



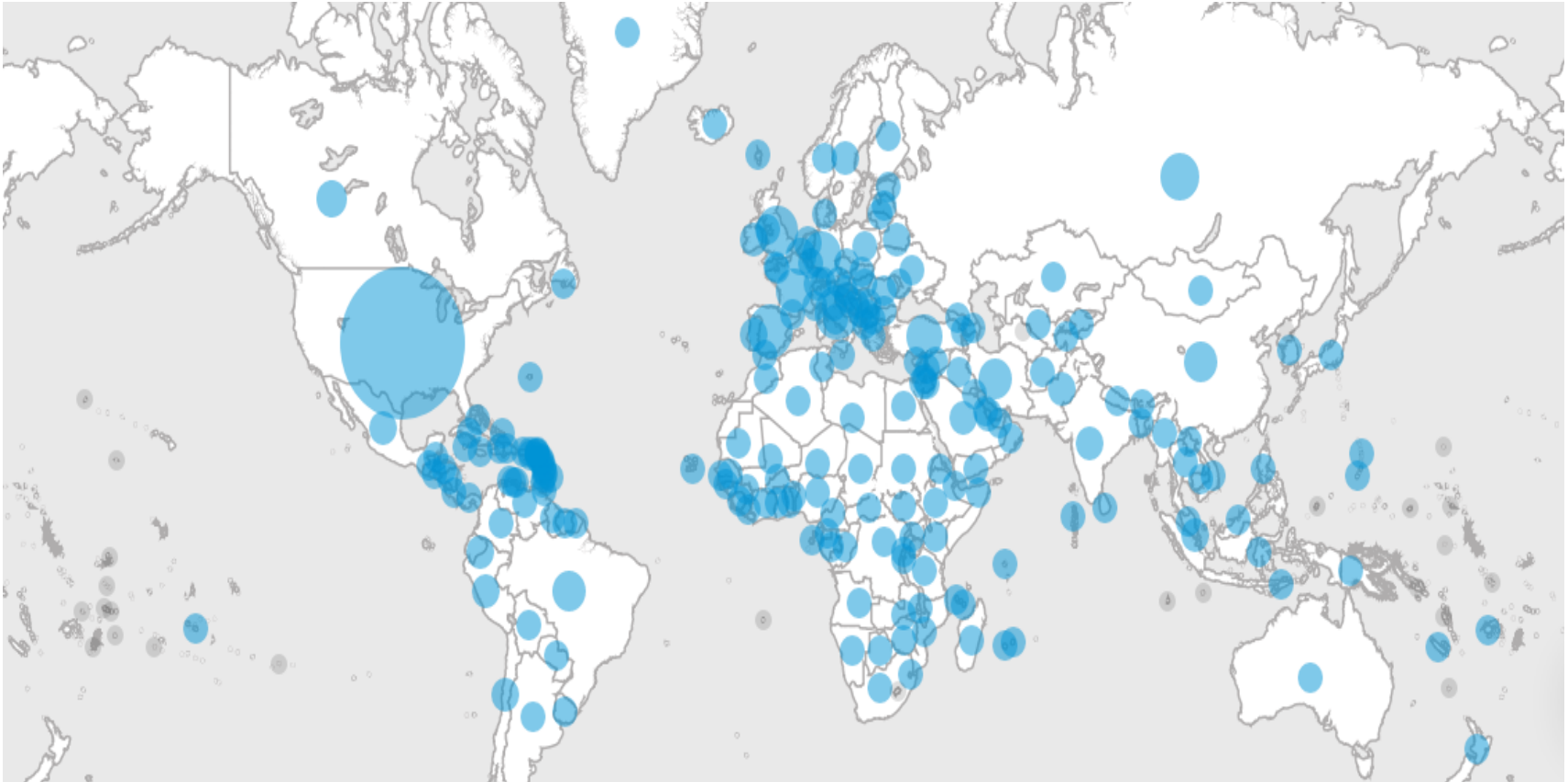
Nigeria's Macroeconomic Update:

Corporate Customers Forum

Prepared by:
Economic Intelligence Team
June 2020



Global COVID-19 Update (June 19, 2020)



