Review of the Economic Recovery and Growth Plan (ERGP)

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Audience Analysis

- Members and governing body of the institute
- Governed by the legislative Act of 1965
- The main accounting regulatory body in Nigeria
- Membership in excess of 30, 000
- Draws its origins from the British accounting model

Audience Analysis

- Member of international accounting standards committee (IASC)
- Incorporated into the international financial reporting standards (IFRS) in 2012
- Affiliations:
  - International Federation of Accountants (IFAC)
  - Pan African Federation of Accountants (PAFA)
  - Association of Accountancy Bodies in West Africa (ABWA)

Outline

- What is the ERGP?
- How did we get here?
- What measures can be adopted to get out of a recession?
- Current economic trends: are they sustainable?
- What is the outside-in scrutiny of economic policy?
- Impact on sectors and benefit to your profession
- What are the inherent risks and likely outlook?

What is the ERGP?

Economic recovery And Growth plan

- Plan was an amalgamation of the stimulus package, Budget 2017 and MTEF
- Partially a response to commodity shocks
- The plan is broken down into two aspects
- RECOVERY: Response to commodity shocks
- GROWTH: a strategic growth plan

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FGN's Economic Recovery & Growth Plan

- Based on 3 strategic objectives supported by enablers and a clear delivery plan

Restoring growth	Investing in inclusive growth	Building a competitive economy

Enablers

Improving governance and security

Delivery

Implementation and financing

Principles of the Plan

- Focusing on tackling constraints to growth
- Leverage the power of the private sector
- Promote national cohesion and social inclusion
- Allow markets to function
- Uphold core values

ERGP - 5 Big Execution Priorities

Stabilize the macro-economic environment
- Align monetary, trade and fiscal policies
- Accelerate non-oil revenue generation
- Drastically cut costs
- Privatize selected assets

Achieve agriculture and food security
- Deliver on agricultural transformation

Expand energy and infrastructure capabilities
- Urgently increase oil production
- Expand power sector infrastructure

Improve transportation infrastructure
- Boost local refining for self sufficiency

Drive industrialization through local and small business enterprises
- Improve ease of doing business
- Accelerate national industrial revolution plan implementation

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ERGP –BROAD OBJECTIVES

- GDP will expand by 2.19% this year, averaging 4.62% annually before hitting 7% by 2020
- Oil production to be ramped up to 2.5mbpd, Nigeria to be net exporter of refined oil
- FGN asset sale – reduced stake in oil and non-oil assets
- Overall increase in tax to GDP ratio to 15%
- Improved tax policy and implementation to raise revenue to N350b annually

ERGP –BROAD OBJECTIVES

- CBN to achieve sustainable market determined exchange rate
- Inflation forecast of 15.74% in 2017 and 12.42% in 2018, single digit by 2020
- Reduction in unemployment from 13.9% (Q3 2016) to 11.23% by 2020
- Review restrictions in the forex market
- Investment in agriculture to drive self sufficiency in tomato paste (2017), rice (2018) and wheat (2020)

MTEF – INTERACTING OBJECTIVES

- Fiscal strategies in MTEF designed to take Nigeria out of recession into a sustainable growth path
- Execution priority
  - Macroeconomic stability
  - Commitment to social development programs
  - Infrastructure for increased productivity and development
  - Attract private capital for infrastructure
  - Improving governance

MTEF – Parameters and Target

	2016	2017	2018	2019
Inflation (%)	15.12	12.92	11.88	12.57
Nominal Non-Oil GDP (N'mn)	94,945,908.86	100,959,517.63	109,981,596.97	118,886,934.97
Nominal Oil GDP (N'mn)	3,598,048.06	7,775,017.23	8,997,777.59	10,885,780.07
Nominal GDP (N'mn)	98,543,956.92	108,734,534.86	118,979,374.56	129,772,715.04
GDP Growth Rate (%)	0.35	3.02	4.26	4.04
Consumption (N'mn)	75,320,192.12	80,048,314.23	84,458,359.61	91,955,466.42

Source: Ministry of Budget & National Planning

How Did We Get Here?

