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Nigeria Road To Recovery

Ministerial Retreat

15th 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

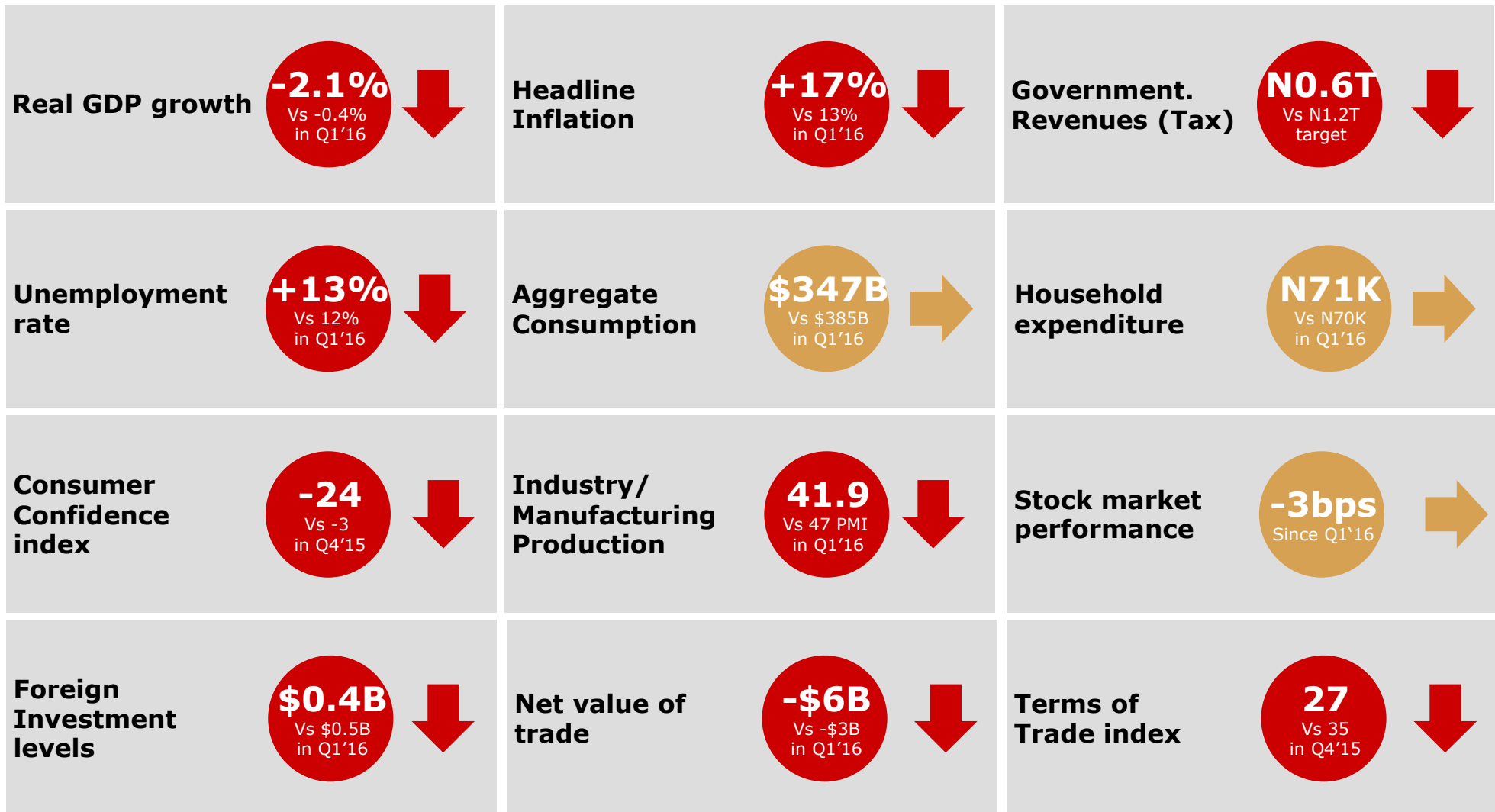
- ☒ Negative **real GDP growth**
- ☐ Declining **headline inflation**
- ☒ Declining **government revenues and spending**
- ☒ Increasing **unemployment rate**
- ☒ Declining **household expenditure**
- ☒ Declining **aggregate consumption**
- ☒ Declining **consumer confidence**
- ☒ Declining **industrial 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

