



BUILDING ECONOMIC RESILIENCE IN 2024: STRATEGIES FOR A SUSTAINABLE FUTURE

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January 16, 2024

OUTLINE

01 Concept Definition

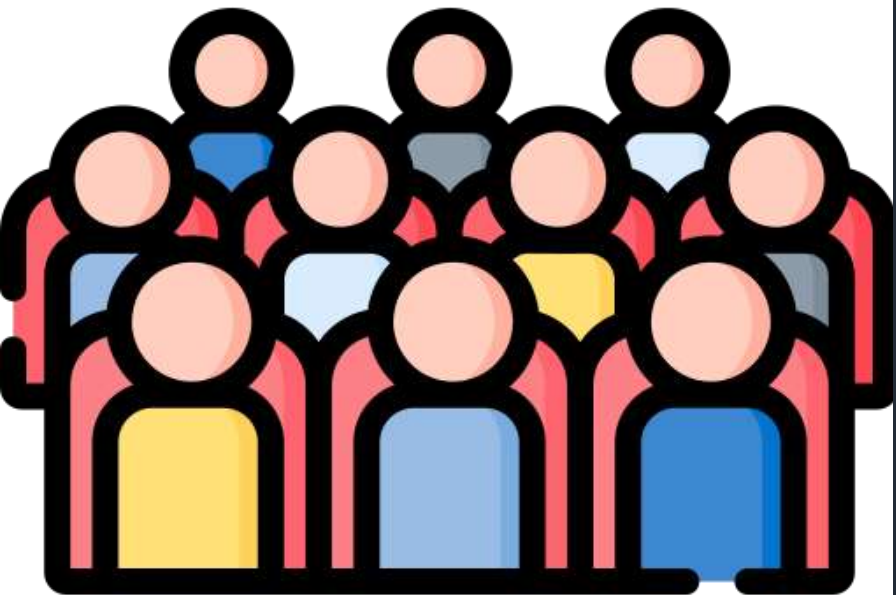
02 The Nigerian Economy –
Snapshot Analysis & Inevitable
Policy Changes

03 Policy Imperatives &
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Management

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AUDIENCE ANALYSIS



- LCCI is the premier Chamber of Commerce in Nigeria
- Founded in 1888 and incorporated in 1950
- For the promotion and protection of Trade and Industry
- Through regular consultations on policies and measures affecting businesses and the economy at large
- Vision is to remain the foremost Chamber of Commerce and Industry
- And be a role model for others in the promotion of sound business ethics and delivery of qualitative services



Concept Definition

WHAT IS ECONOMIC RESILIENCE?

- Policy-induced ability of an economy to withstand or recover from the effects of shocks



**United Nations
University**

- A community's ability to foresee, adapt to, and leverage changing conditions to their advantage



**The National Association of
Counties**

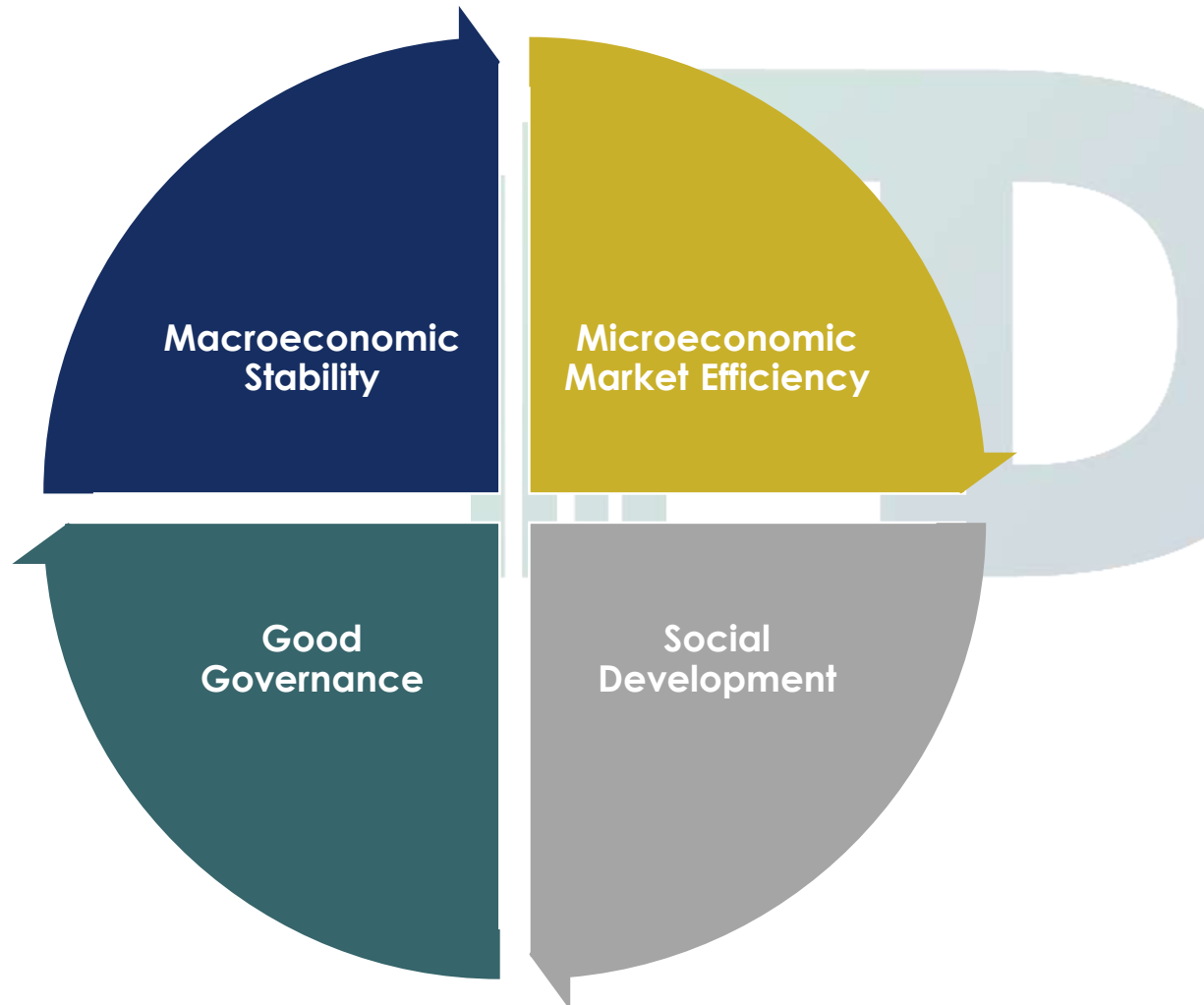
- Economic resilience has 3 attributes:
 - The ability to recover quickly from a shock
 - The ability to withstand a shock
 - The ability to avoid a shock



**U.S. Economic Development
Administration**

ECONOMIC RESILIENCE INDEX

- The economic resilience index covers four broad areas



- There is a positive relationship between macroeconomic stability, social development, and good governance
- Sweden, Denmark, Netherlands, and Ireland were among the top 10 countries with macroeconomic stability, social development, and good governance

10 MOST ECONOMICALLY STABLE COUNTRIES



Sweden
0.78



Finland
0.74



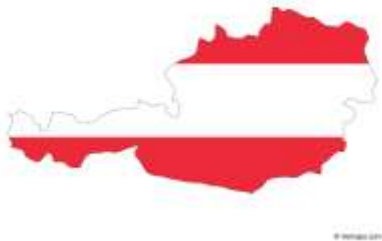
Denmark
0.74



Netherlands
0.67



Germany
0.65



Austria
0.64



Ireland
0.63



Belgium
0.63



Estonia
0.62



France
0.56

HDI & GOVERNANCE EFFICIENCY RANKING

HDI RANKING – TOP 10

Country	Rank	Score
Switzerland	1	0.962
Norway	2	0.961
Iceland	3	0.959
Hong Kong	4	0.952
Australia	5	0.951
Denmark	6	0.948
Sweden	7	0.947
Ireland	8	0.945
Germany	9	0.942
Netherlands	10	0.941
Nigeria	162	0.535

