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# **Nigeria Road To Recovery**

Ministerial Retreat

15<sup>th</sup> September 2016

# Recession is a combination of economic and social factors

## DEFINITIONS

"...**significant economic decline** lasting **more than a few months**, with visible decline in **real GDP, income, employment, industrial production & retail**"

- National Bureau of Economic Research

"...recession...simply put, is **2 consecutive quarters of economic contraction**"

- The Economist Intelligence Unit

"... It is an economic condition characterised by **persistent GDP contraction, high unemployment, shrinking income & industrial production**"

- European Central Bank

"...a situation wherein **real GDP** is **lower** than the **potential GDP** at **full employment** level. This gap is termed a **recessionary gap**"

- Economic Times

## MOST COMMON CHARACTERISTICS













- Negative **real GDP growth**
- Declining **headline inflation**
- Declining **government revenues and spending**
- Increasing **unemployment rate**
- Declining **household expenditure**
- Declining **aggregate consumption**
- Declining **consumer confidence**
- Declining **industrial production/output**
- Declining **stock market** performance
- Banking system failures**
- Declining **foreign investment** levels
- Declining **value and terms of trade**
- Increasing **crime rate**

...

Evidence seen in Nigerian economy as at Q2'16      Emerging evidence

# Nigeria is in recession

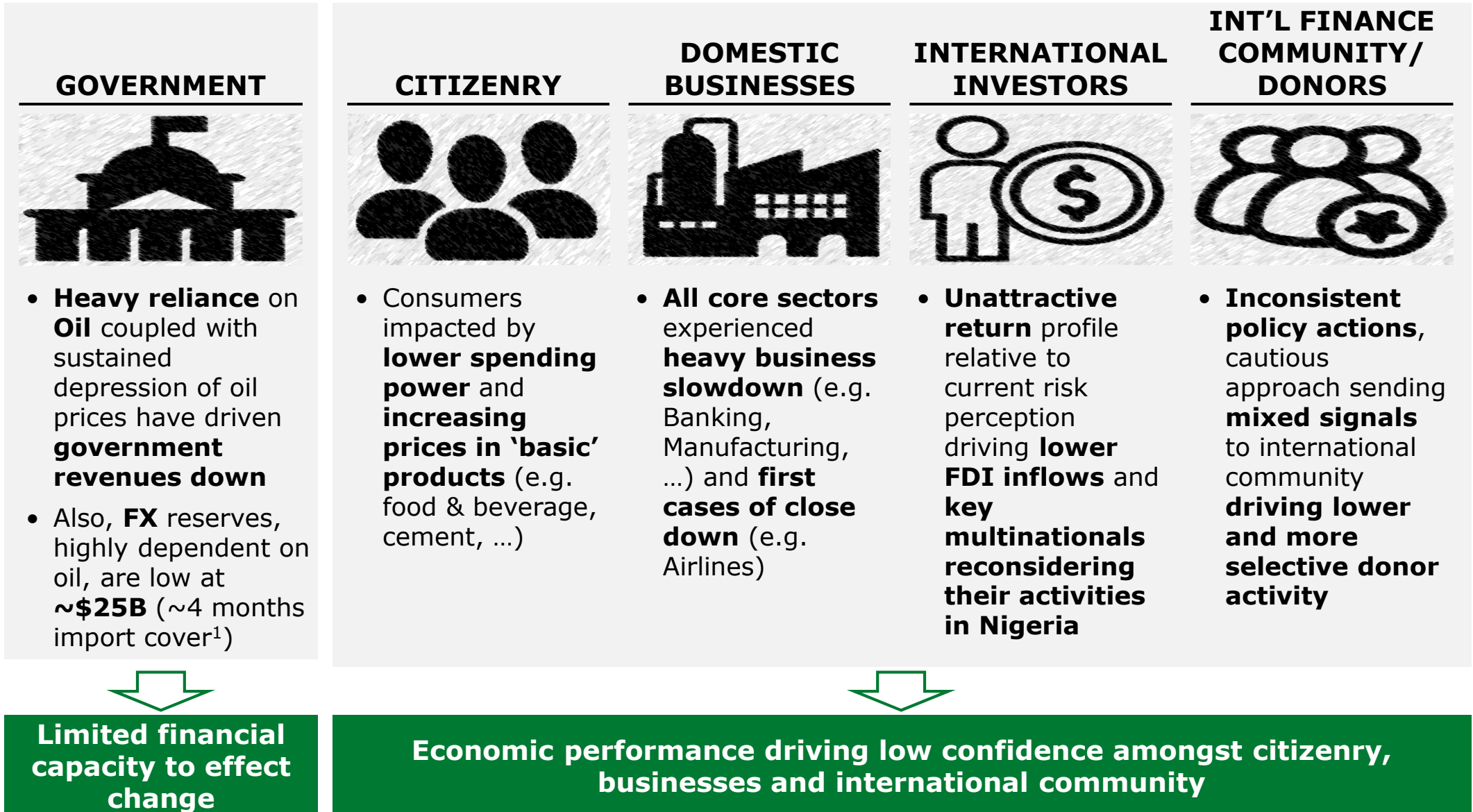
## NIGERIA'S PERFORMANCE ON SELECT RECESSION INDICATORS IN Q2'16

<b>Real GDP growth</b> <b>-2.1%</b> Vs -0.4% in Q1'16 	<b>Headline Inflation</b> <b>+17%</b> Vs 13% in Q1'16 	<b>Government Revenues (Tax)</b> <b>NO.6T</b> Vs N1.2T target 
<b>Unemployment rate</b> <b>+13%</b> Vs 12% in Q1'16 	<b>Aggregate Consumption</b> <b>\$347B</b> Vs \$385B in Q1'16 	<b>Household expenditure</b> <b>N71K</b> Vs N70K in Q1'16 
<b>Consumer Confidence index</b> <b>-24</b> Vs -3 in Q4'15 	<b>Industry/ Manufacturing Production</b> <b>41.9</b> Vs 47 PMI in Q1'16 	<b>Stock market performance</b> <b>-3bps</b> Since Q1'16 
<b>Foreign Investment levels</b> <b>\$0.4B</b> Vs \$0.5B in Q1'16 	<b>Net value of trade</b> <b>-\$6B</b> Vs -\$3B in Q1'16 	<b>Terms of Trade index</b> <b>27</b> Vs 35 in Q4'15 

