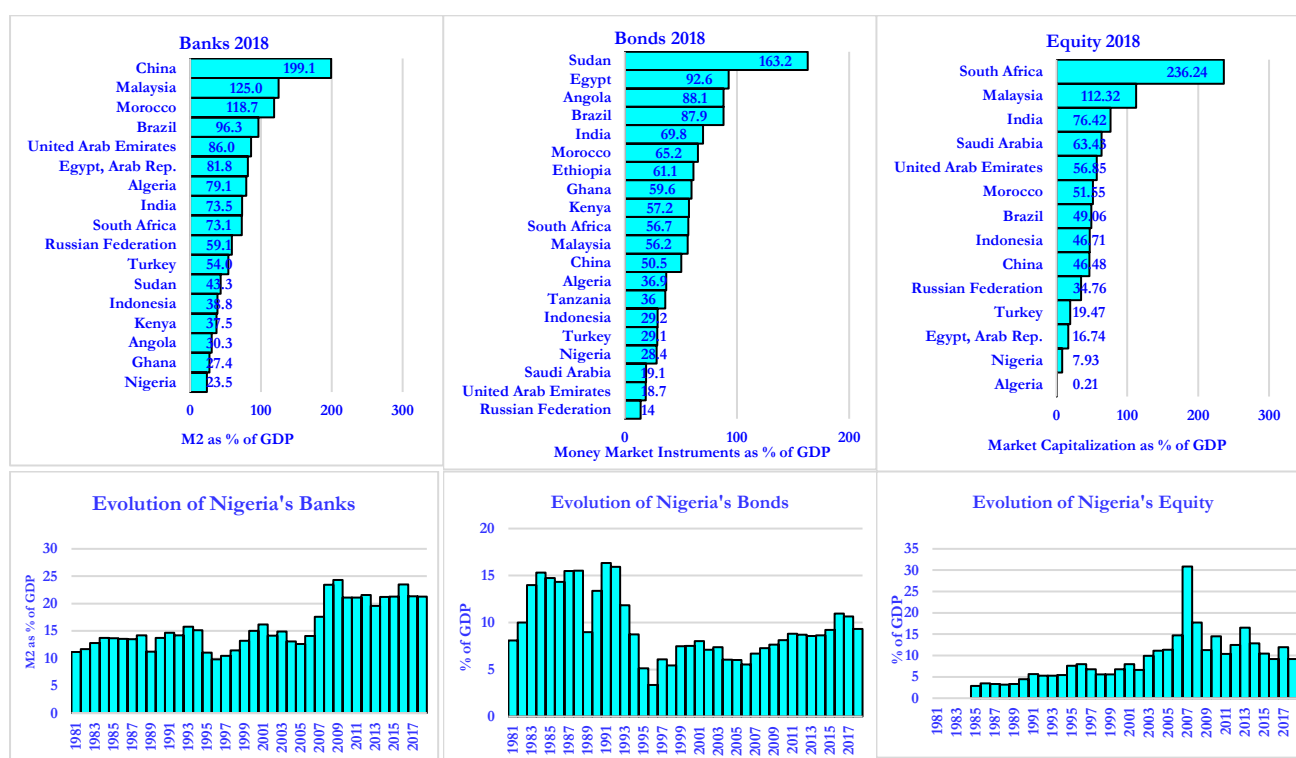
ii. *Systemic Liquidity Thresholds*

There are three thresholds for domestic liquidity that banks, bonds, and equity markets should meet to ensure adequate access to finance at low cost for households who need to fund acquisition of homes, cars, or knowledge and businesses who need to fund capital projects and infrastructure.

- (a.) Transactions or payments threshold
- (b.) Precautionary or savings threshold
- (c.) Speculative or investment threshold- domestic money, bonds, or equity buffers

Nigeria meets only the lowest threshold of domestic financing as funds at the disposal of Nigerian banks could only adequately meet transactions or payments needs, meaning that Nigerian banks do little more than honour demand for cash and e-payments at points of sale and domestic funds transfer, which they do so remarkably well; they disappoint when it comes to extending loans, as the total deposits at their disposal are so low, just around 20 percent of GDP that they do not have the funds to intermediate, effectively making them financial intermediaries in name only. This is to be compared with bank deposits of 40 to 200 percent of GDP in peer countries.

Nigerian bonds and equity markets are just as shallow as the banks, with the consequence that access to issue instruments in these markets is restricted to only the biggest issuers: with the government dominating the bond market and raising alarm about the cost of issuing the bonds and indeed increasingly issuing foreign bonds that offer much lower rates in recent times; and the biggest companies dominating the equity market. Our peers have deeper banks, bonds and equity markets that offer access to low-cost financing to government, companies, and households.



