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Coronanomics and the **Nigerian Economy:** Understanding the Realities of an Impending Recession

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Executive Summary

"The connectedness of industries is positive in good times and a problem when times are difficult." - Professor Hamid Beladi

This report represents a deep dive into the emerging realities of a new world economic order that strips away pretence about the growingly outdated concept of 'globalization'. The COVID-19 pandemic has shown that an integrated and tightly knit world could create lasting and catastrophic problems and that nations may increasingly need to secure domestic supply chains by strong backward domestic integration. The potent 'Asianisation' of global supply chains has started to unravel as North America and Europe revisit their production links to China, the world's second-largest economy. Emerging markets such as Nigeria have also had to take a step back to see how they can protect their economies from imported contagion of both a health and an economic variety.

The report makes a case for a new approach to fiscal and monetary policy management that it calls ***'Fiscmon'*** which represents an integrated approach that sees monetary and fiscal management tied into a forward plan of action to achieve clearly stated objectives within a specified time frame. The report observes that this approach is becoming a global 'normal' as central banks become more assertive in intervening in the push towards domestic economic growth and employment.

Nigeria's resource mindset has stayed trapped in a past that is fast becoming a burden. Within the dynamics of the new COVID-19 inspired economy, fiscal policy is reduced to the task of bean-counting while monetary policy increasingly ascends to the status of the country's premier macroeconomic policy driver. The recent ascendency of monetary authorities has become a global event as new economic management frameworks adopted by nations blur the once solid line between fiscal and monetary policy. As supply chains get disrupted, and consumer spending power tails off, the trilemma of balancing growth, jobs and low inflation has become a Gordian knot.

The Central Bank of Nigeria (CBN) has since 2015 (four years before the COVID-19 pandemic), taken on an increasingly aggressive role towards determining the trajectory of economic growth by implementing a series of intervention strategies designed to spur the growth of the real sector.

Monetary strategies have ranged from concessionary agricultural loan schemes and insurance cover to aviation sector loans and special credit programmes for manufacturers. The outcomes of the various interventions have been stretched from being good to being weak. The most successful intervention of the CBN appears to be its agricultural sector interventions but the aviation and manufacturing initiatives have proved to be more difficult to resolve.

The report looks at the traditional methods of handling macroeconomic disruptions and demonstrates why the old ways of doing things no longer suffice. The new reality of economic management takes off from a set of revised frameworks that underly the ways new economies work. The Investment/Savings and Money supply/Money demand curves or the IS and LM curves of old that have served so well for so long are currently being called to question.

The Hard Knocks of A Trilemma

Going forward, Nigeria will be smack in the middle of a trilemma. The primary problems Nigerian fiscal and monetary policymakers will face in 2020/2021 are the following:

- Negative gross domestic product (GDP) growth (Q1 2020 growth was +1.87%)
- Higher levels of domestic inflation rate (April 2020 inflation rate was +12.34%)
- Foreign exchange instability (N/US$ was N360/US$ in April 2020)

The monetary authority (CBN) is caught between inflation dampening and economic growth. Keeping the Monetary Policy Rate (MPR) at 13.5% and Cash Reserve Ratio (CRR) at 27.5% the central bank has indicated its desire to keep the inflation rate in check but by imposing a loan to deposit ratio (LDR) of 65% in Q3 2020, the Bank showed a preference for economic expansion through credit growth. The requirement of a high MPR and a high LDR appear inherently contradictory. To expand credit the CBN would need to grow money supply and reduce interest rates as well as bank's cash reserve ratios, but in the last twelve quarters, the problem has appeared more persistent. Beyond the obvious difficulty of balancing growth goals with the desire to contain inflation another part of the policy puzzle has been maintaining external balance by keeping the naira strong in foreign exchange markets.

To keep the naira strong in FX markets, the domestic interest rate needs to be high to give a *'risk premium'* that would afford foreign investors the opportunity to gain margins higher than those in more mature economies. The premium would suggest that domestic interest rates would need to stay high at a time the economy also needs to grow. Usually, at this point, the fiscal authorities try to make up for the growth slack by spending more money and creating new jobs. Unfortunately at a time of supply chain disruptions and a health pandemic, the traditional model of growth and non-accelerated inflationary rate of unemployment (NAIRU) breaks down.

The Search for Liquidity

Higher local interest rates would also strengthen the naira but discourage non-oil exports. The COVID-19 new normal of increased economic nationalism and domestic supply chain strengthening could easily be compromised by a stronger naira exchange rate. The fiscal and monetary authorities would need to decide whether an external imbalance in the current account would be a good gambit in the face of rising domestic cost of credit. Some economists, such as Dr. Ayo Teriba see opportunities within and beyond the COVID-19 era to attract international liquidity to grow domestic infrastructure and local production linkages while other economists, such as Dr. Abiodun Adedipe believe that heavy reliance on foreign liquidity could create challenges in the face of unexpected international shocks, thereby importing foreign financial contagion.

Teriba argues that the COVID-19 period could be used for a reset where Nigeria positions itself for growth by unlocking liquidity both domestic and foreign. The economist has argued that liquidity locked in non-core physical assets should be liberated and directed to self-sustaining and self-financing projects. He, for example, argued that prisons built on prime land across the country should be relocated and the underlying value of the real estate should be realized and directed towards projects in which marginal social benefits exceed marginal social costs.

However, a few observers have differed from Teriba, arguing that such a strategy would result in further income inequality with wealthy Nigerians taking over what was previously collective social assets. The point of uneven and worsening wealth distribution in Nigeria is becoming a severe problem that has been made worse by the COVID-19 pandemic. Nevertheless, Teriba's point about reducing the size of the countries domestic and foreign loan books without hurting growth is important and needs to be taken seriously.

In a recent special report on global debt at a time of COVID-19, the London-based, ***The Economist*** magazine's Economic Intelligence Unit (EIU) in May 2020 observed that "The coronavirus pandemic is a game-changer for the global economy. The years 2020 and 2021 will be lost years for growth. The Economist Intelligence Unit does not expect global GDP to recover to pre-coronavirus levels until 2022". But more precisely on the matter of debt, the report goes on to note that "For the most reliable sovereigns, the cost of servicing higher levels of public debt will not be an immediate cause for concern. However, governments will eventually have to confront debt pile-ups. To curb fiscal deficits, governments in most developed countries will not be able to pursue spending cuts".

The report goes further to point out that, "*Austerity absorbs political capital, and there might not be enough left to pursue such a plan, especially given that the last period of belt-tightening was so recent for many countries*".

In sub-Sahara African countries like Nigeria, the report states that *"the newest funding (albeit on concessional terms) will be added to the balance sheets of emerging economies. In addition, the debt-assistance package from the G20 is a delay rather than a write-off; debt repayments will remain outstanding and continue to accrue interest as time passes. Many countries will, therefore, emerge from the current virus-driven economic crisis even more indebted and financially stressed than before. This will raise concerns about their ability to repay external debt in the absence of more comprehensive debt-relief plans. Sovereign defaults might not take place this year, but they are likely among poor countries in the medium-term*".

The Debt Bogey

In this report, the authors note that Nigeria's total debt stock as of December 2019 stood at N27trn. This included N21.7trn owed by the Federal Government and N5.6trn owed by the sub-national governments.

- The Federal Government's debts accounted for 79.59% of the country's total debt, while the states and the federal capital territory (FCT) debt accounted for the remaining 20.41%.
- Foreign debt account for 32.93% of the total debt at N9.02trn, with the Federal Government owing N7.53trn and the state governments owing N1.48trn.
- Domestic debts accounted for the remaining 67.07%. The Federal Government had a domestic debt portfolio of N14.2trn, accounting for 52.09% of total debt stock, while the states owed N4.1trn, 14.99% of the total debt stock.

Nigeria's mounting debt profile has become of concern to a growing number of economic analysts as the financial debt overhang threatens to raise domestic interest rates and cut GDP growth in both 2020 and 2021. The unfolding debt threat is despite the country having about $900bn worth of idle assets in properties and agricultural land. Nigeria's total debt has risen steadily but labour and capital productivity growth have declined. The implication may be that the Federal Government borrowings have not been used for productive purposes. The nation's debt service, after a while, may become a surging burden on the government and its fiscal balance unless liquidity is found from the sale of non-essential public assets and the attraction of foreign direct investment (FDI) and foreign portfolio investment (FPI).

The New Nigerian 'Normal'

The post-COVID-19 'new normal' will mean different things to different people and organizations as humans cope with the reality of COVID-19, business and individual resets will be inevitable as companies and employees make decisions to ensure sustainability. However, new normal will differ across countries and continents. The pre-existing realities of each country and the fiscal headrooms of each government will determine what the new shape of economic and personal management would look like in months to come. While in Noth America, Europe and Asia, citizens would vote for greater digital interaction in Nigeria this would be difficult given the challenges of acquiring computer hardware, the cost of internet access and the intensely communal nature of Nigerian lifestyles.

The report notes that the cost of acquisition of laptop computers, desktop computers, internet modems and other communication facilitators such as a generator to power the business and personal hardware would make remote work and business interaction difficult in a society where 85% of businesses are located in the informal sector of the economy.

Another problem with the concept of the new normal as applies to Nigeria is that there are deep-rooted cultural mores that place a premium on interacting on a person-to-person basis; the village square is more than just a place to congregate, it is a place for dispute resolution, communal planning and an incubator for folklores and the passing of ancient knowledge and wisdom across generations. No digital programme or contraption could substitute for the folksy mystic of the village. Social distancing is a notion simply alien to the realities of rural Nigeria.

Furthermore, social distancing in environments that are heavily dependent on daily -subsistence earnings is impossible. The hustle and bustle of commercial trading cycles from Lagos to Kano and from Portharcourt to Abuja make urban cities the hotbeds of social interaction as they fasten deep commercial and financial bonds that tie everybody together. The large retail markets of Lagos, Kano, Portharcourt, Aba, Onitsha, Kaduna and Jos repel efforts at keeping safe distances. The reality of the market, like a cyclone, overwhelms the expediency of health rules no matter how well-intentioned.

For the Nigerian government to take full benefit of the digital age it must gradually reduce the size of the informal sector and increase the breadth of the formal sector as it ramps up electricity generation and distribution, improves transport infrastructure and supports a significant reduction in the cost of access to the internet. Internet data costs need to fall as micro, small and medium-sized businesses (MSMEs) become more active in the emerging formal sector which will experience consumer spending shifts.

Of Banks and Sandboxes

Nigerian businesses will reinvent themselves but not rapidly. Banks, for example, will trim down staff strength and scale-up technology applications as they reduce brick-and-mortar engagement with customers and move a lot more of their services to digital online platforms. The tearaway success of unstructured supplementary service data (USSD) or “Quick Codes” applications for most tier1 banks in the country indicates the possibility of technology taking away several previous back-office and front-office clerical jobs.

Artificial Intelligence (AI) would likely throw a further layer of a redesign of user experience (UX/UI) into the service delivery mix as banks like Access Bank Plc take advantage of their tech foundries and sandboxes. Access Bank's five-year corporate strategic plan that started in 2017 and is scheduled to end in 2022, was clear about the strategic imperatives of increased technology application and cost-trimming that would come from a slimming-down of staff strength and driving of product delivery efficiency by expanding digital channels. UBA Plc also indicated this strategic push when it 'right-sized' its business at the beginning of the year in January 2020.

The new financial sector 'normal' would possibly lead to the recruitment of a younger generation of employees with tech-savvy and the slow replacement of an older generation of staff with increasingly jaded skill sets. Admittedly, experience in credit appraisal (CAMs) and credit administration would likely attract new job slots but even here, banks would prefer individuals who have upgraded their skills in the use of big data applications (Python, R, Oracle Database, and MS BI) and informatics. Also, bank marketing functions will be more about problem-solving than pretty faces and English prose. For rural transactions, agency banking will begin to gain ascendancy as banks shy away from impressive branch buildings in communities where the likelihood of meeting breakeven margins, in the short or medium-term, is either remote or non-existent. The era of *'competing showmanship'* will likely give way to one of '*scaling bottom lines*'.

The Retail Makeover

The retail sector will likely migrate slowly from a physical consumer interface to more digitally-inspired consumer interaction. **Business-to-Business (B2B)** and **Business-to-Consumer (B2C)** transactions will ride on the shoulders of increased internet data penetration and a fall in the cost of data which could arise as a result of a major reduction in the right-of-way (RoW) costs of laying digital cables across states, the Ekiti State government recently reduced the cost from N4,500.00 per metre to N145.00 per metre. If reductions of this magnitude occur across all states, data costs could come down and improve data access by micro and small-scale businesses.

With increased digital penetration and consumer sensitivity, the retail market will likely see faster expansion in spending, greater product and service choices and superior user experience and interaction.

Lower consumer sensitivity, especially in Nigeria's large informal sector, and low or non-existent digital involvement would keep the economy running along the same old rail track and would perhaps bring the country to a point of repeating the same worn responses to future pandemics with little lessons learned and nothing gained in terms of socioeconomic repositioning.

The realities of the COVID-19 pandemic indicates that societies that will grow stronger from the pandemic experience are those that migrate from non-digital existences with low consumer sensitivity to those with higher digital engagements with increased consumer participation in influencing product or service design, quality and delivery.

The medical and pharmaceutical sectors will need to raise their delivery standards as equipment, research and development and personnel training will all have to be ramped up over a very short time. Indeed medical laboratory technicians will have to be vastly improved with more professionals schooled in the science of lab technology as vengeful viruses remain an ever-present potential global threat. Healthcare insurance will, therefore, also have to be leveraged to achieve wider coverage and more efficient pricing. Life insurance would equally need to be made easier to buy and faster to process as more micro and small scale entrepreneurs are brought into a micro-insurance coverage scheme.

Medical science and its various supply chain interfaces will need to grow into a state of unending preparedness.

The traditional concept of the market place may take time to transition to a new normal, but Nigeria's young national demography (over 60% of the Nigerian population is between the ages of 1 and 35) with growing digital capabilities will result in a gradual reduction in the importance of physical retail platforms. Digital market places will slowly become the go-to platforms for fast-moving consumer goods (FMCGs) and other more durable purchases. How fast the transition occurs depends on the pace of digital infrastructural growth and development.

So are we talking about drones as 'delivery boys'? The concept may not take quickly but over the next half-decade logistics would be more about technology than brawn as human intervention in the E-commerce distribution (or 'fulfilment') value chain would be more about programming than lifting, driving and counting.

The report looked at the opportunities for sub-nationals and how such states could lean into the COVID-19 challenge to turn a bust into a boom. Changing the narrative of threats into one of the opportunities of COVID-19. The report notes, also creates fresh beginning for old industries and new starts for those that never enlisted. The playground has changed but not the game, business is still open for business, albeit, with a different jersey.

Section 2 of the Coronanomics report takes a birdseye view of global economic responses to the coronavirus (COVID-19) pandemic and does a comparison of different approaches to both healthcare interventions and economic policy. The section looks at the impact of the virus on equities, commodities and global fixed income markets.

Section 3 of the report delves into the impact of COVID-19 on large and small-sized African economies. It takes a look at Africa's trade with the world and its trade amongst member nations. The section addresses issues of protectionism and the currency impact of the COVID-19 pandemic and its potential to disrupt world trade and depress African economic growth.

Section 4 breaks down the Nigerian economy in the face of COVID-19 and looks at how the economy has responded to the pandemic and identifies key opportunities beyond the threats. The section deconstructs the economy and takes a look at the country's sub nationals (states) and the opportunities (as well as challenges) open to the subnational entities across the federation with case studies of two states within each of the six geopolitical zones.

Further analysis is done on the differential impact of COVID-19 on Nigeria's business sectors. The sectoral analysis isolates the so-called 'winners' and 'losers'. Amongst the winners are the Agricultural sector (which begins to flourish as the country attempts to build stronger local agricultural value chains), the Fintech sector (which jumps as Programming, Big Data, Artificial Intelligence(AI), and Informatics become core skills that drive commerce and manufacturing), Healthcare sector (which expands as the country re-scales and retools its health sector to cope with present and future shocks), Digital entertainment (which becomes fashionable as consumers get used to social distancing and prefer to receive entertainment content in the privacy and relative safety of their homes), Digital web-based online content (which increases as consumers/readers spend more time on the web than in the past), E-commerce (which grows as e-shops become staples of consumers searching for bargain buys) and Digital online Education (which would likely grow at the speed of thought, will become a blended framework with physical classes).

The losers would likely include Airlines (which would see disrupted cash flows, higher breakeven margins and bumped-up ticket fares leading to lower passenger patronage), Hotels (which could face lower revenues as tourism falls-off and large events move from physical spaces to digital screens), Malls and Restaurants (these places of recreation and high impact social gatherings will wane as the social-distancing culture settles in and people opt for the 'to-go' option for fast food purchases and favour the digital order alternative for groceries and other food items), Cinemas (more people will buy their make-believe entertainment in the form of movies from online platforms rather than go to crowded cinema halls), Sports (sporting events without the gutsy noise of crowds and popcorn may currently appear odd and feel uncomfortable, but the inevitability of smaller attendance at games will cut into revenues and potentially thin down profitability but as people get used to watching matches at home on television sets or computers or even their phones, advertising revenues may begin to pick up well enough to keep games such as football, Tennis, Boxing, Wrestling etc. commercially viable), and Places of worship (religious gatherings will be smaller in numbers as social distancing protocols impose limits on the number of people permitted in confined spaces, nevertheless Tithes, Offerings, *Zakat* and *Sadaqah* can be paid electronically just as sermons can be delivered in digital messages) .

The section explains the organizational changes in strategy and planning that would be needed to address the fluidity in consumer experiences and expectations. Corporations will need to evolve business plans that try to map future consumer needs and not their past preferences. The import of this is that companies would be required to construct several scenario models with attendant probabilities to determine the most likely outcomes.

The Investment Bridge Post

The section briefly looks at both the local private equity and fixed income securities market and highlights the gradual growth in private equities despite the general modest growth outlook for the Nigerian economy in the short-term. In its recent Monetary Policy Committee (MPC) Meeting Communique for May 2020, the Central Bank of Nigeria (CBN) acknowledged that it was pleasantly surprised by the Q1 2020 growth rate of +1.87% published by the National Bureau of Statistics (NBS) and was optimistic that the economy would not contract as severely as earlier expected by the International Monetary Fund (IMF) which expected the economy to contract by -3.4% at the end of 2020.

While the economy may see slower growth in Q2 and Q3 2020, analysts are more enthusiastic about a crawling growth of above +1.00% in the two quarters and a full-year growth of between +1.5 and +2.00% for the full year, which would be less than 2019's growth rate of +2.55%. Because several mature economies will witness negative growth in 2020, the slow-motion growth rate of the Nigerian economy may still seem attractive if oil prices hold up at between US$35 per barrel and US$40 per barrel for the better part of 2020. The expectation is that if prices steady at least US$35 per barrel and output averages 1.7mbp the fiscal deficit would still be manageable and debt servicing less punishing than at a lower international oil price.