Source: NBS, CBN, Cap IQ, Euromonitor, World Bank

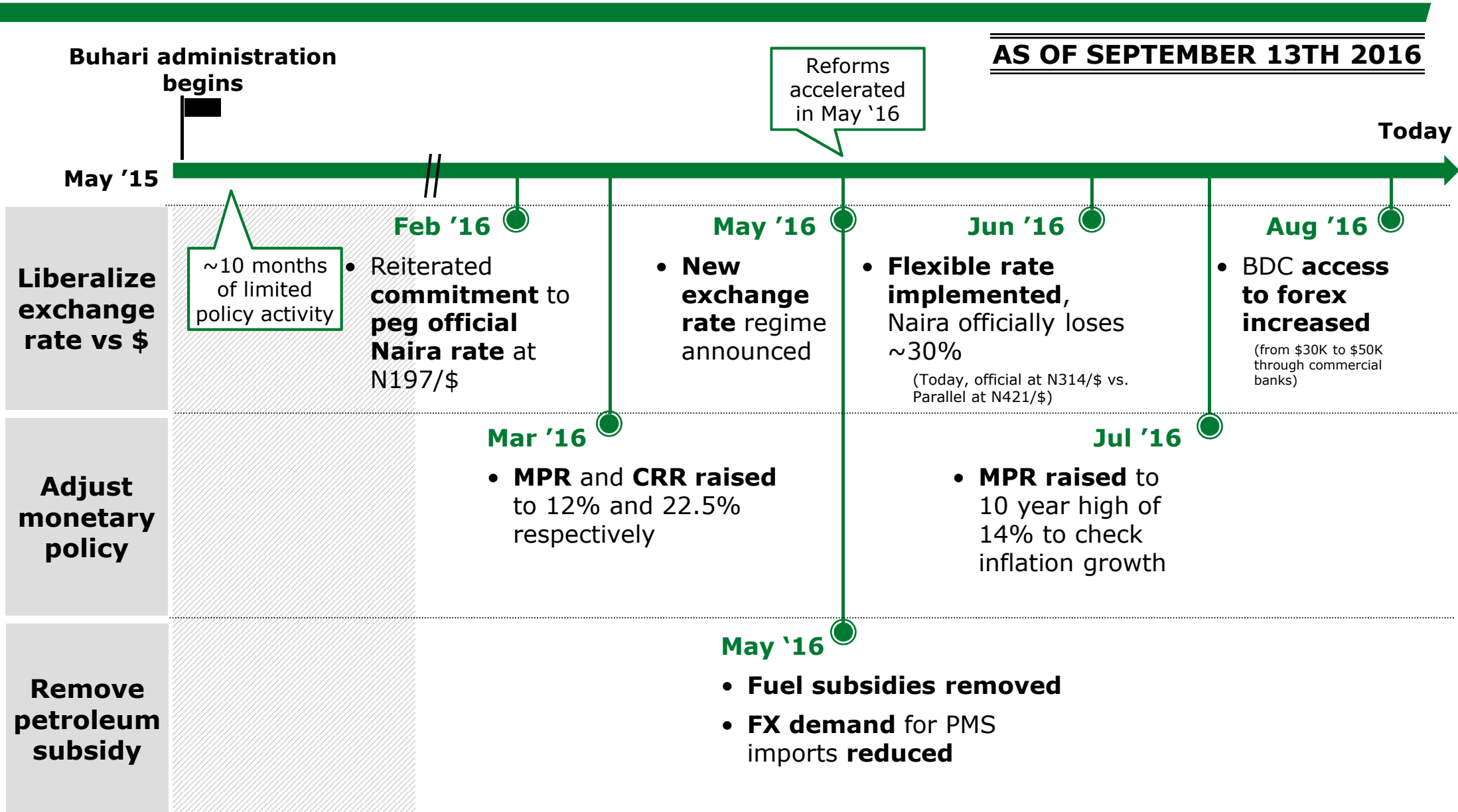
**KEY:**  Negative  Steady  Positive

# All stakeholders have been negatively