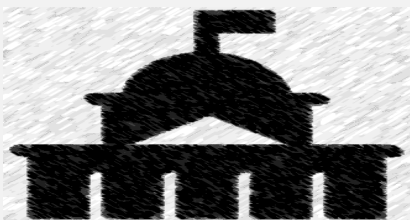


Source: NBS, CBN, Cap IQ, Euromonitor, World Bank

KEY:  Negative  Steady  Positive

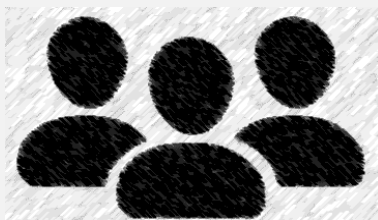
All stakeholders have been negatively impacted

GOVERNMENT



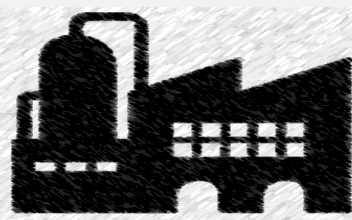
- **Heavy reliance on Oil** coupled with sustained depression of oil prices have driven **government revenues down**
- Also, **FX reserves**, highly dependent on oil, are low at **~\$25B** (~4 months import cover¹)

CITIZENRY



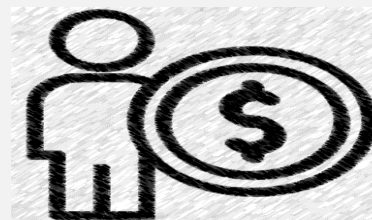
- Consumers impacted by **lower spending power** and **increasing prices in 'basic' products** (e.g. food & beverage, cement, ...)

DOMESTIC BUSINESSES



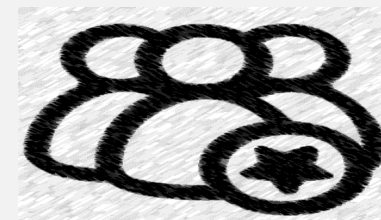
- **All core sectors** experienced **heavy business slowdown** (e.g. Banking, Manufacturing, ...) and **first cases of close down** (e.g. Airlines)

INTERNATIONAL INVESTORS



- **Unattractive return** profile relative to current risk perception driving **lower FDI inflows** and **key multinationals reconsidering their activities in Nigeria**