A bright oil price outlook in 2020/2021 should see larger quantities of capital importation into Nigeria as private equity managers search for bargain opportunities before a full-scale economic rebound. The report equally notes that Nigeria's debt ratings would likely rise as oil markets strengthen and the international cost of sovereign borrowings would possibly fall. Domestic cost of local Treasury Bills and Bonds would equally fall as Bill and Bond prices rise on the back of the government's stronger fiscal position. In other words, as oil price rises the coupon yields on local Nigerian bonds may begin to fall.

Monetary and Fiscal Policy; The New Heterodoxy

Monetary and fiscal policies were in the past Siamese twins, each working to support efforts of the other and managed by separate authorities, but those were the days before the previous global economic crisis in 2008/2009 caused by the collapse of subprime real estate-linked credit in the United States of America. Since the crisis of 2016/2017 fuelled by a rapid decline in international oil prices, global central banks have been more assertive and taken on broader briefs than merely keeping domestic inflation rates in check.

Since the coronavirus pandemic started to affect major (and minor) global supply chains and disrupt consumer and producer demand in Q1 2020, central banks around the world have attempted to prevent economies from slipping into recessions by expanding the money supply, cutting interest rates and providing easy credit targeted at vulnerable industries such as airlines, automobiles, hotels, restaurants and logistics.

Nigeria's CBN in Q1 2020 has been confronted with a double whammy of a large fiscal deficit and a slowing GDP growth rate. The policy choices have been for the CBN to increase the money supply to spur production as interest rates fall (a choice it has felt uncomfortable pursuing) or cut policy rate and allow the money supply to find its level (a choice it has equally seen as undesirable). With conventional monetary tools seen as inadequate and unfit-for-purpose, the CBN has adopted a new heterodoxy, by urging banks to increase their loan-to-deposit ratios (LDRs), keeping monetary policy rates between the lower and middle double digits (between 14% and 13.5% in 2019 and recently 12.5% in May 2020), regularly intervening in the foreign exchange market to keep the N/US$ exchange rate within a narrow band, previously around N307/US$ and more recently N360/US$. The 'dirty float' intervention stance of the CBN in the FX market has earned the regulator some criticisms, especially from local and international economists who believe that the monetary authority should allow for a wider float and an in-built correction stabilizer to the current account (CA) of the country's balance of payment.

Concerned about the wider inflationary consequence of a free float of the domestic currency, the country's monetary authority has refused to be nudged towards higher exchange rates, preferring to adopt the unconventional framework of a managed float with multiple-windows, combined with direct intervention in respect of concessionary lending to select economic sectors. The Bank has supported this with microeconomic interventions in the local credit market by adjusting bank loan-to-deposit ratios (LDRs) first to 60% by September 2019 and then to 65% by December 2019. The banking sector regulator has recently reduced the rates on concessionary intervention fund loans from 9% in 2019 to 5% in Q1 2020 for one year effective March 2020. The Central Bank has tried to propel growth in sectors such as agriculture, aviation, entertainment and manufacturing but so far the intervention efforts have seemingly yet to yield a sustainable outcome to support near-term aspirations of GDP growth rates above the national population growth of +2.7%.

Before the advent of COVID-19, the CBN's heterodoxy appeared to have been working like a charm with the N/US$ exchange rate remaining stable and inflation rate trending downwards as GDP grew at over +2.5% in 2019 (notably +2.3% in Q4 2019 as against +1.8% in Q4 2018). But since the emergence of the pandemic the resilience of the regulator's approach to macroeconomic management is tearing at the seams with pressure on foreign reserves, rising domestic interest rates and a widening gap in the country's fiscal balance.

Orthodoxy may have had its limits but heterodoxy is not without its baggage, or so it seems.

How Fareth The Household?

Households under the COVID-19 new normal have not fared well. The total and partial lockdowns of the economy have taken their toll on families as more companies lay off workers as supply chains become difficult to fix in the short-term. The disruption to production raw material, industrial replacement supplies and the stalling of logistics has meant that many companies have found it difficult to sustain operations with a pre-COVID-19 level of staffing. Even financial institutions such as banks have had to trim down operations as some branches have had to close to abide by the protocols set for social distancing.

Households have also seen costs double and in some cases quadruple making nonsense of the recent 2019 upward adjustment in the national minimum wage from N18,000 per month to N30,000 per month, spiralling retail prices have decimated households real take-home incomes. As bad as this may seem, many households simply do not have take-home pays anymore as company's go under and jobs get lost as lockdowns either persist or are mildly modified.

Section 5 of the report reflects the closing thoughts of the writers concerning how the coronavirus and declining oil prices will affect both the Nigerian and global economy between 2020 and 2021. The various scenarios range from the obscure and dark to the simple and bright. The most likely path seems somewhere in-between.

Section 6 provides a treasure trove of references and additional reading material to build a robust body of knowledge on the impact of COVID-19 and oil price declines in 2020 on global and local economies. The section enables the user of the report to explore related material that adds context to issues that could not be dealt with in detail by the report as a result of the constraint of space and time. The references enable the reader to go to **Proshare's** market place page and unearth nuggets of actionable business and financial market intelligence data.

Section 7 advises readers on how the report could be used for strategic personal and business decision-making without violating relevant and applicable copyright guidelines.

Coronanomics And The Global Economy

Coronanomics and the Global Economy

Introduction

Easing Out of A Crisis

As far as viral pandemics go one seems to occur every hundred years. In 1720 the world saw a massive plague that wiped out more than 100,000 French men, women and children (the great plague of Marseille). In 1889, another viral pandemic occurred called the great Flu pandemic in Europe killing over a million people. In 1918, the Spanish Flu became one of the modern world's most potent pandemics infecting about 500m people from the South Seas to the North Pole. Roughly 100m people died from the virus, which despite its name did not start in Spain. Since the turn of the century, the world has passed through a series of minor epidemics ranging from the avian flu in 1957 to the AIDS pandemic and epidemic in 1981 to the H1N1 Swine Flu pandemic in 2009 and the Ebola epidemic in 2014.

The emergence of the novel coronavirus or COVID-19 that was identified to have started in the city of Wuhan China in December 2019 has since led to panic, uncertainty and supply-chain disruptions that have negatively affected global markets in 2020. Not only did the virus affect global markets, but it also resulted in the loss of lives across. Available statistics suggest that all continents across the globe except Antarctica, have reported at least one case of the virus.

The rapid rate of spread of the virus has led to many countries forging differently calibrated policies to cushion the impact of economic contagion and to slow down the drop in demand and production. The Central Banks of most advanced nations like the USA Federal Reserve, the Bank of England, and the Peoples Bank of China etc. have announced interest rate cuts to strengthen liquidity in both their money and capital markets. Although economic experts have argued that cutting rates in itself has limited effectiveness as it would not likely tackle the main problem of production and service supply chain disruptions and the implosion of product and service sector demand, most Central Banks have seen rate cuts as the first instinctive policy of choice. To further strengthen the US economy and complement the easing of its monetary policy, the country's President, Donald Trump, signed a US$484bn coronavirus relief bill to boost small businesses, hospitals and Covid-19 testing (as at April 24, 2020).

The coronavirus (COVID-19) has had damaging impact on a variety of economic sectors ranging from manufacturing, travel and tourism, to sports, automobile and the healthcare sector. It has also created uncertainty in global stocks and commodities markets as investors have retained a sober outlook steeped in pessimism over global growth prospects in 2020, and perhaps 2021.

The restrictions on the movement of goods and labour have had adverse effect on top manufacturing countries such as China, the USA (the new epicentre of the disease), Germany and South-Korea. USA, Germany and South Korea recorded a decline in their PMI in April 2020, caused mainly by disruptions to global and domestic supply chains. In an effort at curbing the spread of the virus large gatherings at sporting events such as Football matches, NBA and Formula one competitions, have either been postponed or suspended indefinitely in countries such as Italy, England, the USA etc.

Several nations globally are on selective lockdown such as the US while some nations are beginning to ease the lockdowns such as China to boost economic recovery, this is to prevent further spread of the virus while many airlines have restricted travels to areas with large incidences of the virus. International Air Transport Association forecast that airlines globally will lose passenger revenues of up to US$113bn in 2020.

The Oil market has not been left out of the crisis. Since the outbreak of COVID-19, there has been a cascading fall in oil demand within China and the Asia Pacific region, which collectively represent one of the largest blocs of global crude oil importers. The fall in oil demand has resulted in the excess global supply of the product and led to an undisguised global battle for market share by the largest oil producers in the world namely; Saudi Arabia and Russia. To bolster oil prices amid falling oil demand, oil-exporting nations under the umbrellas of OPEC and OPEC+ discussed the possibility of cutting oil supply a notch or two further but the effort was sideswiped by Russia's refusal to agree to steeper cuts than those that had been agreed at an earlier meeting in the year. But the initially agreed cut in oil supply by 10 million barrels per day, had yet to make any significant impact in reversing the downward trend in international oil prices. Indeed forward contracts saw prices falling below US$1 per barrel as the world suddenly found itself swimming in an ocean of oil that could not be stored, thereby creating a hitherto unthinkable situation of forwarding traders not being able to close out their deals and forcing them to think of taking and storing the underlying physical oil assets. However, we are seeing a gradual reversal of the oil price, with OPEC and OPEC+ coming to an agreement and economies opening up gradually, thereby increasing the demand in oil inversely affecting the price of oil. (as on 22nd May the price of oil was $35 per barrel.

The Nasty Economics of a Deadly Virus

With demand falling off as buyers of goods in China and the rest of Asia hold back from new orders, production cycles have been scaled back as manufacturers steer away from increasing their inventories and engaging in new spending on raw and semi-processed materials (*see illustration 1*).

The new world with and after the COVID-19 will be one of Just-In-Time (JIT) manufacturing processes, greater production efficiency with fewer blue-collar workers and more machine applications. White-collar jobs will equally become thinner as artificial intelligence (AI), Big Data, and Informatics take over the old roles of front office and middle-level managers. The whole labour market will be thrown into a new phase of wage renegotiations, reimagined and reframed job descriptions, workday /work hour redefinition, and skill requirement resets.

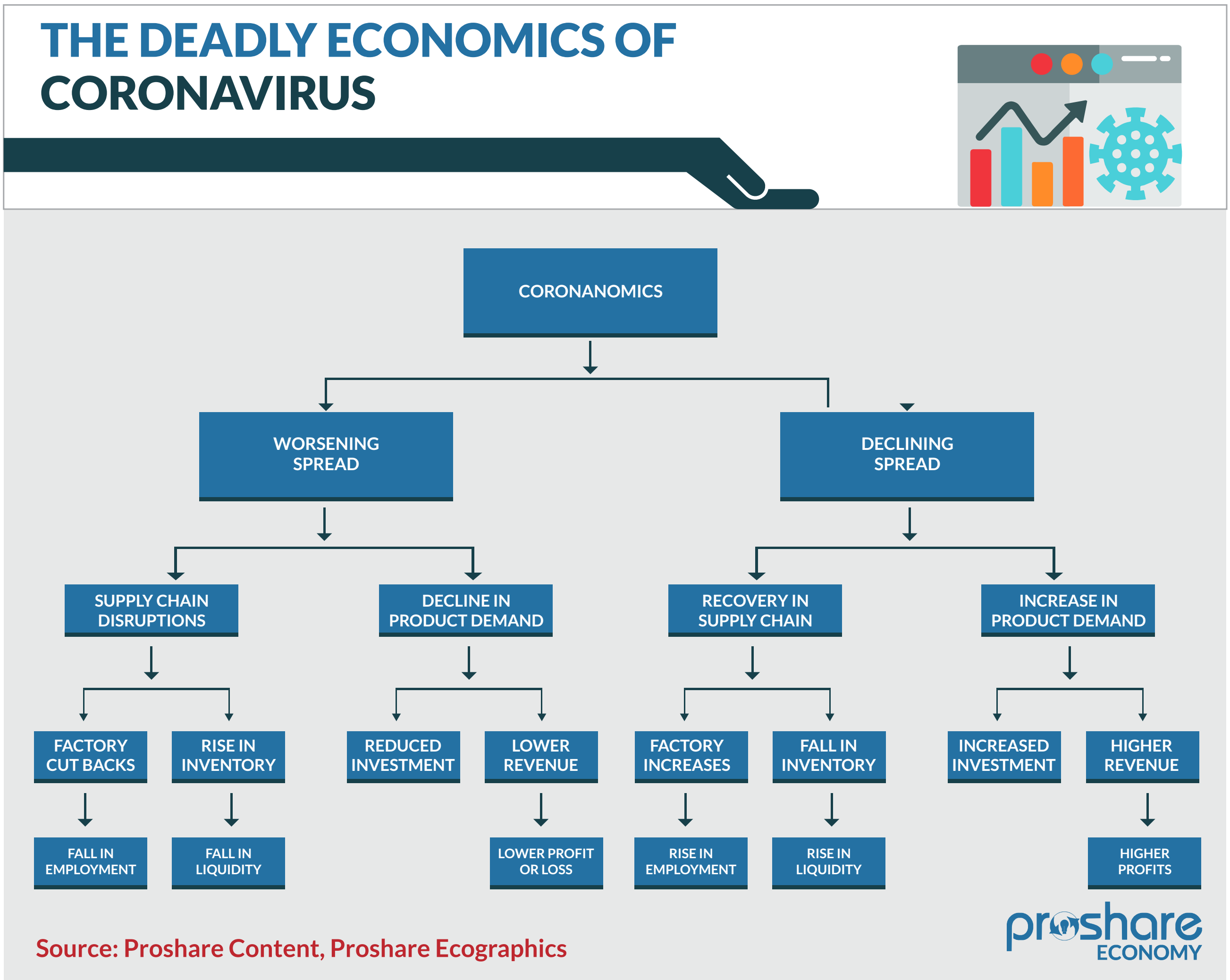
The digital workplace will become the new normal and physical distancing will become the new way of life and not, as currently perceived, an aberration. The redesign of work will ensure that the next global pandemic will meet a much more prepared labour market. The new economic order would be governed by data, algorithms and programming. Data gathering, organizing, analyzing, interpreting, and presentation for decision-making will be amongst the most valued skills on the planet.

Writing codes that drive applications will be perhaps more vital than being a petroleum engineer, even though, contrary to present narratives, oil will still be a major industry for years to come as the world continues to guzzle on black fuel and gas.

But back office book-keeping functions will disappear as software applications that learn-on-the-job and build recursive algorithms prepare routine accounting statements customized for activities of each type of business. Tax obligations, fees and fines and other statutory payments would be instantly calculated with alerts integrated into the reporting framework to keep companies abreast of due statutory bills. Indeed, AI (based on agreed budget milestones) could prepare a business plan for the year and manage its implementation and suggest strategies for keeping the operational activities on course.

The economics of the emerging business landscape places data at the centre of corporate competitiveness and organizational sustainability. Banks and other lending institutions presently have more data than ever before on individuals and their credit patterns/histories to provide AI with the raw information needed to assess creditworthiness and the inherent risk of default per customer and by extension per economic sector. ***Digital platforms such as debtors.africa.com will be plugged and played as it performs an increasingly important function of filtering delinquent debtors and providing lending institutions deeper insights into specific debtor characteristics and histories. To be sure, the emerging state of the loan payment practice for each debtor or group of debtors across the African continent will be reframed in favour of creditors.***

Illustration 1: ***The Deadly Economics of a Virus***



Sector Gainers and Losers

Some of the top sectors likely to record gains during the pandemic include but are not limited to the following; e-commerce, healthcare/pharmaceuticals, online entertainment, Info-tech, FinTech and online gaming businesses. While auto-industries, tourism/hospitality, airlines, small and medium enterprises, the entertainment industry and electronics sector are likely to record a fall in patronage and a reversal of profits and a stumble into operating losses (*see Illustration 2*).

Despite the increase in the spread of the virus, some technology companies such as Facebook, Microsoft, Zoom and Google recorded growths in their Q1 2020 earnings. Facebook recorded a revenue of $17.74bn representing a rise of +18% from $15.08bn posted in Q1 2019, following a similar pattern Microsoft generated $35bn in revenue, which was up +15% from the previous year, Zoom also recorded $622m in total revenue, up by +88% year-on-year.

Illustration 2: Sectors Gainers and Losers

SECTOR GAINERS AND LOSERS

Gainers	Losers
E-commerce - Alibaba, JD.com	Auto industries - Hyandai, Toyota, General Motors
Health - Clorox, Purell, Lysol	Tourism/hospitality - Intrepid travel, Globus, Topdeck
Online Entertainment- Youtube, Netflix	Airlines - British airlines, Ethiopian airlines, Delta airlines
Info-Tech - Zoom Video Communication Inc., Google	Small and Medium Enterprises-Retail Shopping
FinTech-Paylink	Entertainment Industry
Online gaming operations- Tencent, Netease and CMGE	Electronics - Sony, Samsung, Apple

Source: CNN, Proshare Research

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Countries with the Highest Reported Cases of Coronavirus

USA is now the epicentre of the disease overtaking Italy and China as the country with the highest number of confirmed cases of COVID-19 infections with over 1.71m people infected as of 26th May 2020 with deaths totalling 99,909. The top five countries with the highest number of confirmed cases are the USA, Spain, Italy, United Kingdom and Russia (*see Table 1*).

Table 1: ***Countries With The highest Number of Confirmed Cases and The Death Toll***

COUNTRIES WITH THE HIGHEST NUMBER OF CONFIRMED CASES AND DEATH TOLL

Countries	Number of Confirmed Cases	Death toll	Total Recovered	Active cases
USA	1,709,467	99,909	465,673	1,143,885
Brazil	376,669	23,522	153,833	199,314
Russia	362,342	3,807	131,129	227,406
Spain	282,480	26,837	196,958	58,685
UK	265,227	37,048	N/A	N/A
Italy	230,158	32,877	141,981	55,300
France	182,942	28,432	65,199	89,311
Germany	181,062	8,448	162,000	10,614
Turkey	157,814	4,369	120,015	33,430
India	147,144	4,197	61,923	81,024

Source: Worldometer, Proshare Research as at May 26, 2020

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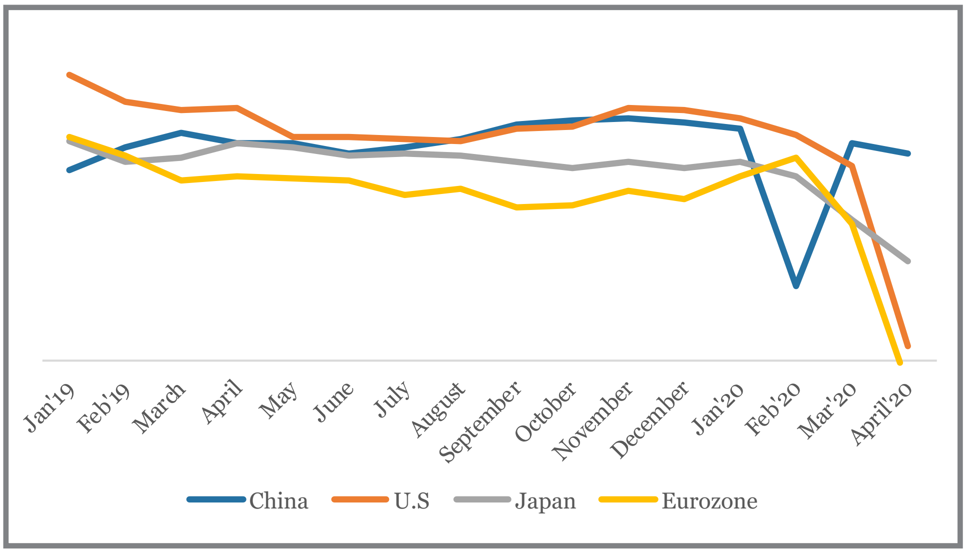
The Global Economy Spinning on A Wishing Wheel

There have been increasing concerns among investors over a possible drop in investment returns in 2020 as a variety of industries find earnings disappear as supply chains break down partially or completely. Top economies like China, the USA, the Eurozone, Japan and South Korea have been hit hard by the COVID-19 pandemic which has triggered problems of fiscal balance (rising public debt), unplanned monetary expansion, economic shut-ins and falling foreign exchange incomes as international trade shrinks.