impacted



Note: 1) IMF FX import cover lower limit is 6 months  
Source: Euromonitor, NBS

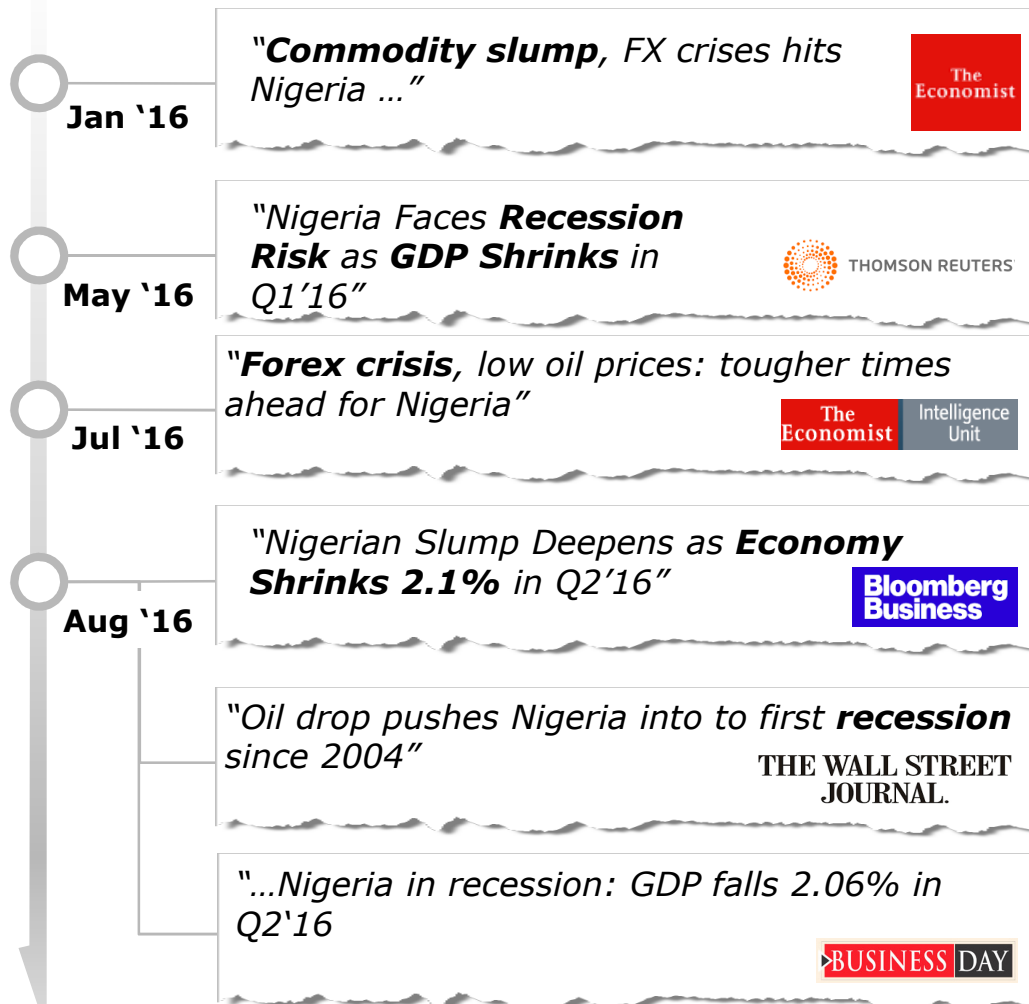
# Key remedial policies were implemented...