INT'L FINANCE COMMUNITY/DONORS



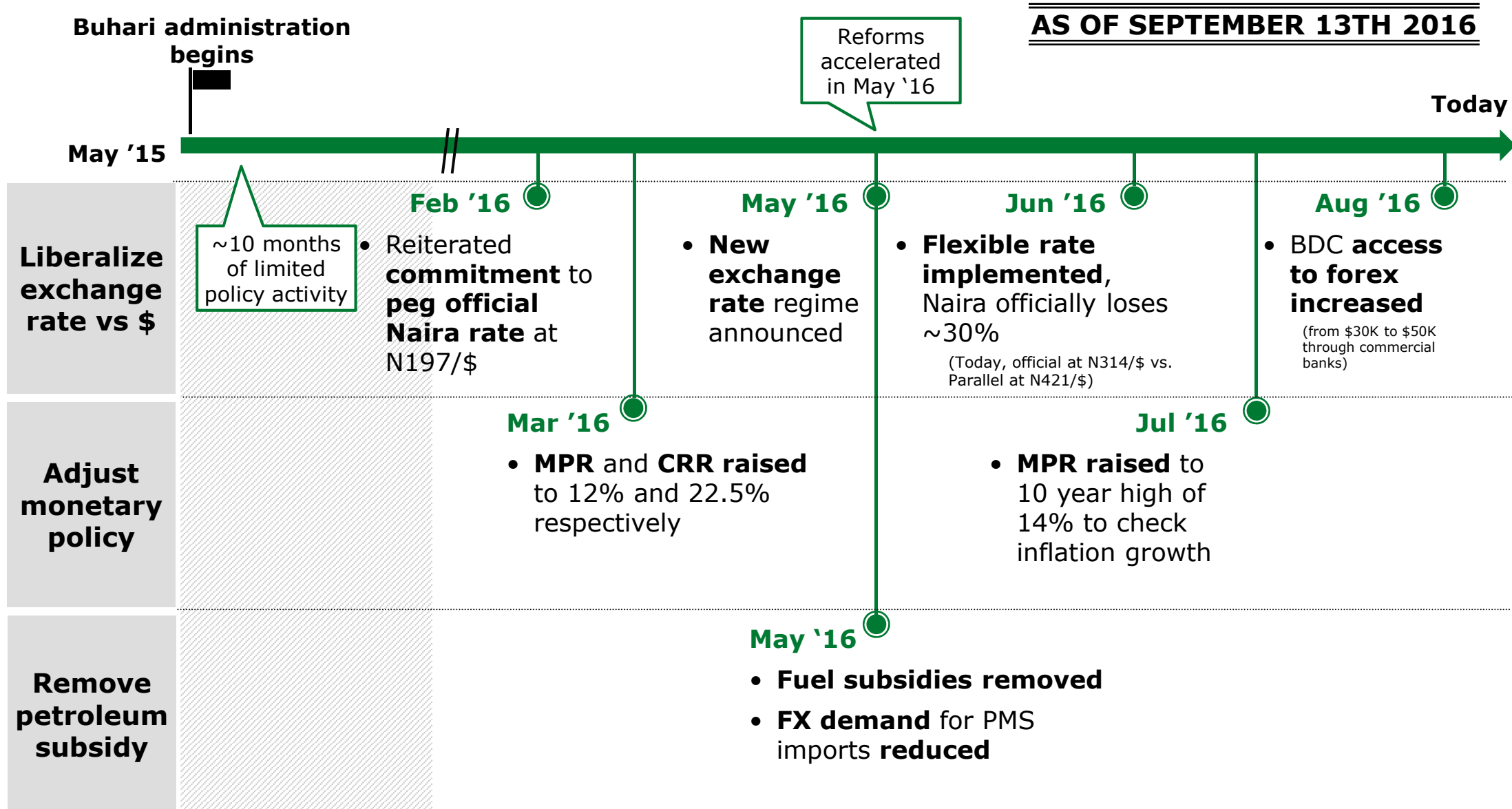
- **Inconsistent policy actions**, cautious approach sending **mixed signals** to international community **driving lower and more selective donor activity**

Limited financial capacity to effect change

Economic performance driving low confidence amongst citizenry, businesses and international community

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

Key remedial policies were implemented...

