

08 March 2017

Nigeria's Economic Recovery and Growth Plan.

The Salient Points

The Ministry of Budget and National Planning, on behalf of the Federal Government of Nigeria (FGN), has published on its website, Nigeria's Economic Recovery and Growth Plan (ERGP).

A Medium Term Plan for 2017-2020, the ERGP is developed for the purpose of restoring economic growth following the severe challenges experienced in the last two years. The Plan will further the Strategic Implementation Plan (SIP), a short-term intervention plan developed in 2016 to focus on three policy goals: tackling corruption, improving security and re-building the economy.

We are not surprised by the fact that the ERGP is robust, and its deliverables are very promising. The fact that the Plan builds on the previous, comprehensive, but poorly implemented plans, such as the National Industrial Revolution Plan (NIRP) and the Nigeria Integrated Infrastructure Master Plan (NIIMP), is very encouraging. The World Bank and other international lenders seek this Plan in considering Nigeria's loan request. Having recently closed the deal on Eurobond, the Finance Minister stated recently that the country seeks to borrow at least USD1 billion from the World Bank and another USD1.3bn from China's Export-Import Bank. Foreign financing is estimated at USD3.5 billion in the 2017 budget.

The risk, however, borders on implementation. Here, we refer primarily to the "political determination", which was deliberately left out in the section that discussed the downside risks to the achievement of the targets envisaged in the medium-term Plan. It was stated in the document that "more than ever, there is a strong political determination, commitment, and will at the highest level". We like therefore that the Plan concedes that by, "doing nothing" or simply "introducing basic macroeconomic reforms", the economy would either (1) continue to contract in the short term and growth would be close to zero by 2020 or (2) recover modestly with real GDP growth of approximately 3.8% by 2020, respectively.

The ERGP is a 140-page document. In this note, we have extracted key sections of the document which we think will be of interest to our clients.

Mandate Delivery

Whilst all the MDAs will have their different roles in implementing the Plan, a Delivery Unit is being established in the Presidency to drive the implementation of key ERGP priorities. The Ministry of Budget and National Planning will coordinate plan-implementation.

Broad Objectives of the Plan

The ERGP has three broad strategic objectives -- restoring growth, investing in people, and building a globally competitive economy -- which it seeks to achieve by prioritising (1) macroeconomic stability; (2) agriculture and food security; (3) energy; (4) transportation infrastructure; and (5) MSME-focused industrialization.

Growth

A 4.62% average GDP growth was estimated for the 4-year period, from 2.19% in 2017 to 7% at the end of the Plan period. The Plan projects the oil sector to grow by 24.3% in 2017 and the non-oil segment to grow by a modest 0.20%. Both sectors are projected to grow at +4% average levels between 2018 and 2019, after which non-oil growth will accelerate to 7.28% by 2020.

Fiscal Policy

There is continued emphasis on fiscal stimulus, with aggregate expenditure estimated to average N7.4 trillion annually during the Plan period. The 30% capex-to-total expenditure ratio is retained.

08 March 2017

The Plan is also keen on revenue generation. Hence, fiscal deficit is projected to reduce progressively over the period, considering revenue (7% CAGR) is estimated to grow at a faster pace than expenditure (3% CAGR). Non-oil revenue will account for average 57% of total retained revenue.

Internal measures to increase oil revenue include investments to increase domestic production from 2.2mbpd to 2.5mbpd, while furthering the ongoing dialogue with militants in the Niger Delta to ensure stability in the region. The estimated oil benchmark prices are conservative at between USD45.20 and USD52.00/barrel during the Plan period.

Non-oil revenue will be accelerated through improved tax and customs administration. The target is to raise N350 billion annually from CIT and VAT, by raising the VAT rate for luxury items (from 5% to 15% from 2018) and conducting a broad audit campaign to identify under-filing tax payers. On customs revenue, the focus will be on reducing leaks, accelerating the transformation and modernization of the Nigerian Custom Service (NCS), and rationalize tariffs and waivers in line with priority sectors.

As previously guided, fiscal financing will be restructured gradually in favour of foreign financing, hence, the domestic to foreign debt portfolio will be rebalanced from 84:16 to 60:40. Bonds and debt certificates will be issued to address outstanding FGN liabilities to contractors, MDAs, and State governments.