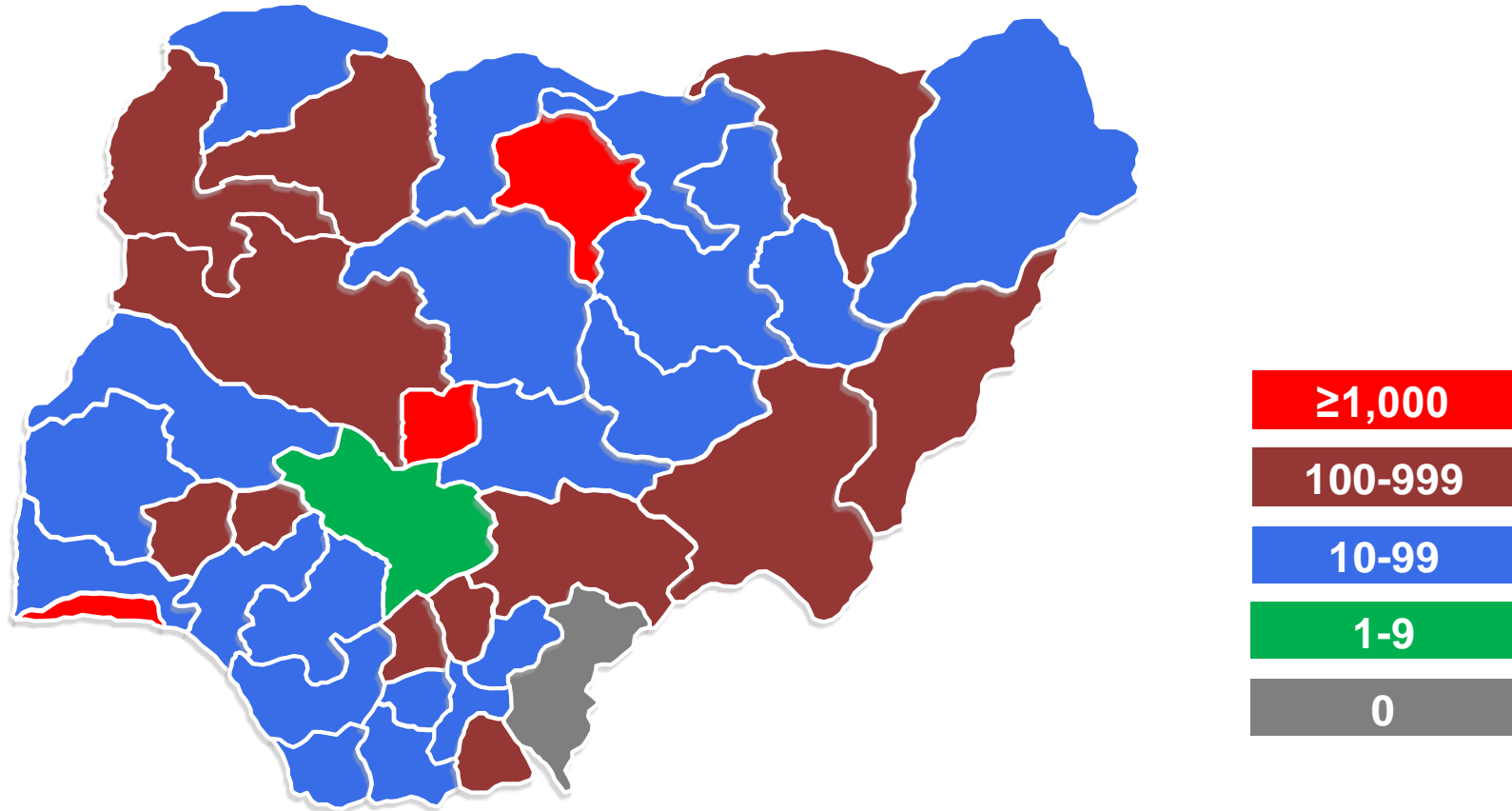
**Total
Confirmed**
8.74m

**Total
Deaths**
0.46m

**Total
Recovered**
4.62m

**Affected
Countries**
>200

Nigeria's COVID-19 Update (June 19, 2020)