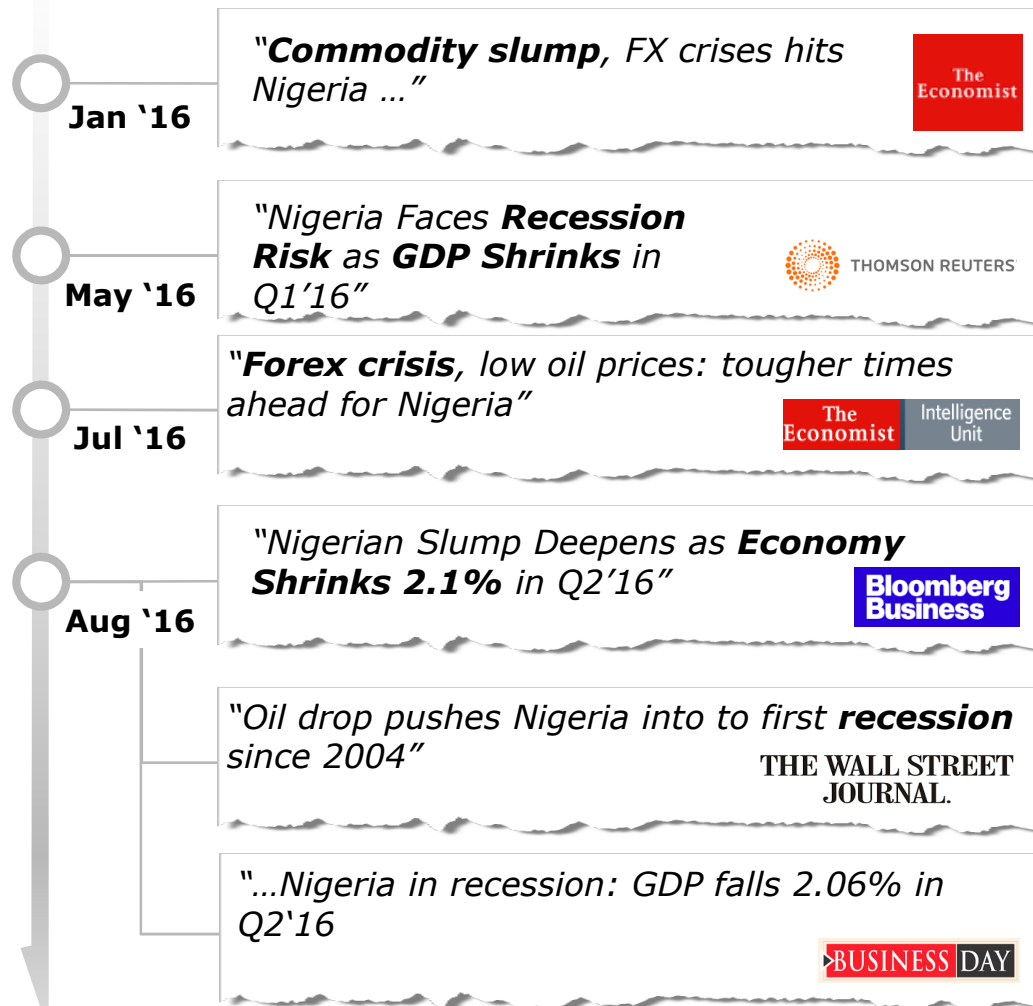


Source: Press clippings

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...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

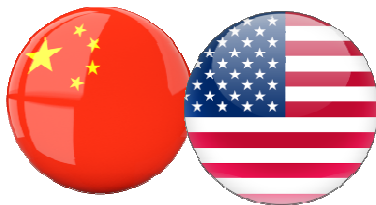
EXTERNAL FACTORS (OUTSIDE OUR SPAN OF CONTROL)



**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**

Some challenges
despite notable
improvements












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









**Information
distortions**




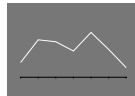
Nigeria can draw lessons from other countries that have navigated similar challenges successfully...

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

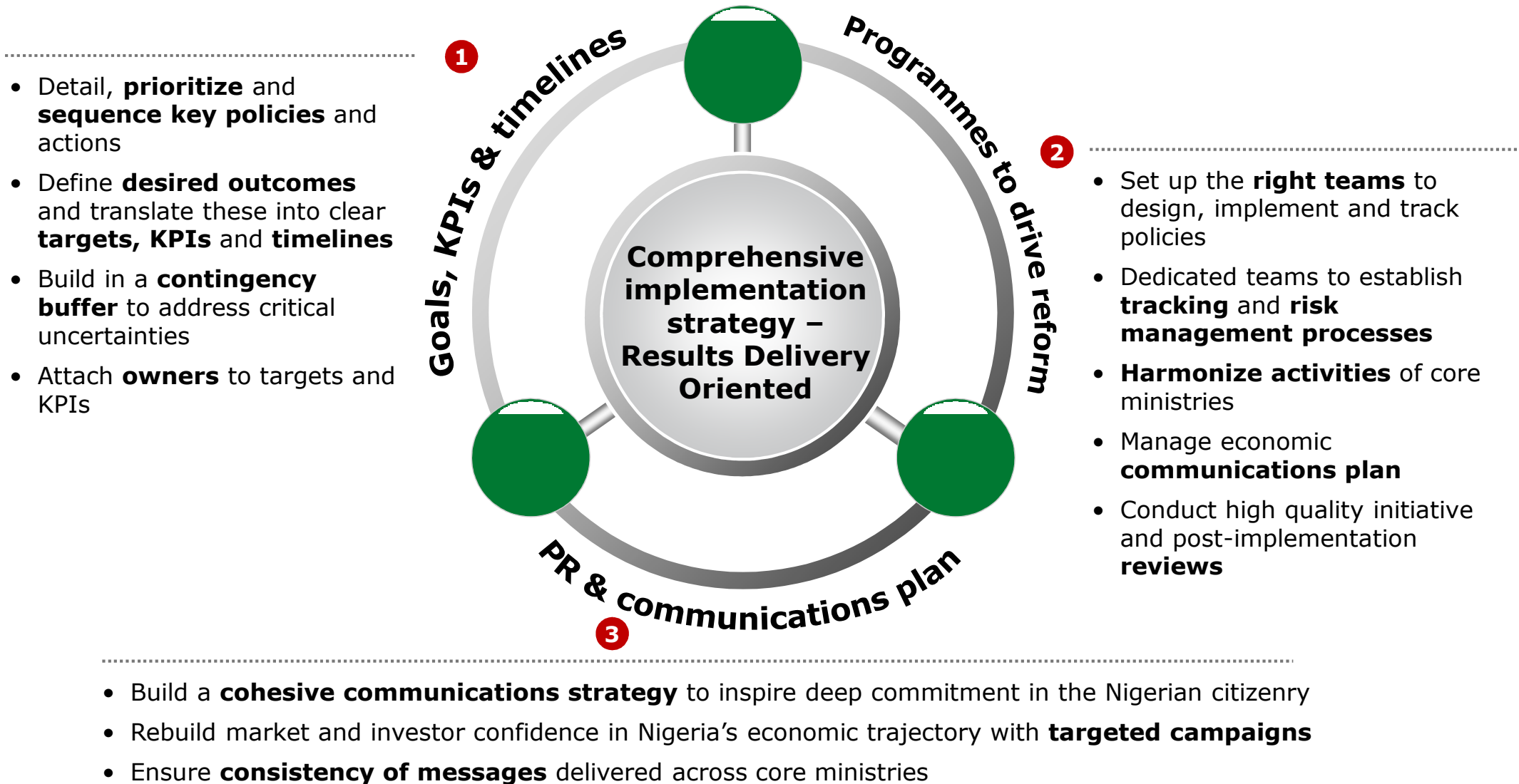
...and avoid the mistakes made by less successful countries

