Economic Review & Outlook

APRIL 2020

Octo5® A REPORT GENERATED BY THE PLANNING & RESEARCH UNIT – Q1, 2020

Octo5®

This report is based on Octo5 Research team's assessment of the emerging macro-economic environment & its likely impact on Nigerian businesses post-Covid19

The **COVID-19 pandemic** has been described as the worst crisis humanity has faced since World War II and it has triggered long term transformation of the World Economic Order in ways that are yet to be fully measured.

As of April 2020, the pandemic has impacted 196 Countries and Territories across the world. Almost all Countries constituting the top 50 World Economies including Nigeria have been adversely impacted; financial markets are contracting, and commodities prices especially crude oil prices have dropped by over 60% from their December 2019 rates. The combined global demand and supply shocks triggered by the lockdown of many Countries due to social distancing is largely responsible for this widespread collapse.

Probability of corporate debt defaults is high especially in the West; The World is in an effective global recession and unemployment will increase as companies worldwide take decisive measures to cut costs to stay viable.

The US alone reports 22 million people filing for unemployment benefits in March 2020. According to US forecasts, the unemployment rate is likely to be 20% to 30% until Q3, 2020 at the least.

Coronavirus Cases:

2,418,589

view by country

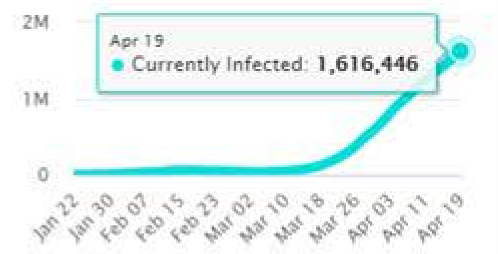
Deaths:

165,741

Recovered:

633,067

ACTIVE CASES



Show Statistics

CLOSED CASES

798,808

Cases which had an outcome:

633,067 (79%) Recovered / Discharged

165,741 (21%) Deaths

Show Graph

Corona Virus Cases Worldwide : Worldometers (2020)**NB: Figures are as at April 20 2020**

While the fallout of this crisis is particularly threatening to Nigeria, all Countries are speedily devising strategies to ensure containment while keeping their economies on critical life support pending when the pandemic flattens, and production can resume world-wide.

Covid19 and the crash of oil both offer the Nigerian Government a unique window to dramatically define and set a new growth trajectory for the nation.

In Nigeria, the emerging trend indicates that with increased Covid19 testing and community tracing, the cases of positive cases have increased though most seem to be asymptomatic. This has mitigated the high risk of a full-blown local pandemic crisis.

The Nigerian Government acting through the National Centre for Disease Control (NCDC), State Governments and the Organized Private Sector have set up multiple isolation centers with a clear focus on increased testing and maintenance of social distancing to help control the pandemic's spread in-country.

A noteworthy indicator is the current low rate of critical cases. The Nation has suffered some notable fatalities, but the recovery rate is also high.

Corona Virus Cases In Nigeria : NCDC (2020) **Figures are as at April 20 2020**

COVID 19:
Impact on the Nigerian economy

In Nigeria, the combination of the economic shut-down and movement restrictions in Lagos/Ogun/Abuja coincided with a collapse in crude oil prices and a projected drop in foreign exchange earnings with projections that in the worst case, over 60% of Nigeria's foreign earnings projections will be missed.

The Central Bank of Nigeria (CBN) has been forced to revisit its unwavering defense of the value of the naira, devaluing the Naira and adjusting the rate in the Investors and Exporters Foreign exchange window to N380/USD from the N360/USD. It also adjusted the official exchange rate to N360/USD from N306/USD. **We expect the Naira to remain under pressure when trading resumes especially in view of Nigeria's lower foreign exchange earnings**

The pandemic has brought the country's proverbial "chickens" home to roost!! Covid19 has exposed Nigeria's institutional frailties; caused by decades of poor governance, misplaced priorities, and disregard for good public health service. The lack of a dynamic manufacturing /industrial base, over-dependence on crude oil proceeds and a disproportionately unsupported large informal sector coupled with the high level of poverty prevalent in our society and its risks are now major threats to the Nation's long-term economic stability.

Nigeria's over-reliance on being an import driven economy with 90% of our exports being commodities while 70% of imports were finished goods, is an unsustainable quagmire. 60% of the population constituting the informal sector survive on trade and services. Most of them have not been able to earn or trade for a month and that is unsustainable.

The twin impact of the near shut down of commodity export and the lockdown of the Federal Capital Abuja, Lagos (the commercial hub), and Ogun (the manufacturing hub) means the Nigerian economy is effectively in a frozen state and 60% of the economic population have effectively lost their livelihood for now.