Manufacturing Activity in Major Economies

US, China Japan and the Eurozone all recorded declines and contractions in manufacturing activities in April. The decline and contraction are as a result of the continuous spread of the pandemic coronavirus. The lockdown imposed on US, China, Eurozone and Japanese economy to prevent and curb the further spread of the virus harmed manufacturing activities. The US, China, Japanese and Eurozone Purchasing Managers' index declined to 36.1%, 49.4%, 41.9% and 33.4% respectively indicating a contraction in manufacturing activities (*see Chart 1*).

Chart 1: Manufacturing Activity In Major Economies

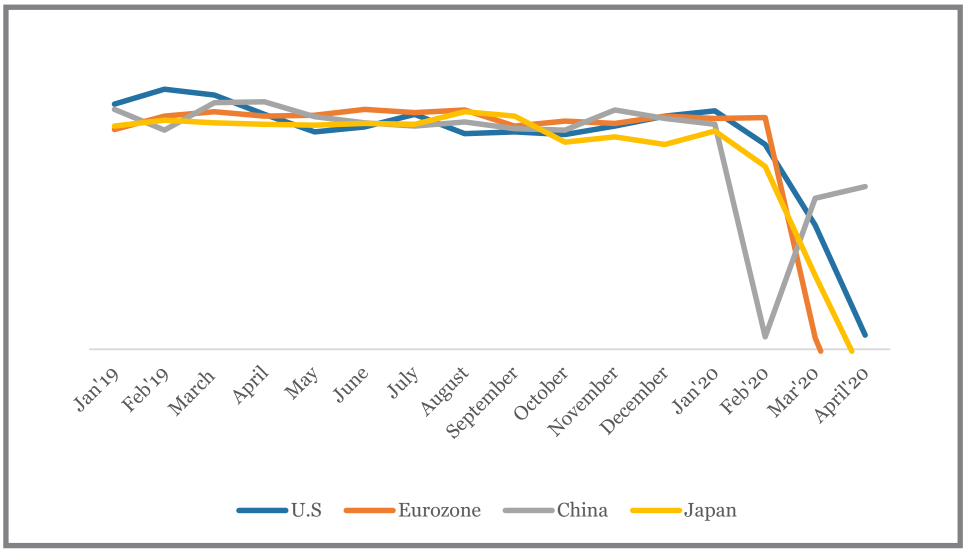


Source: Caixin, au Jibun Bank, IHS Markit, Cnbc

Services Activity in Major Economies

US, Eurozone and Japan recorded a decline in their services activity in April while China recorded an improvement in its services PMI (from March). The outbreak and the spread of the pandemic coronavirus in the world led to a restriction in movement and reduction in consumer spending which hurt retail stores, restaurants and the aviation business.

Chart 2: Services Activity in Major Economies



Source: Caixin, au Jibun Bank, IHS Markit, Cnbc

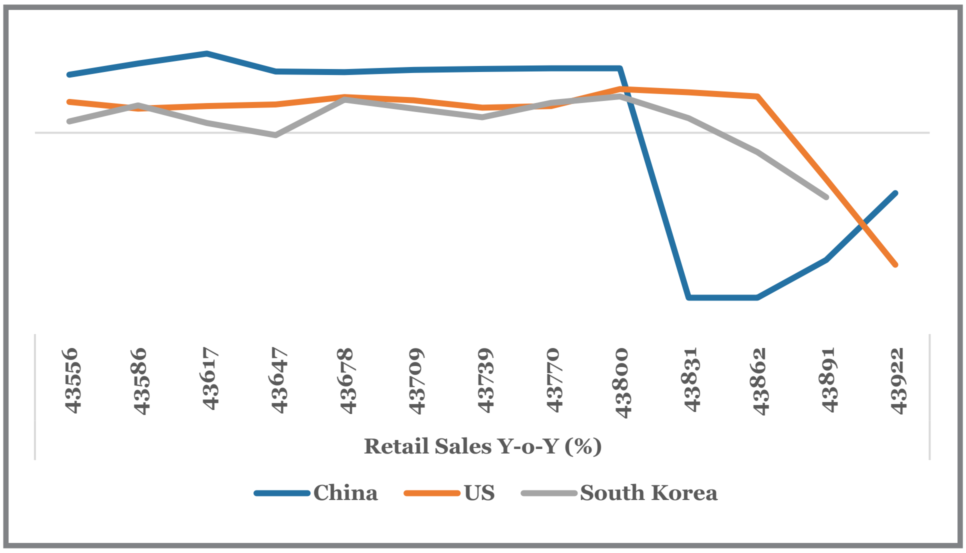
US, Eurozone and Japan recorded a contraction in services PMI to 26.7%, 12.0% and 21.5% respectively in April from 39.8%, 26.4% and 33.8% in March 2020. A major reason attributable to the contraction in US service PMI is the reduction in new business from abroad as customers held back from placing orders amid global economic uncertainty and the coronavirus outbreak. While the contraction in the Japanese services PMI was attributed to weak demand both at home and abroad.

The Chinese economy recorded an improvement in its services PMI to 43% in March from 26.5% in February 2020 and 44.4% in April 2020. This was attributable to the gradual recovery of the Chinese economy and the easing of the earlier January 2020 lockdown (*see Chart 2*).

Retail Sales of Major Economies

China, US and South Korea recorded sharp declines in retail sales as lockdown measures during the pandemic forced many stores to be shut and kept consumers at home. A surge in online sales reported by some retailers, such as Amazon, failed to stem an overall decline in retail sales. Economists warned that consumers may not resume spending even after lockdown measures are lifted. That's evident in the "slow improvement" in retail sales in China even after the country allowed the gradual reopening of businesses. In April 2020, China and US's retail sales plunged by -16.40%, and -7.50 respectively, no data yet for South Korea for April (*see Chart 3*).

***Chart 3:* Dip in Retail Sales Y-o-Y (%)**



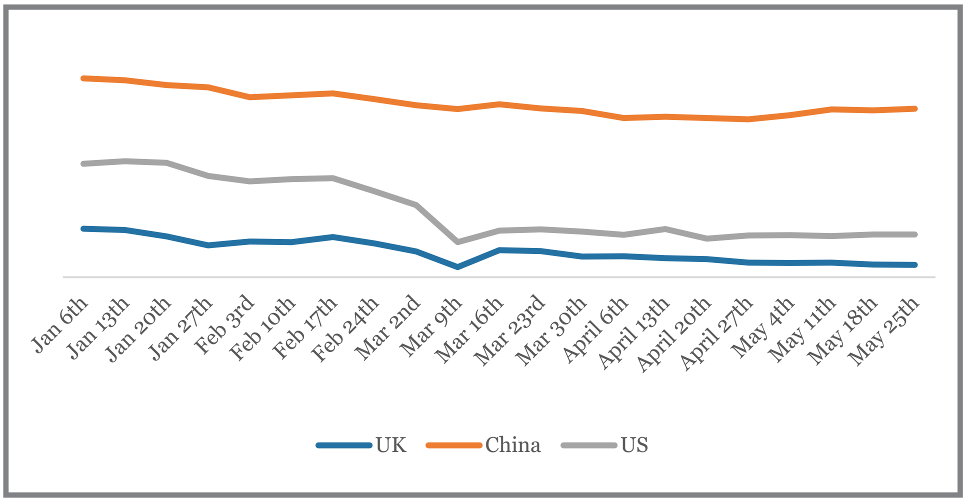
Source: US Census Bureau, National Bureau of Statistics of China, Refinitiv

Movements in 10 years government bond yields of major economies

There has been an increase in apprehension over the increasing spread of the coronavirus. Panic amongst investors has driven investors to bid up bond-prices, resulting in yields in major economies inching lower. Investors tend to flee towards government-backed assets because they are considered safe havens in times of market volatility and uncertainty.

Major economies have recorded a fall in their bond yields in recent times mainly attributed to the spread of the coronavirus (*see Chart 4*).

Chart 4: ***Movements in 10 Years Government Bond Yields of Major Economies***

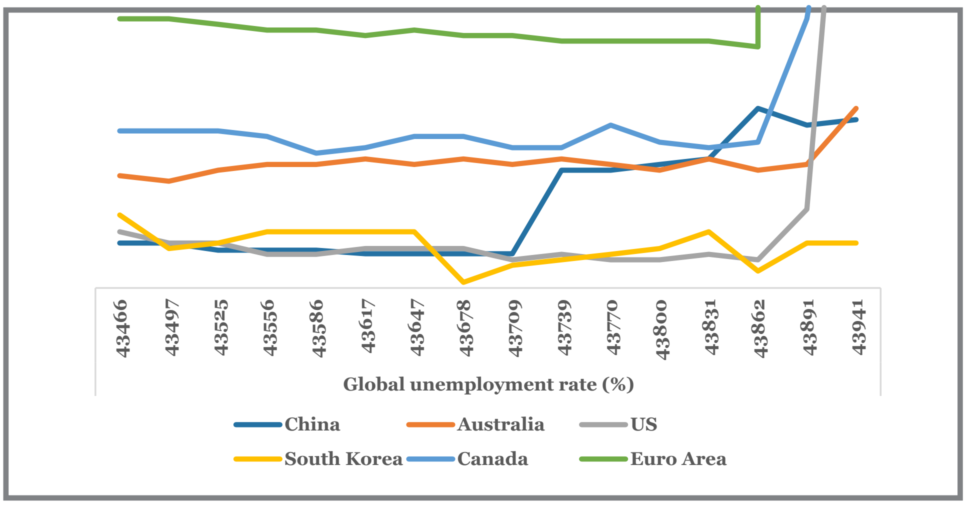


Source: Proshare Research, World Government Bonds

Global Unemployment Rate

Major economies recorded an uptick in the unemployment rate attributed to the spread of the coronavirus in the world. According to the US Bureau of Labour Statistics, America's unemployment rate rose to 14.7% in April, as more than 26 million jobs were lost over the last five weeks. China, Australia, South Korea and Canada also recorded a rise in unemployment by 6.0%, 6.20%, 3.8% and 13.0% respectively in April 2020 (*see Chart 5*).

Chart 5: ***Global Unemployment Rate (%)***



Source: US Bureau of Labor Statistics, National Bureau of Statistics of China, Deutsche Bundesbank, Australian Bureau of Statistics, Statistics Korea, Refinitiv.

Aviation

The world is facing unprecedented global health, social and economic emergency with the COVID-19 pandemic. Rising to such challenges is nothing new to airlines, border aviation and the travel sector. Given the high uncertainties, prospects for the year have been downgraded several times since the outbreak.

Taking into consideration the past market trends, it shows that between five- and seven years' worth of growth would be lost because of coronavirus. With the introduction of travel restrictions across the world, Q1 2020 shows a decline of 22% in international tourist arrivals, with arrivals in March down by 57% following the start of the lockdown in many countries, widespread travel restrictions and the shutdown of airports and national borders, this represents a loss of 67 million international arrivals in the first quarter of 2020 compared to the same period of last year.

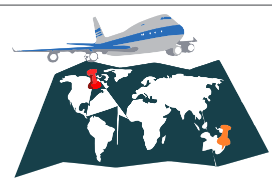
Many millions of jobs in the industry are at risk of being lost, airlines are filing for bankruptcy or at the risk of filing for bankruptcy, such airlines include LATAM Airlines Group, Virgin Australia and Avianca Holdings, to mention a few. The hotel and hospitality industry is also facing similar challenges, the industry would lose 20% of its turnover (*see Chart 6*).

Chart 6: ***International Tourist Arrivals***

Table 2: Countries and Number of Tourist Per annum

Table 2: ***Countries and Number of Tourist Per annum***

COUNTRIES AND NUMBER OF TOURIST PER ANNUM



Country	No. Of Tourist Per Annum (million)
France	89
Spain	83
USA	80
China	63
Italy	62
Turkey	46
Mexico	41
Germany	39
Thailand	38
UK	36

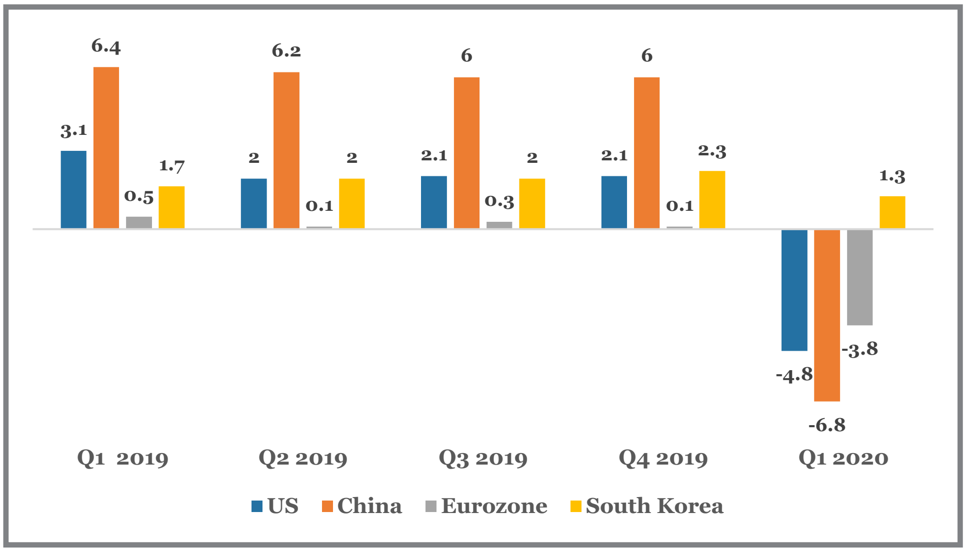
Source: Proshare Research

Travel and tourism provide about 319 million jobs in the world and generates about 10.4% of the world GDP, the lockdown and restrictions caused by a coronavirus in these countries would have a dire impact on the tourism industry in the world.

Major Economies GDP

As the COVID-19 pandemic continues to spread, major economies such as the USA, China, Europe and South Korea have all reported slow GDP growths or contractions in their Q1 2020 numbers. The USA, China, Western Europe and South Korea reported growths of -4.8%, -6.8%, -3.8% and +1.3%. The contractions could be attributed to the temporary lockdowns of the various economies designed to curb further spread of the virus (*see Chart 7*).

Chart 7: ***Major Economies GDP Dip in Q1 2020***



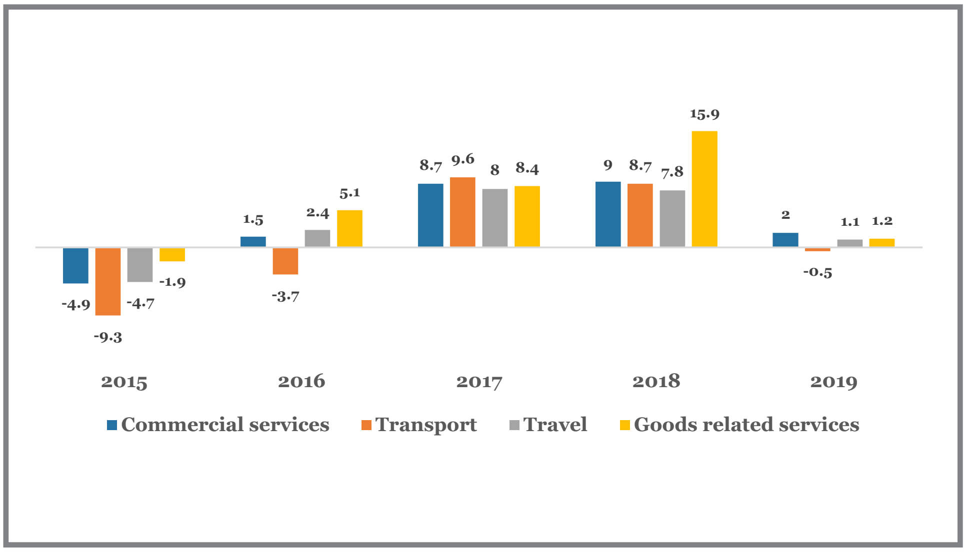
Source: Trading Economics, Proshare Research

Commercial Services Export

Services are not subject to tariffs in the way that goods are, world commercial services trade still slowed sharply in value terms in 2019 after recording strong increases in the previous two years (*see Chart 8*). Chart 7 shows growth in the dollar value of services exports by major categories. The category of "Goods related services" recorded the strongest growth with a +1.2% increase in 2019, followed by travel at +1.1%. A -0.5% drop in the value of transport service may have reflected weakness in goods trade as a result of trade frictions between major economies.

Given the spread of the coronavirus across various continents and countries, commercial services export is projected to decline significantly in 2020.

Chart 8: ***Growth in the value of Commercial Services Exports by Category, 2015-2019***

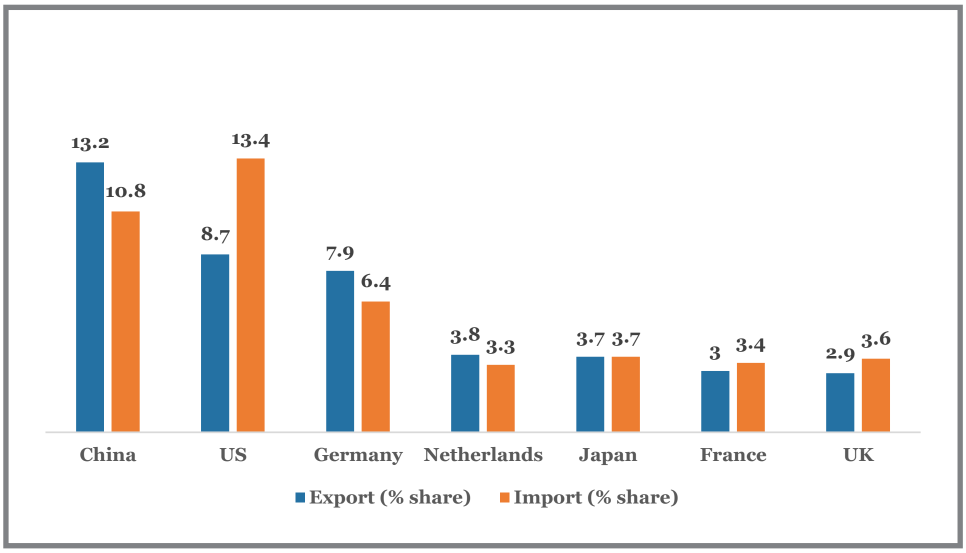


Source: WTO Secretariat, UNCTAD and ITC

Exporters and Importers in the World Merchandise Trade

China, the USA and Germany were the top three exporters in world merchandise trade, accounting for 13.2%, 8.7% and 7.9% respectively of the world's merchandise export trade. While the top three leading importers of world merchandise trade in 2019 were the USA, China and Germany accounting for 13.4%, 10.8% and 6.4% respectively of the world's import merchandise in 2019 (*see Chart 9*). A decline in economic activities in these major trading economies would hurt global trade.