The *weakness of the Naira* relative to the US dollar and other currencies is the main reason Nigerian banks and bond and equity markets have become and remain shallow: *assets denominated in a weak currency will be poor stores of wealth, and asset holders will be better off holding hard currency or real estate than keeping wealth in Naira-denominated bank deposits, bonds, or equity, beyond what they require for imminent transactions.*

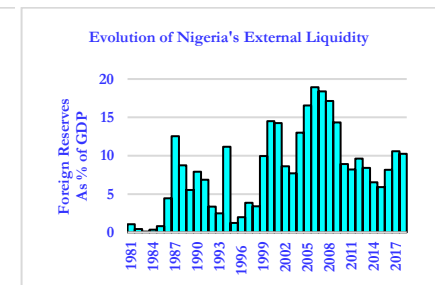
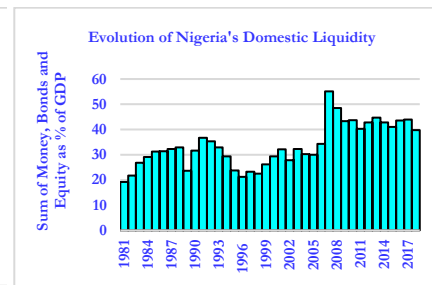
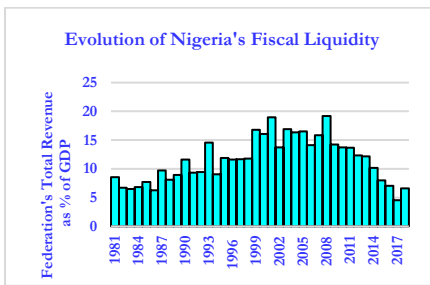
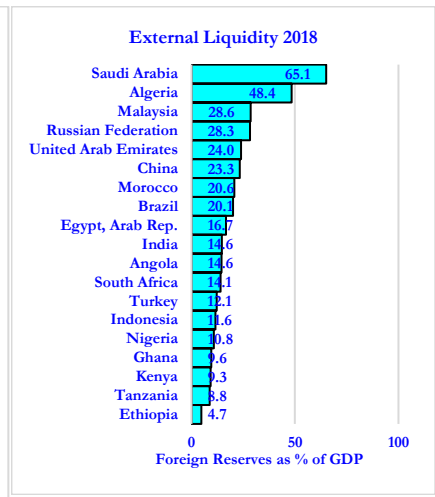
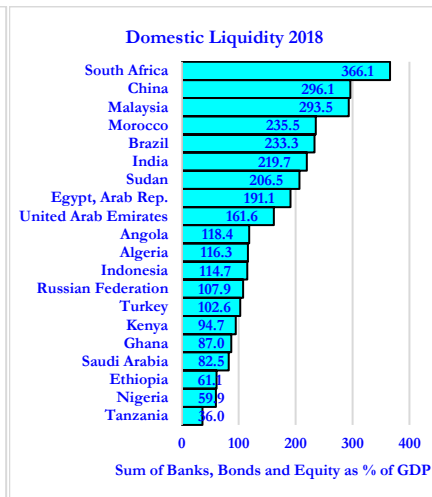
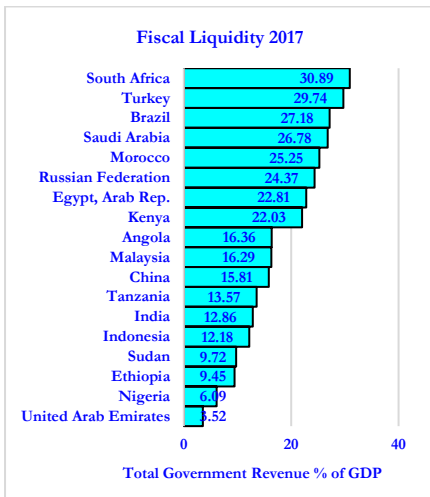
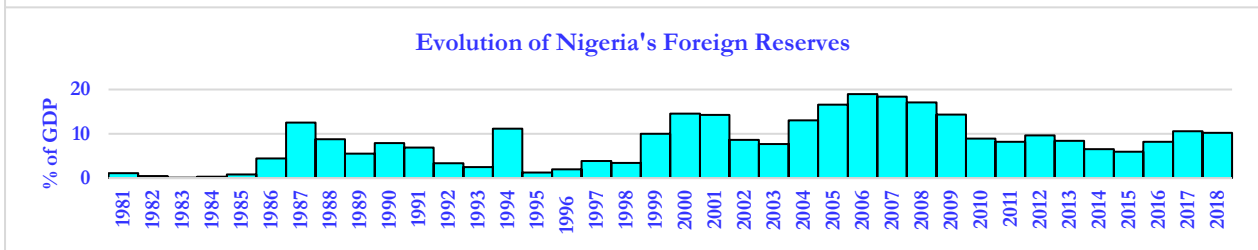
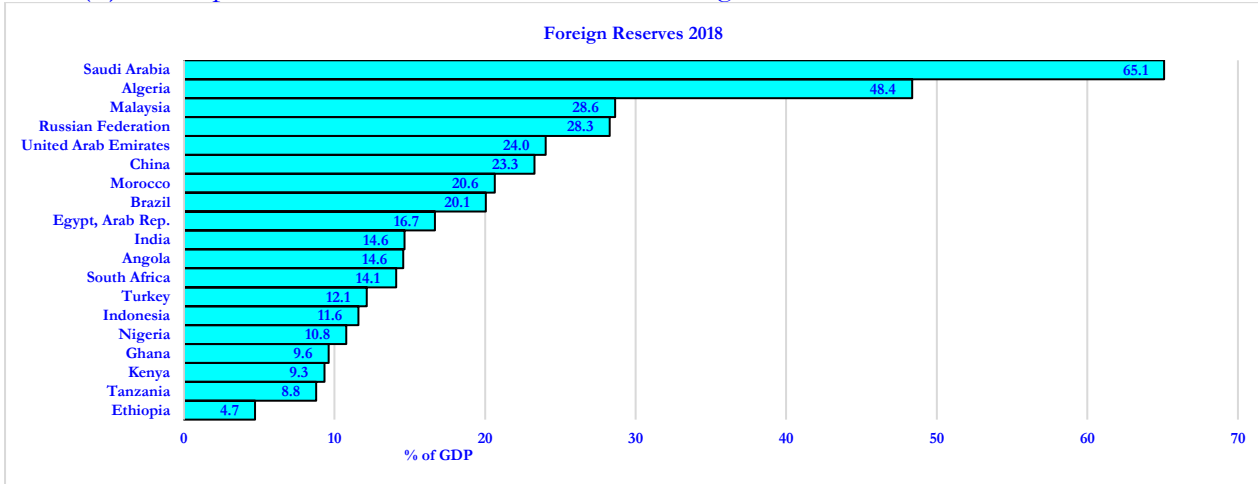
¹⁷ Time series data on Nigeria's exports, government revenue and bonds are from the Statistical Bulletin of the Central Bank of Nigeria.