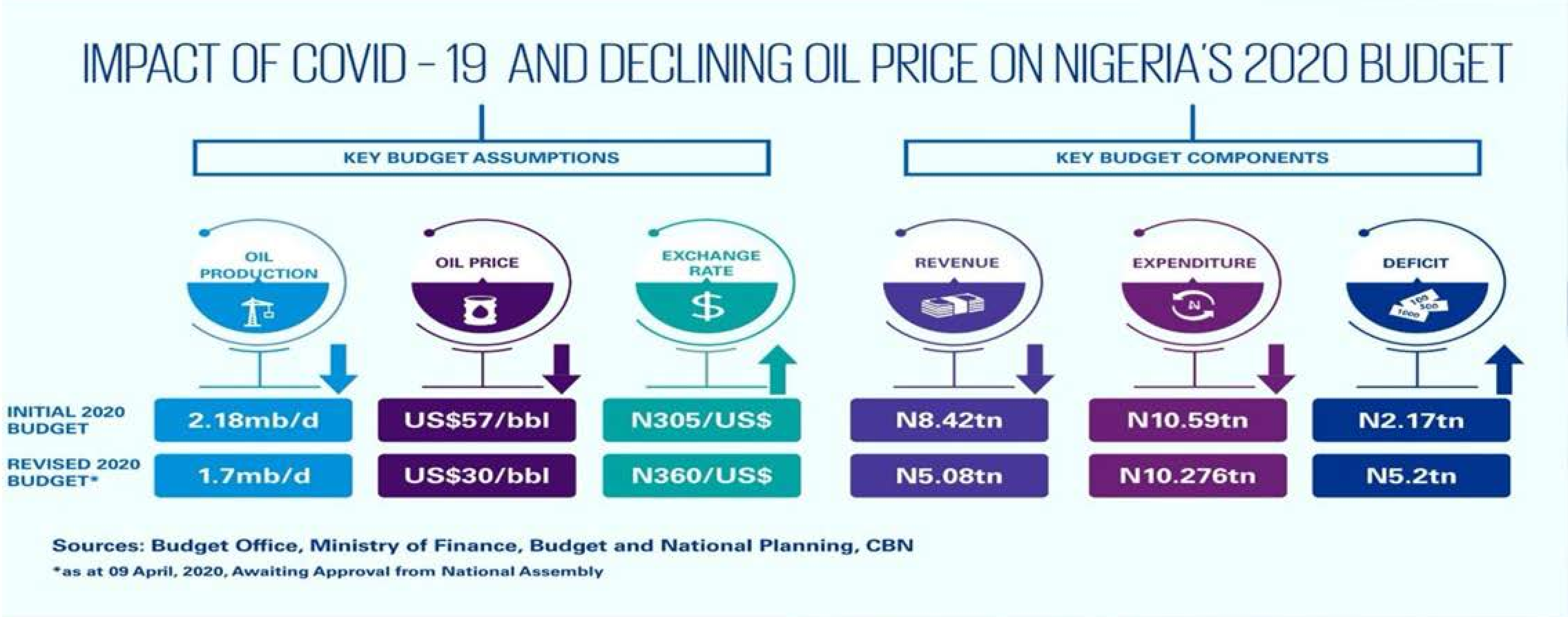
FX Rate Pre CBN Covid/Oil Crash Adjustment

Date	Currency	Buying(NGN)	Central(NGN)	Selling(NGN)
2/25/2020	US DOLLAR	305.95	306.45	306.95
2/25/2020	POUNDS STERLING	396.5724	397.2205	397.8686
2/25/2020	EURO	331.5886	332.1305	332.6724
2/25/2020	SWISS FRANC	312.7364	313.2475	313.7586
2/25/2020	YEN	2.7675	2.772	2.7766
2/25/2020	CFA	0.4854	0.4954	0.5054
2/25/2020	WAUA	416.4038	417.0843	417.7648
2/25/2020	YUAN/RENMINBI	43.5966	43.6683	43.74
2/25/2020	RIYAL	81.5388	81.6721	81.8053
2/25/2020	SOUTH AFRICAN RAND	20.1045	20.1373	20.1702

FX Rate Post CBN Covid/Oil Crash Adjustment

Date	Currency	Buying(NGN)	Central(NGN)	Selling(NGN)
4/9/2020	US DOLLAR	360	360.5	361
4/9/2020	POUNDS STERLING	446.976	447.5968	448.2176
4/9/2020	EURO	391.068	391.6112	392.1543
4/9/2020	SWISS FRANC	370.4466	370.9611	371.4756
4/9/2020	YEN	3.3058	3.3104	3.315
4/9/2020	CFA	0.488	0.498	0.508
4/9/2020	WAUA	416.3547	416.9329	417.5112
4/9/2020	YUAN/RENMINBI	50.9993	51.0706	51.1418
4/9/2020	RIYAL	95.6811	95.814	95.9468
4/9/2020	SOUTH AFRICAN RAND	19.9347	19.9623	19.99

Source: Central Bank of Nigeria Data



In an initial effort to demonstrate fiscal responsibility, the Federal Government cut the 2020 budget by over N320 billion and proposed a revised budget of N10.27 trillion as against the N10.59 trillion initially passed by the National Assembly.

This effort was concurrent with seeking a cumulative $6.9 Billion in Covid19 support facilities from the World Bank, IMF, and African Development Bank. **We believe that these initial steps will need to be revisited as the Original budget estimates were ambitious and predicated on growing the tax base. In the near term, we are of the opinion that the budget orientation must be focused on smaller government and growing a stronger local productive economy.**

The Nigeria Government – Initial Fiscal / Monetary Responses

As earlier indicated, the Federal Government initiated some fiscal and monetary actions to address these challenges; mainly through the Central Bank of Nigeria (CBN), the Nigerian National Petroleum Corporation (NNPC) and the Ministry for Humanitarian Aid.

- **Acting through the NNPC, Nigeria finally removed the "petroleum subsidy" with a downward price review from N147.5 to N123.5.**
  The subsidy regime is effectively dead and we hope legislation would be introduced to eliminate any further government interference in pricing.

- **Acting through the Ministry for Humanitarian Aid, the Federal Government resumed the conditional cash transfers and widened its application to the Urban Poor. Payments are made using the Bank Verification Numbers (BVN) and Mobile Phone details of beneficiaries, who are included on the National Social Register, managed by the National Social Safety Nets Coordinating Office (NASSCO). This is a good innovation to social support for the vulnerable and extremely poor.**

- **The Central Bank of Nigeria (CBN)as part of its N3.5 Trillion Naira economic stimulus mandated the NIRSAL Microfinance Bank to launch a NGN50Billion targeted credit plan to provide single-digit loans to households and SMEs particularly impacted by the COVID-19 crisis through its web portal. The sectoral focus is primarily hospitality, trade, and healthcare.**

MONETARY POLICY MEASURES

Interest rates
Interest rates for all CBN intervention facilities have been reduced from 9% to 5%and the monetary policy rate has been retained at 13.5%. The Cash Reserve Ratio (CRR) and Liquidity Ratio remain unchanged at 27.5% and 30% respectively.