Source: Press clippings

...but so far they have been unsuccessful

## FOREIGN PERCEPTION OF NIGERIAN ECONOMY HAS BEEN NEGATIVE OVER THE LAST 7 MONTHS



Source: Press clippings

## IN NIGERIA, THE REALITY ON THE GROUND IS WORSENING

***Anxiety is rising, public confidence is lowering and driving restrictive behaviours that could further exacerbate the problem***



# Situation further worsened by external & internal factors

## EXTERNAL FACTORS (OUTSIDE OUR SPAN OF CONTROL)



**Continued depression of global oil prices**



**Downturn in commodity markets**



**Changing global consumption trends**

## INTERNAL FACTORS (WITHIN OUR SPAN OF CONTROL)



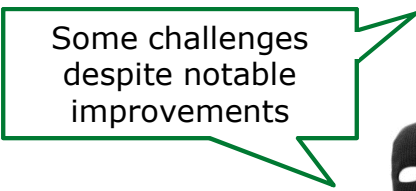
**Limited economic diversification**



**Heavy FX reliance on oil revenues**



**Revenue leakages/low collections due to structural inefficiencies**












**Insecurity (e.g. in Niger Delta & NE)**







**Information distortions**

# Nigeria can draw lessons from other countries that have navigated similar challenges successfully...




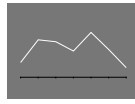
	 <b>THAILAND (1997-2001)</b> 	 <b>INDIA (2010 - DATE)</b> 	 <b>ETHIOPIA (1997-2001)</b> 
Context	<ul style="list-style-type: none"> <li>Strong <b>economic growth</b> of 9% driven by <b>foreign debt</b> (\$18b in 1985 to \$109b in 1997), creating an economic bubble</li> <li>Additionally, Thai currency negatively impacted by <b>speculative attacks</b>, with government unable to defend currency due to <b>inadequate foreign reserves</b></li> </ul>	<ul style="list-style-type: none"> <li><b>GDP growth fell</b> from ~10% in 2010 to ~7% in 2015, mainly driven by <b>lower FDI</b> as a result of infrastructure deficit concerns</li> <li>However, Economy was <b>highly dependent on FDI</b></li> </ul>	<ul style="list-style-type: none"> <li>Embarked on '<b>Growth Transformation Plan</b>' emphasizing macro-economic stability and industrialization</li> <li>Focus was on improving the efficiency of the Agriculture and Industrial sectors</li> </ul>
Actions	<ul style="list-style-type: none"> <li><b>Floated</b> the Baht in 1997 and accepted IMF <b>rescue package</b> worth ~\$17b</li> <li>Government instituted <b>strong economic reforms</b> such as bank recapitalizations</li> <li>Improved the efficiency of tax collection</li> </ul>	<ul style="list-style-type: none"> <li>Launched <b>Make in India campaign</b> to encourage local manufacturing</li> <li><b>Increased FDI cap</b> in insurance and defense sectors to 49%</li> <li>Launched <b>youth employment program</b> to train 1m rural youth in 3 years</li> </ul>	<ul style="list-style-type: none"> <li>Increased <b>productivity</b> in the real sector by investing in R&amp;D activities</li> <li>Inculcated <b>savings culture</b> and <b>price stability</b> through effective central bank policies</li> <li>Fiscal consolidation by improving tax admin. system and focus on CAPEX</li> </ul>
Impact	<ul style="list-style-type: none"> <li><b>Temporary negative shocks</b> observed at onset of reform                             <ul style="list-style-type: none"> <li>- Record low of 56 Baht/\$ in 1998</li> <li>- 75% decline in stock markets</li> </ul> </li> <li>Huge economic improvement by 2001                             <ul style="list-style-type: none"> <li>- Currency traded at ~38 Baht/\$ by 2001</li> </ul> </li> <li>IMF debts repaid by 2003</li> </ul>	<ul style="list-style-type: none"> <li><b>Rapidly increased FDI</b> by 48% (between June 2014 and January 2016)</li> <li>Increased <b>economic diversification</b> through FDI in several sectors</li> <li>India <b>moved up 12 places</b> in World Bank's 2016 Ease of Doing Business Rankings.</li> </ul>	<ul style="list-style-type: none"> <li>Sustained <b>double digit GDP growth</b></li> <li><b>Inflation</b> was kept <b>&lt;10%</b></li> <li>Fiscal measures led to <b>fast growing tax revenue</b> and <b>rationalized expenditures</b></li> </ul>
Key Lessons	 <ul style="list-style-type: none"> <li>✓ <b>Acknowledge recession early and source/allocate sufficient funds to drive economic reform</b></li> </ul>	 <ul style="list-style-type: none"> <li>✓ <b>Contain economic deterioration with rapid implementation of growth plan</b></li> </ul>	 <ul style="list-style-type: none"> <li>✓ <b>Harmonize policy actions to improve effectiveness of recovery and growth agenda</b></li> </ul>