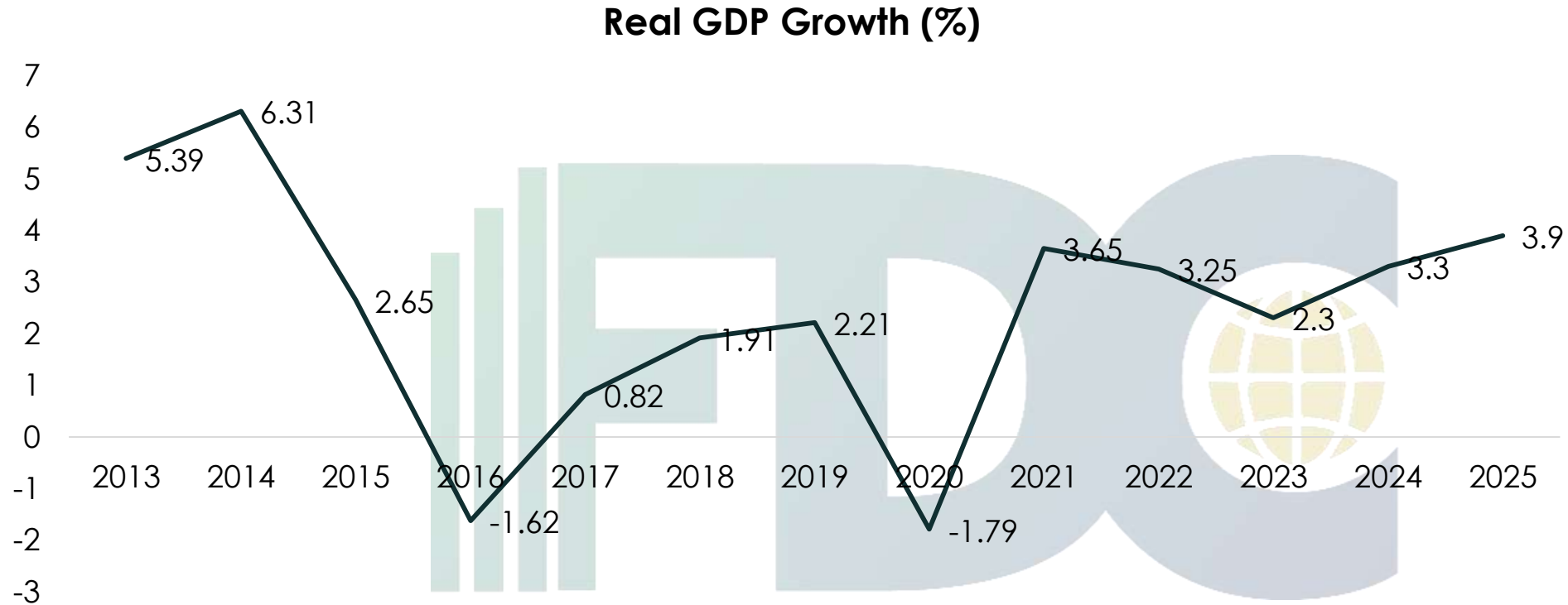
GOVERNANCE EFFICIENCY RANKING – TOP 10

Country	Rank	Score
Estonia	1	76.0
Switzerland	2	74.0
Norway	3	73.0
Denmark	4	72.4
Sweden	5	72.2
Ireland	6	72.2
Luxembourg	7	71.7
Netherlands	8	71.3
Finland	9	71.2
New Zealand	10	70.1
Nigeria	162	37.5



The Nigerian Economy – Snapshot Analysis & Inevitable Policy Changes

SUSTAINED POSITIVE GROWTH



- The Nigerian economy has avoided a recession in 2023 (2.3%) and is poised to grow at 3.3% in 2024

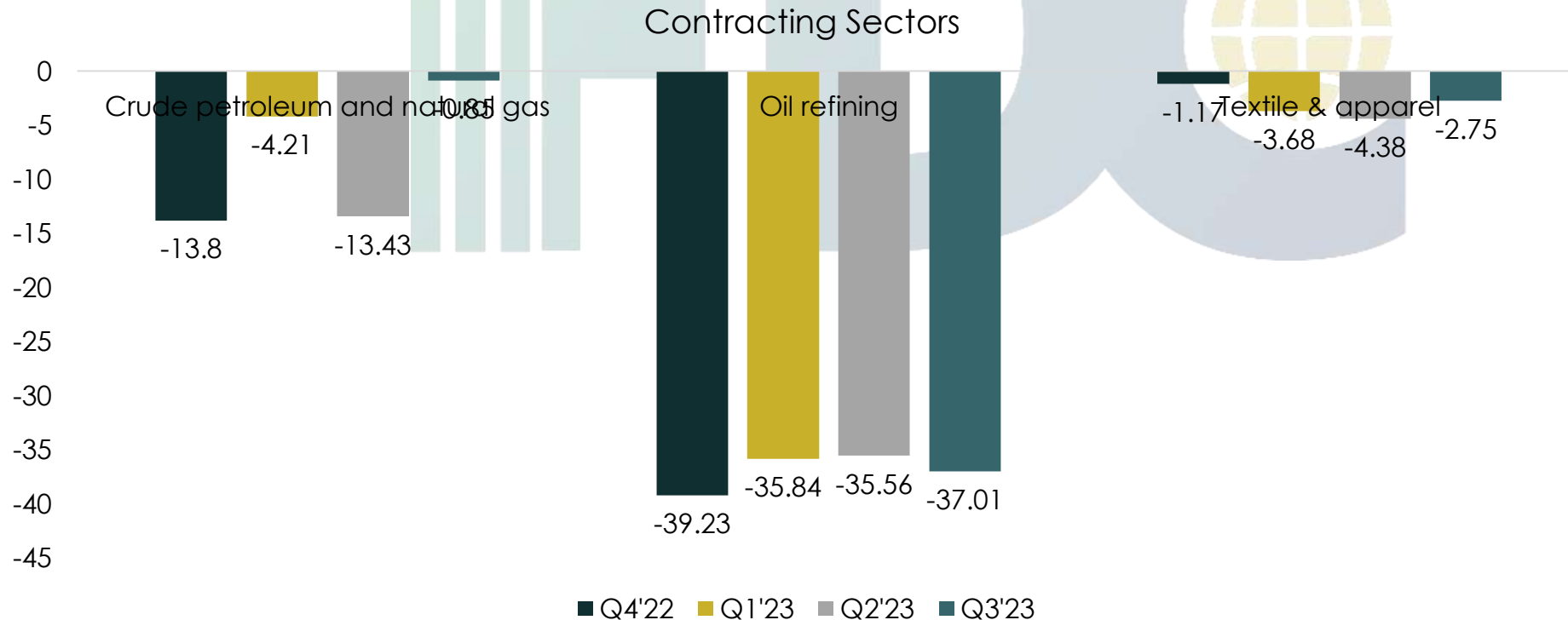
SOME SECTORS WILL OUTPERFORM THE NATIONAL AVERAGE

- Some sectors like financial institutions, telecommunication, and construction are achieving growth over the national average
- These sectors have the following features

Sector	GDP Growth rate (Q3'23)	Bank Exposure	Subsidy sensitivity
Financial institutions	29.66	0.5	Moderate
Telecommunication	7.74	3	Moderate
Construction	3.89	10	Low

SOME SECTORS HAVE BEEN IN RECESSION

- Some sectors have been in recession despite positive economic growth
- These sectors like crude petroleum and natural gas, oil refining, and textile and apparel also have huge banking sector credit exposure



KEY MACROECONOMIC CHALLENGES

Sub-optimal and non-inclusive growth

Real GDP (3.3%) < Potential GDP (4.9%)

Increasing income inequality

High poverty & unemployment rate

Spiraling inflation – 18-year high of 28.92%

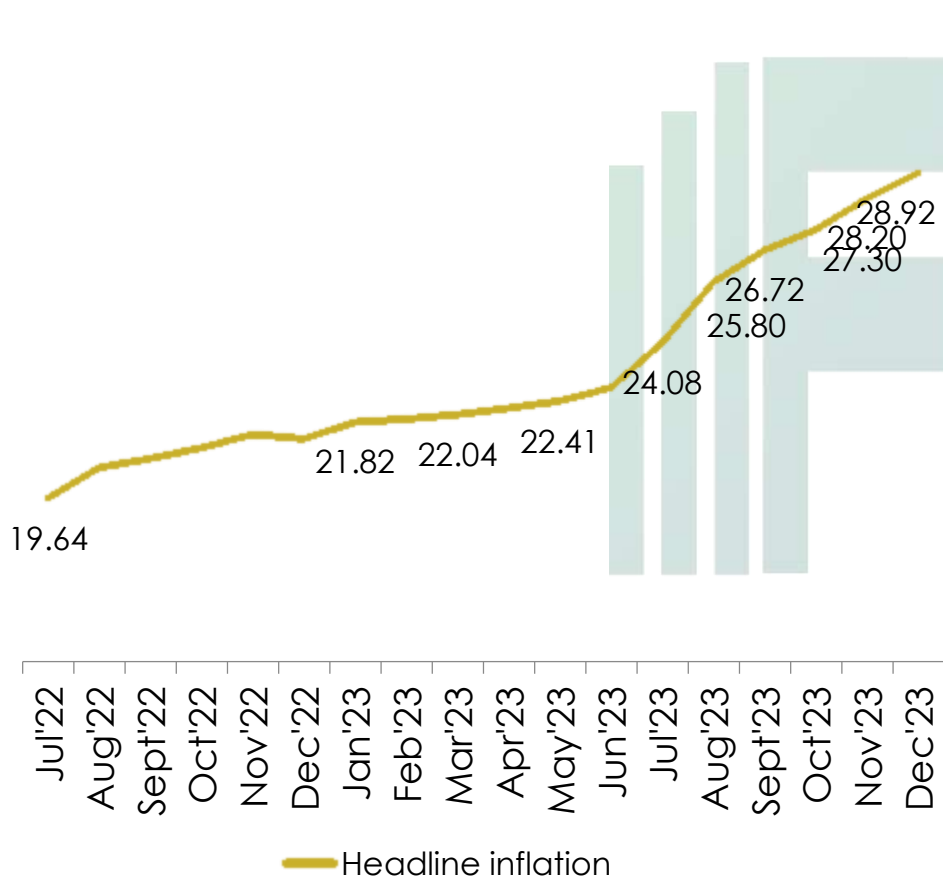
Widening fiscal imbalances
Fiscal deficit as a % of GDP (5.0%)