Monetary Policy

A remark was made to the fact that the current ban on forty-one (41) goods and services from accessing foreign exchange in the inter-bank foreign exchange rate market is a temporary policy measure that would be reviewed with a view to removing the market restrictions over time.

There is also reference to the CBN being in the process of improving the implementation of its current policies, aimed at achieving a market-determined exchange rate regime.

Economic Diversification

The ERGP aims to focus on six priority areas in achieving the growth target:

Agriculture. The Plan will build on existing initiatives such as Growth Enhancement Support (GES) scheme; the Commercial Agricultural Credit Scheme (CACs); the Anchor Borrowers Programme; and the Nigeria Incentive-based Risk-sharing System for Agricultural Lending (NIRSAL). The ERGP will also take into consideration the recently launched Green Alternative Agriculture Promotion Policy and the Presidential Initiative on Fertilizer.

Manufacturing. The ERGP seeks to improve the performance of this segment, and double its share of GDP, largely by developing Special Economic Zones (SEZs); rationalisation of tariffs and waivers on the equipment and machinery imports required for agro-industry; ensuring connection to power and water infrastructure; ensuring connection and access to critical ICT facilities; building an adequate transportation network (road, rail, ports); expanding the capabilities of the Bank of Industry (BoI) to enable it to support manufacturing firms through low cost lending; and enhancing access to the N250 billion CBN MSME fund by reviewing its design and implementing enabling initiatives to encourage on-lending.

Solid minerals. Facilitate the production of coal to fire power plants; integrate artisanal miners into the formal sector; clarify the tax and regulatory systems to improve the perception of Nigeria's investment climate for mining activities; work with National and State legislatures to address gaps and conflicts in governing legislation; and speed up the establishment of the Solid Minerals Development Fund with a seed fund of N200 billion.

Services. Emphasis will be on Telecommunications and ICT; Financial Services; Tourism and Creative Industries.

08 March 2017

Construction and real estate. Improve access to finance for the construction industry; construct 2,700 housing units in the short-term and gradually increase to 10,000 housing units per annum by 2020; recapitalize the Federal Mortgage Bank of Nigeria from N2.5 billion to N500 billion to meet the housing needs across Nigeria; and fast-track the implementation of the proposed Family Homes Fund with an expected fund target of N1 trillion.

Oil and gas. Review of policy and regulation; increase refineries' local production capacity; improve Niger Delta security; and continue gas revolution.

Infrastructure

The key focus areas are power and transportation. The FGN plans to borrow USD30 billion during the Plan period to meet its share of funds in building power and railway projects. In addition, it will also make strategic use of the Nigerian Sovereign Investment Authority (NSIA), which is home to the national Sovereign Wealth Fund (SWF). The ERGP will give priority to the following projects: (1) the Mambilla hydropower plant (power) and (2) the Lagos- Kano and Lagos- Calabar rail projects (transportation).

06 March 2017

Important Disclaimers

This document has been issued and approved by Cordros Capital (Cordros) and is based on information from various sources that we believe are reliable. However, no representation is made that it is accurate or complete. While reasonable care has been taken in preparing this document, no responsibility or liability is accepted for errors or fact or for any opinion expressed herein. This document is for information purposes only. It does not constitute any offer or solicitation to any person to enter into any trading transaction.

Investments discussed in this report may not be suitable for all investors. This report is provided solely for the information of Cordros clients who are then expected to make their own investment decisions. Cordros conducts designated investment business with market counter parties and customers and this document is directed only to such persons. Cordros accepts no liability whatsoever for any direct or consequential loss arising from any use of this report or its contents. This report is for private circulation only and may not be reproduced, distributed or published by any recipient for any purpose without prior express consent of Cordros. Users of this report should bear in mind that investments can fluctuate in price and value. Past performance is not necessarily a guide to future performance.

Cordros and/or a connected company may or may not have a relationship with any of the entities mentioned in this document for which it has received or may receive in the future fees or other compensation. Cordros is regulated by the Securities and Exchange Commission to conduct investment business in Nigeria.