# ...and avoid the mistakes made by less successful countries

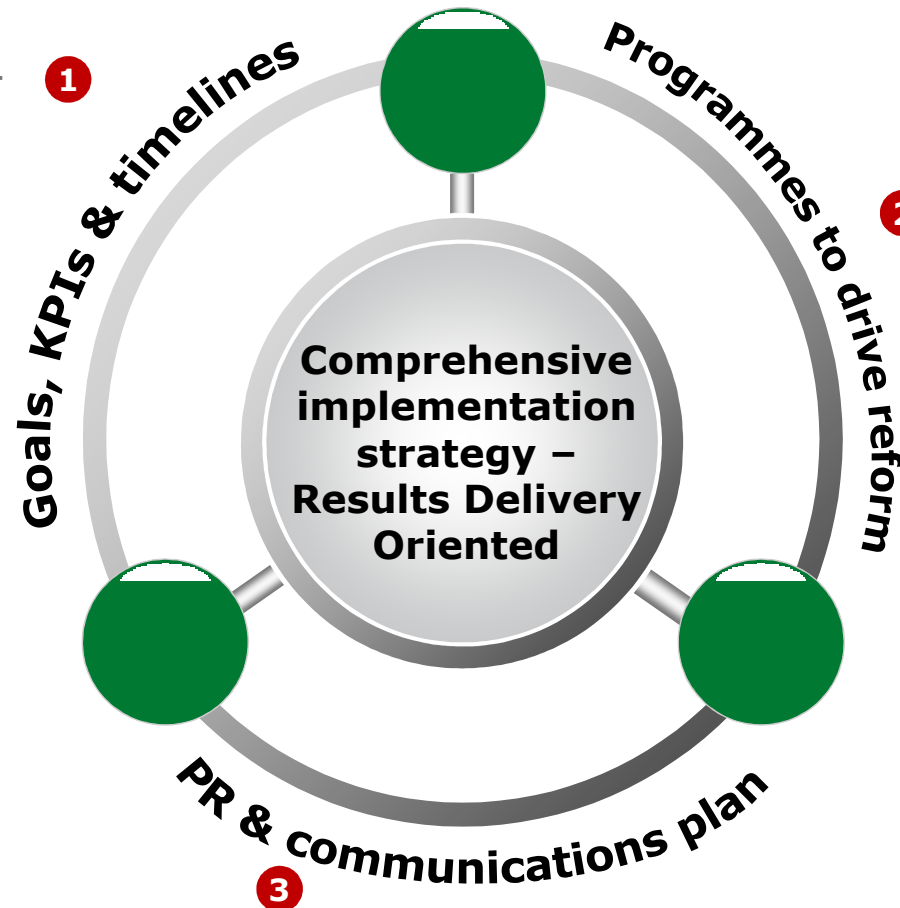
	 <b>ANGOLA (2015-DATE)</b> 	 <b>U.S.A. (1929-1939)</b> 
Context	<ul style="list-style-type: none"> <li>Angola's 21m people heavily <b>reliant on oil</b> (~95% of export income &amp; ~80% of govt. revenue)</li> <li>From 2004, the county experienced rapid <b>oil-driven economic growth</b>, peaking at ~23% in 2007</li> <li>Negatively affected by low oil prices leading to <b>shortage of dollar liquidity</b></li> </ul>	<ul style="list-style-type: none"> <li>Great Depression began in 1929, driven by the <b>stock market crash and over 9,000 bank failures during the 1930s</b></li> <li>Situation further exacerbated by <b>deferred consumer spending</b> as a result of heightened economic anxiety</li> <li>Government was <b>reluctant to admit a recession</b> had taken hold and delayed palliative measures resulting in worsening economic conditions</li> </ul>
Actions	<ul style="list-style-type: none"> <li>Government adopted <b>tight policy measures</b> (raised <b>interest rates</b> from 11% to 16% over six months) to manage budget and counter significant <b>inflationary pressures</b></li> <li>Cut <b>2016 budget</b> by 20% mainly via capex</li> <li><b>Devaluation</b> of currency to close gap with parallel market</li> </ul>	<ul style="list-style-type: none"> <li><b>New Deal</b> enacted in 1933               <ul style="list-style-type: none"> <li>Insolvent banks were closed</li> <li>Citizens' welfare improved by encouraging labour unions who bargained for higher wages</li> <li>Additional revenue generated by ending Prohibition</li> </ul> </li> <li>Actions were mostly <b>experimental</b> and uncoordinated</li> </ul>
Impact	<ul style="list-style-type: none"> <li><b>No synchronization</b> in policies, leading to economic turmoil</li> <li>Currency devaluation led to widening <b>current account deficit</b> &amp; increased <b>inflation</b></li> <li>Capex cuts led to deterioration of <b>infrastructure base</b></li> </ul>	<ul style="list-style-type: none"> <li>Policy actions had <b>moderate impact</b>. Recovery mostly driven by World War II-related activity               <ul style="list-style-type: none"> <li>Fall in GDP from \$104b in 1929 to \$56b in 1933</li> <li>80% decline in stock markets</li> <li>11,000 out of 25,000 banks collapsed</li> <li>Unemployment rose from 3.5% in 1929 to 25% in 1933</li> </ul> </li> <li><b>Prolonged</b> shock to the economy; Recession lasted ~10 years</li> </ul>
Key Lessons	<ul style="list-style-type: none"> <li>✓ <u>Diversify the economy</u> to ensure a stable future</li> <li>✓ <u>Avoid prioritization of short term benefits over long-term recovery and growth</u></li> </ul>	<ul style="list-style-type: none"> <li>✓ <u>Accelerate implementation of growth-driven policies. Act fast!</u></li> <li>✓ <u>Limit the widespread use of experimental policies</u></li> </ul>