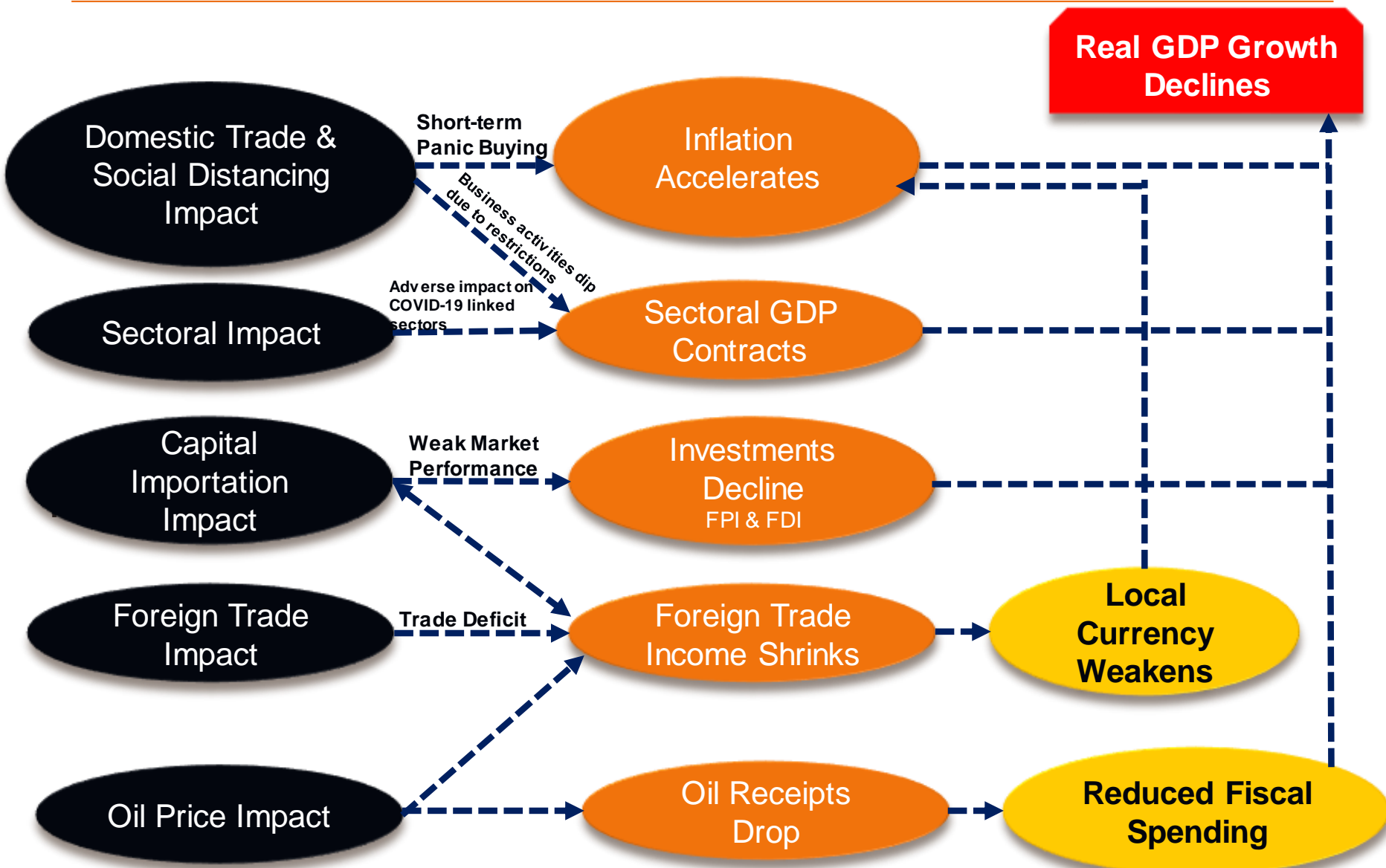
Total Confirmed
19.14k

Total Deaths
487

Total Recovered
12.08k

Affected States
35 & FCT

COVID-19 effect on the Nigerian Economy



Most Indicators worsened late Q1 but picking up late Q2

Key Macroeconomic Indicators

Key Considerations

	Q2'19	Q3'19	Q4'19	Q1'20	Jun-18	
Reserves (\$ billion)	45.06	41.85	38.6	35.9	36.3	<ul style="list-style-type: none"> The stock of external reserves stood at \$36.3 billion as at June 18th, indicating a 1.1% rise compared to Q1'20. IMF funding support as well as uptick in crude oil prices supported reserve accretion.
Inflation Rate Y/Y (%)	11.22	11.24	11.98	12.26	12.4	<ul style="list-style-type: none"> Inflation continued the upward climb settling at 12.40% in May 2020 from 12.34% in April 2020. Higher inflation is anticipated due to supply chain disruptions and depreciation of the local currency.
FX rate (NAFEX) =N=	363.46	365.55	367.2	375.73	386.63	<ul style="list-style-type: none"> The local units depreciated across the various segments. At the NAFEX window, it lost N10.9 or 2.9% to settle at N386.63 as at June 18th relative to Q1'20.
Interest rate (%)	13.5	13.5	13.5	13.5	12.5	<ul style="list-style-type: none"> Monetary Policy Committee cut the benchmark interest rate (the MPR) by 1 percentage point to 12.5% to support the economy given the impact of COVID-19 .
Oil price (\$/barrel)	75.76	67.36	66.1	27.56	37.7	<ul style="list-style-type: none"> Oil prices rose due to rising energy demand by countries after relaxing restrictions on movement and economic activities. Prices also edged higher as Saudi Arabia and OPEC+ production cutbacks takes effect.
PMI (points)	57.4	57.7	60.8	58.3	42.4	<ul style="list-style-type: none"> *PMI declined by 15.9 points relative to Q1'20. The 42.4 points recorded in May 2020 was the first contraction of the manufacturing sector after a 36 consecutive months of expansion (above 50 points)

The market is braced for price correction and potential implications on the economy, banks and societies




























Impact of COVID-19 on Key Industries

LITTLE	MODERATE	BIG
Telecommunications (Data Segment)	Oil & Gas Upstream (IOCs)	Hotels
Home & Personal Care	Oil & Gas Downstream	Leisure & Entertainment
Food & Water (non-alcoholic)	Education	Aviation
Pharmaceuticals	Professionals (Accountants & Lawyers)	Breweries