Loans and intervention funds
The CBN has earmarked N1 trillion in loans to boost local manufacturing and production in critical sectors (e.g. pharmaceuticals) and N50 billion credit facility for affected households and SMEs.

Credit relief
The CBN has included an additional one-year moratorium period for all CBN intervention facilities.

FISCAL POLICY MEASURES

LEGISLATIVE (Emergency Economic Stimulus Bill by the House of Representatives)

50% Income tax rebate on total amount due on Pay-As-You-Earn (PAYE) tax
This is targeted at Nigerian companies who retain all their employees from 1 March 2020 to 31 December 2020 and is aimed at protecting employees from loss of jobs as a result of the pandemic.

Waiver of import duties
Suspension of import duties on medical equipment, medicines and personal protective equipment required for the treatment and management of Covid-19 for three months, effective 1 March 2020.

New moratorium on mortgage obligations of Nigerians
This is targeted at individuals that have existing mortgages under the National Housing Fund.

TAX
Extension of timeline and promotion of electronic channels for tax remittances. Also, deferred submission of supporting documentation for tax filing.

Sources: CBN, FIRS, House of Representatives

Source: KPMG PROFESSIONAL SERVICES: 2020

OTHER FISCAL MEASURES

The Central Bank of Nigeria through its CBN Governor, on March the 14th, outlined an eight-point agenda designed to build confidence in the economy. **In his note, he reiterated the need for Nigeria to look inward as a nation and guarantee food security, affordable healthcare and cutting-edge education for its citizenry as opposed to heavy reliance on other countries.** Accordingly, he identified action steps designed to build a more resilient, more self-reliant Nigerian economy. These include:

- Building a base of high-quality infrastructure as a key component for the economy to experience growth and self-sufficiency. Such qualitative infrastructure, he noted must include reliable power, to engender industrial activity.
- Support for farmers in both smallholder and large-scale agriculture production in select staple and cash crops.
- Creating an ecosystem of factories and supply chains to enable the easy movement of raw materials and finished goods.
- Building a robust educational system using fiscal priorities that would enhance critical thinking and creativity.
- Develop a healthcare system trusted to keep all Nigerians healthy, irrespective of social class and status
- Facilitating affordable credit to SME'S and large corporations to ease access to cheap and long-term credit for developmental purposes.
- Developing pro-poor policies to ensure inclusive financial services and security to the poor and the vulnerable.
- Expediting the involvement of venture capitalists to nurture new ideas and enable Nigerian businesses to compete globally.
- To boost Job creation, household incomes, economic growth as well as reinvigorate the real estate industry through the provision of affordable housing, mortgage finance, and institutional capacity, he announced plans to create a fund for property developers in the Real Estate Sector who can show the capacity to repay its loan obligations as at when due. The requirements for the eligibility of this would be tied to identifying eligible and potential off-takers using the BVN. In simple words, CBN intends to verify the financial capacities of potential off-takers before any loan can be given to them

- **Lastly, he stated that the CBN would work with state governments to ensure the following:**

  - That the processes of issuing land titles become faster and less cumbersome,
  - Reduce the cost of land documentation, and
  - Ensure investment-friendly foreclosure laws.

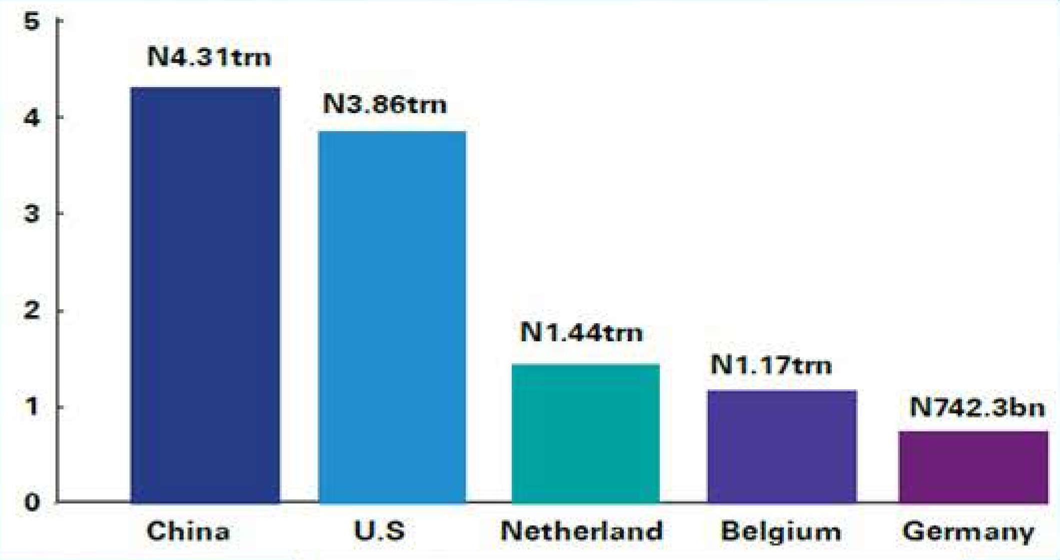
As the COVID 19 induced global recession spreads, the impact on the Nigerian Business Environment is multi dimensioned impacting supply chains; foreign direct investments; trade and employment risks.

A major area of concern relates to **SUPPLY CHAIN MANAGEMENT**. On the supply side, **imported finished goods constitute 70% of total Nigerian imports**. This is a major risk as foreign exchange becomes more expensive.

KPMG in 2019 noted that a large percentage of Nigeria's imports originated from China which accounted for 25% of total imports with the United States and the EU (the Netherlands, Belgium and Germany in particular) making up the three other top import sources.

In an economy with a vibrant diversified base, being import-dependent for sufficiency can be rationalized. HOWEVER in the Nigerian scenario, our primary exports are commodities resulting in a significant trade deficit!