***Chart 9:* Leading Exporters and importers In the World Merchandise Trade, 2019**

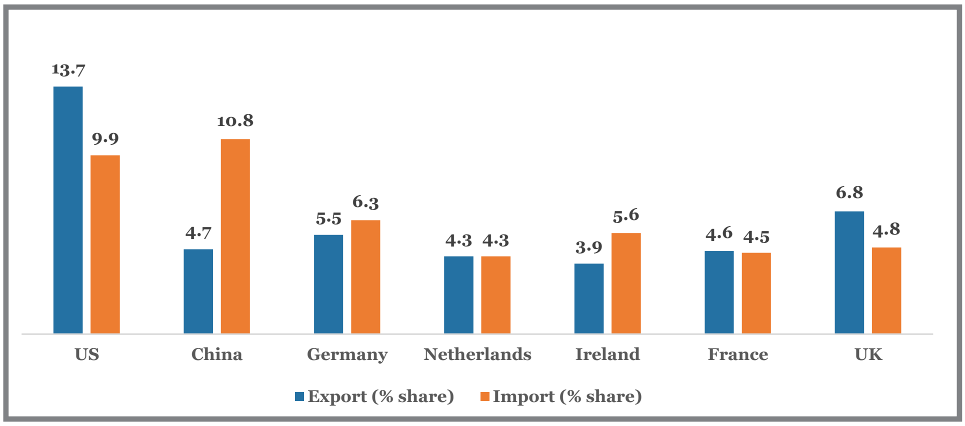


Source: WTO and UNCTAD

Leading Exporters and Importers of Commercial Services

China, the USA and Germany were the top three exporters in world merchandise trade, accounting for 13.The USA, the UK and Germany were the top three leading exporters of commercial activities in 2019, accounting for 13.7%, 6.8% and 5.5% respectively of the world's commercial activities. While the top three leading importers of world commercial services in 2019 were China, the USA and Germany accounting for 10.8%, 9.9% and 6.3% respectively of the world's commercial services in 2019 (*see Chart 10*). A decline in economic activities in these major trading economies will harm global trade.

***Chart 10:* Leading Exporters and Importers of Commercial Services, 2019 (%)**



Source: WTO and UNCTAD

Table 3: Merchandise trade volume and real GDP, 2018-20211

MERCHANDISE TRADE VOLUME AND REAL GDP, 2018-2021[1]

	Historical		Optimistic scenario		Pessimistic scenario	
	2018	2019	2020	2021	2020	2021
Volume of world mechandise trade[2]	2.9	-0.1	-12.9	21.3	-31.9	24
Exports						
North America	3.8	1	-17.1	23.7	-40.9	19.3
South and Central America	0.1	-2.2	-12.9	18.6	-31.3	14.3
Europe	2	0.1	-12.2	20.5	-32.8	22.7
Asia	3.7	0.9	-13.5	24.9	-36.2	36.1
Other regions[3]	0.7	-2.9	-8	8.6	-8	9.3
Imports						
North America	5.2	-0.4	-14.5	27.3	-33.8	29.5
South and Central America	5.3	-2.1	-22.2	23.2	-43.8	19.5
Europe	1.5	0.5	-10.3	19.9	-28.9	24.5
Asia	4.9	-0.6	-11.8	23.1	-31.5	25.1
Other regions[3]	0.3	1.5	-10	13.6	-22.6	18
Real GDP at market exchange rates	2.9	2.3	-2.5	7.4	-8.8	5.9
North America	2.8	2.2	-3.3	7.2	-9	5.1
South and Central America	0.6	0.1	-4.3	6.5	-11	4.8
Europe	2.1	1.3	-3.5	6.6	-10.8	5.4
Asia	4.2	3.9	-0.7	8.7	-7.1	7.4
Other regions[3]	2.1	1.7	-1.5	6	-6.7	5.2

Source: WTO Secretariat for trade and consensus estimates for historical GDP. Projections for GDP based on scenarios simulated with WTO Global Trade Model.

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Figures for 2020 and 2021 are projections.
1. Average of exports and imports.
2.Other regions comprise Africa, the Middle East and Commonwealth of Independent States (CIS) including associate and former member States. (see Table 3)

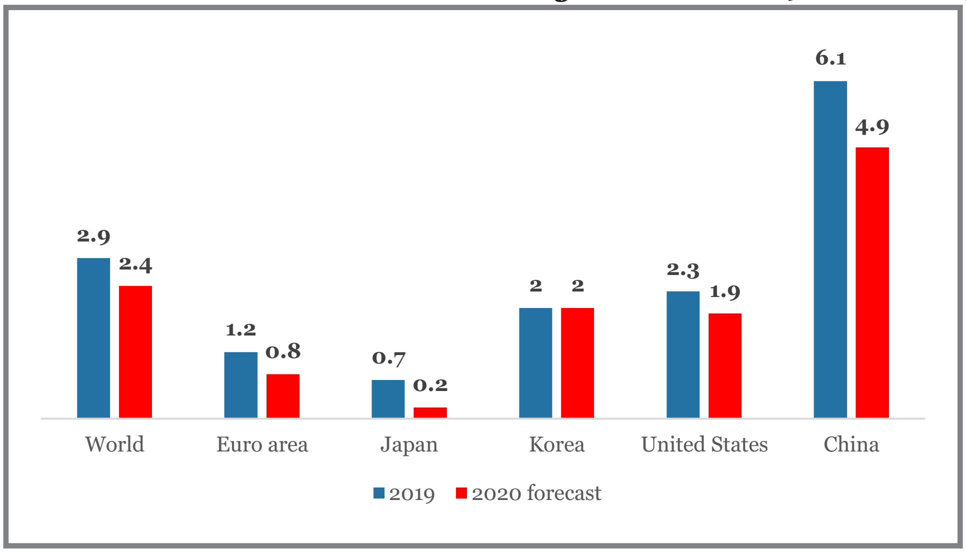
Global trade, which was already slowing in 2019, is expected to be weighed down further in 2020. World merchandise trade is set to plummet by between 13 and 32% in 2020 due to the COVID-19 pandemic. A 2021 recovery in trade is expected on the duration of the outbreak and the effectiveness of the policy response. Nearly all regions will suffer double-digit declines in trade volumes in 2020, with exports from North America and Asia hit hardest. Trade will likely fall steeper in sectors with complex value chains, particularly electronics and automotive products. Services trade may be most directly affected by COVID-19 through transport and travel restrictions. Merchandise trade volume already fell by 0.1% in 2019, weighed down by trade tensions and slowing economic growth. The dollar value of world merchandise exports in 2019 fell by 3% to US$ 18.89 trillion (*see Table 3*).

Global Recession Looms

The Organization of Economic Co-operation and Development (OECD) in its most recent report dated March 2, 2020, downgraded its 2020 real GP growth projections for almost all economies. The reason for its downgrade was the increasing spread of coronavirus across continents. The Chinese economy where the virus initially broke out recorded the highest downgrade by -0.8% as its new forecast growth was put at +4.9% from a previous forecast rate of +5.7% (*see Chart 11*).

The Global economy is interconnected, with China being a major lever of global output, trade, tourism and commodities. The relative size of the Chinese economy in global trade makes the global economy susceptible to negative spill-offs from the Chinese economy.

Chart 11: OECD Global economic growth in 2019 and 2020f



Source: OECD, Proshare Research

Table 4: OECD Real GDP Growth (%)

Table 4: ***OECD Real GDP Growth (%)***

REAL GDP GROWTH

	YEAR-ON-YEAR % CHANGE		
	2019	2020 Forecast	2021 Forecast
World	2.9	2.4	3.3
G20	3.1	2.7	3.5
Australia	1.7	1.8	2.6
Canada	1.6	1.3	1.9
Euro area	1.2	0.8	1.2
Germany	0.6	0.3	0.9
France	1.3	0.9	1.4
Italy	0.2	0	0.5
Japan	0.7	0.2	0.7
Korea	2	2	2.3
Mexico	-0.1	0.7	1.4
Turkey	0.9	2.7	3.3
United Kingdom	1.4	0.8	0.8
United States	2.3	1.9	2.1
Argentina	-2.7	-2	0.7
Brazil	1.1	1.7	1.8
China	6.1	4.9	6.4
India	4.9	5.1	5.6
Indonesia	5	4.8	5.1
Russia	1	1.2	1.3
Saudi Arabia	0	1.4	1.9
South Africa	0.3	0.6	1

Source: OECD Interim Economic Outlook Forecasts,
2 March 2020

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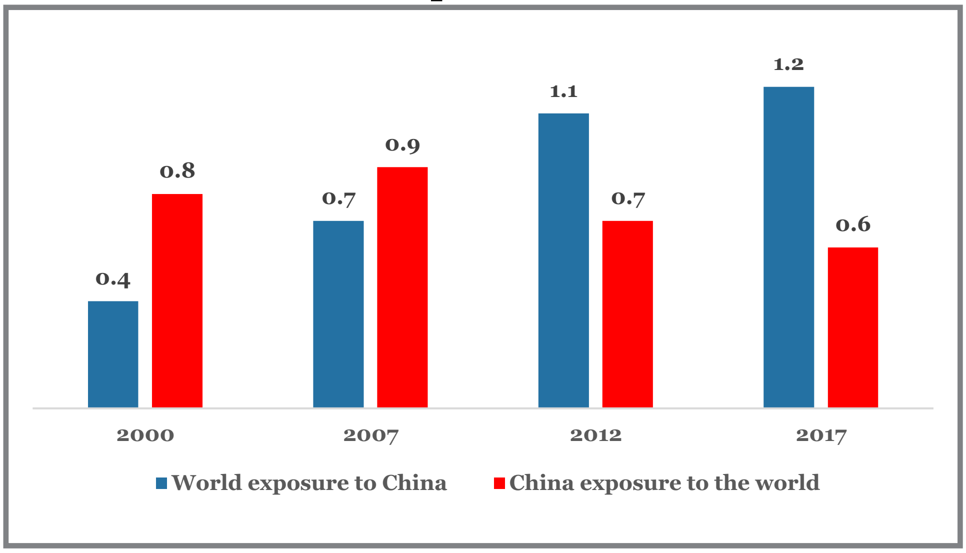
Chinese Economy and The Rest of the World

China's influence as a market, supplier, and provider of capital has expanded over the last two decades. There has been an increase in the exposure of the rest of the world to the Chinese economy. The Chinese economy accounts for 35% of total global manufacturing output, while it was the source of 31% of global household consumption growth between 2010 and 2017. Also, in many categories including automobiles, spirits, luxury goods, and mobile phones, China is the largest market in the world, accounting for about 31% of global consumption. China was the world's second-largest source and second-largest recipient of foreign direct investment (FDI) between 2015 and 2017 (*see Chart 12*).

Chart 12: **China-World Exposure Index**



Source: McKinsey Global Institute analysis, Proshare Research

Countries with regional proximity, significant trade in resources, and cross-border capital flows are most exposed to China.

- **Asian economies are tightly linked with China through regional supply chains;** there has been an increase in the exposure of Asian countries to China, as China is the export destination to most of the Asian economies. The Chinese economy is the largest trading partner in Malaysia, Singapore and the Philippines. Chinese outbound FDI was equivalent to 6% of domestic investment in Malaysia and 5% in Singapore between 2013 and 2017.
- **Resource-rich countries are highly exposed to Chinese demand;** Countries that export natural resources are highly exposed to Chinese demand. Chinese imports now account for 15% of production in South Africa, compared with only 2% in the period from 2003 to 2007. Chinese imports now account for 16% of gross output in Australia, compared with just 4% in the earlier period. Iron ore alone accounts for 48% of Australia's exports to China, and 21% of Australia's mining and quarrying output is exported to China.
- **Some emerging and smaller mature economies are highly exposed to Chinese investment;** From 2013 to 2017, Chinese outbound FDI was equivalent to 13% of domestic investment in Egypt and 8% in Pakistan. According to Mckinsey Global Institute analysis research in 2017, it discovered that China was the largest source of finance for infrastructure, the third-largest source of foreign aid and Africa's largest trading partner.
- **Large developed economies have relatively lower exposure to China;** Developed economies have relatively lower trade and investment exposure to China. Exports to China

typically account for less than 5% of gross output, and imports from China account for less than 5% of domestic consumption. Also, Chines FDI was equivalent to less than 1% of domestic investment(*see Table 5*).

Table 5: ***Countries Exposure To China Based on Regional Proximity, Significant Trade-In Resources, and Cross-Border Capital Flows***

COUNTRIES WITH REGIONAL PROXIMITY, SIGNIFICANT TRADE IN RESOURCES, AND CROSS-BORDER CAPITAL FLOWS ARE THE MOST EXPOSED TO CHINA

Exposure Least — Most

		Exports to China as a share of domestic production, %		Imports from China as a share of domestic consumption, %		Inbound FDI from China as a share of domestic investment, %	
Archetypes	**Countries**	**2003-07**	**2013-17**	**2003-07**	**2013-17**	**2003-07**	**2013-17**
Regional proximity exposure	South Korea	8	11	4	6	<1	<1
	Malaysia	8	11	5	11	<1	6
	Philippines	12	8	6	14	6	<1
	Singapore	10	11	12	18	2	5
	Vietnam	3	11	6	13	3	1
Resource related exposure	Australia	4	16	3	7	<1	3
	Chile	5	13	3	10	<1	<1
	Costa Rica	9	9	2	5	3	<1
	Ghana	<1	8	5	18	<1	4
	South Africa	2	15	2	6	<1	3
Capital exposure	Egypt	<1	<1	3	5	1	13
	Pakistan	<1	1	3	7	2	8
	Peru	4	7	1	5	2	6
	Portugal	<1	2	<1	3	<1	3
Developed economies	United States	<1	2	3	6	<1	<1
	Germany	2	4	2	3	<1	<1
	Japan	4	5	3	5	<1	<1
	United Kingdom	<1	2	2	5	<1	2

Source: IHS Markit; National Bureau of Statistics; McKinsey Global Institute analysis

***Table 6:* Technology, Labor-intensive Tradables, and Resource Value Chains Exposed To Trade With China**

TECHNOLOGY, LABOUR-INTENSIVE TRADABLES, AND RESOURCE VALUE CHAINS ARE EXPOSED TO TRADE WITH CHINA

Low — High

Archetypes	Sector name	Trade Intensity	Chinese share of global exports, % 2003-07	Chinese share of global exports, % 2013-17	Chinese Share of global imports, % 2003-07	Chinese Share of global imports, % 2013-17
High level of integration	Computer, electronic, and optical products		15	28	12	16
	Electrical equipment		16	27	7	9
	Other machinery and equipment		7	17	8	9
High exposure to Chinese exports	Textiles, apparel, and leather		26	40	5	5
	Furniture, safety, fire, other		17	26	2	4
	Other nonmetallic mineral products		11	22	5	8
	Rubber and plastics		10	19	5	7
	Basic metals		8	13	8	8
High exposure to Chinese imports	Mining and quarrying		1	1	7	21
	Chemicals		4	9	9	12
	Paper and paper products		3	9	6	12
Global chains with little trade exposure to China	Other transport equipment		3	6	3	5
	Pharmaceuticals		2	4	1	3
	Motor vehicles and trailers		1	3	2	7
	Coke and refined petroleum products		2	4	4	6
Local production for local consumption	Food, beverages, and tobacco		3	4	3	6
	Fabricated metal products		14	23	3	5
	Wood and wood products		11	22	2	3
	Printing and media		8	18	2	4
	Agriculture, forestry, and fishing		5	5	7	19

Source: IHS Markit; McKinsey Global Institute analysis

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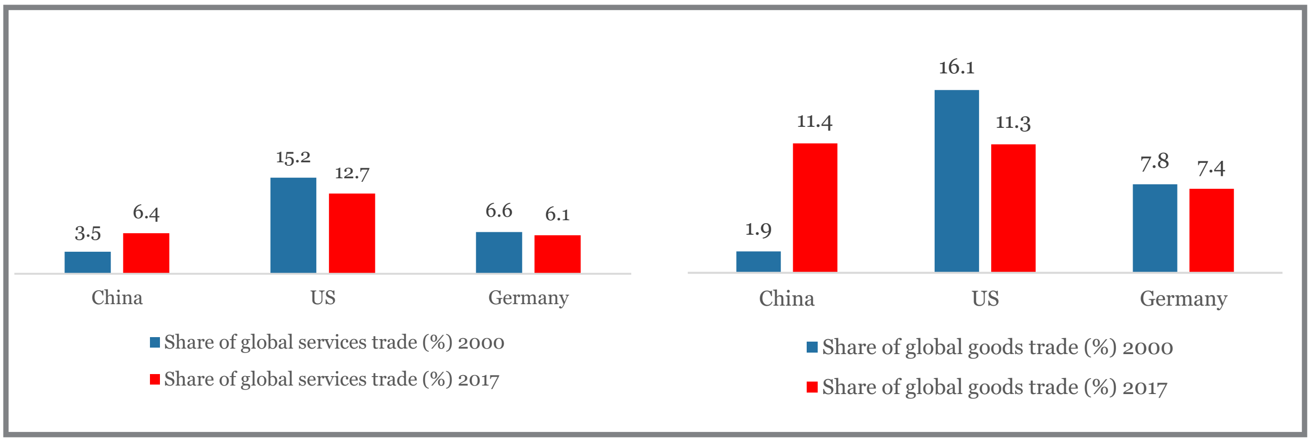
The world economy is exposed to China through trade in five distinct ways:

- China is integrally embedded in the value chains of the electronics, machinery and equipment sectors. It accounts for 17 to 28% of global exports and 9 to 16%
- The world depends on Chinese output in highly tradable light manufacturing and labour-intensive sectors. Sectors in which China has served as a factory to the world are exposed to Chinese production. China accounts for 40% of global exports in textiles and apparel, and 26% in furniture.
- Upstream sectors have increased exposure to China as a result of China's industrialization. Sectors that produce inputs for further processing are exposed to Chinese imports. The Chinese manufacturing sector growth has significantly increased its demand for raw materials and intermediate goods that are processed into final goods, and growth in per capita income has increased demand for goods overall in China. China accounted for 7% of global mining and quarrying imports from 2003 to 2007, and its share grew to 21% from 2013 to 2017.
- In other sectors that are highly traded globally, China is not a major player. In sectors where companies focus on serving rapidly growing local demand and local content requirements are in place, trade exposure to China has remained relatively low despite high trade intensities. For example, China accounts for only 4% of global pharmaceuticals exports and 3% of global imports. Similarly, in motor vehicles, China accounts for only 3% of global exports and 7% of global imports, despite a relatively high trade intensity. However, given that China is a large market for these sectors, a local presence is important for companies wishing to serve that market.
- Sectors that are not globally traded tend to have low exposure to China. Five have been noted to have relatively low trade intensities, as a "local production for local consumption" archetype. Despite relatively low trade intensity, China accounts for a large share of trade in some of these sectors. For instance, it accounts for 23% of global exports of fabricated metals and for 18% of global imports of agricultural products.