iii. Foreign Exchange Liquidity Thresholds

There are three thresholds of external liquidity that foreign exchange market or the national foreign reserves holdings should meet for the market and the exchange rate to remain stable:

- (a.) Transactions or external payments threshold
- (b.) Precautionary or insurance threshold
- (c.) Speculative or investment threshold- foreign reserve buffers



With foreign reserves at 10.8 percent of GDP, compared with 20 percent of GDP or higher held by many of our peers, Nigeria struggles to meet the transactions or external payments thresholds defined to include trade obligations, such as payments for imports, and financial obligations, such as short-term external financial claims on households, businesses, and financial institutions.

It is well known that foreign exchange at Nigeria's disposal could not meet transactions demand and the central bank has adopted various methods of excluding a growing number of lawful buyers from the market since 2014, resulting in multiplicity of exchange rates. Despite this, the Naira has lost nearly two thirds of its value against the US dollar over the past four years to reflect the forex market illiquidity.

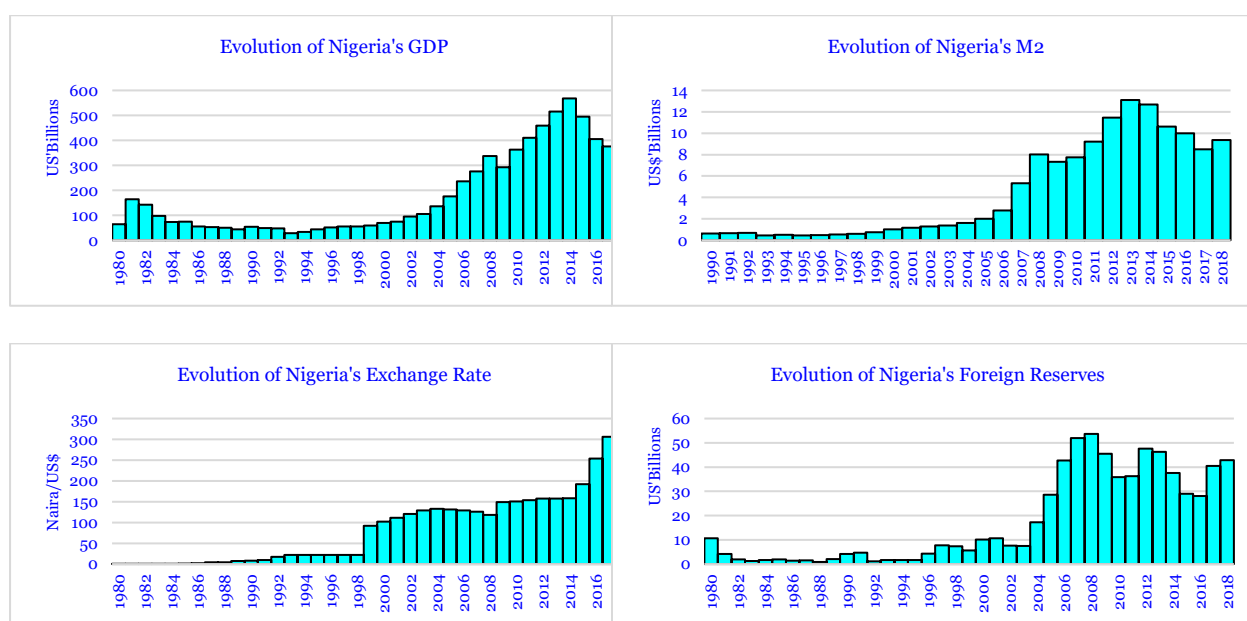
It is well known that foreign exchange at Nigeria's disposal could not meet transactions demand. That has made the central bank to resort to administrative measures that exclude a growing number of lawful buyers from the official market since 2014, resulting in multiplicity of exchange rates. The Naira has lost over two thirds of its value against the US dollar since then to reflect the illiquidity forex market.