Healthcare (hospitals)	Trading – Imported essentials)	Construction
Trading (essentials)	Oil & Gas Servicing	Road Transport
Agriculture		Real Estate & Cement
		Trading – Imported luxuries
		Oil & Gas Upstream (Indigenous)

Impact of Devaluation on Key Industries

IMPROVE	LARGELY UNCHANGED	WORSE
Agriculture	Telecommunication	Manufacturing
Home & Personal Care	Breweries	General Commerce
Cement	Transportation and Storage	Power
Construction	Oil & Gas Downstream	Public Sector
Healthcare	Oil & Gas Upstream	Consumer Credit
Education	Hotel	Mortgage Banking
		Import dependent trading
		Aviation
		Oil & Gas Upstream (Indigenous)

Key Wholesale Client Segments in the Banking Industry

Industry	Supply Channel	Demand Channel	% Credit Allocation*	NPLs (%)*	Overall Impact
Agriculture			4.49	4.86	
Trade			7.26	13.70	
ICT			5.14	7.65	
Manufacturing			15.26	9.73	
Oil & Gas			26.64	20.71	
Financial Services			7.40	0.43	
Real Estate			3.52	4.68	
Education			0.34	0.83	
Health			-	1.29	

High

Moderate

Low

Sources: KPMG Analysis, NBS

Nigeria's Immediate Actions to Mitigate COVID- 19 Effect

Monetary Measures

Existing Banking Industry Loans Initiatives

- Granted one-year moratorium on all principal repayments on all CBN intervention facilities.
- Directed participating financial institutions to provide new amortization schedule for all beneficiaries of CBN intervention facilities.
- Announced reduction of interest rates on all applicable CBN intervention facilities from 9% to 5% per annum with effect from March 1, 2020
- Granted Deposit Money Banks (DMBs) leave to consider temporary and time limited restructuring of tenor and loan terms for businesses in oil & gas, agriculture, manufacturing and house-holds affected by outbreak of COVID-19.

New Banking Industry Loans/Intervention Funds

- The CBN announced intervention loans to pharmaceutical companies planning to expand or open drug manufacturing plants in Nigeria.
- Opened intervention facilities to hospitals and healthcare practitioners who plan to build health facilities or expand existing facilities to first class centres.
- The CBN created targeted credit facility through NIRSAL Microfinance Bank for households and small and medium-sized enterprises (SMEs) hit by COVID19.
- Pledged CBN support for industry funding levels to maintain capacity of DMBs to direct credit to individuals.
- The Key policy rate was reduced by 100bps from 13.5% to 12.5%