NIGERIA'S TOP IMPORT SOURCES



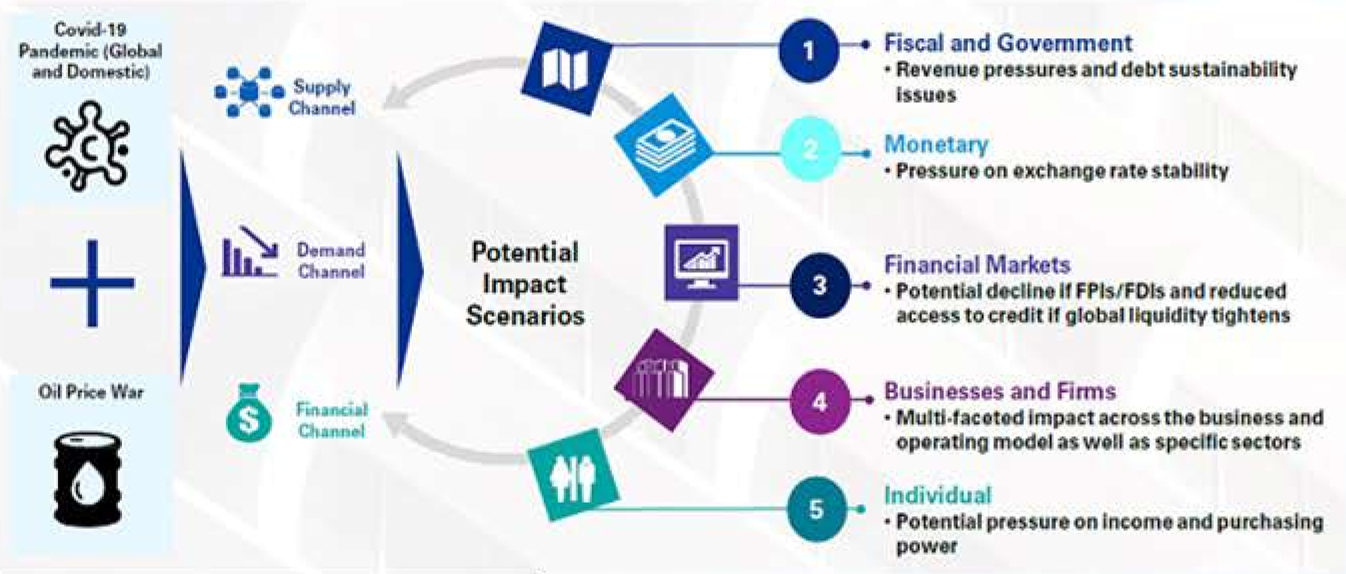
Source: KPMG (Nigeria's Top Import Trading Partners.)

The "oil supply war" between the Saudi's and the Russians worsened the impact of COVID 19 restrictions on oil. The World is now contending with a supply glut and until the economies reopen, the low-price regime will prevail and persist for another year or more. The top six oil export destinations for Nigerian Crude oil (Spain, India, Italy, France, South Africa, and the Netherlands) are all grappling with Covid19 induced economic downturns. The Current spot price for the Brent Crude is $26.15 per barrel without immediate offtake conversely production costs average $22 per barrel, making oil an immediate negative revenue source for the Nigerian foreign reserves.

The second major area of concern for Nigeria is **FOREIGN EARNINGS /FOREIGN DIRECT INVESTMENTS**. The drop in oil receipts would have been more manageable without the COVID factor. In the last few years, foreign portfolio investment has been a prime source of investment in our capital and fixed income markets due to the attractive yields. The impact of the systemic shorting of the world economy is evidenced by the seeming abstinence of Foreign Portfolio Investors from the Central Bank's last OMO Auction held on the 19th of March 2020. We deduce this from the data published by the Nigerian Bureau of Statistics, showing that there were zero bids for each of the OMO bills slated for sale by the CBN.

Based on past trends, we anticipate positive movement post-Covid19, provided the Government takes necessary market reassuring steps. Nigeria's Eurobond yields are now as high as 13.4% for bonds maturing 2025. This cautious optimism is however constrained by the rating downgrade of Nigerian Sovereign Bonds. Fitch downgraded our Rating to "B" as at April 06, 2020, while Standard & Poor's (S&P) had a rating of "B- "as of March 26, 2020. These ratings are an important gauge used by international portfolio investors to assess Nigeria's credit worthiness. **We believe that when viewed in context, the ratings are reflective of concerns with the disequilibrium inherent in the Nigerian economy and the difficulty experienced by international analysts in properly evaluating our true market and production potential.**

Regardless of the Covid19 impact scenarios that crystallizes, Nigeria will experience an economic contraction for the rest of 2020. In the best-case scenario, Nigeria's GDP growth may likely decline from 2.5 percent to -3.4 percent by the end of 2020. That would represent a drop of approximately $20 billion in GDP for the year, with more than two-thirds of the direct impact coming from oil-price /glut effects. Nigeria's crude oil is currently selling at a discount and is not attracting buyers due to months of cargoes already in storage.



Source: KPMG PROFESSIONAL SERVICES

Covid Impact Scenarios & Consequences

How Will Nigeria Handle Another Recession?