As we struggle to meet the lowest threshold, any unforeseen shock that requires precautionary reserves holding, such as a shock to export volume or export price or a shock to capital outflows, will push the country and the Naira into another tailspin for as long as the shock lasts, just as any opportunity that requires the deployment of speculative reserve holdings cannot be seized.

Thus, our perennial external illiquidity crisis is the bane of the weak Naira, and the weak Naira is the bane of the shallow banks, bonds and equity market, and shallow domestic financial markets is the reason for growth reversals.

b. *Liquidity Headwinds-* How Illiquidity Holds the Economy Down

Since the early eighties, Nigeria has *struggled with growth* because of *domestic illiquidity*, and *struggled with exchange rate stability* because of *external illiquidity*. Nigeria needs to recognize that unless higher liquidity thresholds are met, growth and stability will remain elusive. The 2004-2008 growth acceleration in Nigeria was fuelled by the surge in external liquidity underpinned by high oil price.



The period stands out in Nigeria's post-1980 history as the only time the Naira appreciated, the banking system, bond market and equity market deepened markedly, and growth accelerated. Such



was the magic of adequate external liquidity. Nigeria must ensure adequate internal and external liquidity to restore growth and stability, and the *sequencing* is particularly important: *External liquidity is required for Exchange Rate Stability; Exchange Rate Stability is required for Domestic Liquidity, Domestic Liquidity is required for Growth*. Nigeria must *reorder economic policy priorities* to:

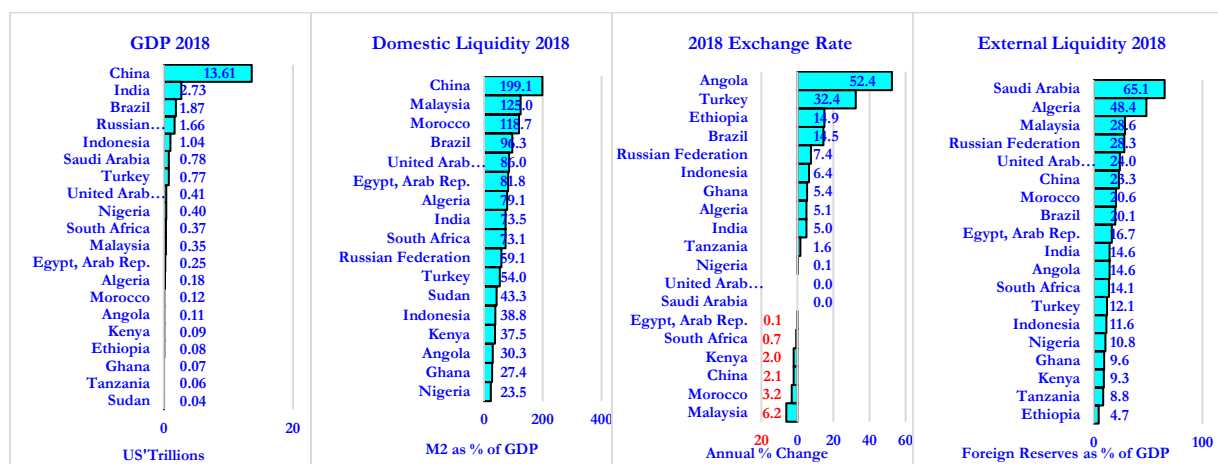
External Liquidity → Exchange Rate Stability → Domestic Liquidity → Growth