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

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

KEY RISKS	WHAT THIS MEANS...	TO MITIGATE THIS...
<div>1</div> <div>Wrong timing</div> <div></div>	<ul style="list-style-type: none">• Resource limitations and/or information asymmetry may motivate policy delays<ul style="list-style-type: none">- For example, delayed action on official vs. parallel markets paradigm	<ul style="list-style-type: none">• Build a robust and coordinated plan that involves quick and decisive plan for economic developments
<div>2</div> <div>Wrong messages</div> <div></div>	<ul style="list-style-type: none">• Conflicting messages from core agencies could send wrong signals to domestic and international investor community<ul style="list-style-type: none">- Potential to negatively influence foreign investor sentiment and drive greater levels of anxiety	<ul style="list-style-type: none">• Maintain a clear and consistent action-oriented message to stakeholders<ul style="list-style-type: none">- Ensure a unified message is communicated by all ministries and departments of government
<div>3</div> <div>Wrong policies</div> <div></div>	<ul style="list-style-type: none">• Temporary short term distortions may motivate adverse policies<ul style="list-style-type: none">- For example, headline inflation vs. monthly inflation	<ul style="list-style-type: none">• Stress test economy by assessing downside macro risks and create a masterplan to mitigate any adverse scenarios• Continuously re-allocate resources to the most critical and growth-generating areas of the economy
<div>4</div> <div>Ideological backsliding</div> <div></div>	<ul style="list-style-type: none">• Maintain discipline to stick to economic recovery policies despite seemingly tempting alternatives<ul style="list-style-type: none">- 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	<ul style="list-style-type: none">• Stay focused on long term goal of recovery and growth through <u>economic diversification</u> and <u>fiscal discipline</u>

...and include a comprehensive implementation strategy



Policy focus should be on 4 economic priorities

Economic priorities:

Stabilize fiscal conditions



Objective:

Tackle growing federal deficit and improve capex resource allocation

- 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**

Selected critical actions:

Accelerate diversification



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

- 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)

Enhance social welfare & stability



Address impoverished community and control regional security issues

- 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.)