FX Related Initiatives

- Readjusts the official exchange and Investors and Exporters (I&E) window rate to N360/\$ and N380/\$ from N306/\$ and N360/\$ respectively.
- Suspension of the sales of foreign currency to members of Association of Bureau De Change Operators of Nigeria (ABCON)

Converted CBN loans to the Federal Government as marketable securities

Fiscal Measures

Subsidy & Expenditure Initiatives

- Reduced pump price by N20 to N125/litre
- Slashed the 2020 budget by N1.5 trillion after reducing the budget benchmark for oil to \$30 from \$50

Federal Government Transfers

- 3 months repayment moratorium to be given to all Federal Government-funded loans issued by the Bank of Industry, Bank of Agriculture and the Nigerian Export Import Bank
- N15 billion grant was given to the Lagos state government by the Federal Government.
- Contingency funds which amounts to N984 million or \$2.7 million were released to the Nigeria's Centre for Disease Control (NCDC). There is also a plan for an additional N6.5 billion.

Emergency Economic Stimulus Bill 2020

The Nigeria's House of Representative introduced and passed a bill (known as the Emergency Economic Stimulus Bill 2020) that would provide stimulus for the Nigerian economy as it currently faces an economic downturn occasioned by the COVID-19 outbreak. Some of the elements include;

- ✓ All payment of mortgage obligations on residential properties obtained by individuals will be deferred for a period of 180 days starting from March 1st 2020.
- ✓ From the 1st of March 2020 to the 31st of December 2020, there will be waiver of import duty on medical equipment, personal protection and other medical necessities.
- ✓ Any employer duly registered under the Companies and Allied Matters Act (CAMA) which maintain the same employees' status without retrenching their staff as at 1st of March 2020 till 31st of December 2020 shall be entitled to 50% income tax rebate on the total amount due or paid as PAYE under the Personal Income Tax Act.

Nigeria's Economic Sustainability Plan (ESP) – Gleaning the Opportunities

Introduction

Following the health and economic emergencies caused by the COVID-19 pandemic, His Excellency, President Muhammadu Buhari established the Economic Sustainability Committee (ESC) on March 30, 2020.



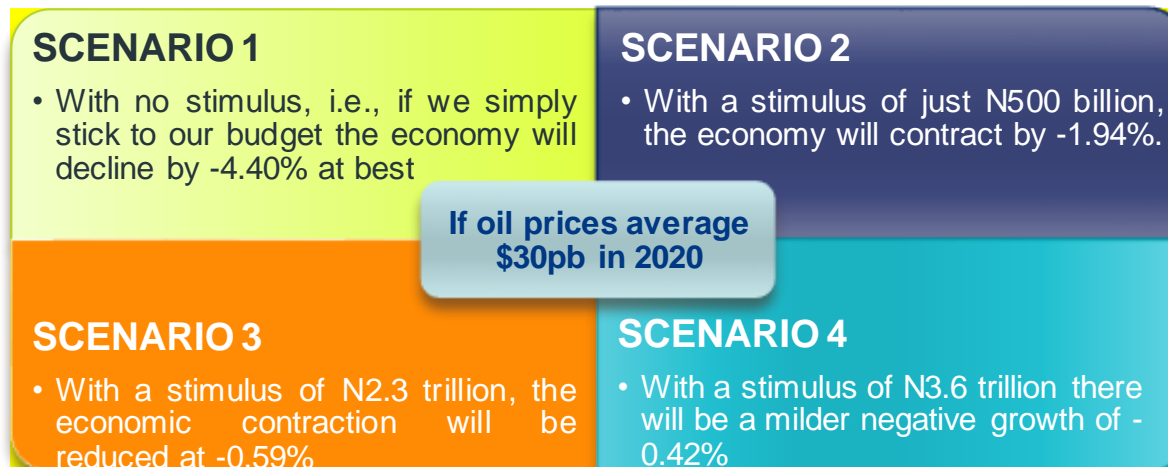
Basis Of The Plan

The COVID-19 pandemic has created severe economic consequences for all countries around the world. Nigeria has also been very badly hit. The lockdowns have frozen economic activities, causing massive job losses and supply chain disruptions. It has also depressed the demand for crude oil and precipitated an unprecedented oil price crash. Nigeria's dependence on oil for revenue and foreign exchange makes it particularly vulnerable in this situation.

Given indices such as oil price, unemployment rate and household survey, the National Bureau of Statistics (NBS) **projects that economic growth could fall by as much as -4.40% to -8.91%** depending on the length of the lockdown period, the potency of the economic plans that are put in place, and, in particular, the amount of stimulus spending.