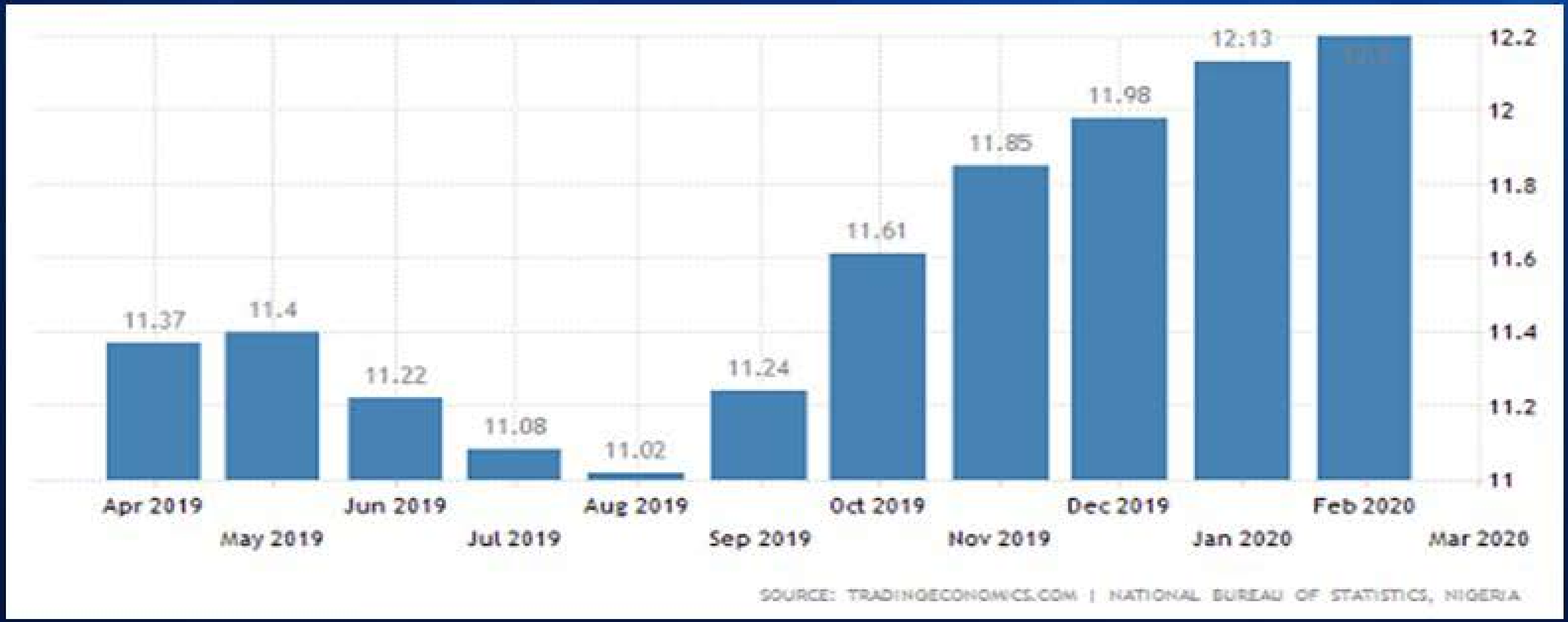
How Can Impact Be Made Manageable ?

The World has entered a recession as global economies shut down to manage the Covid19 pandemic. Nigeria effectively also shut down in March and remains shut down for the month of April.

The inflation rate in Nigeria rose for the sixth straight month to 12.2% in February 2020. The consumer price index, (CPI) in Nigeria also increased to 12.20%. (Year-on-Year) from 12.13% in January 2020. **This is 0.07 percent points higher and rising further above the Central Bank's target range of 6.0%–9.0%** *(National Bureau of Statistics: 2020).*

The Urban inflation rate rose by 12.85 percent (year-on-year) in February 2020, while rural inflation rate increased by 11.61 percent in February 2020. The composite food index rose to 14.90 percent in February 2020. *(National Bureau of Statistics: 2020).* As we anticipated in our January review, we expected inflation to maintain an upward trend of 13% and above in the coming months due to the global impact of the pandemic and the shortening of the demand and supply curve.

Food prices may be volatile due to the impact of the Covid19 lockdowns as farmers have not been able to take full advantage of the planting season. We note that the Feb-20 enactment of the 7.5% Value Added Tax (VAT) increment and the implementation of the Thirty Thousand Naira (₦30,000) minimum wage across government levels IF MAINTAINED would also have a major impact on the CPI.



Inflation Rate in Nigeria : Source (Trading Economics: 2020)

According to International Monetary Fund's World Economic Outlook, the Covid19 pandemic and resulting economic shutdown will in the best-case scenario, result in a -3% global contraction for 2020; global growth projection for 2021 is projected as 5.8% in the expectation that economic activities resume in the 2nd half of 2020 and policy support is provided.

The IMF in its report encourages all Nations to pursue monetary stimulus and liquidity facilities to expedite a return to growth.

The IMF projects a -3.4% growth for Nigeria in 2020 with effective recovery to 2.4% growth in 2021.

What does another recession portend for Nigeria?

- The purchasing power of Nigerians will remain largely static
- The informal economy will get bigger as job losses could mount significantly as business adjusts to their new realities.
- Ongoing development projects must be re-evaluated with revised timelines to ensure success.
- Earnings, revenues, and net earnings projections will contract.
- Cost of production will rise owing to currency devaluation and high import components in the near term.

Any Silver Linings???

The Buhari administration while long on the rhetoric of diversification has been short on action. The administration, through its "Zero Oil Plan" laid out in the Economic Recovery and Growth Plan (ERGP), indicated a commitment to economic diversification. The core of the ERGP framework was focused on getting the economy out of recession, achieving macroeconomic stability and growing revenue through fiscal action. This plan now requires strategic review, the losses caused by Covid19 makes reliance on fiscal tariff increment impractical in the near term. Nigeria must diversify its economy. Oil is a diminishing asset that has been an albatross for too long. The Nigerian population mix makes diversifying a major and worthwhile move that would guarantee a long-deprived renaissance.

Nigeria's GDP Growth : A Short-term Negative

Nigeria's GDP grew by 2.55 percent year on year in the fourth quarter of 2019, its highest quarterly growth since the recession of 2016.

According to the Debt Management Office data, Nigeria's domestic debts account for $55 billion and its foreign debts are pegged at $25.6 billion making Nigeria's total debt $80.6 billion. Nigeria's current Debt to GDP ratio currently stands at 31.35 percent, an increase from 29.78 percent in 2019.

In the light of prevailing projections, we expect a drop in GDP growth from the current rate of 2.55 to a negative GDP growth rate in Q2 and Q3 with a mild recovery by the end of Q4

A PWC estimate projects that Nigeria needs investment rates of at least 26-28% of GDP to achieve growth of 7% and above.