Currency pressures
Naira climbs to N1,285/\$



SPIRALING INFLATION – APPROACHING 29%

Inflation Rate



• Nigerian inflation maintains its upward trend, rising to 28.92% in

Dec'23

- Largely driven by monetary and cost-push factors
- Monetary conditions are loose and interest rates subsidized
- Central Bank's autonomy and independence is a work in progress
- The negative real rate of return of 19.8% is a disincentive to save
- National savings ratio is 20% of GDP
- Gross fixed investment is 25.3% of GDP

EXTERNAL SECTOR VULNERABILITY

- External debt (contractual and non-contractual) is 100% of total exports
- External debt service to export ratio shows the external sector is vulnerable
- Sectors of the economy that are exchange rate sensitive are similar to those with huge banking exposure

	2023[b]	2024[c]	2025[c]
External debt			
Total external debt (US\$ bn)	85.5	87.4	93.1
Total external debt (% of GDP)	22.5	25.5	29.5
Debt/exports ratio (%)	97.5	100.1	112.5
Debt-service ratio, paid (%)	14.1	14.1	11.4

STRUCTURE OF THE NIGERIAN FOREX MARKET

- The Nigerian forex market is characterized by:

Lack of transparency and clear policy direction

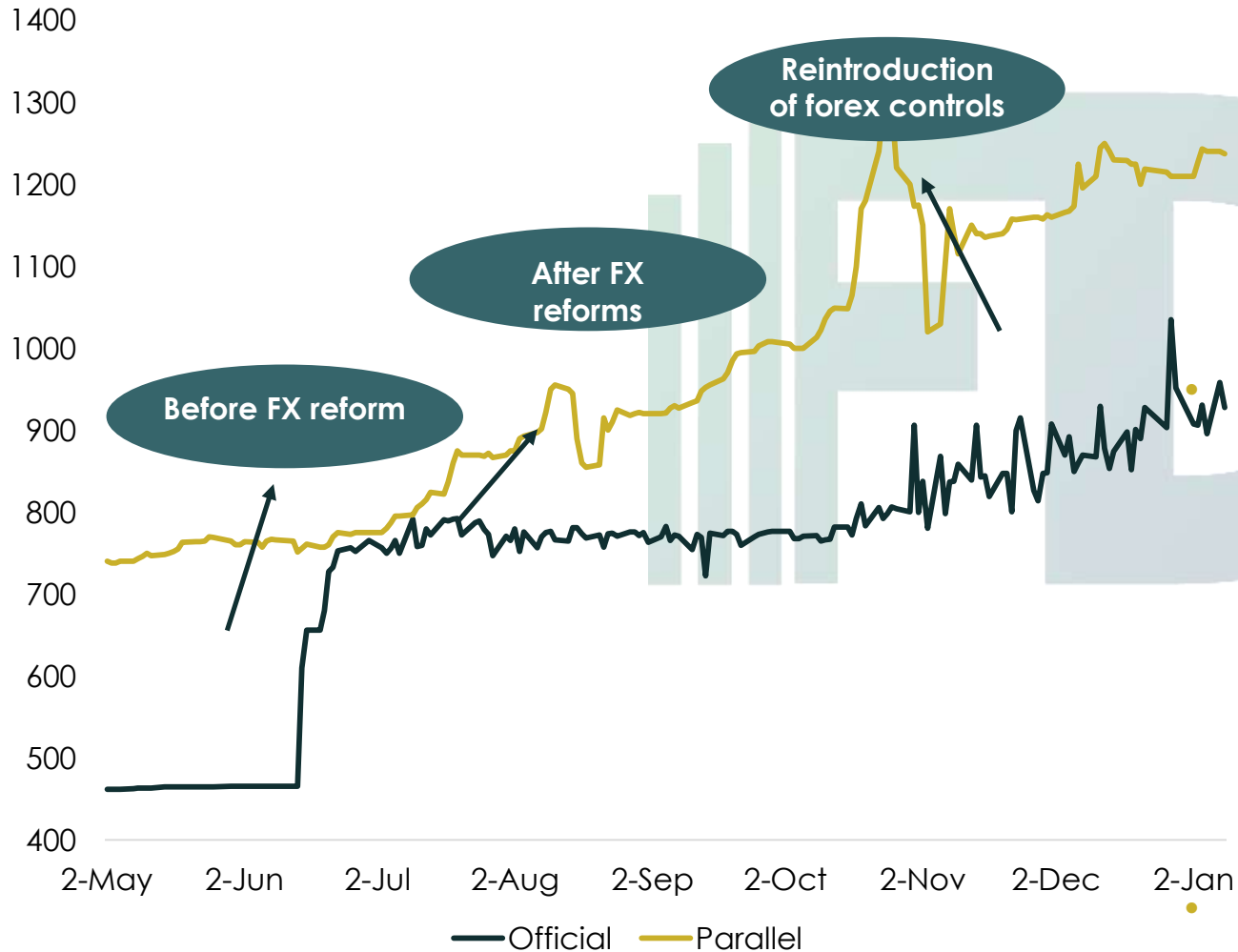
Lack of effective price discovery measure

Capital controls and inefficiency

High speculation & arbitrage activities

NAIRA'S FREEFALL

Exchange Rate (N/\$)



- Initial convergence in exchange rates after the devaluation in the official market
- NAFEM-Parallel gap thinned out to as low as N4.75
- Naira has remained volatile in the parallel market primarily due to
 - Low interest rates
 - Naira speculation
 - Forex scarcity

NAFEM-parallel gap is now at N394.46

WHAT IS THE TRUE VALUE OF THE NAIRA?

Official Market

Purchasing Power Parity			
	=N=	US \$	Jan-24 PPP ('=N=/US\$)
Bottle of Pepsi (50cl)	300	0.76	394.74
Beer (60cl)	755	2.17	347.93
Hamburger (Burger King)	7,700	5.38	1431.23
Indomie (1 unit)	300	0.50	600.00
Nestle Bottled Water (60cl 1 unit)	150	0.32	468.75
Big Loaf Bread	1,500	1.78	842.70
Corrola (2023 Model)	33,000,000	25000.00	1320.00
Irish Spring Soap (1 cake)	900	1.16	775.86
Chicken Breasts (1 kg)	3,700	3.48	1063.22
Trolley	5,500	5.00	1100.00
Peak evaporated milk (pack of 12)	11,500	12.96	887.35
Uncle Ben's rice (5.44kg 1 pack)	18,975	24.66	769.46
Eggs (30 large eggs)	3,500	3.20	1093.75
Average PPP			853.46
Naira Price at NAFEM			890.54
PPP (%)			
Decision: Naira is	Undervalued		-4.16%
Spot Rate (Parallel)			1,245
Outcome: Compared to NAFEM rate of N890.54/\$1, the Naira is undervalued by -5.93%			

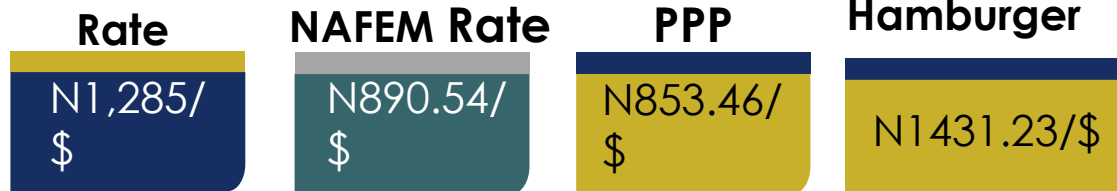
Naira is undervalued by **4.16** at the NAFEM rate of **N890.54/\$**