The time-tested approach to fighting a recession is a **stimulus package**. The size of the stimulus package will usually determine how shallow or deep the recession would turn out to be.

The NBS designed a model of what the macro implications of **four scenarios** would be if Nigeria had the good fortune for oil prices to average at \$30 per barrel in 2020.



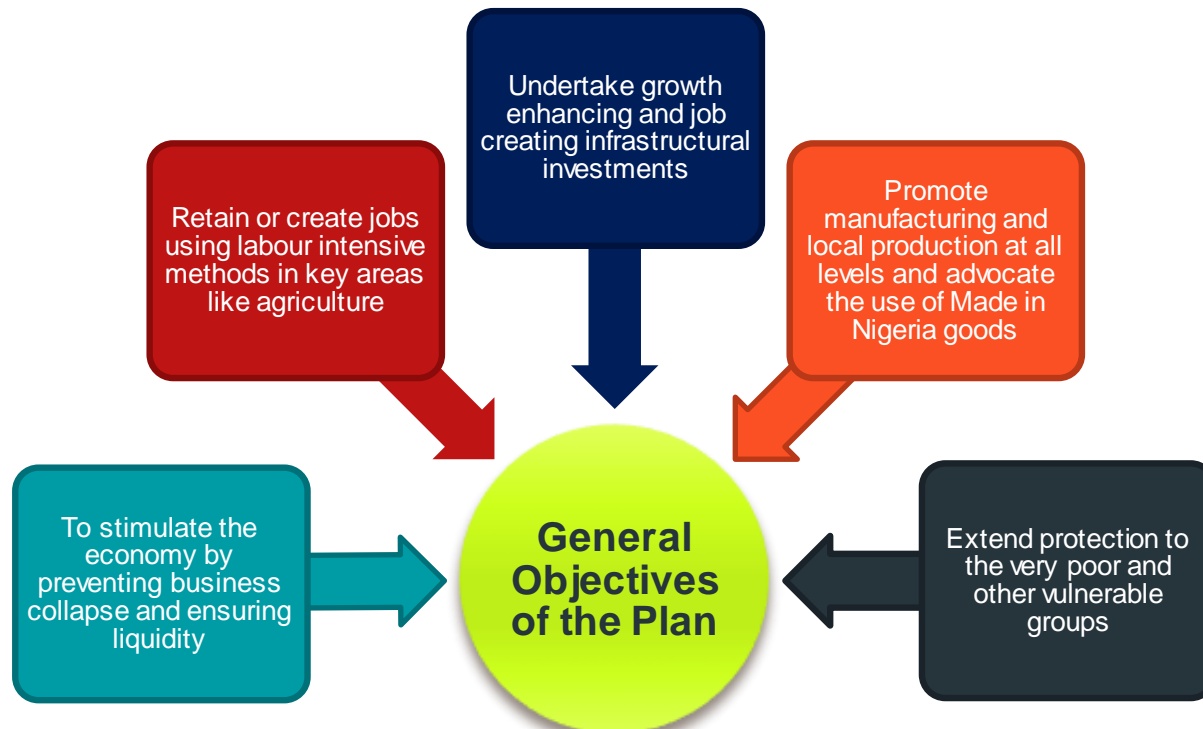
Given the nation's low level of revenues and the importance of monetary stability, the Committee settled for a stimulus package of N2.3 trillion, which would be **funded by N500bn from Special Accounts, N1.11 trillion of CBN structured lending and N302.9bn from other funding sources.**

The Strategy

The team decided that the best way to beat the triple problem of very low foreign exchange, huge unemployment and negative growth is by focusing on the **President's mantra to produce what we eat and eat what we produce**. Thus focusing on **agriculture**.

Other signature programmes include mass social housing, using local materials, installing solar power in 5 million homes, and providing assistance to daily-paid and self-employed workers – petty traders, artisans like bricklayers, vulcanisers, and electricians as well as commercial drivers and barrow-pushers.

For other businesses - aviation, hotels, private schools, restaurants, finding it difficult to continue making loan repayments to banks, a scheme was developed for the restructuring of their loans. For the extremely poor and vulnerable, increased support has been made available under the Social Investment Programme.