Stimulating enough foreign capital inflows is key for: stability, rebuilding infrastructure, growth acceleration, growth diversification, employment, jobs, wellbeing, prosperity, and security.

c. Confronting Headwinds- How Our Peers Overcome Illiquidity.

Over the years, Nigeria’s peers have learnt to *deepen external liquidity, stabilize exchange rate, deepen domestic liquidity, and grow the economy, with external liquidity as the silver bullet, or the magic button*¹⁸. The other three, exchange rate stability, domestic liquidity, and growth acceleration, will follow once adequate external liquidity thresholds are met, as evidenced by Nigeria’s 2004-2008 episodes of external liquidity surge, exchange appreciation, financial deepening, and growth acceleration.

Egypt is fast emerging as an example of how to change the macroeconomic narrative from negative to positive in a short timeframe. Having been in a similar situation to Nigeria in 2016, it has managed to secure significant amounts of capital inflows from a variety of sources including a loan from the IMF, new issuance of foreign currency bonds, in addition to attracting more foreign direct investment inflows and diaspora remittances than Nigeria.



Meeting higher thresholds of external liquidity is restoring the strength of the Egyptian pound as a store of wealth, making assets denominated in the pound preferable to forex or real estate in wealth owners’ portfolio, thereby further deepening the Egyptian financial system to enable more access to low-cost finance to Egyptian households and businesses to fund growth opportunities