Nigeria requires significant FDI investment to bridge its huge infrastructure deficit.

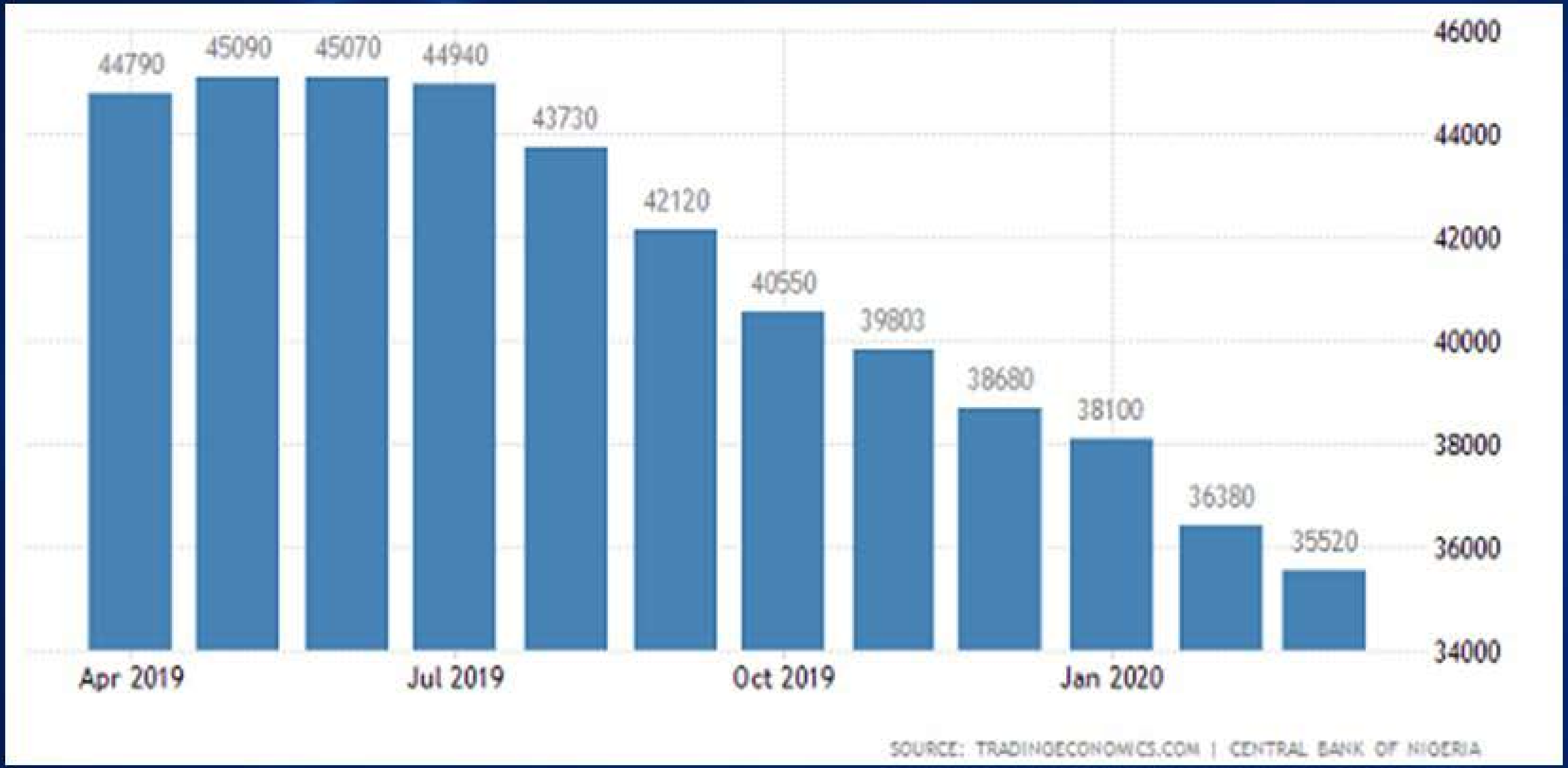
However, it is noteworthy that Nigeria's debt to GDP ratio is the third- best in Africa.

As such, Nigeria can increase its deficit and create a growth stimulus for the real economy.

However, a looming concern is the fact that continued erosion of external reserves defending the Naira has reduced our debt cover to 133x external debt and 23x debt service ratios. Fort Nigeria to trigger and generate new export income from non-oil sources, this must be urgently revisited.

GDP Growth Estimates Showing GDP Growth rate from Jan 2018- Jul 2020 (Octo5 Research)

Nigeria's external reserves as of March 2020 dropped to $35.52 Billion from $36.38 Billion in February of 2020. As revenue receipts from crude remain static, if maintaining a controlled exchange rate remains a core priority, the CBN may resort to the bad policy of forex rationing to mitigate a run on the reserves. The graph below shows the rate of reduction in reserves from April 2019 to February 2020.



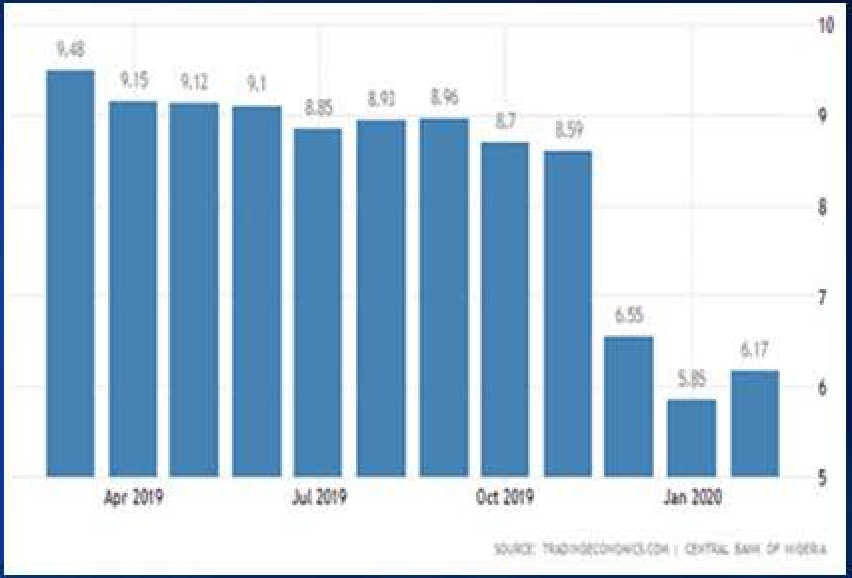
FX Reserves Rate in Nigeria : Source (Trading Economics: 2020)