Improve investor confidence



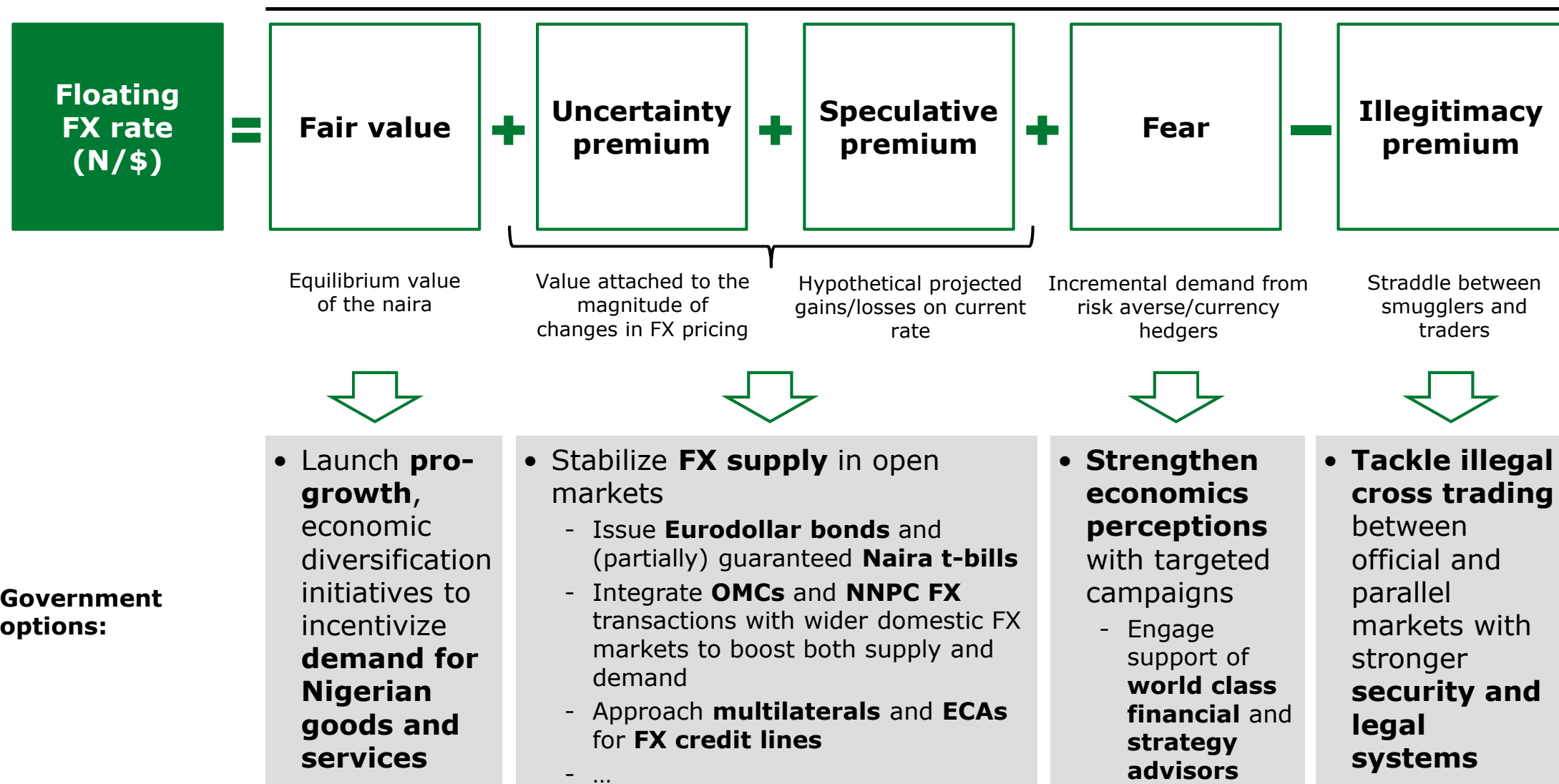
Strengthen investor community perception of Nigeria's economy

- **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



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

Economic priorities:

Stabilize fiscal conditions



Accelerate diversification



Enhance social welfare & stability



Improve investor confidence



Target outcomes:

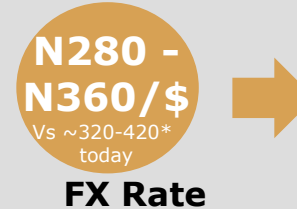
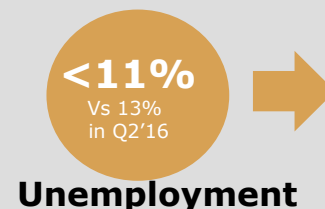
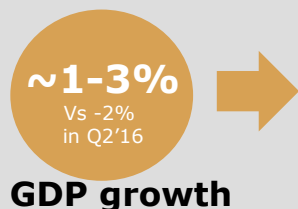
Improved revenues driving gradual **decline in fiscal deficit** and **improved capex** resource allocation

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

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

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

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