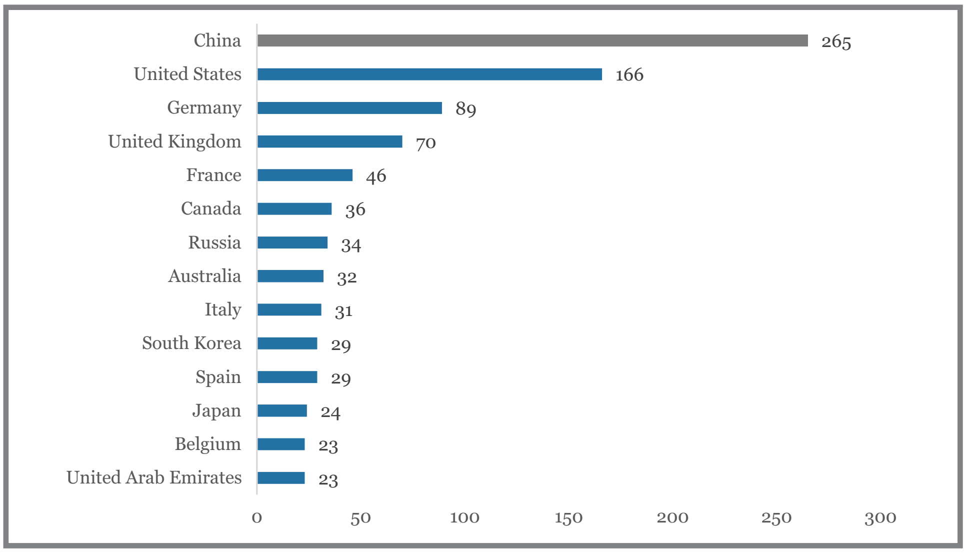
Chart 13: **China's Share of Global Goods and Services (%) 2000-2017**



Source: McKinsey Global Institute analysis

Chinese production accounts for up to 35% of global manufacturing output and Chinese demand accounts for 10% of global consumption, second only to the United States. China's global flows of goods and services are significant. China became the world's largest exporter of goods in 2009, and the largest trading nation in goods in 2013. China exported goods worth $2.2trn in goods in 2017, making it the world's largest exporter. The Chinese economy also serves as the largest export destination of thirty-three (33) countries and the largest source of imports for sixty-five countries (65) countries (*see Chart 13*).

Chart 14: ***Outbound Tourism Spending by Tourist Origin, 2017 ($' bn)***



Source: World Travel and Tourism Council; Hong Kong Census and Statistics, MOTC (tourism bureau), Taiwan; Macao tourism data; McKinsey Global Institute analysis

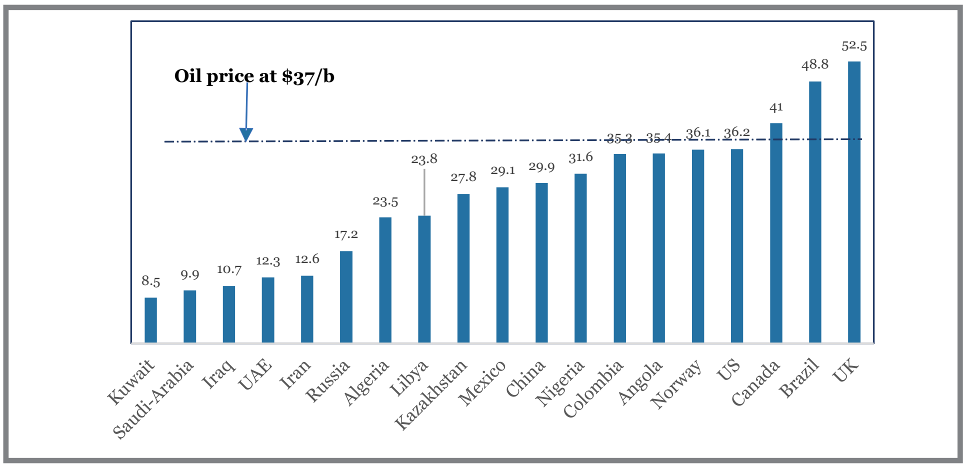
China is already the largest source of outbound tourists in the world, Chinese tourists made more than 140m trips and spend $265bn while US tourist spends $168bn on foreign travel. Spending by Chinese tourists as a share of worldwide tourism spending has soared from 6 to 22% in just ten years and is forecast to reach about 30% by 2028, equal to spending by European tourists and just short of spending by tourists from North America and the rest of Asia combined (*see Chart 14*).

Global Commodity Market

Global Oil Market-Turning on A Vortex

The international oil market in 2020 was disrupted by the adverse impact of COVID-19. The spread of the virus in the USA, China, Asia Pacific, Europe and the rest of the world resulted in a fall in global oil demand. An agreement to cut oil supply by OPEC and its OPEC plus counterparts has failed to hold prices up. The impact of COVID-19 on the oil market has been punishing for oil producer as the price of WTI and Brent have fluctuated between US$27 and US$37 per barrel in May 2020.

Chart 15: ***Cost of Producing A Barrel of Oil ($/b)***



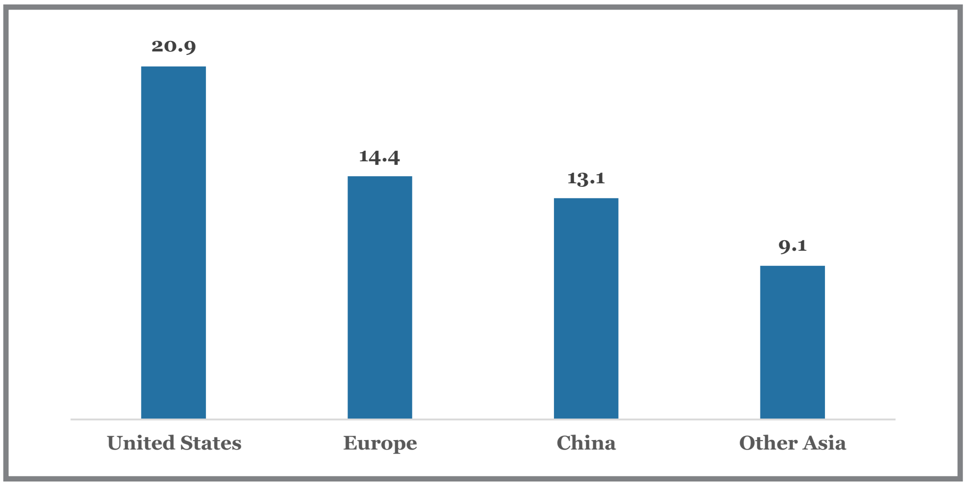
Source: Rystad Energy Ucube, United Capital Research, Proshare Research

The protracted oil price face-off lasted for shorter than previously expected as a result of America's swift intervention which had more to do with protecting US shale producers than guaranteeing international price stability. Saudi-Arabia and Russia both have a relatively low cost of producing oil with sizable foreign reserves of $490.5bn and $570.0bn respectively. It costs Arabians US$9.9 to produce a barrel of oil while it costs Russia US$17.2 (*see Chart 15*).

Largest Consumers of Oil in 2019

The United States, Europe and China recorded the largest consumption of oil in 2019. According to OPEC numbers, the United State's, Europe's and China's share of consumption was 20.9%, 14.4% and 13.1% respectively (*see Chart 16*).

Chart 16: Largest Consumers of Oil in 2019 (%)

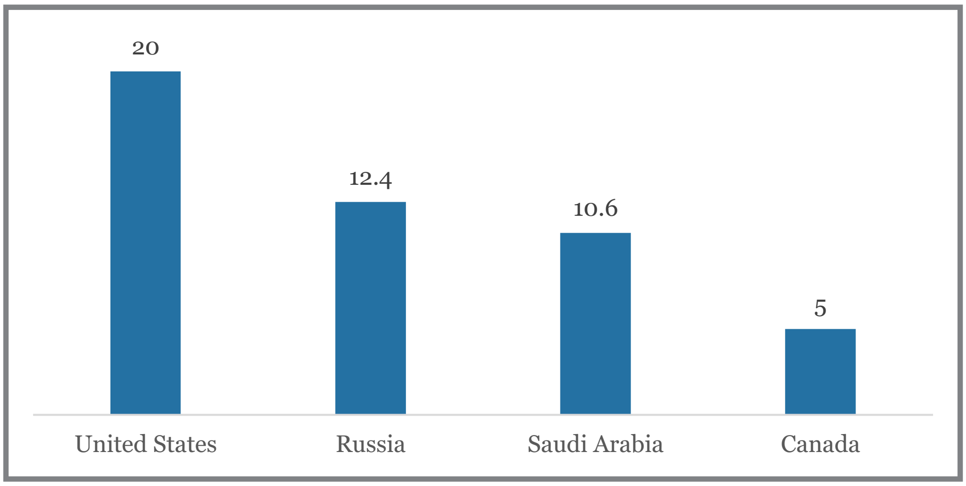


Source: OPEC, Proshare Research

Largest Suppliers of Oil in 2019

The United States, Russia and Saudi Arabia recorded the largest global supply of oil in 2019. According to OPEC figures, the United State's, Russia's and Saudi Arabia's share of global supply was 20%, 12.4% and 10.6% respectively (*see Chart 17*).

Chart 17: Largest Suppliers of Oil in 2019 (%)

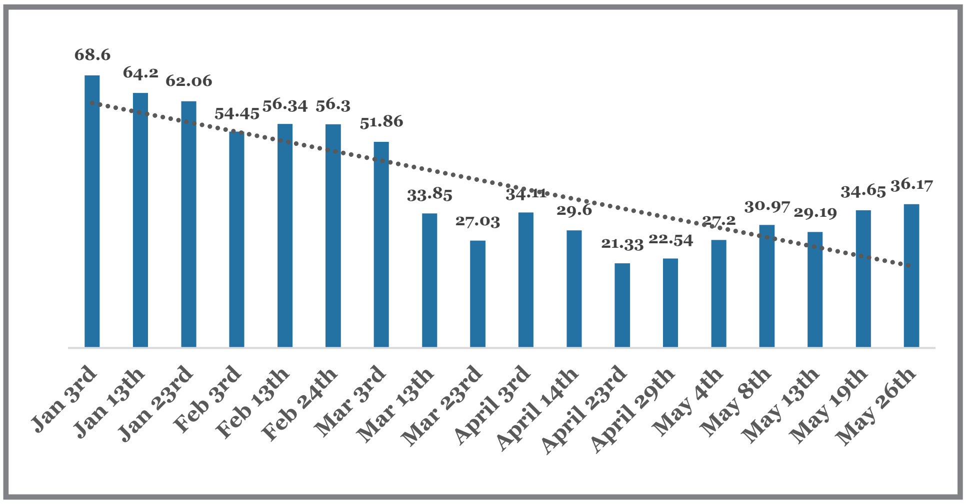


Source: OPEC, Proshare Research

Brent Crude Price Jan 2020-May 2020 $/b

The Brent crude price at the beginning of the year was $68.6 per barrel. The break out of the coronavirus which led to a fall in the demand for oil caused a sharp fall in prices. Despite the cut in oil supply, there has been a downward slide in the international price of Brent crude (*see Chart 18*).

Chart 18*: *Brent Crude Price Jan 2020 – May 2020 $/b



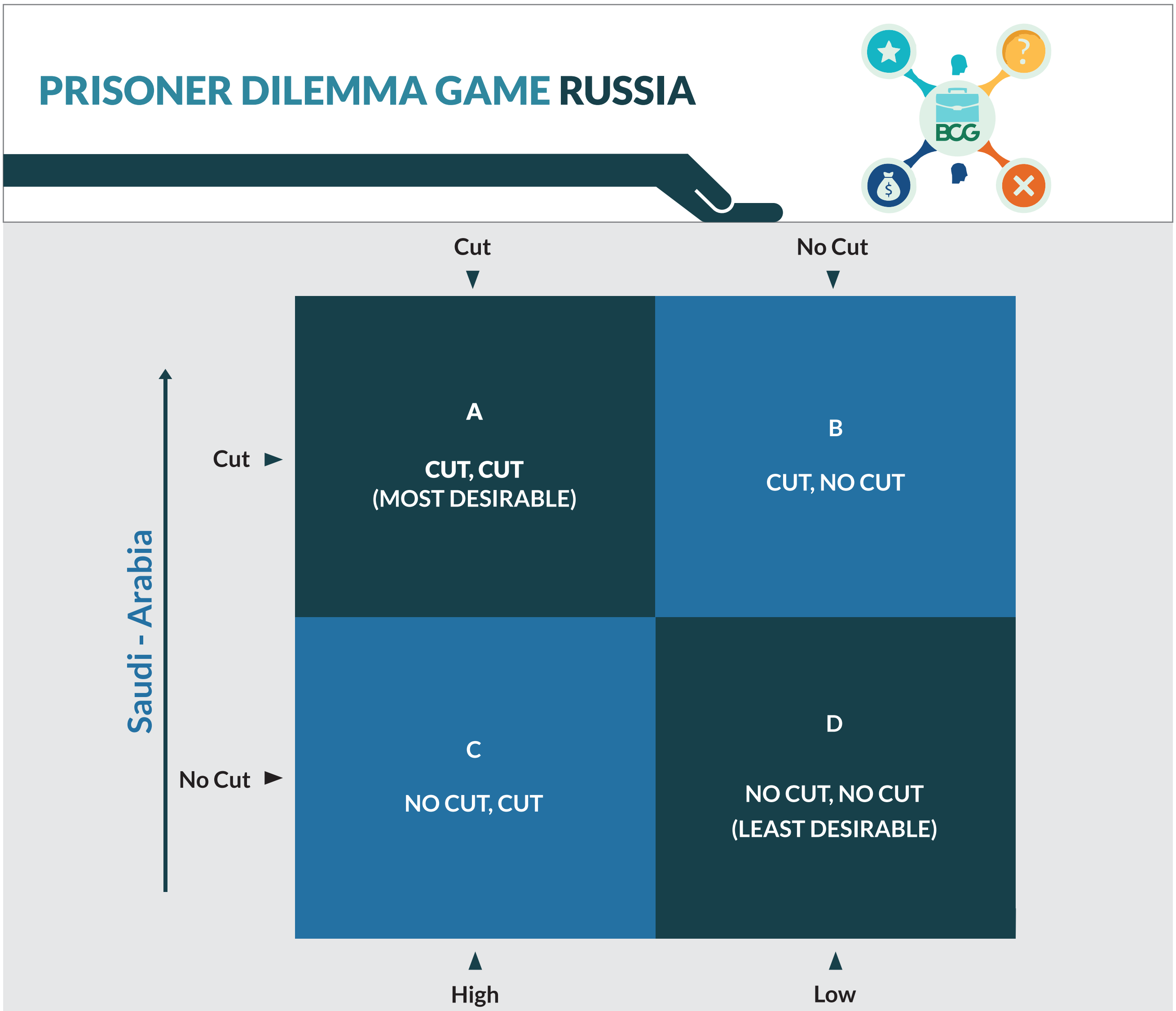
Source: Bloomberg, Proshare Research

The Prisoner's Dilemma in Oil Markets; Surviving 2020

The economist's prisoner dilemma framework explains the various possible outcomes between the top two players in the global oil market outside the United States. The best possible potential outcome during the pandemic for oil exporters and oil-dependent nations like Nigeria, Angola and Libya ould be for both top oil producers (Saudi Arabia and Russia) to agree to a sufficiently large oil supply cutback (*see Illustration 3*).

Illustration 3: Prisoner Dilemma Game

Illustration 3: ***Prisoner Dilemma Game***



A. Oil price picks gradually
B. Russia will gain larger market share and Saudi Arabia might be forced to flood the market with oil in order to gain market share
C. Saudi Arabia will gain larger market share and Russia might be faced to flood the market with oil in order to gain market share
D. Oil price plunges continuously

Source: BCG / Proshare Content

Fiscal Break-Even Oil Price

The majority of Middle-East and North African countries dependent on oil revenues will be adversely affected by the fall in crude price. According to the IMF's projections for 2020, the top five countries (5) under MENAP with the highest fiscal break-even oil price are Iran, Bahrain, Algeria, Oman and Libya require fiscal break-even oil price of US$124 per barrel, US$93 per barrel, US$92.3 per barrel, US$85.9 per barrel and US$79 per barrel respectively (*see Table 7*).

Table 7: ***Fiscal Break-Even Oil Price***

FISCAL BREAK EVEN OIL PRICE
(Brent Crude, USD/barrel)

MENAP oil exporters	Projections 2019 ($/barrel)	Projections 2020 ($/barrel)
Algeria	116.4	92.3
Bahrain	94.9	93
Iran	125.6	124.4
Iraq	64.3	59
Kuwait	48.8	49.7
Libya	71.3	79
Oman	97	85.9
Qatar	48.7	45.4
Saudi Arabia	85.4	78.3
UAE	65.3	68

Source: IMF, Proshare Research

External Break-Even Oil Price

According to IMF projections for 2020, the top five countries under MENAP with the highest external breakeven oil prices are Bahrain, Algeria, Oman, Libya, Iraq with an external breakeven oil price of $77.8, $75, $69.6, $67.7 and $59.4 per barrel respectively (*see Table 8*).