Parallel Market

Purchasing Power Parity			
	=N=	US \$	Jan-24 PPP ('=N=/US\$)
Bottle of Pepsi (50cl)	300	0.76	394.74
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Eggs (30 large eggs)	3,500	3.20	1093.75
Average PPP			853.46
Naira Price at Parallel market			1285.00
PPP (%)			
Decision: Naira is	Undervalued		-33.58%
Spot Rate (Parallel)			
Outcome: Compared to Parallel rate of N1285/\$1, the Naira is Undervalued by 34.81%			

Naira is undervalued by **33.58%** at the parallel market rate of **N1,285/\$**

Parallel Market



THE WAY FORWARD – INEVITABLE POLICY CHANGES IN 2024

Debt
rescheduling
(Externally)

Increase interest
rates
(Domestically)

Manage money
supply more
efficiently

Efficient foreign
exchange
market -
*Adopt a wholesale
dutch auction system*

Cost reflective
electricity tariff

Petrol subsidy
reduction

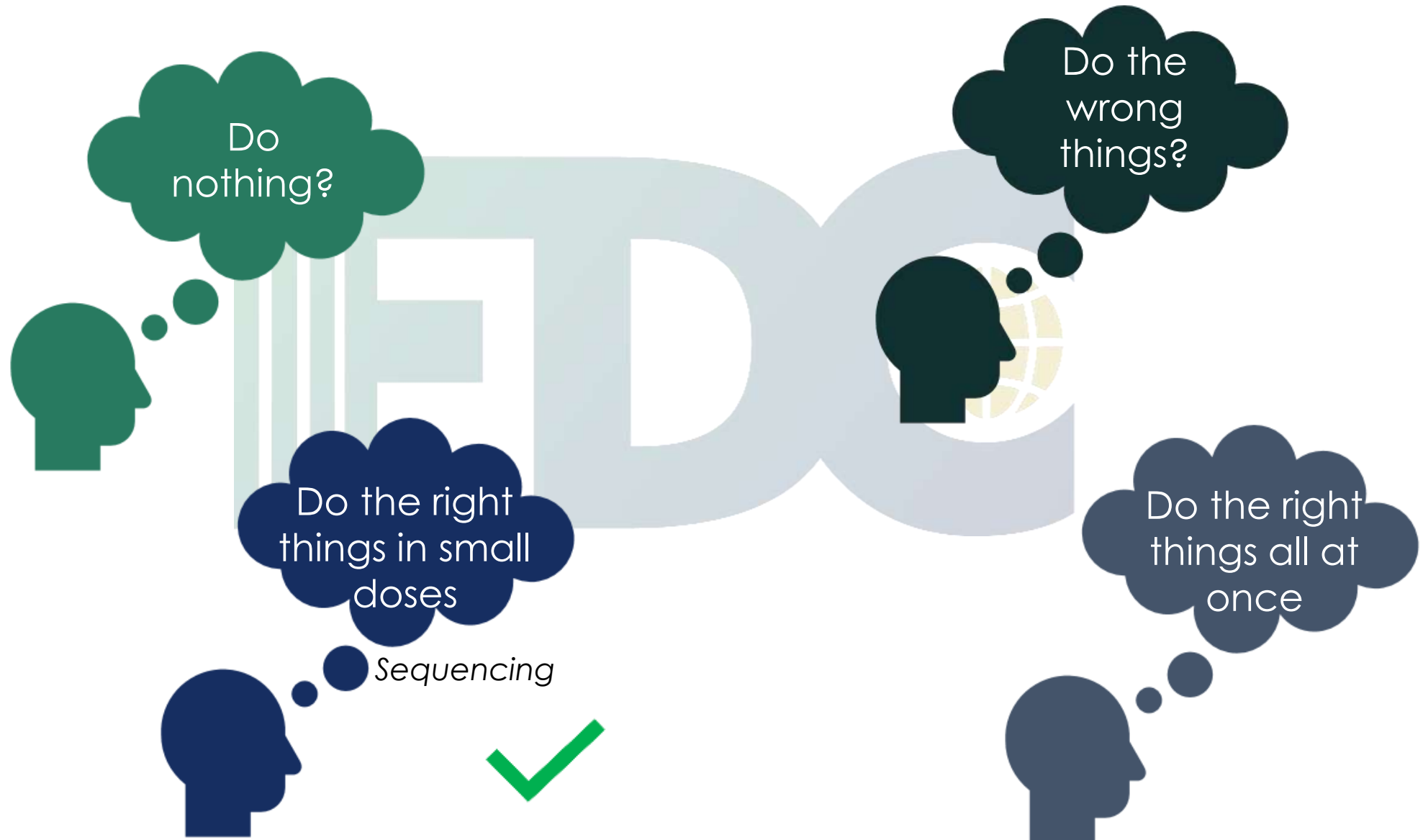
Wage review



Policy Imperatives & Macroeconomic Impact



POLICY OPTIONS





POLICY IMPERATIVES

Probability: High

More aggressive tax collection

Increase tax to GDP ratio from 10.8% to 15%

Probability: High

Further reduction of subsidies

Increase in PMS price towards diesel price – 27% to N800/ltr

Electricity tariff moves from N65/kWh to N90/kWh

Probability: Moderate

Increase in interest rates towards inflation rate

Increase 365-day T/bill rate to 29% p.a
Currently at 8.39%p.a

Probability: Moderate

An efficient foreign exchange market

Adopt a Wholesale Dutch Auction system to promote transparency & price discovery in the forex market

