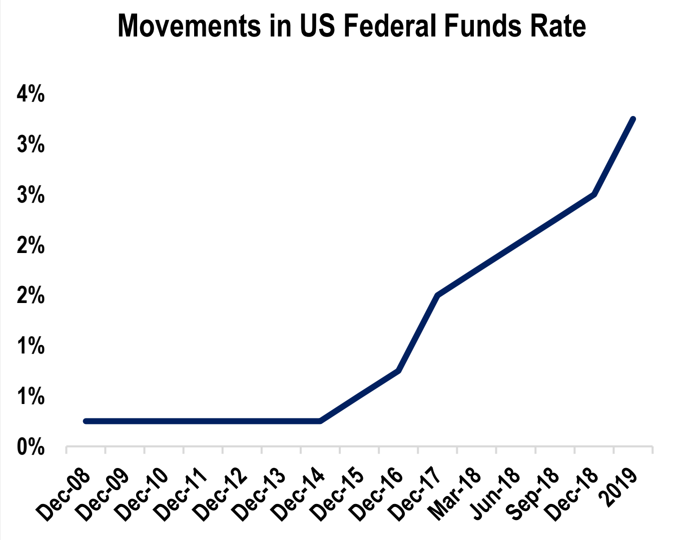
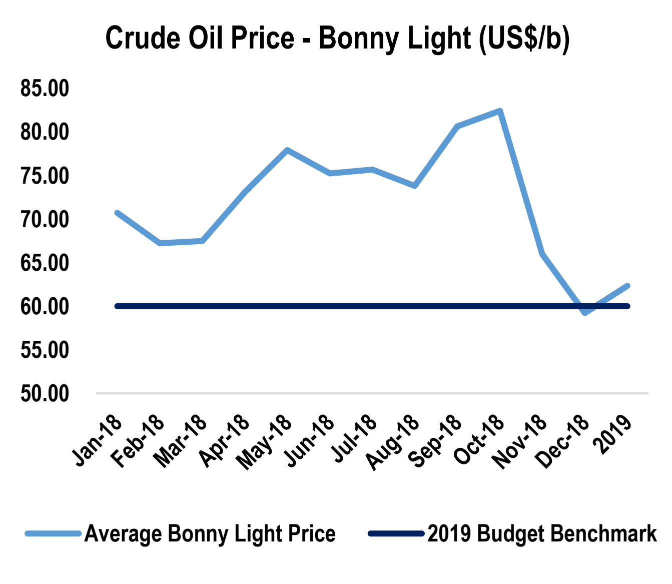
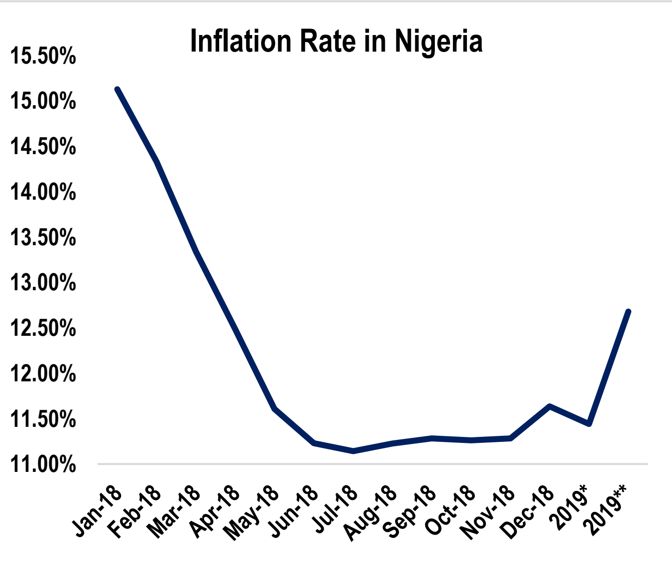
Key Events in 2019 – Implications for Business and Investment

Certain key events, both at the global level and in Nigeria, will influence economic and business activities in 2019. FSDH Research examines a few of these events and discusses the implications for businesses and investments in Nigeria. The expected hike in interest rates in major advanced countries will lead to an increase in global yields and may put pressure on currency in Nigeria. There are strong indications that the US Federal Reserve, Bank of England and European Central Bank will increase interest rates in 2019. The expected increase in the interest rate in the international market may also lead to an increase in the interest rate in Nigeria because of monetary policy adjustments to reduce capital flight.