6. Liquidity Tailwinds. Global and Domestic Silver Linings.

a. Global Liquidity Glut and EMEs Liquidity Race

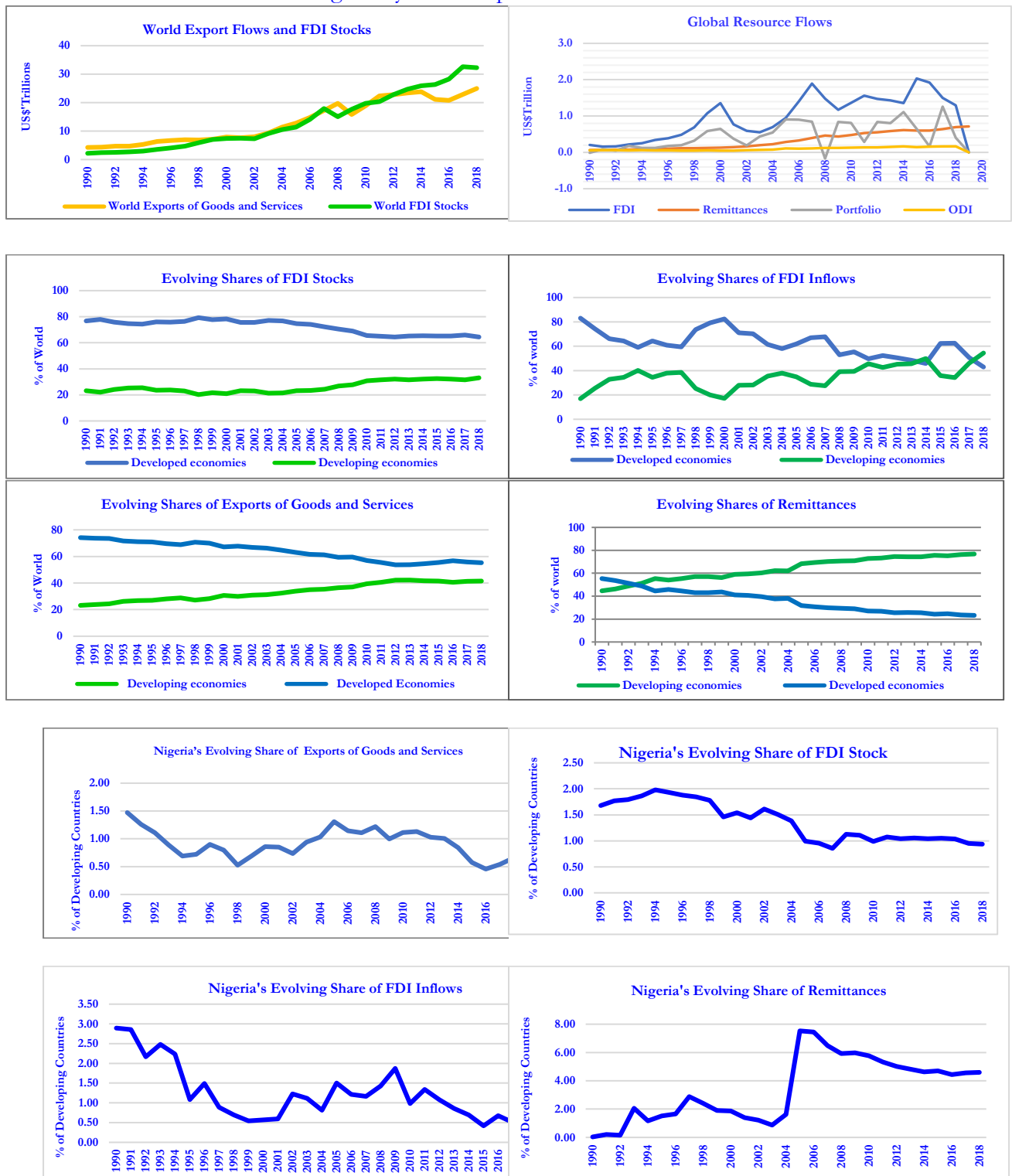
The global liquidity glut currently offers unprecedented opportunities for Nigeria to attract easy capital inflows to stabilize the Naira, deepen domestic liquidity and fuel growth. Annual inflows of Foreign Direct Investment (FDI) and Diaspora Remittances inflows into developing countries now exceed a trillion US dollars, but these are concentrated in short list of countries with investment-friendly policies¹⁹.

¹⁸ Joyce, J (2018), ‘External Balance Sheet as Countercyclical Crisis Buffers’, *International Economics and Economic Policy*, vol. 15, no 2, April.

¹⁹ Chhaya, K. (2018), ‘Diaspora as an Asset for Economic Development of India’, presented at the Conference on, ‘Transnationalism, Culture, and Diaspora in the Era of Globalization’, Centre for the Study of Diaspora, Central University of Gujarat, 21-23 February 2018.



Nigeria is not on that list, as its shares of both types of inflow have been on a steep downward trajectory even as these flows have doubled globally over the past decade and a half.