Table 8: ***External Break-even Oil Price***

EXTERNAL BREAK EVEN OIL PRICE
(Brent Crude, USD/barrel)

	Projections	
	2019	2020
CCP oil and gas exporters	($/barrel)	($/barrel)
Algeria	83	75
Bahrain	78.3	77.8
Iran	50.2	52.4
Iraq	65.3	59.4
Kuwait	50.7	49.6
Libya	55.3	67.7
Oman	77.4	69.6
Qatar	50.9	51.2
Saudi Arabia	55.7	58.1
UAE	40.4	42.4

Source: IMF, Proshare Research

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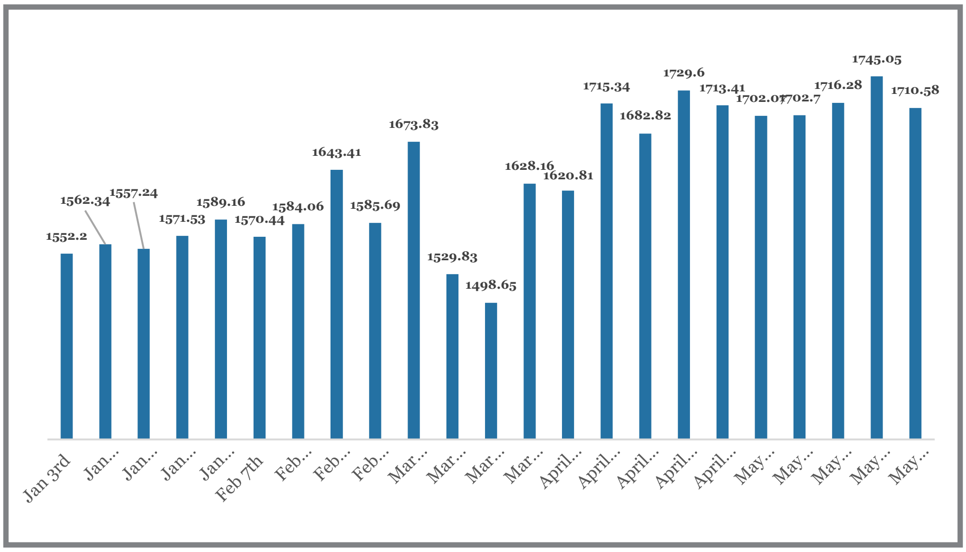
Gold

Gold, usually seen as a haven, by investors, has proven to be less reliable as a store of value as gold prices have fluctuated unsteadily with the global sweep of the virus. Since the outbreak of COVID-19, the price of gold has fluctuated unpredictably, dipping in some weeks while turning a face-up in others. Most recent data reveals that the price of gold fell to $1710.58 t/ oz on May 26th from $1745.05 t/0z. This suggests that many investors may be taking long positions in gold as a countercyclical investment safe house (*see Chart 19*).

Chart 19: ***Price of Gold Jan 2020 – May 26th, 2020, $/t oz***

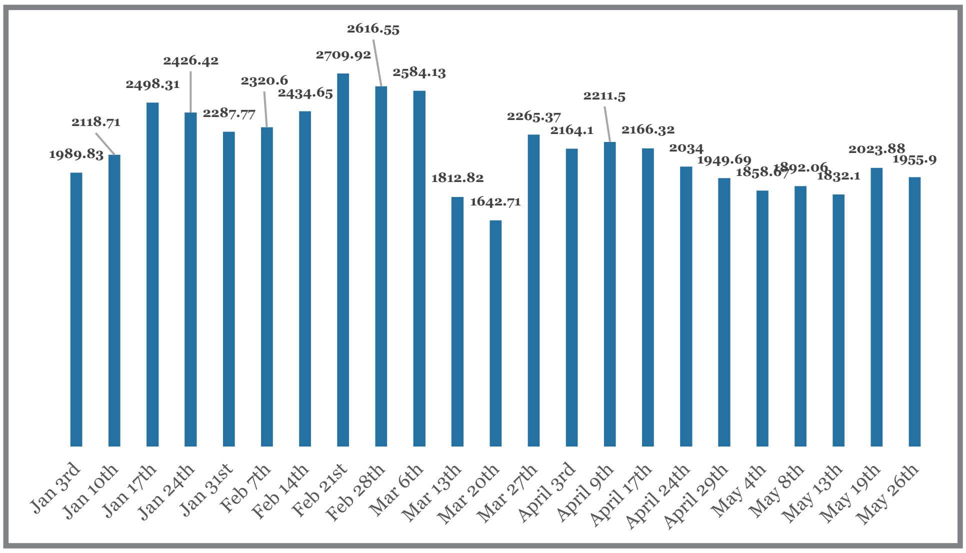


Source: Bloomberg, Proshare Research

Palladium

The price of palladium recorded dips and gains at different weeks. With the gradual recovery of factories in the Chinese economy. It is expected that the price of palladium will rise in months to come (*see Chart 20*).

Chart 20: ***Price of Palladium Jan 2020 – May 26th, 2020 $/t oz***



Source: Bloomberg, Proshare Research

Global Stock Market

Thirty-four (34) global stock markets were reviewed, 27 showed declined in their year-to-date performance, 6 remained unchanged while only one (1) stock market recorded an increase in its year-to-date performance. The top three stock markets that dipped the highest were Austria's ATX, Jakarta's

^JKSE, Brazil's Bovespa which dipped by -30.50%, -26.38% and -26.09% respectively (*see Table 9*). The only stock market that recorded an increase of +4.10% in their year-to-date performance was USA's Nasdaq.

Table 9: Recent Global Stock Market Indexes as of May 26th, 2020

RECENT GLOBAL STOCK MARKET INDEXES AS AT MAY 26th, 2020

S/N	Markets	Country	31-Dec-19	26-May-20	YTD (%)
1	Nasdaq	USA	8972.6	9340.22	4.10%
2	All Share	Sri Lanka	6318.21	6318.21	0.00%
3	IPSA	Chile	5058.88	5058.88	0.00%
4	Madrid General (IGBM)	Spain	1142.35	1142.35	0.00%
5	MIBTel	Italy	15743	15743	0.00%
6	PSEi	Phillipines	13.2	13.2	0.00%
7	TA-100	East Isreal	1292.38	1292.38	0.00%
8	All Share Index	Nigeria	26842.07	25204.75	-6.10%
9	Ks11	South Korea	2176.67	2031.2	-6.68%
10	S&P500	USA	3230.78	2991.77	-7.40%
11	Swiss Market Index	Switzerland	10616.94	9830.83	-7.40%
12	MerVal	Argentina	41671.41	38390.84	-7.87%
13	SSE Composite Index (Shanghai)	China	3084.69	2832.82	-8.17%
14	Taiwan Weighted	Taiwan	12100.48	11014.66	-8.97%
15	SSE 180 Index (Shanghai)	China	8972.92	8159.6	-9.06%
16	KLSE	Malaysia	1595.83	1449.09	-9.20%
17	Nikkei 225	Japan	23656.62	21419.23	-9.46%
18	MICEX Index	Russia	3050.47	2754.04	-9.72%
19	S&P/TSX Composite Index	Canada	17098.56	15075.42	-11.83%
20	AEX General	Netherlands	604.58	531.3	-12.12%
21	Dow Jones Ind. Avg.	USA	28538.44	24995.11	-12.42%
22	DAX	Germany	13249.01	11504.65	-13.17%
23	All Ordinaries	Australia	6810	5884.9	-13.58%
24	IPC	Mexico	43541.02	36206.86	-16.84%
25	Hang Seng	Hong Kong	28499.5	23145.86	-18.79%
26	FTSE 100	UK	7542.44	6067.76	-19.55%
27	BEL-20	Belgium	3955.83	3165.46	-19.98%
28	Straits Times (STI)	Singapore	3238.07	2516.16	-22.29%
29	CAC 40	France	5978.06	4606.24	-22.95%
30	S&P/MIB Index	Italy	25890.37	19259.72	-25.61%
31	NIFTY	India	12182.5	9029.05	-25.89%
32	Bovespa	Brazil	115645.3	85468.91	-26.09%
33	JKSE	Jakarta	6271.11	4617.1	-26.38%
34	ATX	Austria	3186.94	2214.86	-30.50%

Source: Proshare Research, Bloomberg, Reddif

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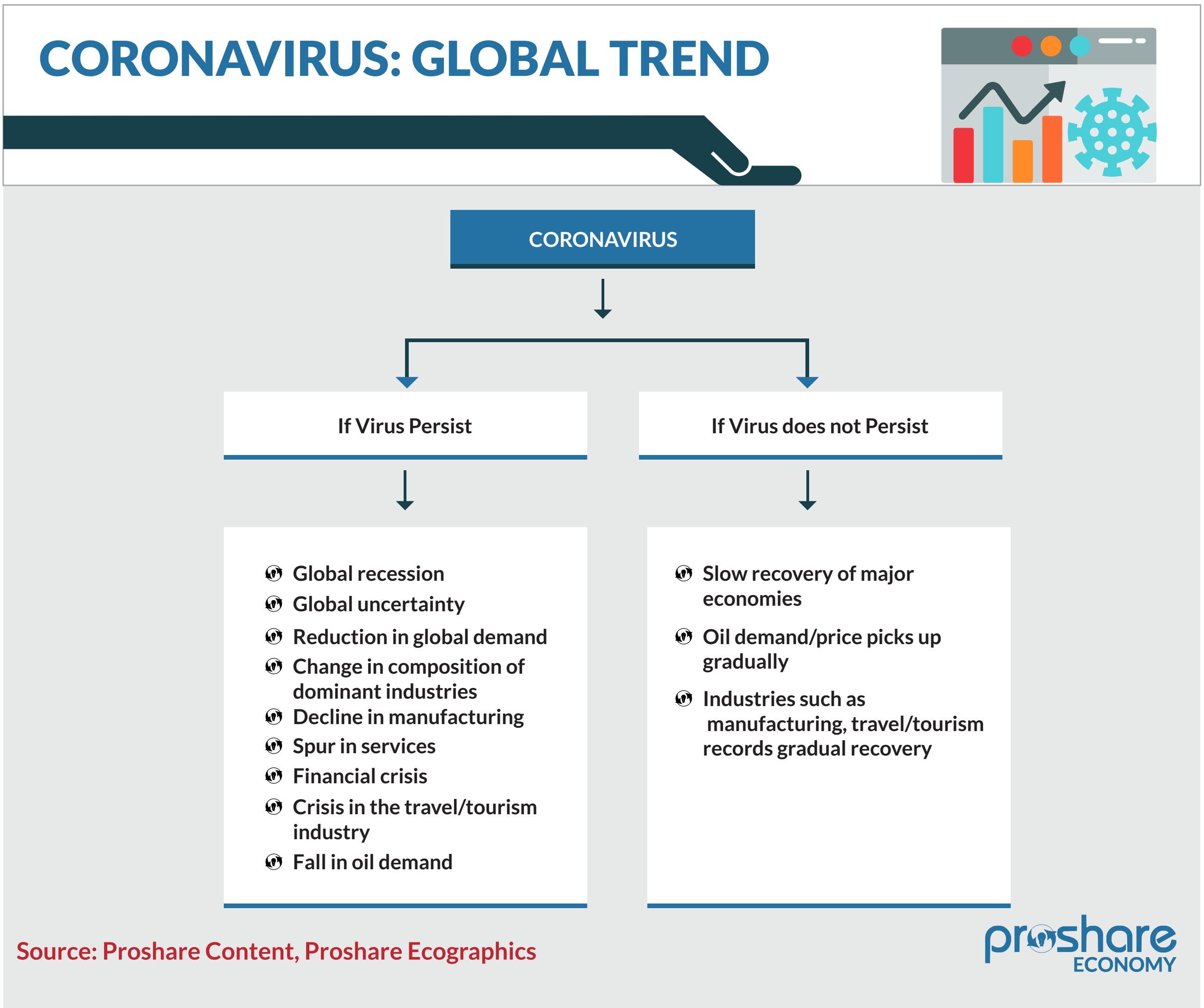
Crafting Global Scenarios

There are two possible scenarios linked to the coronavirus. The two scenarios are; Global outcomes if the virus persists and global happenings if the virus spread stops. If the virus persists with continued disruption of global supply chains and persistent lockdowns in major economies around the world, the global economy would likely skid into a hard recession, with a reduction in global demand, change in the composition of dominant industries, a mixed outcome for the service sector (hospitality, airlines, logistics and transportation will decline, while digital entertainment, online financial intermediation and data processing services will rise), crude oil demand will fall, while traditional brick-and-mortar financial services will decline with a loss of jobs for front office staff and a few back-office individuals as artificial intelligence (AI) software begin to take care of customer user experience and interface (UX/UI). The education sector may all see a sea change in approach to learning and teaching as physical distancing forces educational establishments to move training to digital platforms or a combination of both physical and digital environments that provide optimal training and learning opportunities.

On the other hand, there is likely going to be a slow recovery of major economies, a gradual recovery of travel/tourism and manufacturing industry as well as gradual pick up in oil demand if the virus does not persist and major economies can curtail the further spread of the virus (*see Illustration 4*).

Illustration 4*: *The Crafting Global Scenarios



Source: Proshare Content, Proshare Ecographics

Global Policy Responses

Various central banks have come up with different monetary policy measures on their economy against the negative impact of the coronavirus. The US Federal Reserve, Bank of England, Peoples Bank of China, Reserve Bank of Australia all cut their interest rate to boost liquidity in their respective economies. While the European Central Bank decided to use other monetary tools such as the purchase of public and private securities to help mitigate the impact of the coronavirus outbreak. The Bank of Japan also plans to stabilize markets and offer sufficient liquidity via market operations and asset purchases (*see Table 10*).

***Table 10*: Global Central Bank's Anti-Recession Policies**

GLOBAL CENTRAL BANK'S ANTI-RECESSION POLICIES: LOOKING THROUGH DARK GLASSES

	US Federal Reserve	Peoples Bank of China	Bank of England	European Central Bank	Central Bank of Nigeria
1 Interest rate	US Federal funds rate cut to 0-0.25%	Lowering the rate on 200 bn yuan ($28.65 bn) worth of one-year medium-term lending facility (MLF) loans to financial institutions by 10 basis points (bps) to 3.15% from 3.25%	Bank of England base rate cut to 0.25% from 0.75%		Interest rates on all applicable CBN intervention facilities reduced from 9 to 5 percent per annum for 1 year
2 Financial stability	Federal reserve slashed the rate of emergency lending at the discount window for banks by 125 basis points to 0.25%, and lengthened the term of loans to 90 days.	Lowering the rate on 200 bn yuan ($28.65 bn) worth of one-year medium-term lending facility (MLF) loans to financial institutions by 10 basis points (bps) to 3.15% from 3.25%	Bank of England announced a new term-funding scheme to support small and medium-sized companies, as well as new steps to help commercial banks lend more	Cheap ECB loans, as the interest rate will be set through a convoluted formula	Regulatory forbearance and extension of moratorium
3 Price stability	The QE program will entail $700 billion worth of asset purchases entailing Treasuries and mortgage-backed securities.	Lowering the rate on 200 bn yuan ($28.65 bn) worth of one-year medium-term lending facility (MLF) loans to financial institutions by 10 basis points (bps) to 3.15% from 3.25%		Cheap ECB loans, as the interest rate will be set through a convoluted formula	Creation of a N50bn Targeted Credit Facility and Regulatory Forbearance

Source: CNBC, Reuters, Wall Street Journal, Proshare Research

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Global Governments Fiscal Policy Anti-Recession Policies

The limitations of monetary policy may necessitate the intervention of the government through fiscal policy measures. Several continental governments have come up with a variety of fiscal policies to stimulate their economies amidst the COVID-19 pandemic. The American government proposed tax deferrals and cash payments to citizens to ensure a speedy revival of economic growth in the year as it fought to soften the negative impact of the virus on supply chains and production outputs. While the

Japanese government, on the other hand, proposed an emergency economic package worth over $270bn to offset the adverse economic effect of a fall in domestic demand and supply chain hiccups (*see Illustration 5*).

Illustration 5: Global Governments Fiscal Policy Anti-Recession Policies

GLOBAL GOVERNMENTS FISCAL POLICY ANTI-RECESSION POLICIES

	US	Germany	China	Japan
1 Government Expenditure	I. Cash payments of $1,200 ii. Proposed $50bn for airlines iii. $8bn for cargo airlines iv. Small business loans for any company with less than 500 employees	I. €100bn economic stabilization fund. ii. €400bn in state guarantees to underwrite the debts of companies affected by the turmoil	I. Plans to unleash trillions of yuan of fiscal stimulus to revive the economy.	I.Emergency Economic packages worth more than $270bn to offset the economic impact (small and medium sized)
2 Taxation	I. Extend tax filing deadline to July 15 from April 15. ii. Small business loans for any company with less than 500 employees iii. Forgiveness of the parts of the loan used for payroll if the company does not fire workers before June 30.		I. Tax cuts for businesses struggling through economic challenge	

Source: CNBC, Proshare Research

Illustration 6: Fiscal Responses from Major Global Financial Institutions

FISCAL RESPONSES FROM MAJOR GLOBAL FINANCIAL INSTITUTIONS

Institution	Fiscal Response
World Bank	World Bank prepared to deploy up to $160bn over the next 15 months to support COVID-19 measures that help countries respond to health consequences and bolster economic recovery
IFC (International Finance Corporation)	IFC to provide $8bn to provide relief aid for private companies and employees affected by the pandemic
IMF (International Monetary Fund)	IMF has released $50bn through its emergency financing facilities to help emerging economies that might require additional support
AfDB (African Development Bank)	AfDB launched its Fight COVID 19 Social Bond, which is a $3bn bond with a 3year maturity to reduce the impact of the pandemic on African countries
ECB (European Central Bank)	ECB governing council introduced a total sum of €870bn towards its Pandemic Emergency Purchase programme, set up to support its member states

Source: Proshare Research

African Economy

Introduction

African Economies-An Emerging Market Fight Back

There has been a frog leap increase in the spread of COVID-19 in Africa. Major African economies have seen a large jump in the numbers of reported cases of the virus. South Africa, Egypt, Morocco, Algeria and Nigeria have the highest number of recorded cases of 27,403, 20,793, 7,697, 8,997 and 8,915 respectively (*see Table 11*).

Table 11: African Countries Hit With Coronavirus

AFRICANS COUNTRIES WITH THE HIGHEST NUMBER OF CONFIRMED CASES AND DEATH TOLL

Countries	Number of Confirmed Cases	Death toll	Total Recovered	Active cases
South Africa	27,403	577	14,370	12,456
Egypt	20,793	845	5,359	14,589
Algeria	8,997	630	5,277	3,090
Nigeria	8,915	259	2,592	6,064
Morocco	7,697	202	5,223	2,272
Ghana	7,616	34	2,421	5,161
Cameroon	5,436	175	1,996	3,265
Senegal	3,429	41	1,738	1,650
Ivory Coast	2,641	32	1,326	1,283
Guinea	1,195	8	42	1,145

Source: Worldometer, Proshare Research as at May 29, 2020

Major African Economies Growth Rate

The spread of the coronavirus is expected to hit major economies such as South Africa, Nigeria, Egypt and Algeria.

Table 12:* *Major African Economies Growth Rate and Forecast

MAJOR AFRICAN ECONOMIES GROWTH RATE AND FORECAST

Countries	2020 Projection (%)	Q4 2019 (%)
Nigeria	-3.32	2.55
South Africa	1.5	-0.5
Egypt	5.8	5.6*
Algeria	1.9	1.2**

Source: World bank, NBS, Trading Economics, Proshare Research

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Asterisk (*) = H1 2019
Asterisk (**) = Q3 2019

The gradual increase and spread of the coronavirus on the African continent are forecast to further dampen the economic growth and developmental outlook of the continent. According to the World Bank's year 2020 projections the top four economies in Africa which are Nigeria, South Africa, Egypt and Algeria are projected to grow at -3.22%, +1.5%, +5.8% and +1.9% respectively (*see Table 12*).