Economic Deterioration 2014-16

- The economy has experienced shocks – external and domestic
- Current downturn originated from commodity shocks and cyclicality to currency crisis and full blown economic crisis
- Commodity shocks have been resolved

Leading economic indicators

LEI	2011-2015 avg	2016	2017
GDP growth (%)	4.72	-1.5	1.0
Labour Productivity growth (%)	0.58	-4.2	-1.8
Power (MW) (2014 – 2016)	3421	2920	4000
Oil Price ($pb; avg)	83.4	44.0	56.0
Oil Production (mbpd)	1.86	1.47	1.54
Trade Balance ($bn)	26.8	-0.5	3.8
Net FDI ($bn)	3.2	3.1	3.3
External Reserves ($bn)	29.07 (end of 2015)	25.84	30.56
Exchange rate (N/$; year-end)	IFEM: 190.44 Parallel: 226.78	IFEM: 305 Parallel: 490	IFEM: 350 Parallel: 390
External Debt ($bn)	25.24	31.7	35.8
Inflation (%; year-end)	10.69	18.55	15.2
Terms of Trade	37.12	14.0	15.9

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Source: CBN,NBS, EIU, FDC Think Tank

Leading economic indicators

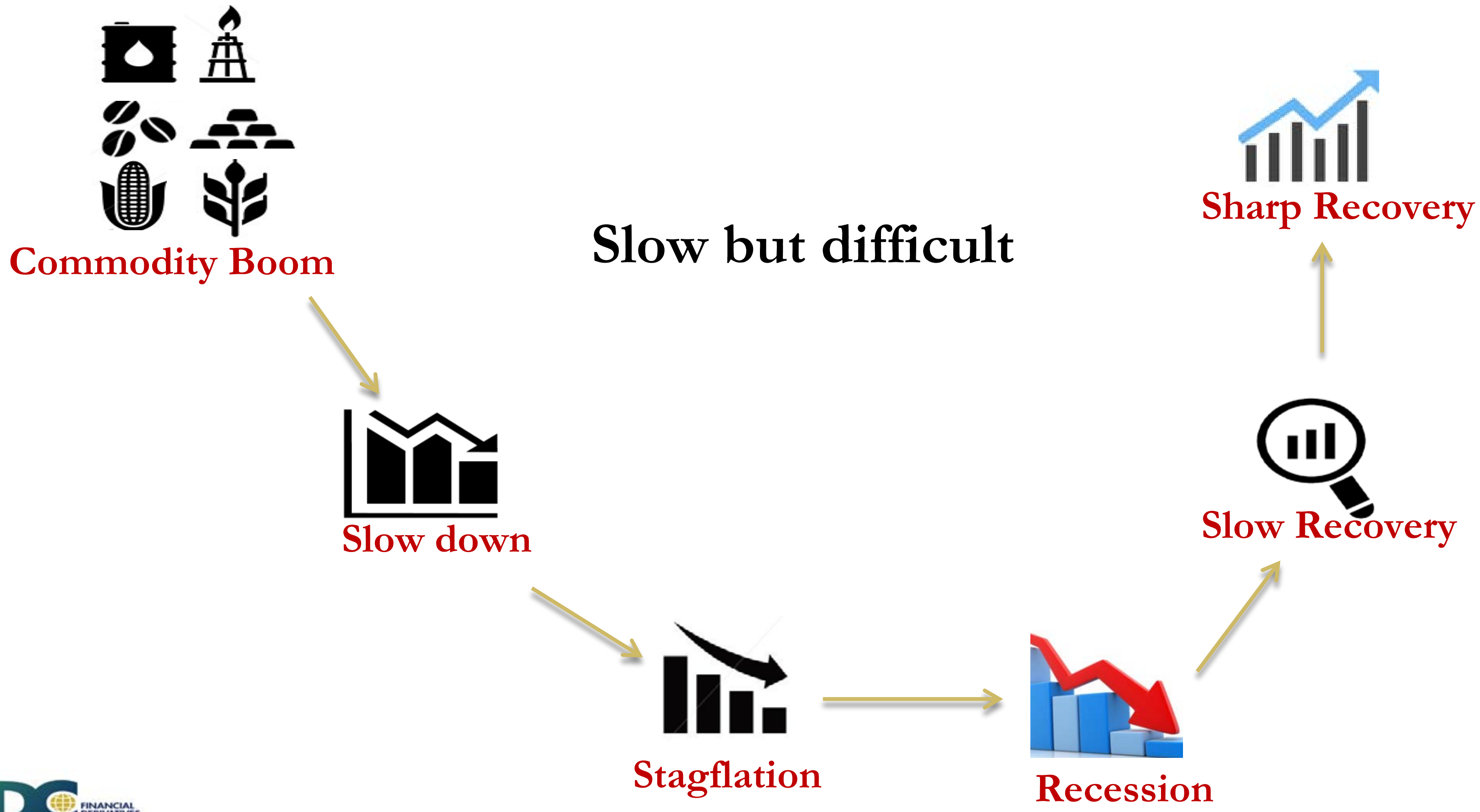
LEI	2011-2015 avg	2016	2017
Private consumption ($ bn)	359.38	405.9	350.8
Income per capita ($)	2908	2171	1829
Budget balance (% of GDP)	-1.2	-3.0	-2.4
Scott-Free Volatility	n/a	20.29	n/a
Nigerian stock market return (%)	6.57	-6.17	5.92
Avg. corporate profitability growth (%)	19.74	-17.4	12.7
Capacity utilization	57.07 (2014 Average)	50.16 (2015 Average)	44.3 (2016 H1)