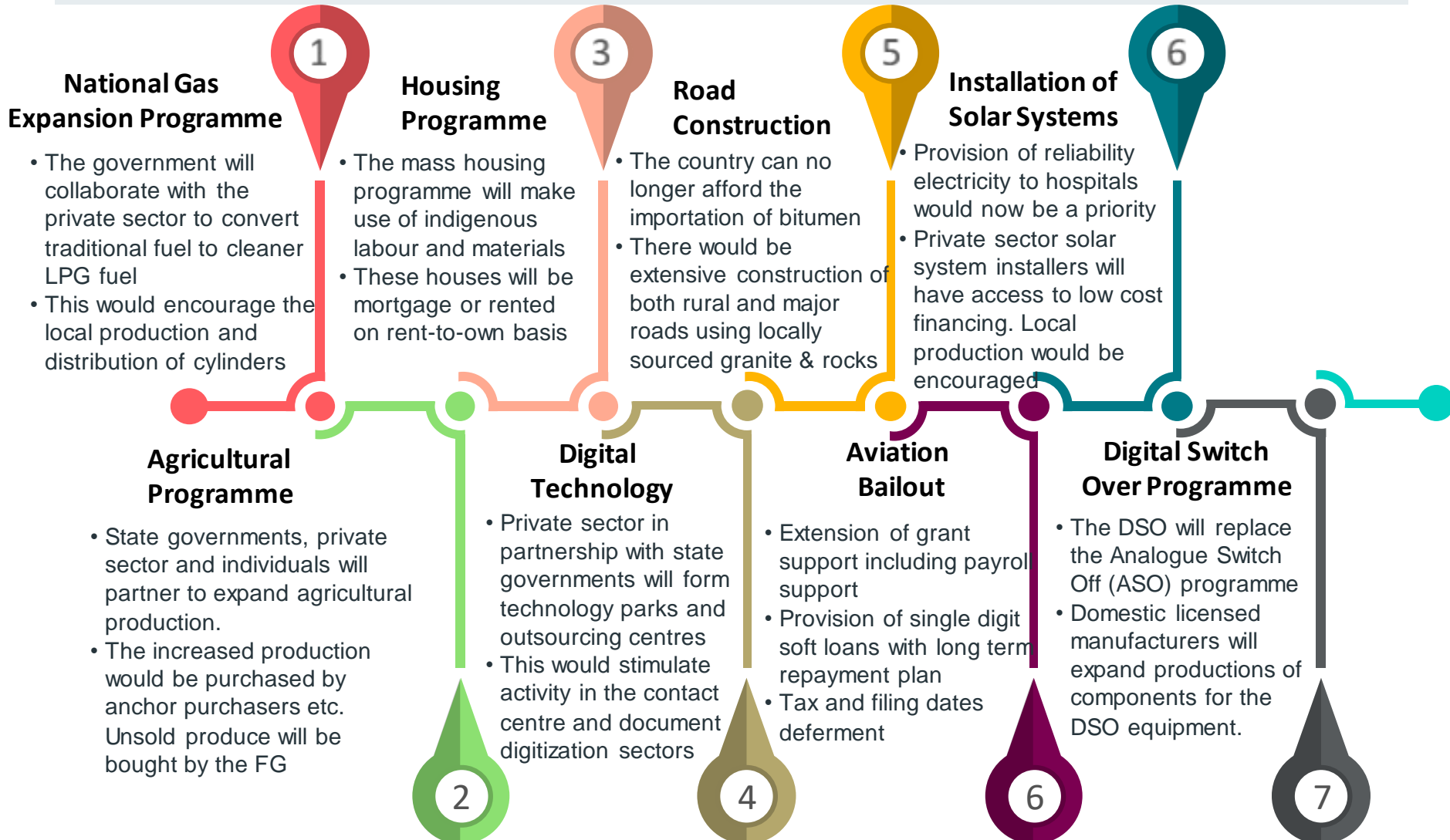
Proposed Key Projects

Key projects were put forward by relevant Ministries to sustain economic activity, boost production, create the maximum number of jobs possible and save foreign exchange



Nigeria's ESP – Opportunities for our Customers

The Nigerian Federal Government developed an **Economic Sustainability Plan (ESP)** in response to challenges posed by the COVID-19 pandemic. This plan avails economic opportunities to key sectors.