The majority of African economies such as South Africa, Nigeria, Ghana, Chad etc have already restricted movements into their respective countries. The decision to restrict movement across country borders by various African governments can be expected to cripple economic supply channels and trading activities across the continent, further worsening growth prospects in the course of the year.

Major African Economies Debt to GDP, Debt to Revenue and Revenue to GDP

Among the five economies (5) examined, the Egyptian economy recorded the highest debt to GDP ratio of 103.3% in 2018 while Ghana recorded the second highest debt to GDP ratio of 71.8%.

Nigeria and Egypt were the top two countries with the highest amount of debt to revenue ratio in 2018. Nigeria and Egypt recorded debt to revenue ratio of 61.4% and 54.4% respectively n 2018.
Concerning the revenue to GDP ratio, South Africa and Egypt were the two countries with the highest revenue to GDP ratio of 29.1% and 20.9% respectively.

The spread of the coronavirus in Africa is likely to cripple economic activities and negatively affect revenue generation. The majority of the African economies are likely going to record an increase in their debt to GDP ratio, debt to revenue ratio and a reduction in revenue to GDP ratio (*see Table 13*).

Table 13:* *Major African Economies Debt to GDP, Debt to Revenue and Revenue to GDP

MAJOR AFRICAN ECONOMIES

DEBT TO GDP, DEBT TO REVENUE & REVENUE TO GDP

Countries	Debt to GDP (%)	Debt to revenue (%)	Revenue to GDP (%)
Nigeria	17.5	61.4	7.8
South Africa	52.6	13.7	29.1
Egypt	103.3	54.5	20.9
Ghana	71.8	44.2	21.6
Kenya	55.6	34.8	19.8

Source: World Bank, IMF, BudgIT Research, Proshare Research

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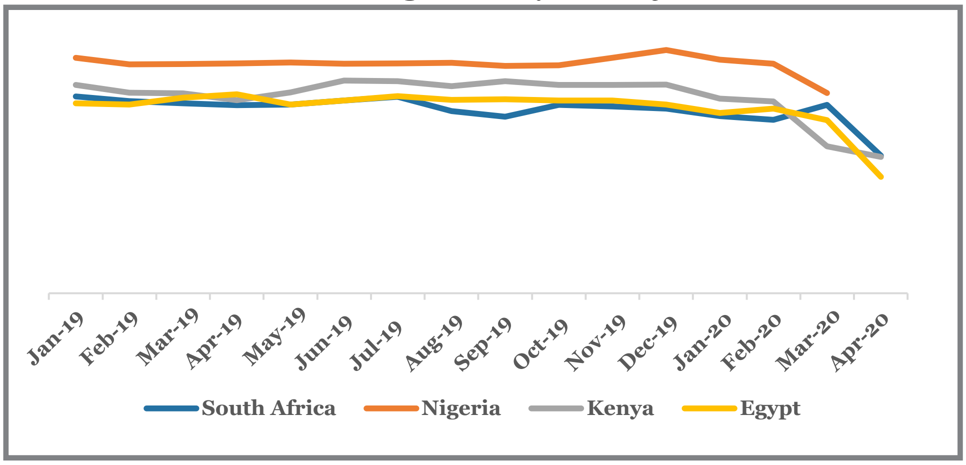
Manufacturing Activities in Major African Economies

***Chart 21:* Manufacturing Activity in Major African Economies**



Source: Trading Economics, IHS Markit, CBN, Proshare Research

South Africa's **Absa** Manufacturing PMI fell to 35.1 in April of 2020 from 48.1 in the previous month. The reading pointed to the eighth consecutive month of contraction in factory activity, though at the slowest pace since last October, as slower delivery times boosted the supplier deliveries sub-index. **Absa** and **BER** said that delays are usually an indication that suppliers are busier under normal circumstances but this time it was mainly linked to coronavirus-induced disruptions in global supply-chains. Meanwhile, the business activity and new sales orders indices stayed around 11-year low levels in March, partly due to the start of a 21-day lockdown imposed by the government to curb the spread of the coronavirus.

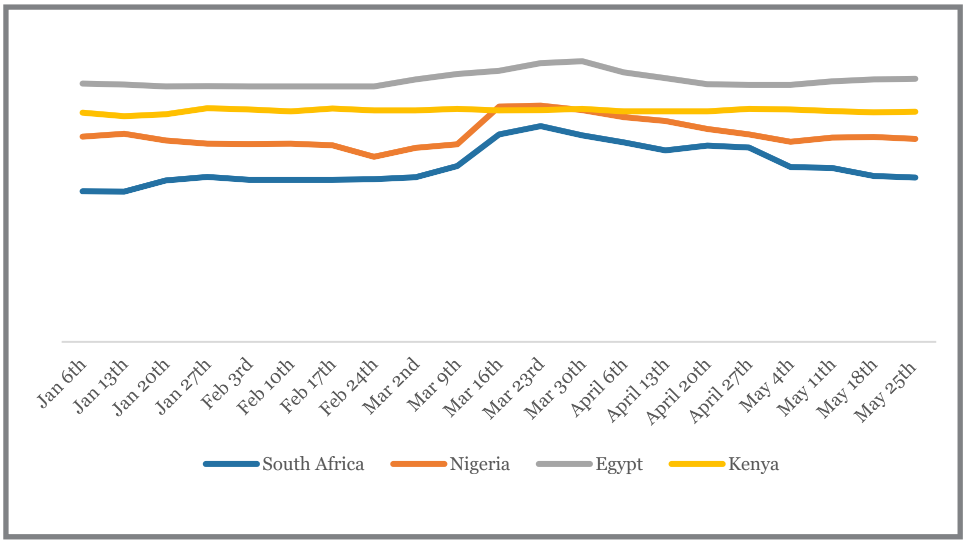
Egypt's non-oil private sector economy failed to escape the COVID-19 pandemic in April, with disruptions to tourism and consumer spending causing marked falls in both activity and sales. Employment declined further, while confidence for future output dropped to a record low. On the bright side, input cost inflation remained subdued. The headline seasonally adjusted IHS Markit Egypt Purchasing Managers' Index – a composite gauge designed to give a single-figure snapshot of operating conditions in the non-oil private sector economy – fell from 44.2 in March to 29.7 in April, to indicate a sharp deterioration in business conditions at the end of the first quarter of the year and the lowest recorded since April 2011. The decline was driven by marked downturns in both output and new orders at Egyptian businesses. The level of activity fell at the sharpest pace in over three years, with panellists highlighting that lower volumes of new work curtailed output. Disruption largely arose due to the COVID-19 outbreak, with firms often noting that tourism activity was heavily impacted by the reduction in-flight travel. Other businesses cited an ongoing effect from the closure of Chinese factories, leading to reduced input availability. As a result of the virus outbreak, domestic markets slowed, causing a marked drop in new orders at Egyptian firms. Sales were also reportedly weakened by low employment, while export volumes decreased at the quickest pace in over seven years. The slowdown led to a further contraction in input purchases during March, with the rate of decline accelerating to the fastest in more than three years. Stock levels subsequently dropped, albeit at a softer and marginal pace. Employment in the non-oil sector meanwhile fell for the fifth month running in March. Businesses were reportedly left short of workers due to several employees leaving for other opportunities. With sales falling, many of these positions were not replaced, causing a solid drop in workforces overall. Nevertheless, firms were able to reduce backlogs in March, with the latest data signalling the first monthly fall in outstanding work for 12 months. Egyptian businesses meanwhile saw a decline in vendor performance, linked to travel disruption from the COVID-19 outbreak and earlier Chinese factory closures. The rate of deterioration was modest but still the quickest for 19 months. At the same time, cost inflationary pressures rose in March, mainly due to an appreciation of the US dollar. Some firms also saw increases in raw material prices. However, reductions in other prices, notably oil, meant that the overall uptick in input costs was marginal. As such, companies were again able to lower output prices, although the rate of decline softened in February but had a deeper drop in April. With the COVID-19 outbreak ongoing, firms were often more downbeat about future output prospects in March. This brought confidence levels down to the lowest in the series history, with many fearing a lasting impact on the domestic and world economy. Nigeria's Manufacturing PMI in May stood at 42.4 index points, indicating contraction in the manufacturing sector for the first time after recording expansion for thirty-six consecutive months. Of the 14 surveyed subsectors, only the electrical equipment sector reported growth (above 50% threshold) in the review month, while the remaining 13 subsectors reported declines in the following order cement; petroleum & coal products; printing & related support activities; furniture & related products; textile, apparel, leather and footwear; paper products; fabricated metal products; food, beverage & tobacco products; chemical & pharmaceutical products; transportation equipment; plastics & rubber products; non-metallic mineral products; appliances and components and primary metal. At 44.5 points, the production level index for the manufacturing sector declined in May 2020 after thirty-seven consecutive months of recorded growth. One subsector recorded increased production level, 4 remained unchanged, while nine subsectors recorded declines in production in May 2020

The Stanbic Bank Kenya PMI slipped to 34.8 in April of 2020 from 37.8 in the previous month, pointing to a deterioration in business conditions that was the strongest since October of 2017. New orders declined significantly, amid reduced demand due to the coronavirus pandemic. Firms consequently reduced activity and employment, while demand for inputs fell at the quickest pace since late-2017. On the price front, input costs rose at the fastest pace since June of 2019, amid reports of shortages of inputs mostly from China. However, selling prices went up only marginally. Looking ahead, the overall level of business sentiment remained strong, despite the impact of the pandemic. Firms cited plans to widen products and services and open new branches, though some respondents noted these plans were on hold until after the virus has been brought under control (*see Chart 21*).

Movements in 10-Year Government Bond Yields of Major African Economies

Despite the increase in the number of cases recorded in the African continent, the 10-year government bonds in the major African economies such as Nigeria, South Africa, Kenya and Egypt recorded a rise in their respective yields as of 25th May 2020. South Africa, Nigeria, Egypt and Kenya recorded yields in government bonds of 8.9%, 11.1%, 14.4% and 12.59% yields respectively. As the pandemic deepens in the African continent, investors are likely going to shift to haven assets like government bonds. The rush in demand for government bonds will likely lead to the rise in the price of government bonds and a decline in the yields of respective major African economies (*see Chart 22*).

Chart 22:Movements in 10-Year Government Bond Yields of Major African Economies



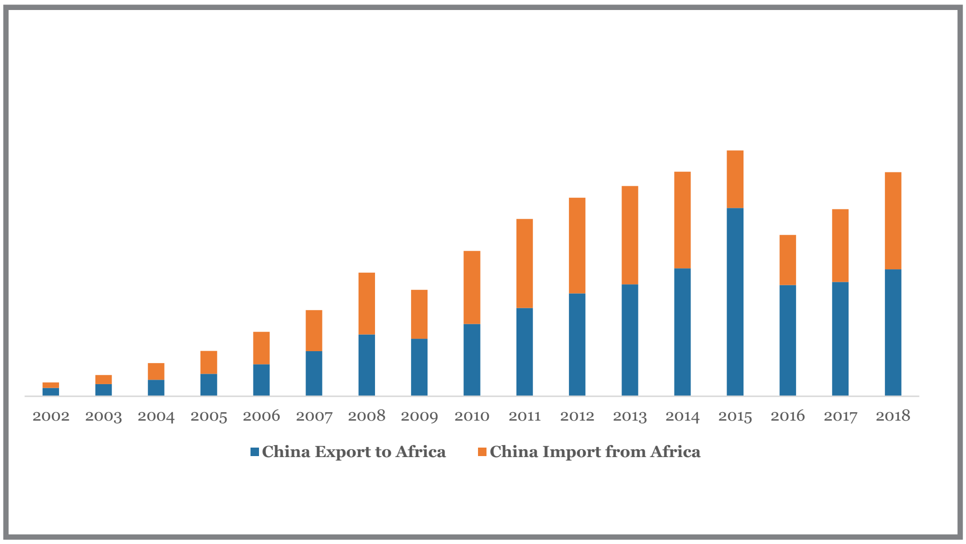
Source: Trading Economics, IHS Markit, CBN, Proshare Research

China, US-Africa Bilateral Trade Data- Changing Partners

China-Africa bilateral trade has steadily been on the increase for the past 16 years. However, weak commodity prices since 2014 have greatly impacted the value of African exports to China, even while Chinese exports to Africa remains steady.

The value of the China-Africa trade in 2018 was $185bn, up from $155bn in 2017 (*see Chart 23*). Due to the interconnection between the Chinese economy and the African economy, the economic slowdown brought about by the spread of the coronavirus can easily be transferred.

*Chart 23: **China-Africa Bilateral Trade Data Overview***

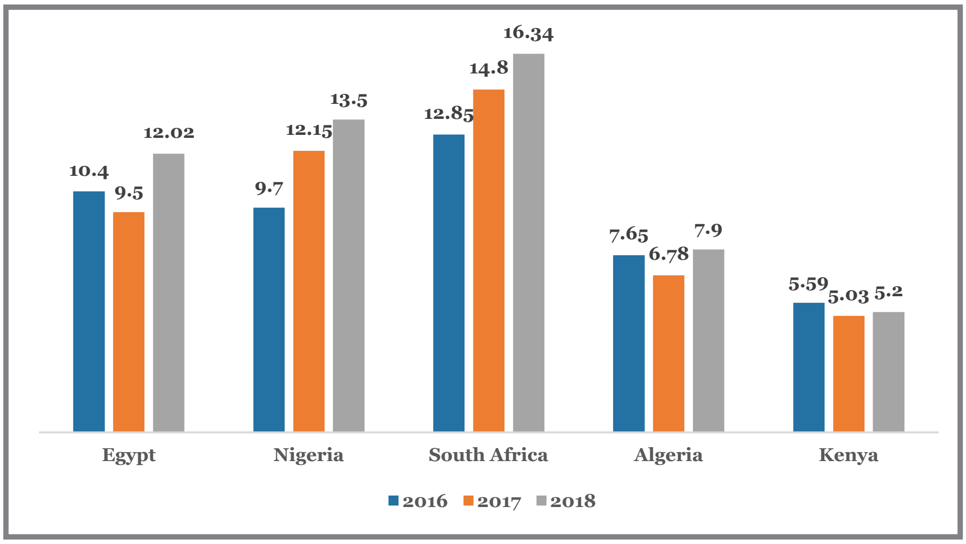


Source: UN Comtrade, Proshare Research

Top African Destinations for Chinese Export

In 2018, South Africa, Nigeria and Egypt were the top three destinations of Chinese exports. South Africa, Nigeria and Egypt imported Chinese goods worth \$16.34bn, \$13.5bn and \$12.02bn respectively. The African economy is largely inter-related with the Chinese economy, therefore disruption in Chinese supply chains will have a significant effect on the African economy (*see Chart 24*).

*Chart 24: **Top African Destinations for Chinese Export***

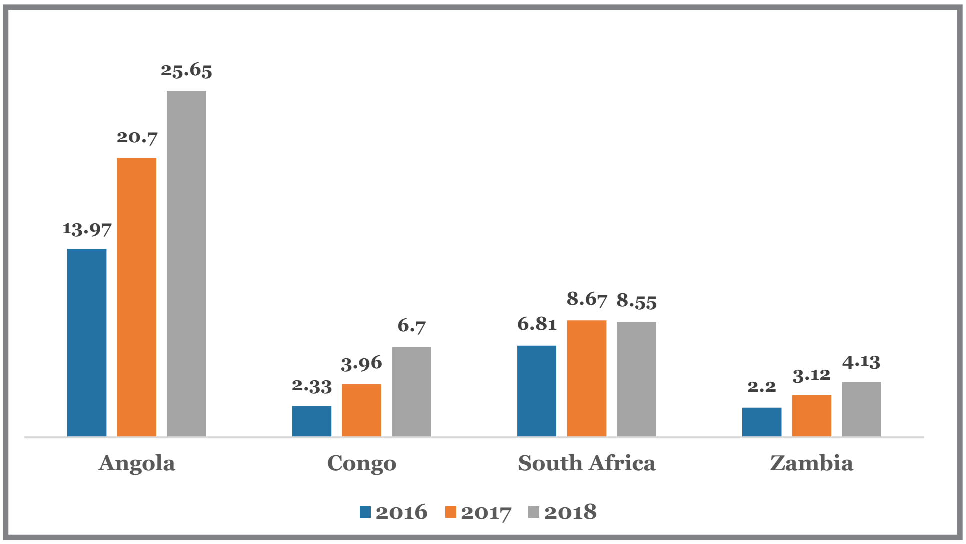


Source: UN Comtrade, Proshare Research

Top African Sources for Chinese Imports

In 2018, the top three largest exporters to China from Africa were Angola, South Africa and Congo. Angola, South Africa and Congo exported goods worth \$25.65 bn, \$8.55 bn and \$6.7bn respectively. Restrictions in China's movement as a result of the coronavirus will cause a decline in demand for African exports. Countries such as Angola, South Africa and Congo that trade with China will be adversely affected (*see Chart 25*).

Chart 25: ***Top African Sources for Chinese Imports***

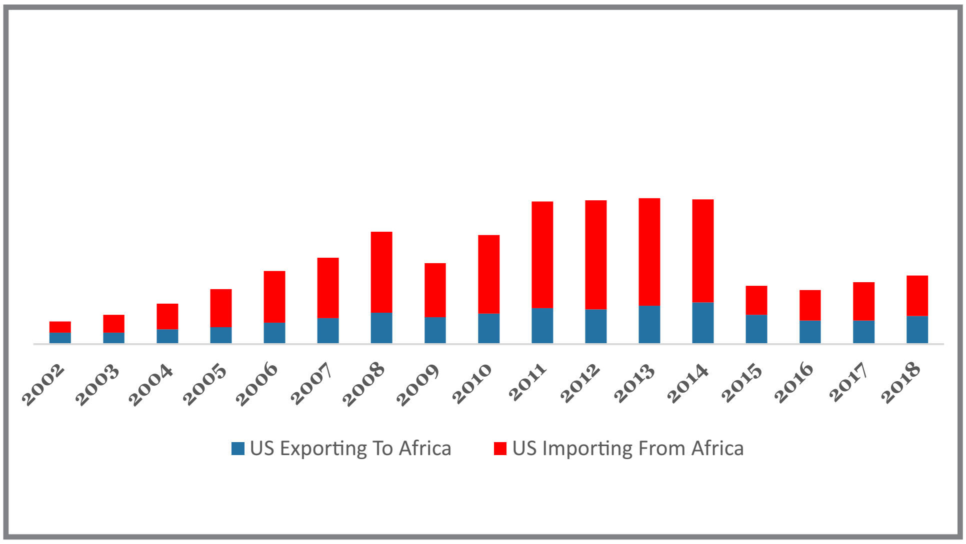


Source: UN Comtrade, Proshare Research

US-Africa Bilateral Trade

The value of US-Africa bilateral trade was $61.48 bn in 2018, a significant reduction from $129.93 bn in 2013. Unlike the China-US trade, the US-Africa trade has declined overtime reducing the span of US influence on the African economy (*see Chart 26*).