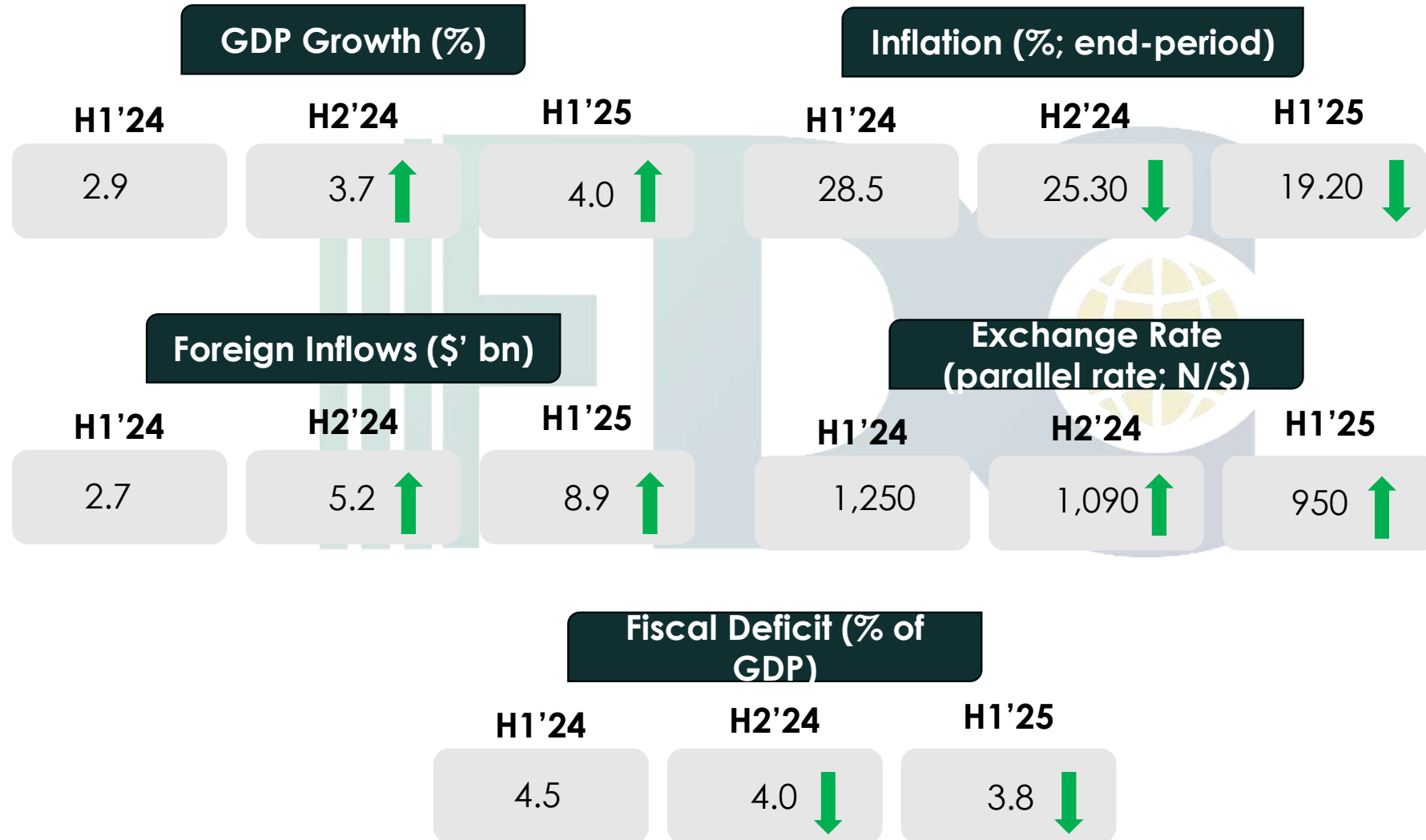
Probability: High

Minimum Wage Review

Likely increase in the minimum wage to N50,000 from N30,000



POLICY CHANGES & MACROECONOMIC IMPACT





POLICY CHANGES AND IMPACT ON SMEs

- Small and medium scale enterprises are mostly found in the following sectors



Sectors and % of total SME's

Source: NBS, 2013



Policy Changes: Sector Opportunities & Threats

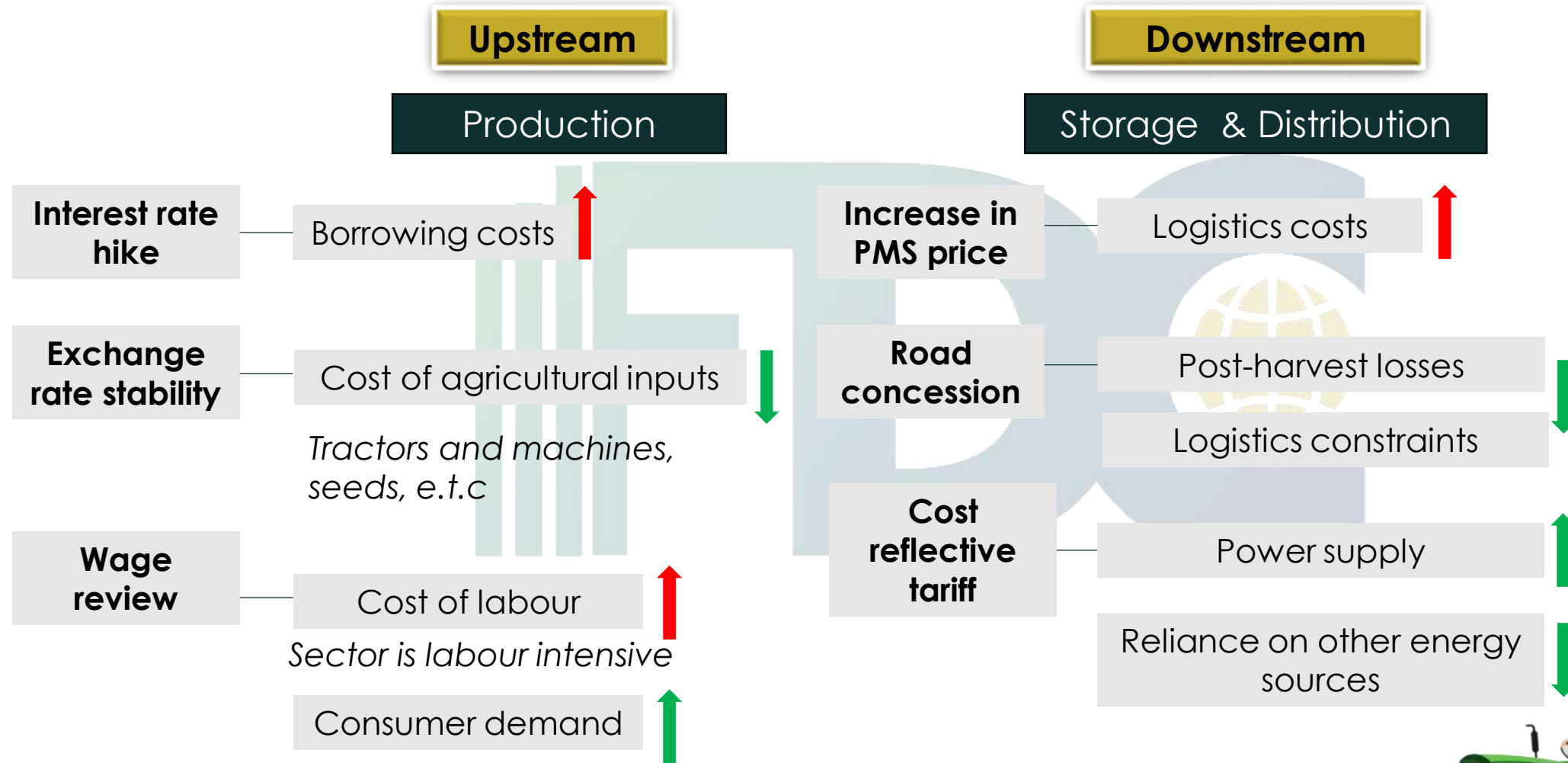


SECTOR SENSITIVITY

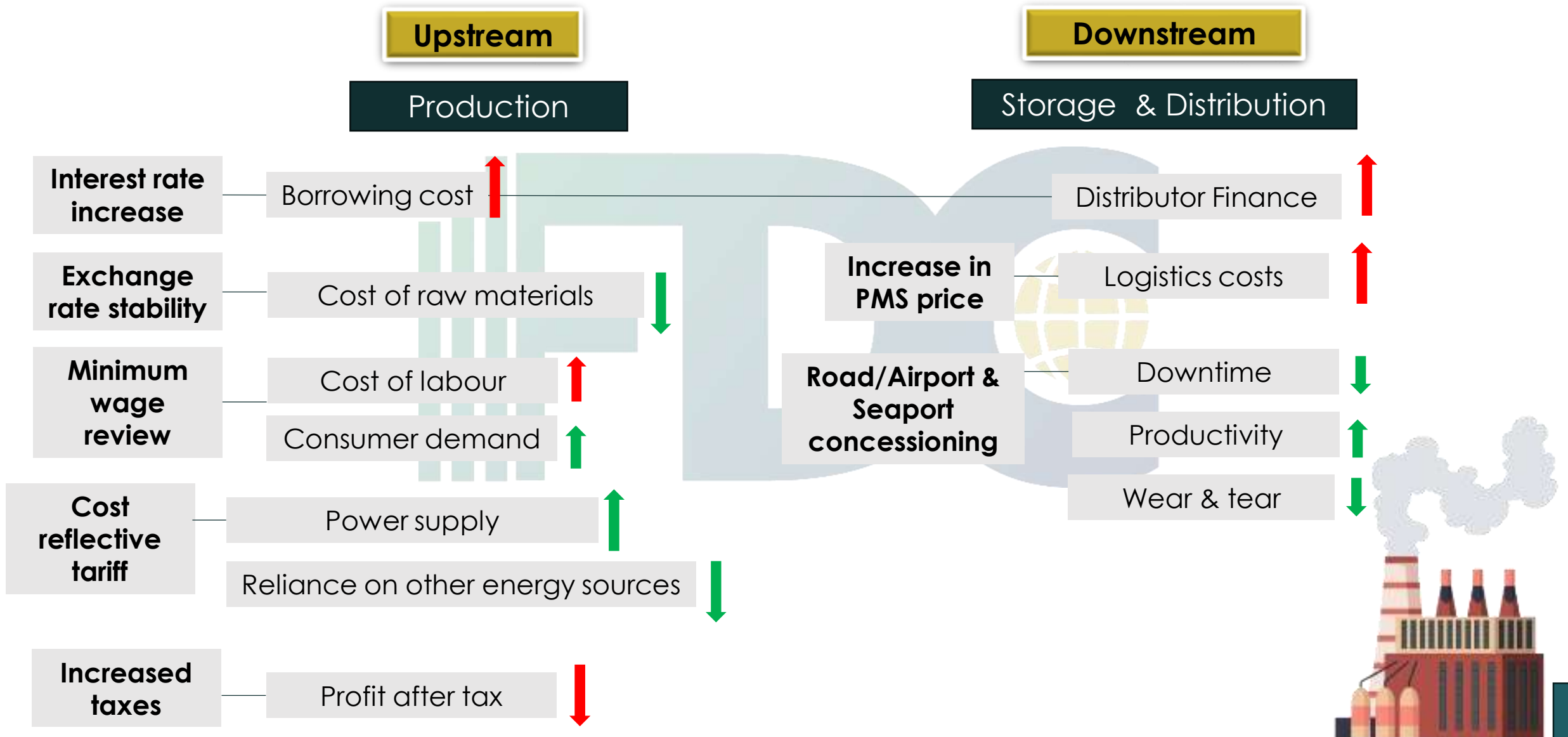
Sectors	Interest rates	Exchange rate	Petrol subsidy reduction	Cost reflective tariffs	Increased taxes	Wage review
Trade	High	High	High	High	High	High
Manufacturing	High	High	Moderate	High	High	High
Construction	High	High	Low	Low	High	High
Agriculture	High	High	High	Moderate	High	Moderate
Telecoms	High	High	Moderate	High	High	High
Oil and gas	Moderate	High	High	Moderate	High	High