# Nigeria's economic recovery plan must consider 4 potential risks...

KEY RISKS	WHAT THIS MEANS...	TO MITIGATE THIS...
<p>1</p> <p><b>Wrong timing</b></p> 	<ul style="list-style-type: none"><li>• <b>Resource limitations</b> and/or <b>information asymmetry</b> may motivate policy delays<ul style="list-style-type: none"><li>- For example, delayed action on official vs. parallel markets paradigm</li></ul></li></ul>	<ul style="list-style-type: none"><li>• Build a <b>robust and coordinated plan</b> that involves <b>quick</b> and decisive plan for economic developments</li></ul>
<p>2</p> <p><b>Wrong messages</b></p> 	<ul style="list-style-type: none"><li>• <b>Conflicting messages</b> from core agencies could send <b>wrong signals</b> to domestic and international investor community<ul style="list-style-type: none"><li>- Potential to negatively influence foreign investor sentiment and drive greater levels of <b>anxiety</b></li></ul></li></ul>	<ul style="list-style-type: none"><li>• Maintain a <b>clear and consistent action-oriented message</b> to stakeholders<ul style="list-style-type: none"><li>- Ensure a unified message is communicated by all ministries and departments of government</li></ul></li></ul>
<p>3</p> <p><b>Wrong policies</b></p> 	<ul style="list-style-type: none"><li>• <b>Temporary short term</b> distortions may motivate adverse policies<ul style="list-style-type: none"><li>- For example, headline inflation vs. monthly inflation</li></ul></li></ul>	<ul style="list-style-type: none"><li>• <b>Stress test economy</b> by assessing downside macro risks and create a masterplan to mitigate any adverse scenarios</li><li>• Continuously <b>re-allocate resources</b> to the most critical and growth-generating areas of the economy</li></ul>
<p>4</p> <p><b>Ideological backsliding</b></p> 	<ul style="list-style-type: none"><li>• <b>Maintain discipline</b> to stick to economic recovery policies despite seemingly tempting alternatives<ul style="list-style-type: none"><li>- For example, if the price of oil rebounds above \$50/bbl, government must be willing to stay the course and not abandon the current economic recovery path</li></ul></li></ul>	<ul style="list-style-type: none"><li>• <b>Stay focused on long term goal</b> of recovery and growth through <b><i>economic diversification</i></b> and <b><i>fiscal discipline</i></b></li></ul>

# ...and include a comprehensive implementation strategy

- Detail, **prioritize** and **sequence key policies** and actions
- Define **desired outcomes** and translate these into clear **targets, KPIs** and **timelines**
- Build in a **contingency buffer** to address critical uncertainties
- Attach **owners** to targets and KPIs