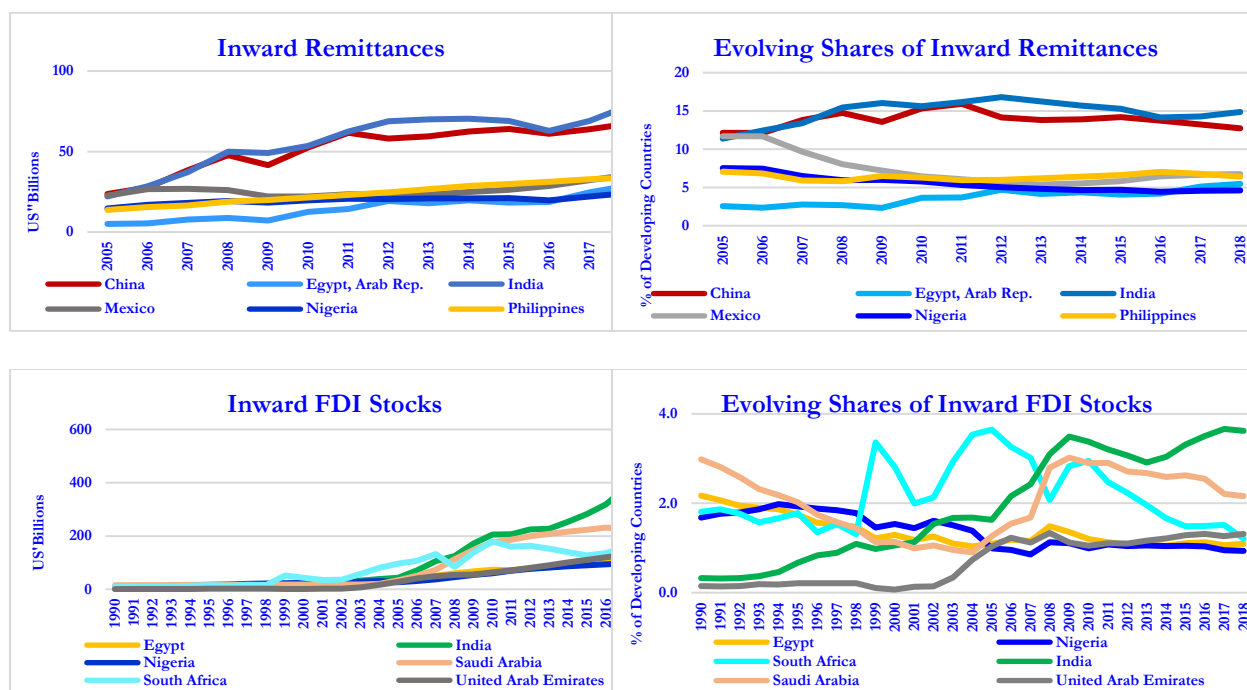


- i. Nigeria saw a peak share of 7.53 percent of US\$200 billion remittances to developing countries in 2005 as the fourth-largest recipient then (after China, India, and Mexico), but that fell steadily to 4.59 percent of US\$520 billion by 2018, with Nigeria dropping to be sixth recipient (overtaken by the Philippines and Egypt, our continental peer and emerging example of investment-friendly policies whose share rose from 2.58 in 2005 to 5.46 in 2018).



- ii. Nigeria’s peak share of FDI Stock in developing countries was 1.98 percent of US\$100 billion in 1994 but this dropped to 0.93 percent of US\$500 billion by 2018. By contrast, India’s share rose from 0.33 percent (one-sixth of Nigeria’s share) in 1994 to 3.62 percent (four-times Nigeria’s share) in 2018.

It is imperative that Nigeria joins the small list of developing countries who are getting increasing shares of both flows as those flows continue to surge. Unfolding *global realities* now mean that *Nigeria could easily adopt policies that will raise external liquidity thresholds enough to switch from contraction to expansion*. Nigeria must join the race for massive private-to-government remittances from her non-resident citizens and narrow the gaps between her and China and India.



Nigeria’s peers like Egypt, India, Saudi Arabia, and other emerging markets are taking full advantage of the opportunities to deepen external liquidity, stabilize their currencies, and deepen domestic liquidity to fuel growth, infrastructural development, employment generation and poverty eradication. In the mid-1990s, Nigeria had larger stocks of FDI than India, Saudi Arabia, or the United Arab Emirates, but these have all since overtaken Nigeria, with India now having more than triple, and Saudi Arabia having more than double of Nigeria’s FDI stock. Many Emerging Market Economies (EMEs) recognize the benefits of financial globalization and have implemented reforms to attract:

- i. Record inflows of Greenfield and Brownfield Foreign Direct Investment (FDI), typically by
 1. *liberalizing infrastructure and other sectors*, and,
 2. *privatizing a growing share of government ownership in infrastructure and other assets*.
- ii. Record inflows of Diaspora Remittances, typically by
 1. *minimizing the costs of remitting funds*; and,

2. *issuing sovereign foreign-currency bonds* to give non-resident citizens greater opportunities to send money home^{20,21,22}. Balima. and Combes (2019) shows that ‘policies that improve the measurement of remittance inflows and reduce their transfer costs or that enable countries to develop securitization of remittances and diaspora bonds could help emerging market economies to leverage remittances for international capital market access’²³.

With her Liberalization, Privatization, and Globalization (LPG) policies since 1992, India serves as an example of this, but Saudi Arabia, with its National Transformation Plan (NTP) announced in 2016 and the 16-sector privatization plan unveiled in 2017, is fast becoming another case study.

b. Vast **Stocks** of Underexploited but Valuable Assets

Despite *negative external income shock*, the *domestic reality* is that *Nigeria remains prodigiously asset rich*. However, while Nigeria’s economic and financial struggles resulting from the decline in income have been conspicuous in news headlines, the *solutions that the value of assets owned by Nigeria could unleash* have been less so. It is time to give more prominence to the *hidden value in vast assets owned by Nigeria* and *the massive domestic and external liquidity* that can be unlocked from them.

c. Time to Realign Income, Assets and Liabilities

The transition from a regime of windfalls to shortfalls should not mean a change in Nigeria’s economic, fiscal and financial narratives from positives to negatives, as Nigeria can *open new non-export/non-tax revenue lines* to mitigate the fall in exports and tax revenues in the face of post-boom shrinking of the tax base; *allow large-scale equity inflows into government coffers* to reduce borrowings and interest payments on debt; and *decumulate some of the assets accumulated during the boom by rationalizing underutilized lands and buildings and optimizing returns on them*.