AGRICULTURE SECTOR – IMPACT ANALYSIS



MANUFACTURING & TRADE SECTOR – IMPACT ANALYSIS



POLICY CHANGES - MAJOR OPPORTUNITIES



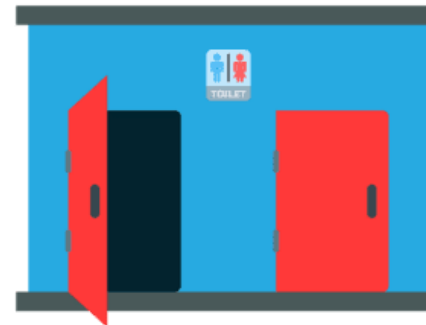
Road concessioning



Proper structured repair centres



Fast foods



Paid public services

POLICY CHANGES - MAJOR OPPORTUNITIES



POLICY CHANGES - MAJOR OPPORTUNITIES





Budget as a Tool of Economic Management



KEY FISCAL POLICY OBJECTIVES

Stimulate
output
growth

Boost
employment
level

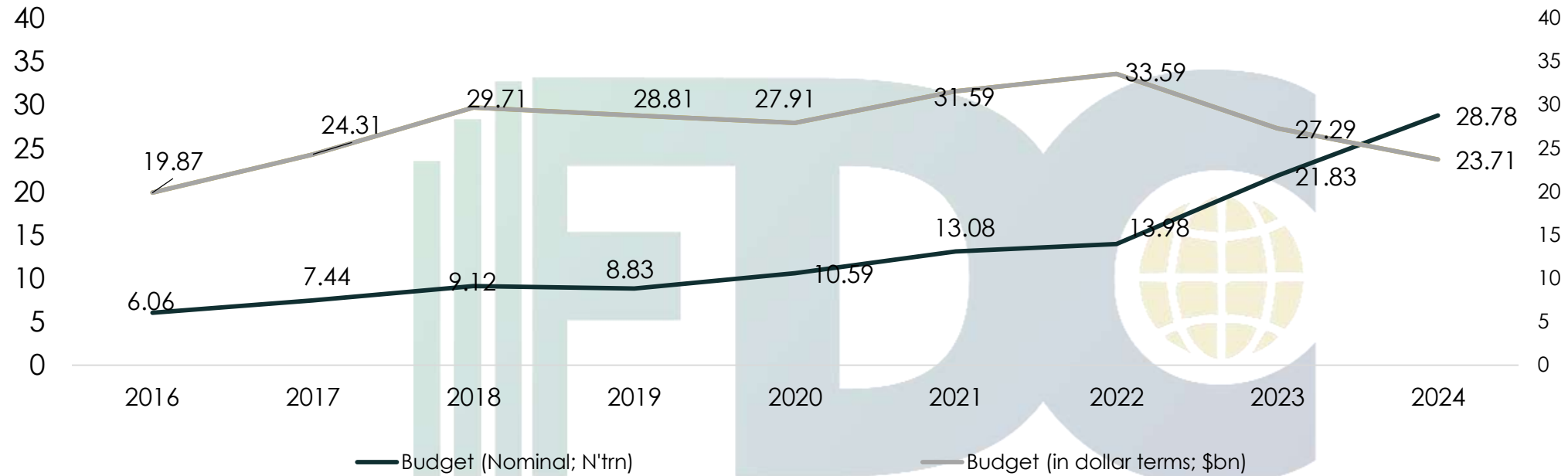
Equitable
distribution of
income & wealth

Boost in
investment
level

Debt
management

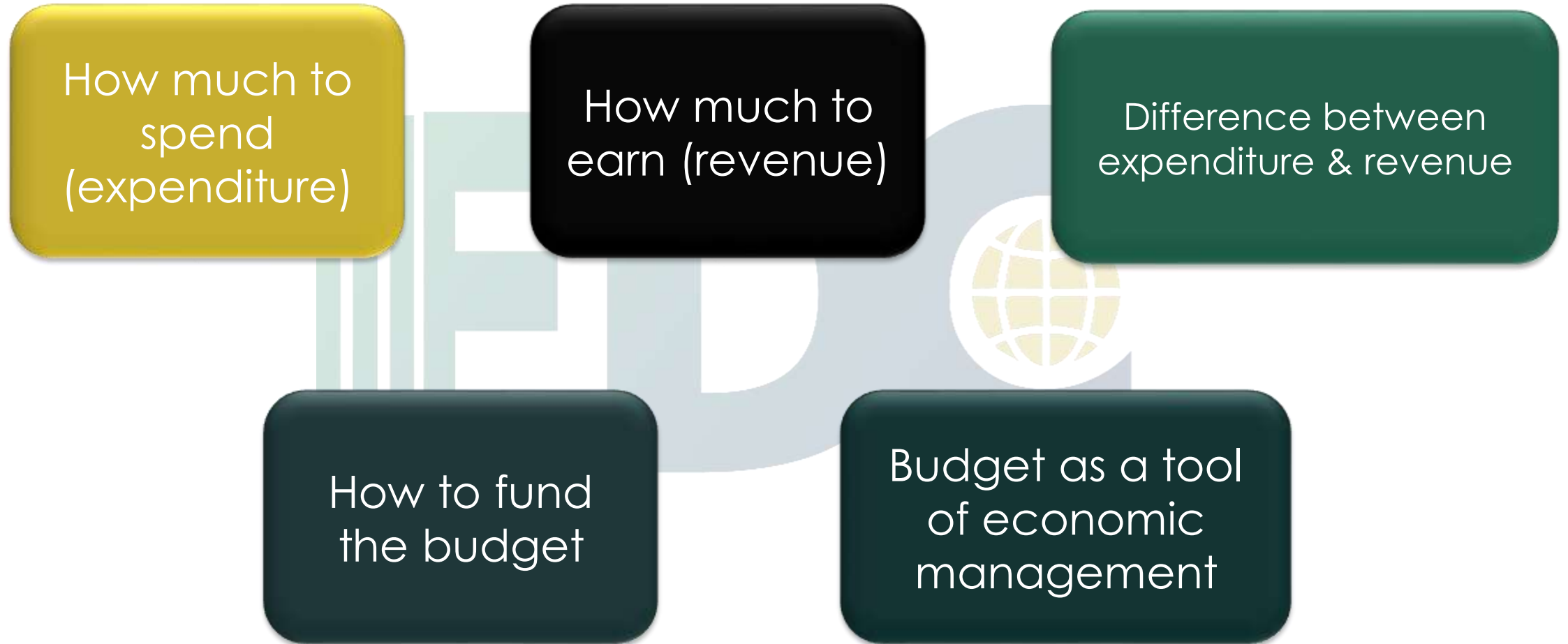
2024 APPROPRIATION ACT

Budget (Nominal & Real Values)



- Budget expenditure increased by 31.84% to N28.78trn in 2024 from N21.83trn in 2023
- However, in dollar terms, the budget size is reducing (\$23.71bn)

BUDGET CHARACTERISTICS



2024 BUDGET BREAKDOWN

Revenue – N19.6trn

Expenditure – N28.78trn

- Nigeria has underperformed its revenue target by an average of 40% in the last 5 years
- Average revenue in the last 5 years = N4.39trn

- Debt service = N8.2trn
- Non-debt recurrent exp. = N8.7trn
- Capex = N9.99trn
- Recurrent exp. = N8.77trn

Fiscal Deficit – N9.18trn (3.88% of GDP)

To be funded through borrowing

- New borrowing = N7.82trn
- Privatization proceeds = N298.49bn
- Multilateral & Bilateral loans = N1.05trn