It is pertinent to note that the downgrade of Nigeria by Fitch was predicated on the risk of default on foreign debt obligations. We believe that the long-term pursuit of a strong local producing base that can export to Africa, makes the case for floating the Naira stronger.

Nigeria's Deposit Interest rate: A Continuing Conundrum

Prior to COVID19 crisis, the Central Bank (CBN) had in its bid to encourage local lending upended the "old normal" in the Nigerian money market. Treasury bills and FGN bonds which were historically a haven with significant returns and low risks compared to other investments were restricted with a reduction in the yields occasioned by the exclusion of individuals and local investors from investing in Open Market Operation (OMO) treasury bills. Simultaneously achievable interest rates on fixed deposits also declined. The loan-to-deposit ratio of 65% minimum required of Commercial banks by the CBN further reinforced the downward trend with rates ranging from 1% to 3%.

The yield on a one-year Treasury note dropped from 15% to under 4% in less than six months, while the yield on long-term government bonds has equally dropped from about 15% to 13 % over the same period. The latest data from CBN indicates that Nigeria's 364-day treasury bills fell to 4.6%, the 90-day treasury bills sold for 2.3%, while the 182-day treasury bills sold for 3.4%. p.a.



Deposit Interest Rate in Nigeria: Source (Trading Economics: 2020)

We believe that this phenomenon is symptomatic of the structural defects in the Nigerian economic construct.

International practice portends that safe bonds ought to have lower yields BUT in Nigeria due to deficient economic production, such bonds represented best yields until recently! However, with the emerging economic climate, we anticipate that rates will trend upwards as the Government seeks to cover its funding gap.

However, it is noteworthy that CBN left its benchmark interest rate unchanged at 13.5% during its March meeting in a bid to contain price pressures.

We note emerging efforts to constrain crowdfunding and the reduction on rates offered by Fintech digital banks such as Cowry Wise and Piggyvest which have also reduced interest rates offered to their depositors, from 10% p.a. to 5-6% p.a.

There has been a slight increase in deposit rates from 5.85% in January 2020 to 6.17% in February 2020 as shown in the table below. :

Treasury Bills Rate in Nigeria: Source Nigeria Galleria (2020)

Current Nigeria Treasury Bills Rates - CBN NTB Primary Auction Results:

Auction date	Marginal Rate		
	91 days	182 days	364 days
March 18, 2020	2.30%	3.40%	4.60
March 11, 2020	2.49%	3.78%	5.30%
February 26, 2020	3.00%	4.00%	5.70%
February 12, 2020	3.00%	4.00%	6.54%
January 29, 2020	3.50%	4.50%	6.50%
January 15, 2020	2.95%	3.95%	5.09%
January 2, 2019	3.50	4.90%	-
December 18, 2019	4.00	5.00%	5.49
November 27, 2019	6.49	7.23%	8.37%
November 13, 2019	7.79	9.00%	10.00%
October 31, 2019	10.80	11.00%	12.94%
October 16, 2019	10.80	11.00%	12.94%
October 02, 2019	11.08	11.60%	13.20%
September 18, 2019	11.10	11.75%	13.30%
September 11, 2019	11.10	11.79%	13.28%

Current Nigeria Bond Rates - FGN Bonds Primary Auction Results

Auction date	Marginal Rate				
	5 years	7 years	10 years	20 years	30 years
March 25, 2019	10.0000%	N/A	12.5000%	N/A	12.9800%
February 19, 2019	8.7500%	N/A	10.7000%	N/A	2.1500%
January 22, 2019	9.8500%	N/A	11.1250%	N/A	12.5600%
December 18, 2019	11.0000%	N/A	12.0000%	N/A	13.0000%
November 20, 2019	12.0000%	N/A	12.9300%	N/A	13.3900%
October 23, 2019	14.0500%	N/A	14.2300%	N/A	14.6000%
September 25, 2019	14.3900%	N/A	14.4300%	N/A	14.6400%

As Governments seek to close funding gaps, we expect an adjustment to existing policies and medium-term bond rates to trend upwards. We do not expect significant improvement to fixed deposit rates.

OUR CONCLUDING THOUGHTS – THE WAY FORWARD

Nigeria has historically squandered several opportunities to use the wealth derived from the Oil boom of past years to develop its infrastructure; build an internationally competitive economic base or improve its healthcare systems. This crisis coupled with the collapse of crude prices is a pivotal inflection opportunity. As at today, Brent Crude (Nigeria's oil type) is on offer at $26.50 without off-take. We expect this situation to remain unchanged for at least six months.