Source: CBN,NBS, EIU, FDC Think Tank

Nigerian Economic Picture: 5- Year Average

- Five year averages reveal a country running on empty
- 2016 was a year of reckoning – recession
- Exacerbated by delayed and inadequate policy decisions
- Inconsistency and political interference in monetary policy environment
- Erosion of investor confidence and dwindling capital inflows

Path to Recovery



Orthodox Economic Recovery Models

KEYNESIAN, SUPPLY SIDE, UNBALANCED GROWTH THEORY

The Recovery Path- Slow & Painful

V – SHAPED

Brief economic decline followed by rapid and sustained recovery

U – SHAPED

GDP shrinks for several quarters and slowly returns to growth

L – SHAPED

Severe recession that stays for many years i.e depression

W – SHAPED

Double dip recession, economy recovers and then falls back before recovering finally

Before recession

Nigeria's recovery path is anticipated to follow a u-shaped recovery

$$Y = C + I + G + X - M$$

$461.0bn $269.2bn $65.3bn $37.8bn $94.3bn $53.4bn

- Real GDP growth of 4.3%
- Headline inflation at 12%
- Terms of trade: 50.5
- Inward direct investment: $7.13bn

Recession

Nigeria's recovery path is anticipated to follow a u-shaped recovery

Y	=	C	+	I	+	G	+	X	-	M
\$405.9bn		\$327.0bn		\$60.1bn		\$26.6bn		\$34.7bn		\$35.2bn

- Real GDP growth of -1.5%
- Headline inflation at 18.6%
- Terms of trade: 14.0
- Inward direct investment: \$4.45bn

Early stage recovery - projections

Nigeria's recovery path is anticipated to follow a u-shaped recovery

Y	=	C	+	I	+	G	+	X	-	M
$350bn		$274.5bn		$50.1bn		$23.8bn		$42.4bn		$38.5bn

- Real GDP growth of 1.0%
- Headline inflation at 15.2%
- Terms of trade: 15.9
- Inward direct investment: $4.67bn