Nigeria may lose a substantial amount of its projected crude oil revenue due to a limit on crude oil production and the drop in the global crude oil price. This may also lead to a drop in the supply of foreign exchange into Nigeria, resulting in a possible depreciation or devaluation of the Naira. Nigerian businesses should look for local alternatives, where possible, for the raw materials needed for their production process. They should also limit or eliminate foreign debt, particularly if they do not have foreign exchange receivables to mitigate the possible foreign exchange risk. FSDH Research also advises that businesses should put in place appropriate foreign exchange hedging strategies. The Q3 2018 Balance of Payment (BoP) report that the Central Bank of Nigeria (CBN) published shows that earnings from crude oil and gas accounted for 94.4% of total export earnings during the period. The external trade report that the National Bureau of Statistics (NBS) published for Q3 2018 shows that crude oil exports accounted for 85% of total exports. Therefore, any adverse movement in crude oil price or production has high negative implications on the Nigerian economy.

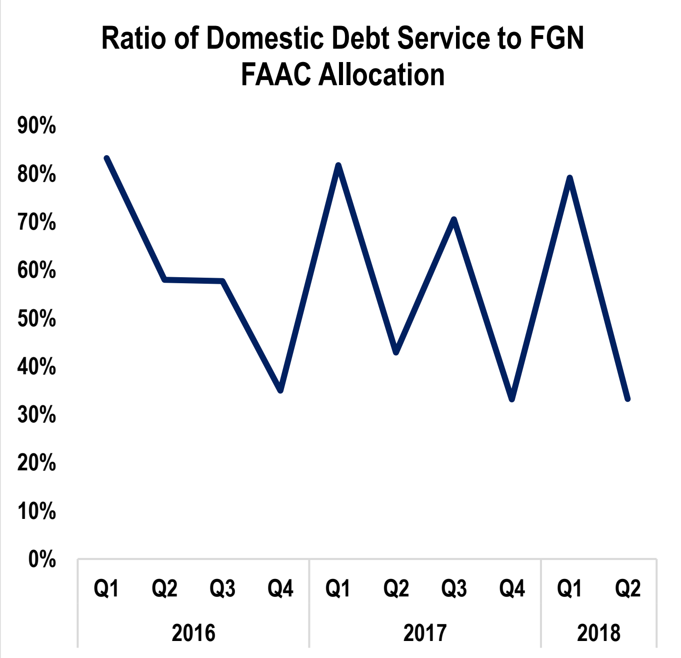






2019*: without adjustments to the electricity tariff and PMS pump price
2019:**with adjustments to the electricity tariff and PMS pump price

Although FSDH Research expects the general election in 2019 to be peaceful, its outcome will determine economic activity and business in Nigeria. A peaceful election will ensure stability of the Nigerian economy and pave the way for the flow of investments, both Foreign Direct Investments (FDIs) and Foreign Portfolio Investments (FPIs) into Nigeria. Certain long-term business and investment decisions may be taken immediately after the election if the current government retains power. However, if there is a change in power, investors may wait until after the presidential inauguration on May 29 before they take long-term investment decisions, to give them enough time to access details of the policies of the incoming government.



Sources: National Bureau of Statistics (NBS), Thomson Reuters, Budget Office of the Federation, Trading Economics, Debt Management Office and FSDH Research Analysis

FGN: Federal Government of Nigeria, FAAC: Federation Account Allocation Committee

There are certain macroeconomic realities that the Nigerian government must contend with in 2019. FSDH Research believes the fiscal deficit in 2019 may be higher than in 2018, and higher than what is projected for the year 2019. In order to execute certain plans that will move the economy forward, government may have to increase borrowing or partner with private sector operators on key projects. An increase in borrowing will increase the interest rate, while partnership with the private sector will expand economic activity and create new job opportunities. Already, the ratio of government's debt service to revenue is high and at an unsustainable level. Therefore, additional debt, in an environment of rising interest rates, may reduce government's ability to execute critical programmes that will improve the business environment. While fixed income investors may enjoy higher yields in 2019 than in 2018, businesses may suffer under rising interest costs.

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FSDH Research analysis shows that electricity and the pump price of Premium Motor Spirit (PMS) are two key prices that government will need to adjust in 2019 to free up funds for developmental purposes. The adjustment may increase the inflation rate in the short-term, but it will benefit the economy in the long-term. More investments are required in the power sector than are currently available. However, the sector may not attract investment in the absence of a cost-reflective tariff. Government already allows an off-grid power supply arrangement based on 'willing buyer, willing seller'. The tariff at which this arrangement is settled is higher than the tariff for the power from on-grid supply. Appropriate policy responses from government and strategies from the business community may ameliorate the likely negative impacts of these key events in 2019.

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