This crisis while of concern, is in our opinion a unique window for Nigeria to finally wean itself off oil. Nigeria's population and fundamentals are aligned to make such a transition viable subject to sound policy initiatives. As the CBN Governor noted in his agenda and implicitly corroborated by the IMF World Economic Outlook report, the following must happen over the next months:

- **Nigeria MUST grow its LOCAL PRODUCING CAPACITY and address the twin challenges of power and infrastructure;**
- **Nigeria MUST devise a sustainable plan to empower and ensure employment for unemployed youths;**
- **To achieve employment, Nigeria MUST focus on VOCATIONAL SKILLS DEVELOPMENT and SUPPORT OF MICRO ENTERPRISES;**
- **The AGRICULTURAL SECTOR, particularly agro-business and food processing subsectors must be given FISCAL AND MONETARY SUPPORT especially top enable mechanization**
- **IN-COUNTRY MANUFACTURING particularly of household consumables MUST BE GIVEN PREFERENTIAL SUPPORT;**
- **FISCAL INCENTIVES must be PROVIDED TO MOTIVATE BACKWARD INTEGRATION AND LOCAL SOURCING;**

FOREX RULES MUST FAVOR RAW MATERIALS IMPORTATION;

- **MACRO-ECONOMIC POLICIES must be focused on creating on POST-OIL ECONOMY; and ENABLEMENT OF THE INFORMAL ECONOMY;**
- **HOUSING SECTOR must become STANDARDIZED; HOME-OWNERSHIP as source of BUILDING INDIVIDUAL COLLATERAL ASSETS is vital for a producing economy; DEVELOPERS must be incentivized to undertake SLUM REGENERATION in conjunction with States;**
- **MEDIUM- TERM BONDS must be encouraged to cover the cost of long-term planning and investments;**

If the Government acts on the outlined areas, the economic shocks would be short-term (twelve months) and the Country enabled to deliver economic prosperity to its large and vibrant population which provides a ready under-served market.

The Lagos State Government is indicative of the rewards when Governments at both Federal and State levels refocus in this manner, there are other States that also provide a stark contrast of consequences of 'living off Federal allocations" which are about to further dwindle.

Nigeria can truly oil-agnostic within a limited period and enter an extended period of national prosperity.

REAL ESTATE SECTOR SPECIFIC POSITIVES – POST COVID

In the near term, businesses in the real estate sector must devise means of preserving value and liquidity, this requires making operations more efficient.

The serial advantages of wholesome community-living highlighted by the pandemic MUST BE HIGHLIGHTED and will enhance industry appeal.

Slum regeneration, social housing are critical partnership opportunities to be explored in partnership with States to avoid future crisis;

The new dictates of social distancing has triggered the emergence of the digital economy and demonstrated the essence of serviced gated communities with broadband data & dedicated power plants. Developers offering such developments, should enjoy continued patronage as home businesses become the norm;

Similarly, the planned pivot towards local production will increase demand for development of SME BUSINESS PARKS; LOGISTIC PARKS and related blended production hubs; Healthcare hubs are a new development opportunity to be explored in partnership with medical practitioners;

The supply chain contractions triggered by the pandemic shutdowns create opportunities for local manufacturers of building materials with increased demand especially with supply gaps from Europe and China, highly likely for at least six months.

For investors, we believe that this is the time to take strong positions, as the prices of properties will largely remain static though the costs of construction would go up as a result of the devaluation.

The CBN Governor's announcements related to housing is particularly great news for developers such as Octo5 that are actively designing and devising Flexi / quasi credit payment models.

In essence, subscribers that key into these schemes and demonstrate a commitment to regular prompt monthly payments will successfully build credit history which is the key criterion for eligibility to enjoy the CBN's planned intervention.

HOUSING SPECIFIC RECOMMENDATIONS

Construction activities have been brought to a halt across various parts of the country due to the aftermath of COVID 19. The Real Estate Sector accounts for 5% of the country's GDP and construction activities are one of the highest employers of labor critical to economic development, second only to agriculture.

- **The Government should grant pioneer status to capable and ready developers to encourage them to create inclusive mixed communities. We believe that this will help create a truly harmonized population with less dichotomy.**
- **Government should grant fiscal and excise reliefs on building materials and equipment to stimulate and encourage local competition and production.**
- **Government through the Nigerian Mortgage Refinance Corporation, National Housing Fund and Federal Mortgage Bank can fund equity payments for homes developed in semi-urban areas and for workers earning below One Hundred Thousand Naira (100,000.00) monthly.**
- **The Federal Government through the CBN should introduce three-year single-digit loans for developers investing in mass affordable homes.**
- **Government should encourage vocational skills development as part of the Nigeria First pivot**; It can be made a conditionality to benefit from its bouquet of incentives that interested developers must work with the Ministry of Labor and Productivity to guarantee a specified minimum number of trained artisans annually. We believe that this last recommendation is capable of creating a minimum of five hundred thousand (500,000) jobs annually purely from housing construction activities in the mass-affordable segment.

The untapped potential in the real estate market in Nigeria with a deficit of over 22 Million is mind-boggling. It is only matched with the inability of previous governments to conclusively address challenges of affordability, infrastructure, and medium-term financing. The need for affordable housing in urban areas is now a critical while student housing remains untapped. The World Bank predicts this deficit would only worsen and grow at a rate of 20% year.

CONCLUDING NOTE

We believe that this Covid19 is a unique inflection point for Nigeria. We believe that Nigeria can successfully make the required transition from oil by adopting a new philosophy of **NIGERIA FIRST** and doing the following:

a. **The Federal Government must pivot towards local production;**

b. **The petroleum subsidy must be legally eliminated as a factor through repeals of PEF and Price Stabilization Regulations;**

c. **The Naira should be allowed to become a fully convertible currency;**

d. **The Federal Government through the CBN should INTEGRATE BOTH the BVN and NIN and use them as primary identifiers for beneficiaries of all planned interventions;**

e. **The National Social Register must be improved to ensure that the Conditional Cash Transfers impact the disabled and highly vulnerable (earning below minimum wage) through digital transfers;**

f. **The NIRSAL Micro Credit initiative must be systemized and dedicated to micro-businesses with automatic access to those meeting the criteria;**

g. **Fiscal and Monetary policies must be realigned to transparently support local production and creation of large scale viable enterprises.**

h. **Youth empowerment and job creation THROUGH active private-sector oriented programs must become key elements of a forward thinking plan.**

This crisis is an opportunity and Government should annex it fully.

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