- Set up the **right teams** to design, implement and track policies
- Dedicated teams to establish **tracking** and **risk management processes**
- **Harmonize activities** of core ministries
- Manage economic **communications plan**
- Conduct high quality initiative and post-implementation **reviews**

- Build a **cohesive communications strategy** to inspire deep commitment in the Nigerian citizenry
- Rebuild market and investor confidence in Nigeria's economic trajectory with **targeted campaigns**
- Ensure **consistency of messages** delivered across core ministries

# Policy focus should be on 4 economic priorities

## Economic priorities:

### Stabilize fiscal conditions



### Accelerate diversification



### Enhance social welfare & stability



### Improve investor confidence



## Objective:

Tackle growing federal deficit and improve capex resource allocation

Reduce oil dependence and drive growth in real sector (e.g. agriculture, mining etc.)

Address impoverished community and control regional security issues

Strengthen investor community perception of Nigeria's economy

## Selected critical actions:

- Reduce **interest rates** to unlock funds tied to debt payments and fund increased capex
- Improve **tax** and customs **collections**
- Explore sales and repurchase agreements on **selected assets** and launch larger **concession program (airports, major highways and railways)**
- Broaden **efficiency unit efforts**
- Seek **funds** from **multilaterals & ECAs**

- Launch '**pro-growth**' and diversification initiatives:
  - **Agriculture:** Implement sector growth & value chain industrialization plans & actualise multiplier impact
  - **Mining:** Drive fiscal and legislative initiatives to liberalise solid minerals sector & promote investor friendliness
  - **Manufacturing:** Develop policy framework, Invest in core infrastructure (incl. power, transport)

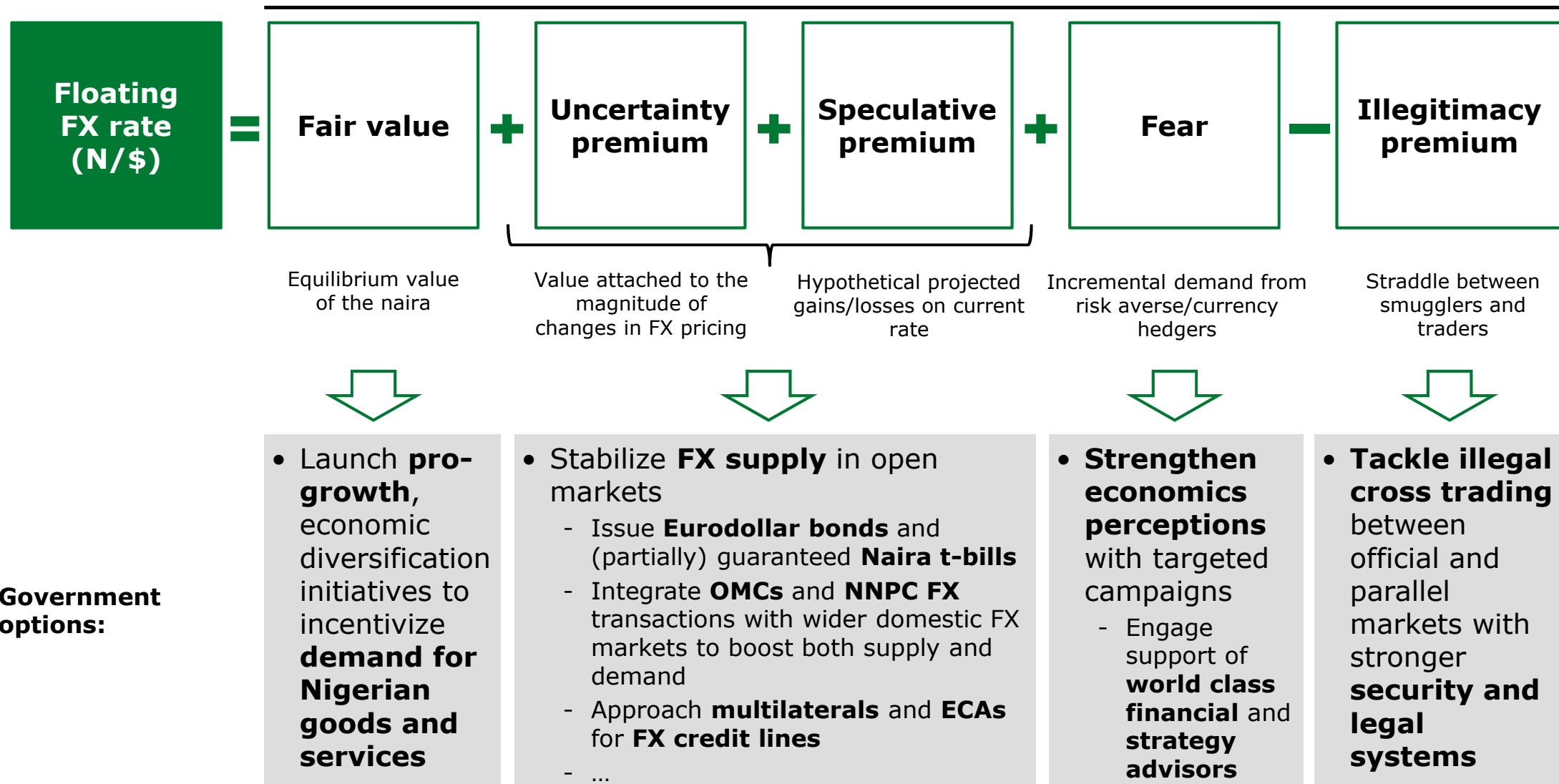
- Lower selectively **VAT** rates (~5%) to reduce fiscal burden on citizenry
- Improve **minimum wages**
- Implement planned **social safety programs**
  - For example, launch Conditional Cash Transfer and Home-grown School Feeding
- Invest in critical **social infrastructure** (e.g. education, healthcare, etc.)

