ECONOMIC & BUSINESS REVIEW IN 2015 AND PERSPECTIVES FOR 2016

PRELUDE

Year 2015 was challenging as the difficulties in the business environment persisted (especially in relation to insecurity in parts of the country, infrastructural conditions, foreign exchange crisis, funding issues, consistency of policy and the quality of institutions). There was also the challenge of uncertainties and risks created by the political transition and the elections.

ECONOMIC ENVIRONMENT IN 2015

Political and economic developments offered mix of notable events which shaped business and economic environment in 2015. According to National Bureau of Statistics (NBS), Nigeria's real Gross Domestic Product (GDP) falls to 2.84% in the third quarter of 2015, compared to 6.23% in the same period in 2014. In fact, sectors such as manufacturing and the services slipped into recession after recording successive declines over the last three quarters in 2015. The successful democratic transition that ushered in a new political administration, presented a new wave of optimism on the back of the inherent goodwill of the administration at the federal level. However, business activities were largely slow for a better part of the year due to uncertainties around the general economic policy direction of the present administration.

The Central Bank of Nigeria (CBN) through its Monetary Policy Committee (MPC) on Tuesday 24th November, 2015 resolved, among other issues, to reduce the MPR from 13% to 11 % (which represents the lowest since 2009) as well as the CRR from 25% to 20%. The decision by the MPC to reduce monetary rates was informed primarily by the desire to stimulate the economy. This is against the backdrop of the economic realities as manifested in weak and fragile domestic macroeconomic environment, declining private and public expenditures and the slump in crude oil price. Also, cost and access to fund remained a major challenge for businesses especially MSMEs. Through the year, lending rate of commercial banks including fees and charges ranged between 22% and 34% depending on the customer profile, tenor and collateral quality. Meanwhile, the relaxation of monetary conditions is yet to impact on the cost of funds in the economy.

On the global scene, the price of crude oil continued to experience a downward trend. The price which stood at an average of $112 per barrel in June 2014 slipped to $35 per barrel in December, 2015. The price was far below the budget benchmark of $53 per barrel for 2015. The drastic decline consequently led to various fiscal and economic challenges such as the drop in foreign earnings, strained fiscal budget and huge financial bailout for some state governments, general cash flow issues in the economy and unstable business environment.

Deepening Monetary, Financial & Fiscal Crisis

Through the year, Nigeria has increasingly drifted into economic and financial crisis following series of adverse developments in the international oil market. In response to dwindling receipts from oil export, the Central Bank of Nigeria (CBN) adopted several measures such as the closure of Retail Dutch Auction System (rDAS) window, restriction of cash payment into domiciliary accounts and prohibition of 41 items from accessing the interbank foreign exchange market. CBN's administrative allocation of foreign exchange signposted much deeper challenges for investors and the economy. As at 18th December, 2015, premium at the parallel market reached a record level of 35% against the official exchange rate as the naira crashed further to 270/$ in the parallel market. The CBN, in an attempt to arrest the trend, blamed the development on the activities of speculators in the parallel forex market thus pushing for stricter restrictions. Accordingly, 2015 experienced more exchange controls:

- Downward adjustment of maximum spending limit on offshore credit/debit card spending to $12,000 per annum.
- Reduction in the weekly allocation to $10,000 per BDC
- BDC operators to source for dollar from private sources for personal and business travels
- Complete cancellation of the weekly sale of foreign exchange to BDC dealers anytime from now *(market anticipation*).
- Suspension of the use of naira debit cards abroad, effective from January 2016

In addressing the issue, different policy trajectories were recommended for alternative courses of action through the year:

- Adjustment of the exchange rate close to equilibrium rate. This will moderate demand and stimulate supply of foreign exchange.

- Need to ease the restriction on forex inflows through autonomous sources to boost supply.
- Review of the policy of exclusion of 41 items from access to foreign exchange market.
- Real sector development through economic diversification strategy.

The forex restrictions also prompted JPMorgan Chase & Co. to remove Nigeria from its local-currency emerging-market bond indexes in September 2015, triggering a sell-off in the nations' assets. As a consequence, equity market lost over 30% making the Nigerian Stock Exchange (NSE) one of the worst performing equity markets in 2015. Depressed international oil market, exchange rate crisis and fears coming from slowing Chinese economy induced negative pressure on the Equity Market. However, we see great prospects in Nigerian equities over medium to long terms as most stocks are currently trading far below their fair values.

LCCI's Q3-2015 business environment survey showed that a forex restriction by CBN is one of the costliest policies in Nigeria in recent years. Available data showed that Customs revenue contracted in 2015 relative to 2014. In the same vein, the private operators across several sectors (FMCGs, Steel, furniture, pharmaceuticals and manufacturing) lost about N1.46 trillion in stalled business activities resulting from paucity of forex over the last six months.

In 2015, unfriendly business environment continued to undermine the capacity of investors to maximise abundant business opportunities in Nigeria, Africa's largest economy. With drastic fall in oil price [currently at $35 per barrel], heavy fuel subsidy bill nearing N1 trillion in 2015, wide spread insolvency among state government across the country, increasing sovereign debt (about $60 billion, including debt provisions in 2016 MTEF) and debt service obligation of N1.3trillion in 2016 the financial crisis may linger in the new year.