²⁰ Amendolagine, V and Coniglio, N D (2014), ‘Economic Enclaves or Bridges to the Global Economy? Foreign and Diaspora Investments in Developing Countries’, EUI Working Paper 2014/10, European University Institute, Robert Schuman Centre for Advanced Studies, Global Governance Programme., January 2014.

²¹ Wickramasekara, P., Tennant, E. and Taran, P, (2017), Engaging the Diaspora and Migrant Workers for Home Country Development: Diaspora Finance and Remittances’, November 2, 2017, ADBI, OECD and ILO (eds.) Labour Migration in Asia: Increasing the Development Impact of Migration through Finance and Technology., Asian Development Bank Institute, Organisation for Economic Co-operation and Development, and International Labour Organization, 2018, <https://ssrn.com/abstract=3172249>.

²² Diaw, A. K., (2017), Exploring the Potentials of Diaspora Sukuk for OIC Member Countries’, April 1, 2017, *Islamic Economic Studies*, Vol. 25, No. 5, 2017, <https://ssrn.com/abstract=3149516>.

²³ Balima, H. and Combes, J-L (2019), ‘Remittances and Bond Yield Spreads in Emerging Market Economies’, *Review of International Economics*, Vol. 27, Issue 1, pp. 448-467, February, <https://ssrn.com/abstract=3320794>.

About Dr. Ayo TERIBA

Ayo is CEO of Economic Associates (EA) where he provides strategic direction for ongoing research and consulting on the outlook of the Nigerian economy, focusing on global, national, regional, state, and sector issues. Ayo is also the *Vice-Chairman* of the *Technical Committee of the*



National Council on Privatization (TC-NCP), where he highlights the links between privatization programmes and the macroeconomy. He is a *Member of Board of Economic Advisers* in the Office of the Economic Adviser to the Vice-President, where he contributes to the conception of economic policy ideas for the country, he is a *Member of Nigeria's Industrial Council*, where he shapes efforts to ensure Nigeria's industrial advancement, he was a *Member of Presidential Technical Advisory Committee on Implementation of New National Minimum Wage*, and he was a *Member of the defunct National Economic*

Intelligence Committee (NEIC), where he conducted periodic reality checks on macroeconomic, fiscal and monetary policies.

Before becoming CEO of EA in 2004, Ayo worked as *Chief Economist* at ThisDay Newspaper (2001-2004), *Faculty Member* at Lagos Business School (1995-2001), *Head of Research* at Lagos Chamber of Commerce (1993-1995), and *Company Economist* at UAC of Nigeria (1992-1993). Ayo has served as *Consultant* to many blue-chip companies, a host of Federal ministries, departments and agencies, numerous State Governments, DfID, USAID, UNIDO, World Bank, and was a *Visiting Scholar* to the IMF Research Department in Washington DC.

Ayo has received grants from Ford Foundation and Rockefeller Foundation, and chaired the steering committee of Money, Macroeconomic and Finance Research Group of Money Market Association of Nigeria. He is a Council Member and Chair of Economic and Statistics Committee of Lagos Chamber of Commerce and Industry and was a Non-Executive Director of Greenwich Trust Group.

Ayo is well known for articulating his views on Nigeria's economic reform imperatives through articles, interviews, and comments in the mass media. From 1996 to 1998, he spearheaded the advocacy for re-denomination of Naira notes and coins that led to the successful introduction of N100, N200, N500 and N1000 between 1999 and 2005. N50 note was the highest denomination prior to the advocacy. His current reform advocacy is how Nigeria can secure large enough liquidity inflows to rejuvenate fiscal, systemic, and forex flows to change its economic narratives back to positive in the face of a global commodity price bust.

Ayo earned *B.Sc. in Economics* from University of Ibadan with *Sir James Robertson Prize and Medal, UAC Prize in Economics*, and *Economics Departmental Prize* as the all-round best economics graduate in 1988, *M.Sc. Economics* from Ibadan in 1990, *M. Phil. Economics of Developing Countries* as a *Cambridge-DfID Scholar* at University of Cambridge in 1992, and *Ph.D. in Applied Econometrics and Monetary Economics* from University of Durham in 2003. He is an *Alumnus* of Lagos Business School (*AMP 5*) and Henley Business School (BDP) Executive Programmes.