Late stage recovery - projections

Nigeria's recovery path is anticipated to follow a u-shaped recovery

Y	=	C	+	I	+	G	+	X	-	M
$371.0bn		$290.9bn		$54.4bn		$25.9bn		$46.1bn		$41.8bn

- Real GDP growth of 2.6%
- Headline inflation at 11.7%
- Terms of trade: 15.0
- Inward direct investment: $5.04bn

Keynesian stimulus

- Keynesian antidote to downturn took prominence in the 1930's
- Period of the great depression
- A country is well within its rights to:
  - Sustain deficit budgets – spend in excess of revenues for investment
  - Lower monetary policy to stimulate spending
- This often counteracts realities – the paradox of thrift
- Targeting components of aggregate demand is likely to push the economy out of recession

Monetarist approach

- One of the schools strongly opposed to discretionary policy
- Economic stabilization is an off-shoot of price and monetary stability
- Rules such as the Taylor rule are used for monetary stabilization
- Taylor rule: responsiveness of nominal interest rate to changes in economic parameters
- Limited role for governments
- 2008/2009 contradicted this especially due to the rise of liquidity traps

New-classical school

- Focuses on micro fundamentals and rational expectations
- With Keynesian and business cycle analytics, diagnostic decisions are made to kick-start an economy
- Three major culprits for downturns
  - Productivity wedge
  - Capital wedge
  - Labour wedge

Solutions targeted towards eradicating these wedges will kick-start the economy

Country case study – Vietnam

- Post war economy subdued by 21 years of conflict (1954-1975 Vietnam war)
- Communist North was subdued by aggressive US air strikes
- While free-market South thrived on extensive trade with the West
- Unified economy of Vietnam after the war focused on series of five-year plans
- These failed leading to an era of a 'socialist-oriented market economy'
- Adopting the Keynesian approach of private sector dominance
- With a strong public sector influence

Country case study – Vietnam

- Strong fiscal stimulus to help propel the economy out of 2008/2009 global crisis
- Running large fiscal deficit – 8.9% of GDP at the start of recovery
- However economic fundamentals recovered sharply
- GDP growth recovered sharply to 5.3% by the end of 2009

What we need

- For accelerated and sustainable growth we need:
  - To grow at a rate faster than population growth – population growth is currently approx. 3%
  - Target policies towards full employment – universally, unemployment at 5%
- Growth has to be well diversified and inclusive for it to be sustainable
- This means it creates jobs and ensures activity in the economy

What we need

Strong government spending

– stage 1

Increased revenue; ramp up in oil production, improved manufacturing sector etc.

– stage 2

Aggressive investment inflows; upon stabilisation of forex market

– stage 3

Current Economic Trends: Are They Sustainable?

Leading economic indicators- Output

LEI	Feb'17	Mar'17	% Change	Apr'17
GDP Growth (%)	-1.3(Q4'16)	-1.3(Q4'16)	-	0.5 (Q1'17)
Oil Price ($pb; avg)	56.5	52.54	-7.00	55.08
Oil Production (mbpd)	1.575	1.545	1.9	1.56
Natural Gas ($/MMBtu)	2.77	3.19	15.16	3.19
Power (MW)	3,716	3,773	1.53	3,503
PMI	FBN: 50 CBN: 44.6	FBN: 52.8 CBN: 47.7	5.60 6.95	55 50
Capacity Utilization	45.6	46.6	1.00	48
Inflation (%)	17.78	17.26	0.52	16.9*
Consumer Confidence Index	-28.2 (Q3'16)	-29.8 (Q4'16)	-5.67	-27.5 (Q1' 17)
Business Confidence Index	-24.1(Q3'16)	-29 (Q4'16)	-20.33	-18 (Q1'17)