- **Expand credit supply** from banks by reducing CRR to incentivize higher lending to real sector
- Strengthen AMCON and launch a fresh wave of **sustainable asset relief programs (AMCON 2.0)** to protect Banking sector and unlock capital for lending
- For intl. investors, launch a **targeted campaign** to attract FDI (e.g. Ease of doing business)
- Explore options to **stabilise the naira** including issuing Eurodollar t-bills

IMPLEMENTATION TIMELINE: ● Short-term (0m-6m) ● Mid-term (6m-18m) ○ Long-term (>18m)

# Policy deep dive: Explore options to support the Naira

## MULTIPLE OPTIONS FOR GOVERNMENT TO SUPPORT FLOATING FX RATES



**Government options:**

- Launch **pro-growth**, economic diversification initiatives to incentivize **demand for Nigerian goods and services**
- Stabilize **FX supply** in open markets
  - Issue **Eurodollar bonds** and (partially) guaranteed **Naira t-bills**
  - Integrate **OMCs** and **NNPC FX** transactions with wider domestic FX markets to boost both supply and demand
  - Approach **multilaterals** and **ECAs** for **FX credit lines**
  - ...
- **Strengthen economics perceptions** with targeted campaigns
  - Engage support of **world class financial and strategy advisors**
- **Tackle illegal cross trading** between official and parallel markets with stronger **security and legal systems**

# With a well focused effort, we can expect to see significant improvements in 18-24 months

**Economic priorities:**

**Stabilize fiscal conditions**



*Improved revenues driving gradual **decline in fiscal deficit** and **improved capex** resource allocation*

**Accelerate diversification**



***Robust economic growth** across all core sectors as GDP returns to positive territory*

**Enhance social welfare & stability**



*Enhanced **wealth creation** and distribution as under-employment and unemployment improve*

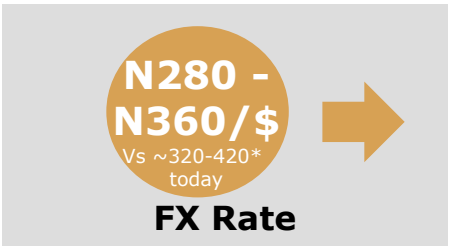
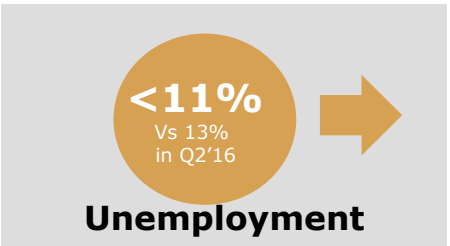
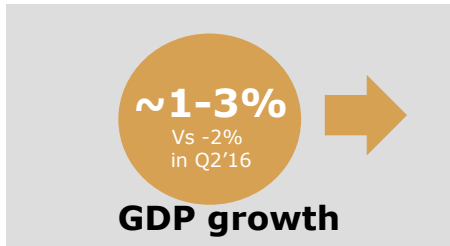
**Improve investor confidence**



***Capital formation** to increase as both **FDI inflows** and factory retooling improve*

**Target outcomes:**

**Outlook:**



**In the near term, we can expect a further decline in economic performance (red signals), followed by steady performance after 18-24 months as the situation stabilizes (amber signals) full strong recovery observed in 36 months (green signals)**

**KEY:** ↓ Negative → Steady ↑ Positive