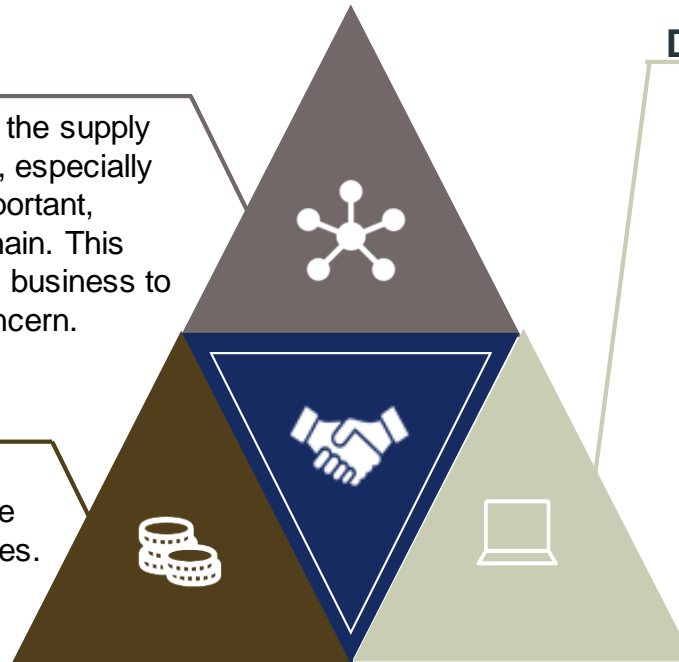
Adjusting to the New Normal

Looking Inwards

A major impact of the pandemic was the supply chain disruption. Hence, businesses, especially those considered as strategically important, should start localizing their supply chain. This supply chain must be resilient for the business to remain competitive and a going - concern.

Variable Costs Switch On

Another important business lesson learnt in this COVID-19 times was the impact of cost reduction on businesses. It is imperative that fixed cost be swapped for variable costs where necessary to remain competitive.



Digital Space, “the Earnings Saver”

Many companies had to activate their business continuity plan. Businesses had to move to the digital space as physical interactions were limited. Those who were testing the digital waters had to dive in to save their earnings from plummeting. Hence, businesses have come to the realization the digital space is the next best option with a wider research

Companies can also engage in strategic alliances or partnerships. This would promote access to new markets, product expansion and diversification. Potential opportunities available in the Economic Sustainability Plans could be leveraged.

Partnerships

Putting numbers to expectations - Key Bets for 2020

S/No	Macro Variable	Forecast	Key Drivers
1.	Exchange Rate (Interbank)	Hover around (N/\$) N385/\$ - N395/\$	<ul style="list-style-type: none"> The currency witnessed relative stability in January and February 2020 (trading around N361/\$), before being adjusted in mid-March to N380/\$ due to the crash in global oil prices. That said, we believe the naira will likely record a gradual pace of further depreciation, moving within a narrow band of N385 - N395/\$ in 2020.
2.	Interest Rate	12.5%	<ul style="list-style-type: none"> We expect no further monetary policy rate (MPR) cuts following the CBN's 'reduction' decision in May and other policy measures the CBN has put in place due to the raging coronavirus.
3.	Inflation	12.5% - 13.1% range	<ul style="list-style-type: none"> Supply chains disruptions due to COVID-19 lockdowns will impact price levels on imported items especially for core inflation items. Even though the falling global oil prices has led to a reduction in the petrol pump price from N145/litre to N121.5/litre resulting in a drop in transport prices, inflation will likely remain elevated as Naira devaluation and food supply pressures keeps prices elevated.
4.	Crude Oil Price	Hover around \$35pb - \$45pb	<ul style="list-style-type: none"> Coronavirus and the oil price war between OPEC and Russia resulted in global oil price crash in March. However, oil prices has began to creep upwards following Saudi and OPEC+ supply cut deal and as countries begin to relax restrictions on economic activities. We expect oil prices to remain around the \$35 - \$45pb mark.
5.	GDP Growth	-2.0%	<ul style="list-style-type: none"> Our view is that growth will come in negative due to the protracted impact from lower oil prices, non-availability of buyers for Nigerian crude, weak revenue receipts and impact of lockdown and movement restrictions on economic activities.
6.	Foreign Reserves	\$31 - \$34 billion range	<ul style="list-style-type: none"> Import and balance of payments pressures as well as weak energy demand stemming from COVID-19 demand destruction will have implications for the foreign accretion for the rest of 2020.