TYPES OF BUDGET

Balanced Budget

- Government expenditure equals expected revenue

Surplus Budget

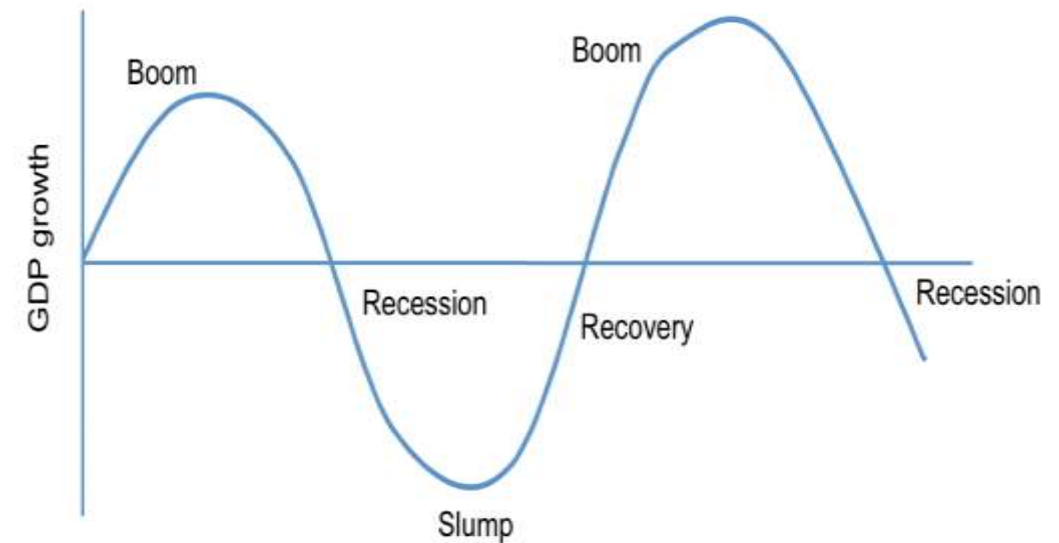
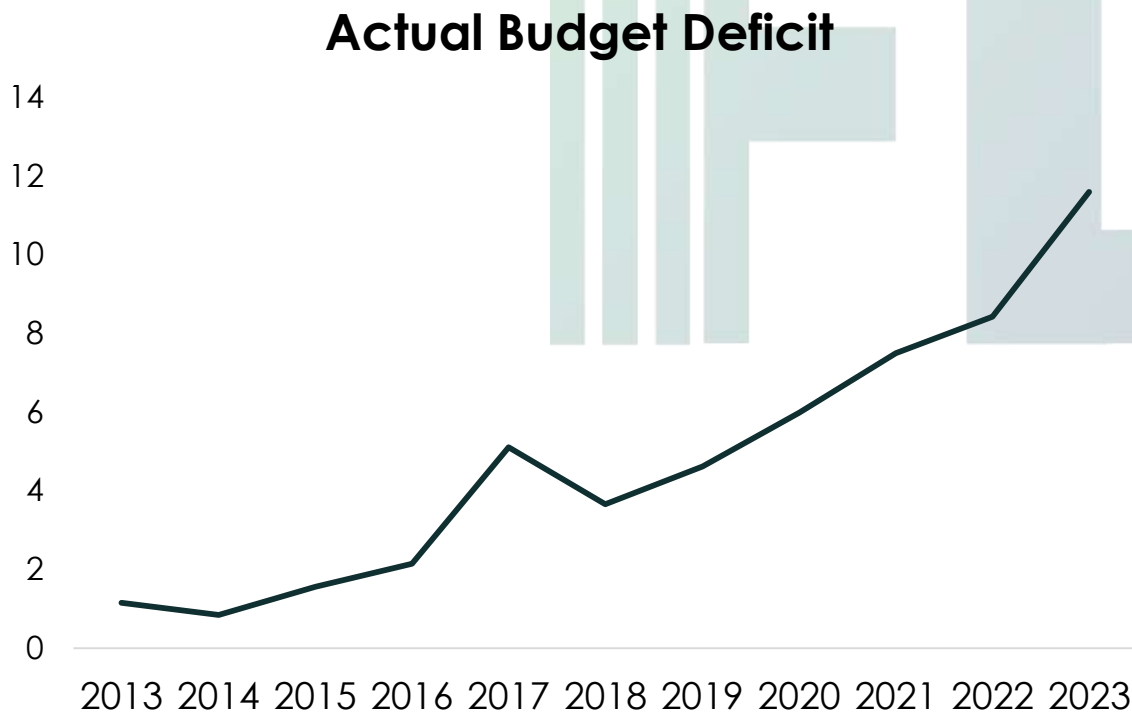
- Expected revenue exceeds planned expenditure
- Contractionary fiscal policy

Deficit Budget

- Planned expenditure exceeds estimated revenue
- Expansionary fiscal policy

BUDGET IN A PERIOD OF ECONOMIC DOWNTURN

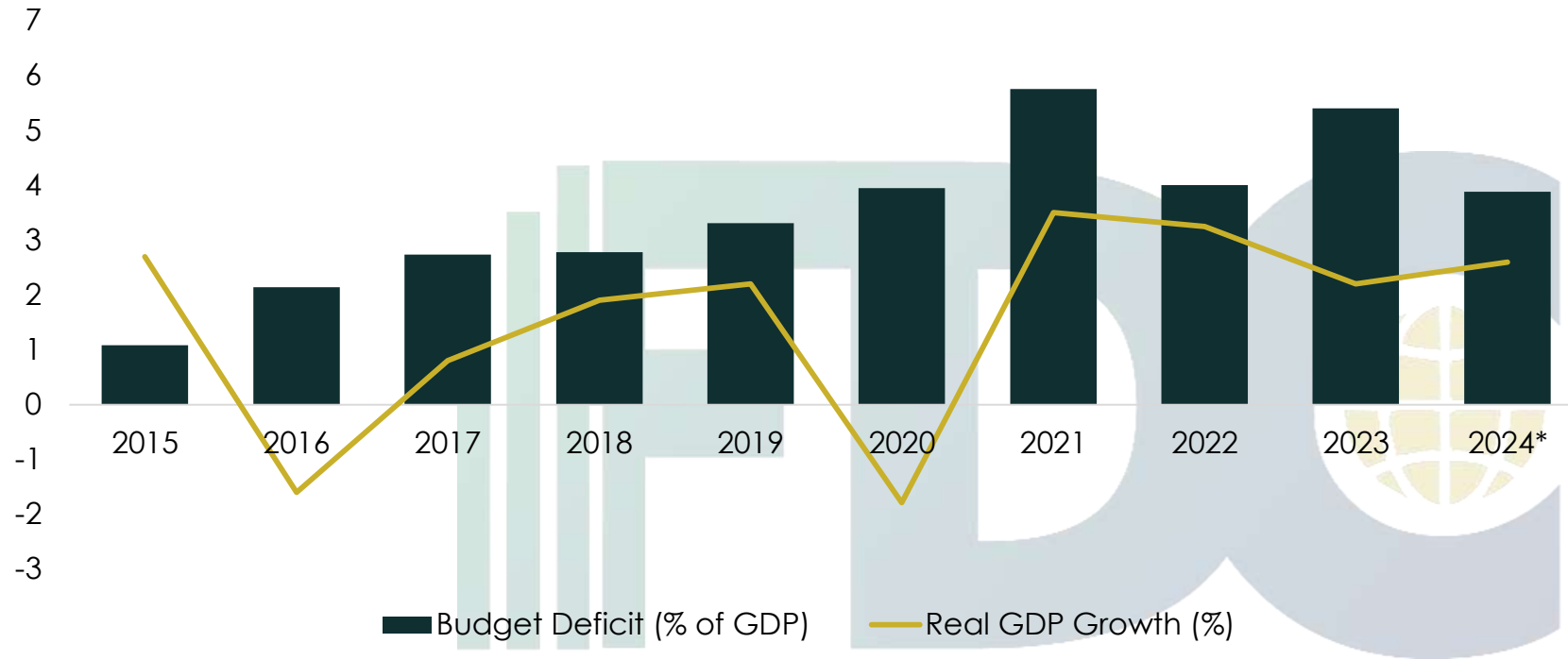
- Keynes is an advocate of a countercyclical fiscal policy during periods of economic downturns
- Nigeria has consistently adopted a deficit budget for over three decades
- Aimed at boosting aggregate demand and stimulating output growth





BUDGET DEFICIT VS GDP GROWTH

Budget Deficit Vs GDP Growth



- Deficit spending is yet to yield the intended impact on the economy
- Fiscal spending not complemented with adequate investment (domestic & foreign investments)

GOALS OF THE 2024 BUDGET – VAGUE TARGETS

Achieve Job-rich economic growth – 3.76%

Macroeconomic stability – inflation (21.4%)