According to the World Bank in its 2016 Annual Ease of Doing Business Report, Nigeria is ranks 169 among 189 countries with Mauritius ranking 32 as the best in Africa. From the report indicators, Trading Across Boarders which is a measure of country's ports/border management effectiveness, presents a dismal ranking of 182 out of 185 countries. This underscores the need to urgent reforms in this regard.

Nigeria Ranking on the World Bank Ease of Doing Business

Topics	DB 2016 Rank	DB 2015 Rank	Change in Rank
Ease of Doing Business	**169**	**170**	**+1**
Starting a Business	139	131	-8
Dealing with Construction Permits	175	175	No Change
Getting Electricity	182	181	-1
Registering Property	181	185	+4
*Getting Credit	59	52	-7
Protecting Minority Investors	20	33	+13
Paying Taxes	181	181	No Change
*Trading Across Boarders (Ports)	182	182	No Change
Enforcing Contracts	143	143	No Change
Resolving Insolvency	143	143	No Change
Distance to Frontier (%)	44.69	43.56	+1.13

Source: World Bank Ease of Doing Business Report - 2016

The Lagos Chamber of Commerce and Industry [LCCI] and the business community are very concerned about the current state of the economy and consequences of the CBN approach to the management of foreign exchange market over the last few months. We have previously engaged the CBN and other authorities through several fora (including dialogue sessions and memoranda) to draw attention to the implications of Forex policies on Businesses and the economy.

BUSINESS ENVIRONMENT IN 2015

Access Roads to Lagos Ports

We had consistently expressed our concern over the deplorable state of roads leading to the Lagos ports (Apapa and Tincan Island). These ports account for over 60% of the cargo into the country and an estimated 70% of customs revenue. The poor state of the roads has multifarious effects on the private sector, economy and the citizenry. Some of these effects are as follows:

i. Risk to the lives of citizens arising from containers falling off the trucks as a result of bad roads. Several lives have been lost in recent past as a result of this.
ii. Congestion at the ports resulting from the delay in the evacuation of cargo.
iii. High demurrage paid by importers to Terminal Operators and Shipping Companies as a result of delays [which were not their own making] in the clearance and evacuation of cargo in the ports.

iv. High cost of transportation for evacuating cargo because of the prolonged engagement of the trucks by importers arising from the delays.

v. Serious traffic congestion along the roads leading to the Ports, which often spill over into the Lagos Metropolis causing severe traffic jam and loss of man hours. These congestions are caused by the convergence of fuel tankers from various parts of the country coming to Lagos ports to lift fuel.

vi. Delays in getting raw materials and other inputs from the ports to the factory premises in Lagos and other parts of the country.

We urge the Federal Government to fix these roads as a matter of utmost urgency, as these are Federal roads. It is also important that the Trailer Park under construction in the neighbourhood of the Tincan Island port be urgently completed to reduce the menace of trucks and tankers on Lagos roads. Above all reforms of the downstream petroleum sector should be accelerated to reduce the importation of petroleum products and by extension the pressure on Lagos ports.

Macroeconomic Outlook

In 2016, GDP growth is expected to rebound, though, slowly to about 3.5 if the right mix of fiscal and monetary policies are put in place to stimulate the economy and attract domestic and foreign investments. While the recovery is expected to be driven by increase in government expenditure, the growth in oil sector may be constrained still by low price and investment drive. Meanwhile, the exchange rate volatility is expected to persist fuelling high inflation of about 10-11%. However, correction towards Real Effective Exchange Rate (REER) in the form of exchange rate adjustment is likely in Q12016. This will reduce the pressure on external reserves.

Other macroeconomic features for 2016 are highlighted as follows:

- Clearer macroeconomic policy space
- Expansionary fiscal stance
- Huge debt profile
- Improved power supply and infrastructure
- PIB acceleration and downstream deregulation
- Blocking leakages by Treasury Single Account (TSA).

Sectoral Outlook 2016

- The targeted N300 billion by the Nigerian banks to boost lending to Small and Medium Scale Enterprises (SMEs) and the agriculture sector in 2016 will boost SMEs development and employment and thus increases non-oil export.
- The insurance industry will remain largely underpenetrated with insurance density at about 0.225%. Therefore, significant change in this industry with respect to growth and penetration remains bleak even as the sector is still highly fragmented. The declining GDP is also expected to strain, to a large extend, the performance of this industry.
- Subsidy arrears payment and end of subsidy regime likely to result in improved market efficiency and profitability as downstream sector players explore pricing dynamics to boost investment. The expected deregulation in the downstream sub-sector will be a game changer.
- With the declining trend of global oil price and its attendant impact on government revenue and foreign reserves, general business outlook will remain tense. Implications on cost of and access to credit will be undesirable. Businesses, especially those with high forex exposure, will continue to face challenges of meeting foreign obligations to suppliers and partners. This will also impact contractual trust and integrity.
- Risk of default in financial obligations in both public and private sectors will be high as macro-economic conditions and cash flow remains tight.

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LAGOS CHAMBER OF COMMERCE AND INDUSTRY

27TH DECEMBER 2015