Source: CBN,NBS, EIU, FDC Think Tank

Leading economic indicators- Markets

LEI	Feb'17	Mar'17	% Change	Apr'17
T Bills (91 days) - Primary	13.65	13. 55	-10bps	13.55
T Bills (91 days) - Secondary	14.61	18.99	438bps	17.75
Average NIBOR (%)	21.47	20.3	-117bps	52
Average Lending Rate	24.5	24.5	-	24.5
Average Opening Position(N'bn)	(74.87)	(35.12)	53.09	(174)
External Reserves ($bn)	29.11	30.3	4.09	30.59
Exchange rate (N/$; month-end)	IFEM: 306 Parallel: 435	IFEM: 306.85 Parallel: 395	IFEM: - 0.08 Parallel: 10.13	IFEM: 306.5 Parallel: 395
Stock Market (N'trn)	8.77	8.83	0.68	8.76
Vacancy Factor Index	74.5 (Q4"17)	73.4 (Q1'17)	-1.1	73.4

Source: CBN,NBS, EIU, FDC Think Tank

Leading economic indicators-Markets

- Economic fundamentals have improved since March
- Oil prices have recovered 4.8% to $55.08pb since March
- Oil production has tapered slightly by 1.9% according to OPEC report
- Signalling improved fiscal and forex revenues although moderate
- As evident in the increase in FAAC payments by 10.5% to N514bn
- Inflation has tapered 0.52% to 17.26% on waning base year effects and increased forex supply
- The CBN has intervened in the FX market with $3.2bn YTD

Leading economic indicators-Markets

- Naira still finding its equilibrium in the market
- Unmet and latent demand capping naira appreciation in the market
- External reserves higher at $30.59bn
- Supported by $1.5bn Eurobond auction, balance of AfDB loan
- Liquidity in the money market has been constrained
- OBB and O/N increased to as high as 196.67% pa and 200% pa respectively

Investment policy – Ease of doing business

- Ease of doing business is at the heart of the ERGP
- FGN has approved processing of visas within 48 hours
- Has also given waivers to some countries
- This is part of the 60-day national action plan on Ease of doing business
- Corporate Affairs Commission upgrade

Sustainability of current economic policies

- Sustainability of economic policies will depend on :
  - Favourable oil prices (>$50 pb)
  - Adequate oil production (>2 million bpd)
  - Constant CBN intervention
  - External reserves

Outside-in Take on ERGP

ERGP – OUTSIDER TAKE (IMF)

- Confident that fiscal policies and tax policy in particular are an integral part of the strategy for development
- Ratio of interest payment to tax revenue has doubled to 66%
- Recommending continued fiscal consolidation at their spring meetings
- Albeit more cautious about growth projections
- With a prediction of 5% if plan is upheld

ERGP –OUTSIDER TAKE (RENCAP)

- This is not a first for the FGN
- Albeit its extensive detail on goals and objectives is a first
- Focused implementation takes precedence as a tool towards delivery on goals
- It is rather ambitious with certain plans such as the oil production ramp up to 2.5mbpd
- As well as growth of 7% by 2020
- The IMF is more cautious with a prediction of 5% if plan is upheld

ERGP – INSIDER TAKE

- Audacious step in the right direction
- Apt document to plead case for multilateral loans – some issues are still yet to be addressed
- Likely to boost confidence in Nigerian investments
- The FX market is imperative to the efficient execution of plan
- Vague notes on the FX market might be risky
- Therefore we maintain a wait-and-see approach on implementation

ERGP –UPSIDE-DOWNSIDE

- Upside:
  - ERGP outlines a roadmap to jolt the economy towards growth
  - Highlights objectives/vision of the FGN for the next four years
  - Meets requirements of the world bank in order to obtain loan
- Downside: detail on action plan is very light. The plan also does not expatiate on FX policy
  - 'Improved implementation of a flexible foreign exchange rate regime to support growth'