Reduce fiscal deficit – from N13.78trn to N9.18trn

Increase revenue to GDP from less than 10% to 18%

Reduce the cost of doing business & cost of living of an average Nigerian

Poverty reduction

Enhanced human capital development

Better investment environment

Increase capital spend



BUDGET ASSUMPTIONS

Indicators	2023	2024	Comments
GDP growth (%)	3.75	3.88	<ul style="list-style-type: none"> Average growth rate in the last 5 years = 1.9% IMF projects 2.9% for 2024 while EIU forecasts 2.6%
Oil price (\$pb)	75	77.96	<ul style="list-style-type: none"> Initial projection = \$73.96pb 2024 JP Morgan estimates - \$90 - \$110/pb
Oil production (mbpd)	1.69	1.78	<ul style="list-style-type: none"> Average oil production in the past 5 years = 1.53mbpd
Exchange rate (N/\$)	435.57	800	<ul style="list-style-type: none"> Initial forecast = N700/\$ Parallel market rate currently N1,285/\$
Inflation (%)	16.98	21.4	<ul style="list-style-type: none"> IMF – 23 EIU – 23.5



BUDGET PERFORMANCE IN THE LAST TWO YEARS

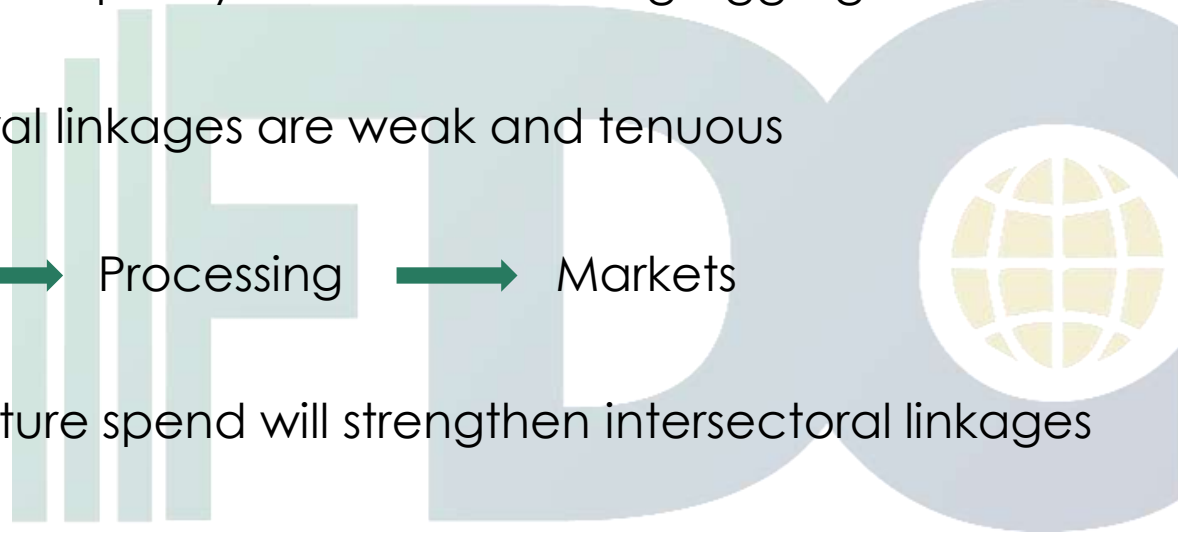
Indicators	2022		2023	
	Targets	Actual	Targets	Actual
GDP growth (%)	4.2	3.25	3.75	2.45
Oil price (\$pb)	57	98.8	75	83.64
Oil production (mbpd, avg.)	1.88	1.21	1.69	1.32
Exchange rate (N/\$, end period)	410.15	740	435.57	1,158
Inflation (% , end period)	13	21.34	16.98	27.33



Summary & Conclusion

SUMMARY & CONCLUSION

- Nigeria has consistently adopted a deficit budget
- A countercyclical fiscal policy aimed at boosting aggregate demand and economic growth
- Nigeria's intersectoral linkages are weak and tenuous
 - Production → Processing → Markets
- Increased infrastructure spend will strengthen intersectoral linkages
- Improved linkages will buoy output and reduce inflation
- Leading to a virtuous cycle of prosperity



SUMMARY & CONCLUSION

- Nigeria will remain more integrated with the global and regional economy
- Nigeria will be vulnerable to exogenous shocks especially global oil prices and supply chain shocks
- Nigeria will also need to come to terms with its domestic and external debt situation
 - Expected to begin talks with the IMF and reschedule its external debt
- There are lags between policies, the initial impact, and the final impact
 - H1'24 – **Decision making**
 - H2'24 – **Policy implementation**
 - H1'25 – **Results** (economic takeoff)
- Policy reforms without institutional reforms will only make things worse

SUMMARY & CONCLUSION

- Economy is stratified into 5 different levels

Government

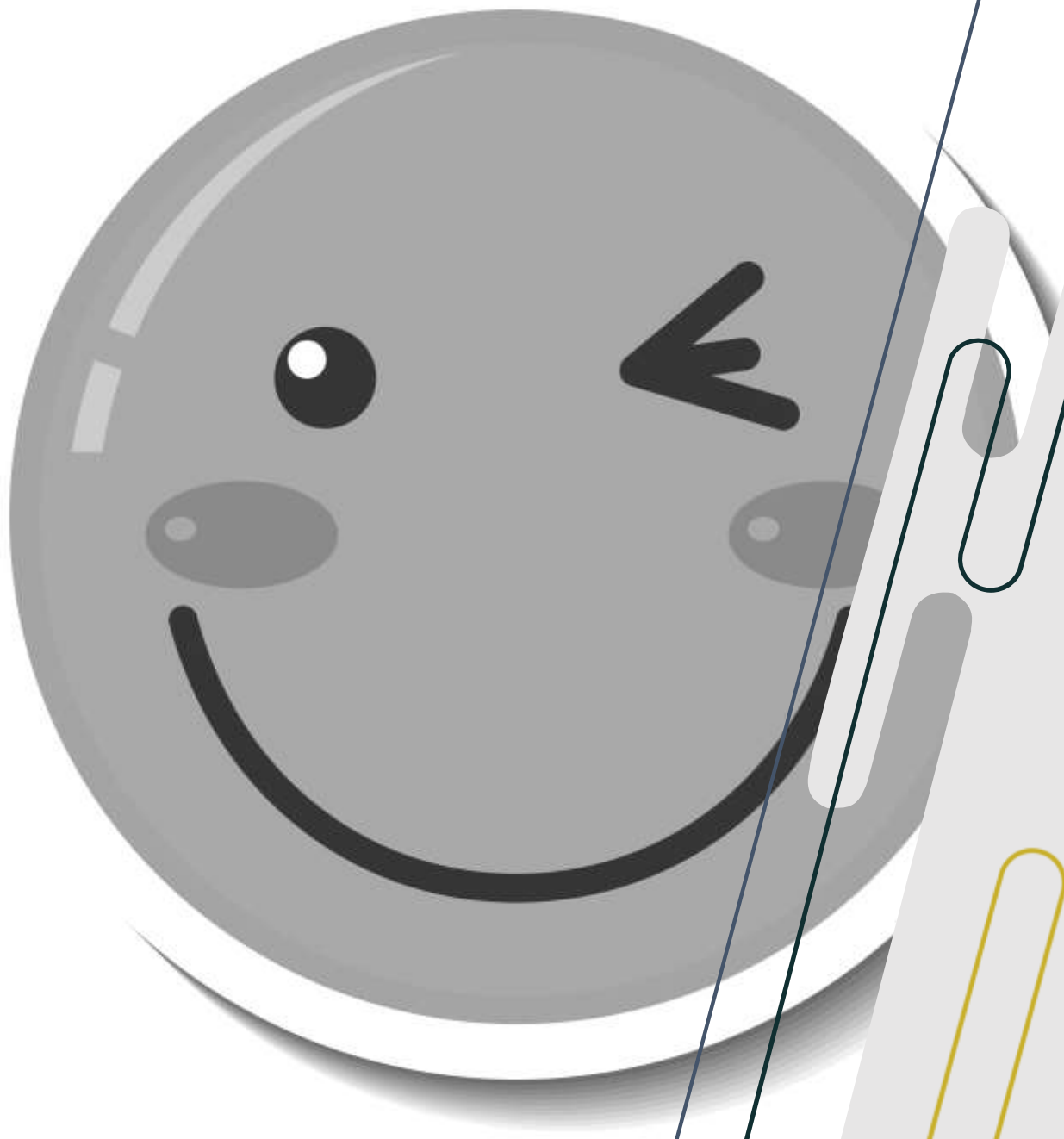
Multinationals

Conglomerate

Commercials

SME's & retail

- First beneficiary – Government (*Shift of revenue from consumers to the government*)
- Second beneficiary – Multinationals & Conglomerate (*increased investment*)
- Third beneficiary – Commercials & SME's and retail



THANK YOU