ERGP – RISK ANALYSIS

Objective	Upside Risks	Downside Risks
7% growth by 2020	• Commodity prices are to improve in the coming years • This should help propel earnings and in turn provide funds for investment • Diversification policies should also help this achievement	•FX policy could derail growth projections • Oil prices could crash if glut is upheld • Militant up-rise due to fragile relationship with FGN
Single digit inflation	• Accelerated activity in the agric sector due to efficient policies • Increased investment in key sectors such as power	• Persistent fragmentation in FX market • Global and domestic slump in oil market • Inefficient and delayed policies

ERGP – RISK ANALYSIS

Objective	Upside Risks	Downside Risks
Production ramp up to 2.5mbpd	• Sustained peace between the FGN and Niger Delta constituents	• Inability of the government to keep their end of the bargain • Ideological shifts in the militant camp towards more violence in the region • OPEC exemptions lifted in a bid to resolve oil glut
Reduced unemployment	• Increased economic activity providing more job opportunities	• Delayed policy implementations • High MPS (from high interest rates) could starve economy of spending • Increasing unemployment

ERGP – POLITICAL RISK ANALYSIS

- Electoral campaign trail is to begin
- Likely to steer objectives away from the ERGP towards winning elections
- Stakeholders might be gunning for positions which do not entail implementation of ERGP
- Upside risk: to remain in power, ERGP likely to be followed to the letter
    - To boost public confidence in ruling party

Impact on Sectors and Benefit to your Profession

Impact on Sectors

Financial Services

- Increased investment in payment and settlement systems
- Banks able to service dollar denominated loans
- However reduced pressure on NPL rate
- Increased profitability via more trade financing deals

Agriculture

- Currency misalignment may likely lead to domestic shortage
- Intervention funds (under Anchor Borrowers Program) support its diversification plans
- Difficulty in product pricing due to inflationary pressure over gestation period

Impact on Sectors

Telecommunications

- High inflation environment still threatens shareholders' value
- Inability to pass on cost increases without reducing call rate
- Brings about sector diversity in the stock exchange
- Increase in cost of managing outpost
- Currency issue to result in decline in capital expenditure

Manufacturing

- Rising foreign currency denominated debt obligation
- Shift to inexpensive substitute (input material) i.e preference for Russian wheat as against US wheat

Benefits to your profession

- Government revenue generation strategies will require the services of accounting professionals
- Improved business activities increases opportunities for professional services such as audit and tax
- Higher M&A activities following possible consolidation in some sectors would require the expertise of due diligence professionals

Outlook and Risks

Macroeconomic Risks

- Rebound in oil price/output could lead to policy backsliding and lethargy
- An escalation of Niger/Delta militancy
- Policy delays and inability to stick to economic recovery principles
- Conflicting messages & mixed signals
- Forex market crashes due to unsustainability of current model

Outlook- Q2'17

- Q1'17 GDP growth likely to be an improvement
- Naira divergence expected as aggregate supply increases
    - IFEM: N350
    - Parallel: N390-N400
- MPC likely to begin accommodative process in May
    - 1% cut in MPR to 13% p.a.

Outlook- Q2'17

- Oil prices will remain at an average band of $54-55pb
- Production to pick up barring any attack
- FAAC disbursements will increase due to higher oil receipts and weaker naira
- Slowdown in external accretion towards $27bn as CBN increases dollar liquidity
- Yields to tick upwards on fiscal expansion and macro fundamentals

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Probable Outcomes And Probability

OBJECTIVES	OUTCOME & TIME FRAME	PROBABILITY
GDP growth	To reach 1 – 2.5 % in 18 – 24 months	60%
Headline inflation	15% by year end	55%
Interest Rate (MPR-%)	To fall to 12-13% in 12 months	50%
Oil production	To reach 2 million bpd in 12 months	50%
Exchange Rate	Official rate: N350/$ in 12 months Parallel: N390/$- N400/$ in 12 months	60%


THANK YOU