Chart 26: ***US-Africa Bilateral Trade ($' bn) Data Overview***

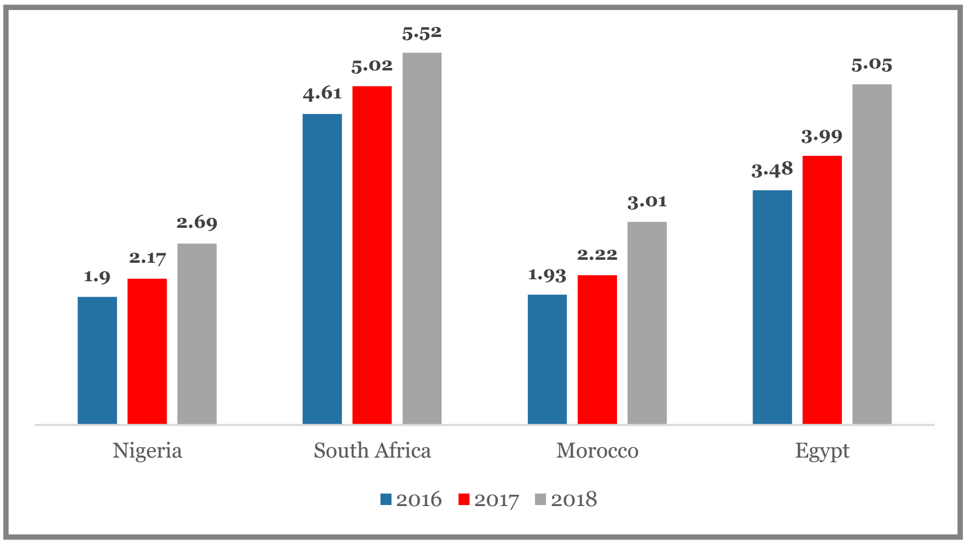


Source: UN Comtrade, Proshare Research

US Export to Africa

The top four export destinations of US goods in Africa in 2018 were South Africa, Egypt, Morocco and Nigeria. South Africa, Egypt, Morocco and Nigeria imported goods worth $5.52bn, $5.05bn, $3.01bn and $2.69bn respectively in 2018 from the US (*see Chart 27*).

Chart 27: ***US Export to Africa ($' bn)***

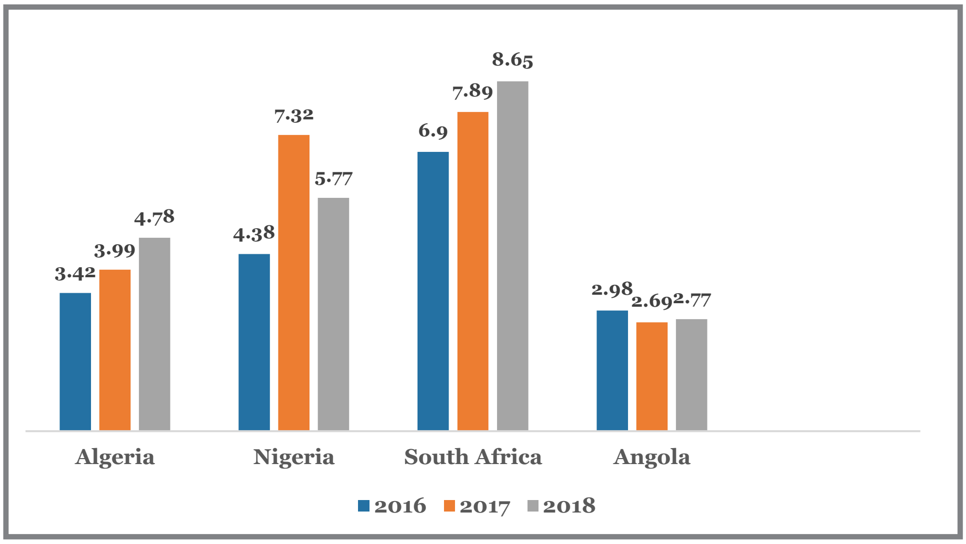


Source: UN Comtrade, Proshare Research

US Imports to Africa

In 2018, US imported goods from Nigeria and South Africa worth $8.65bn and $5.77bn respectively. If the spread of the coronavirus persists in the US and African economy, there will be a fall in demand from the US which will adversely affect African economies such as Nigeria, South Africa, Angola and Algeria that engage in trade with the US economy (*see Chart 28*).

Chart 28: **:** ***US Imports to Africa ($' bn)***

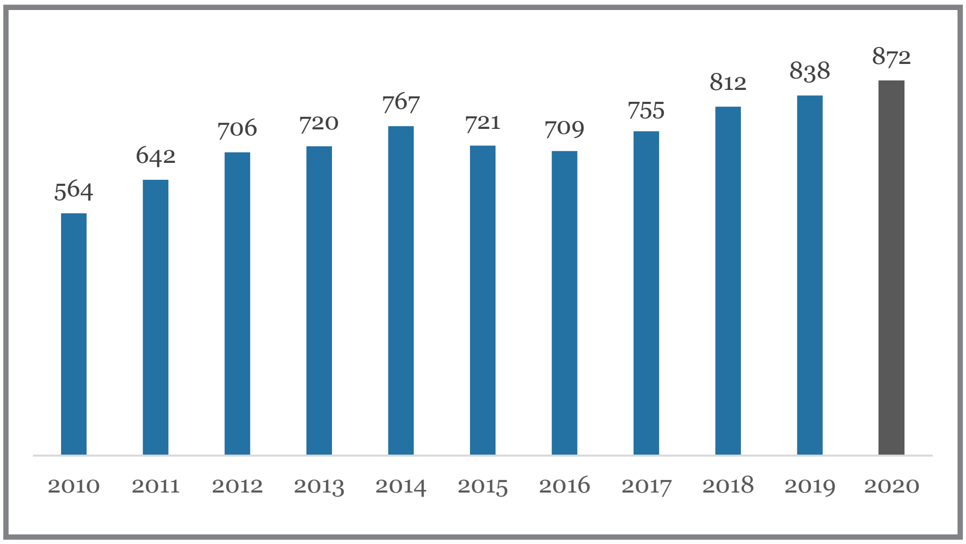


Source: UN Comtrade, Proshare Research

Impact on the Travel and Tourism Sector

Travel and tourism are among the most affected sectors of the pandemic, with flights grounded, hotels closed, workers have either lost their jobs or on furlough, and travel restrictions put in place in virtually all countries around the world. Just as projected by the International Air Transport Associations (IATA) in March 2020, coronavirus has seriously disrupted the industry which has caused major losses.

Chart 29: Aviation Revenues ($'bn) in the World



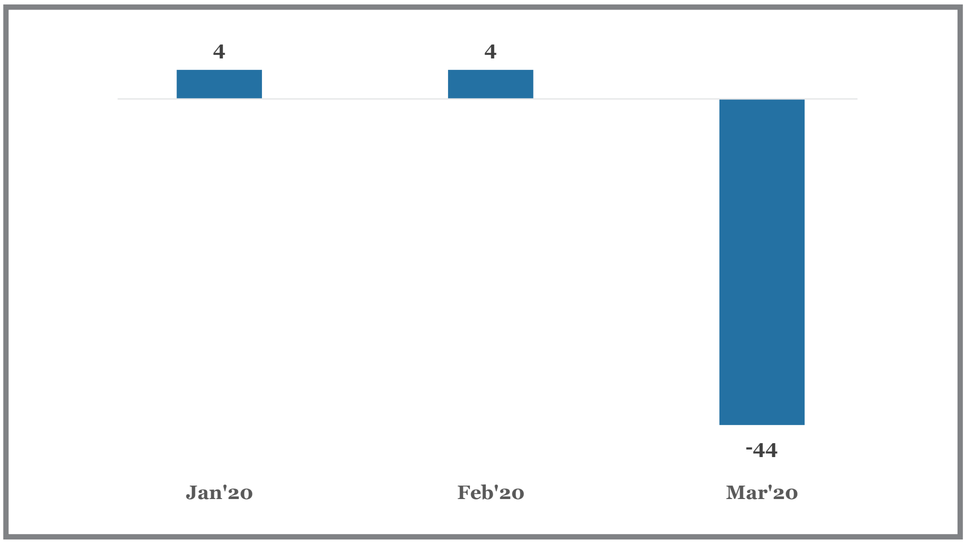
Source: UNWTO, Proshare Research

The aviation industry recorded $830bn in revenues in 2019, globally commercial airlines are expected to generate combined revenues of about $872bn the full year 2020. With the increase in the infections, flights grounded, the IATA projects that the virus will cause a loss of about $113 bn (*see chart 29*)

International Tourist Arrivals

Chart 30: International Tourist Arrivals

COVID-19 pandemic has also cut international tourist arrivals in Africa, the year-to-date performance of the African region shows a decline of -12%, while in March alone it fell by -44%.



Source: UNWTO, Proshare Research

Table 14: Impact Estimates, Selected African and Middle East Countries

***Table 14*: Impact Estimates, Selected African and Middle East Countries**

IMPACT ESTIMATES, SELECTED AFRICAN AND MIDDLE EAST COUNTRIES

Nation	Revenue Impact (bn)	Passenger Impact (mn)	Passenger Demand Impact (%)	Possible Job Impact	Possible GDP Impact ($'bn)
Qatar	-1.32	-3.6	-37%	-53,640	-2.1
Saudi Arabia	-5.61	-26.7	-39%	-217,570	-13.6
UAE	-5.36	-23.8	-40%	-287,863	-17.7
Egypt	-1.66	-9.5	-35%	-205,560	-2.4
Jordan	-0.5	-2.8	-38%	-26,400	-0.8
Morocco	-1.3	-8.1	-38%	-372,081	-3.4
South Africa	-2.29	-10.7	-41%	-186,805	-3.8
Kenya	-0.54	-2.5	-36%	-137,965	-1.1
Ethiopia	-0.3	-1.6	-30%	-327,062	-1.2
Nigeria	-0.76	-3.5	-37%	-91,380	-0.65

Source: IATA, Proshare Research, Ecographics

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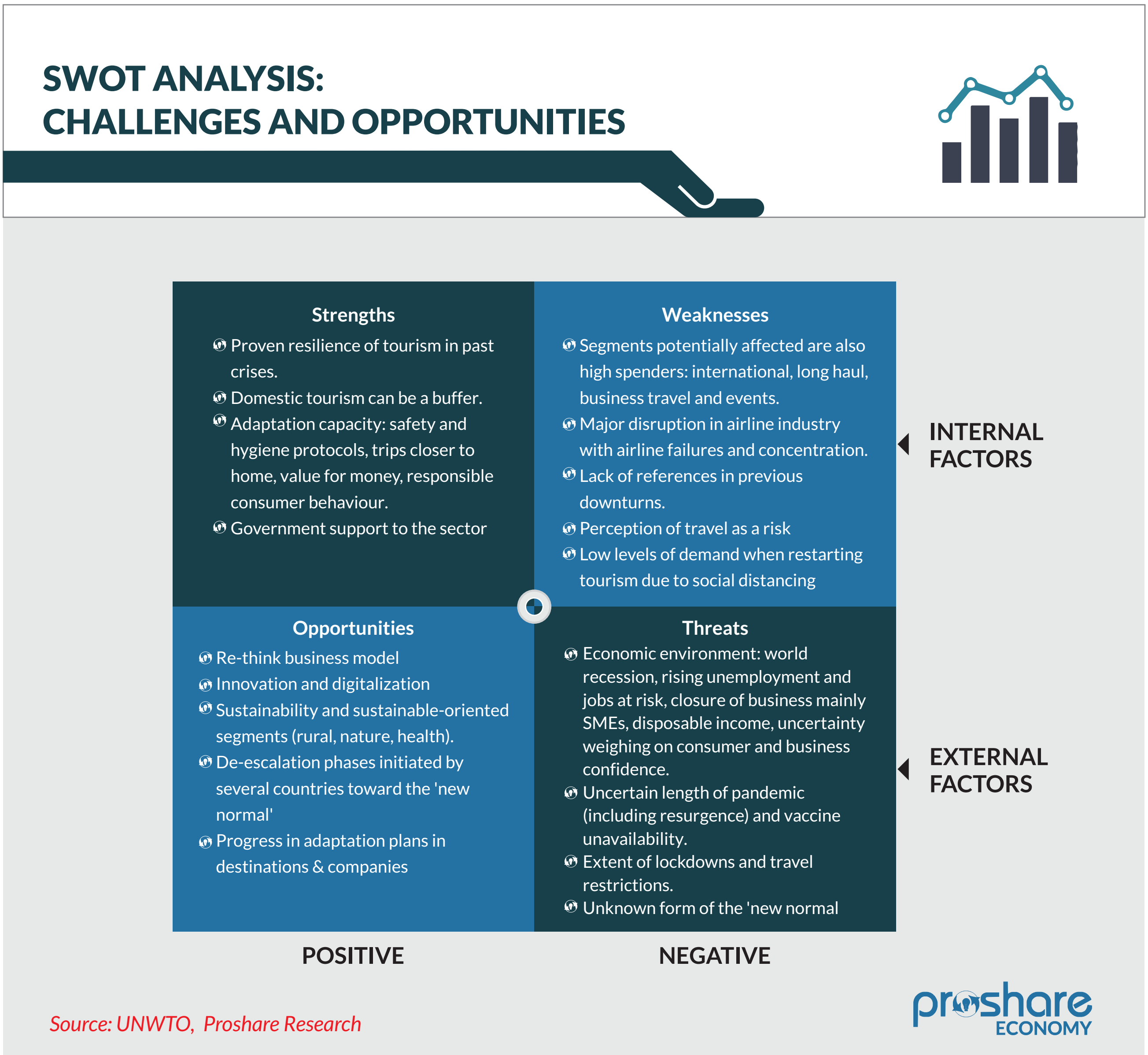
Some of the impacts of the virus include;

- Concerning Nigeria, 3.5m fewer passengers resulting in a revenue loss of $0.76 bn and risking the loss of 91,380 jobs and $ 0.65bn contribution to Nigeria's GDP.
- UAE appears to have been hit the hardest in terms of the sector's contribution to GDP, 523.8m fewer passengers resulting in $5.36bn revenue loss, risking 287,863 jobs and $17.7bn contribution to GDP.
- Morocco stands the risk to be impacted the hardest in terms of possible job loss. 8.1m fewer passengers resulting in $1.3bn revenue loss, risking 372,081 jobs and $3.4bn contribution to GDP.

***Illustration 7*: SWOT Analysis: Challenges and Opportunity in Travels and Tourism**



Fighting A Virus -Africa's Equity Market

Thirty-four African stock markets year-to-date performance played up the mirror images of global equity market patterns. Among the 34 stock markets examined twenty-nine (29) stock markets were negative (red), i.e. they dipped while five (5) stock markets were positive (green) i.e. they recorded positive changes.

The stock markets with the highest gain in their year-to-date performance are Egypt's GEX 70, Kenya FTSE ASEA PANAAFRICAN Index and Rwanda's RSE ASI, with positive changes of 60-35%, 60.27% and 21.71% respectively while the top African stock markets that recorded losses are South Africa's Financial 15, Egypt EGX20 Caped and Egypt's EGX 30, which dipped by -36.16%, -32.66% and -30.02% respectively (*see Table 15*).

Table 15: ***African Stock Market as at May 28th, 2020***

AFRICAN STOCK MARKET AS AT MAY 28TH, 2020

S/N	Markets	Country	31-Dec-19	28-May-20	YTD (%)
1	Egypt	EGX 70	534.47	905.15	69.35%
2	Kenya	FTSE ASEA PANAFRICAN Index	1075.14	1723.14	60.27%
3	Rwanda Stock Exchange	RSE ASI	123.4	150.19	21.71%
4	South Africa	Industrial 25	69350	71658.26	3.33%
5	Botswana	DRSI	1054.79	1067.92	1.24%
6	Botswana	LASI	843.79	838.75	-0.60%
7	Botswana	FCI	1562.43	1551.16	-0.72%
8	Botswana	FRSI	777.91	771.99	-0.76%
9	Kenya	FTSE NSE Kenya Govt. Bond	97.5	96.5	-1.03%
10	Botswana	DCI	7494.55	7320.23	-2.33%
11	South Africa	Resource 10	49418.4	47298.44	-4.29%
12	Lusaka	All-Share Index	4264.51	4024.34	-5.63%
13	Malawi	Malawi All Share Index	30252.2	28502.17	-5.78%
14	South Africa	JSE Top 40 Tradable Index	51040	47440.06	-7.05%
15	Tunisia	Tunisia BVMT Index	7131.71	6467.61	-9.31%
16	South Africa	JSE All Share Index	57084.1	51389.12	-9.98%
17	Tanzania	Dar es salaam Stock Exchange All Share Index	2059.21	1805.08	-12.34%
18	Ghana	GSE Composite Index	2254.61	1952.12	-13.42%
19	BRVM	BRVM-10	149.11	127.07	-14.78%
20	BRVM	BRVM-C	159.24	134.21	-15.72%
21	Mauritius	ALL SHARE INDEX	166.41	136.51	-17.97%
22	Casablanca	Casablanca	12171.9	9844.88	-19.12%
23	Kenya	FTSE NSE Kenya 25 Index	229.49	181.12	-21.08%
24	Namibian	NSX Namibia	1306.3	1015.64	-22.25%
25	Kenya	FTSE NSE Kenya 15 Index	221.31	171.72	-22.41%
26	Uganda	All-Share Index	1800.72	1366.88	-24.09%
27	Mauritius	SEMTRI	8309.75	6161.41	-25.85%
28	Kenya	20 SHARE INDEX	2654.39	1964.46	-25.99%
29	Mauritius	SEMDEX	2177.09	1952.12	-26.19%
30	Egypt	EGX 100	1398.1	1002.01	-28.33%
31	Mauritius	SEM7	429.86	306.6	-28.67%
32	Egypt	EGX 30	13961.6	9770.48	-30.02%
33	Egypt	EGX20 Caped	16350.3	11010.48	-32.66%
34	South Africa	Financial 15	15689.4	10016.3	-36.16%

Source: Proshare Research, Bloomberg, Reddif

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Table 16*: *Policy Responses by Selected African Countries

POLICY RESPONSES BY SELECTED AFRICAN COUNTRIES

	Monetary Policy	Fiscal Policy
Ghana	• The Monetary Policy Committee (MPC) cut the policy rate by 150 basis points to 14.5% on March 18. • Announced several measures to mitigate the impact of the pandemic shock, including: • Lowering the primary reserve requirement from 10 to 8%, lowering the capital conservation buffer from 3 to 1.5%, among others	• The government committed US$100 million to support preparedness and response. Additional funds have been earmarked to address availability of test kits, pharmaceuticals, equipment, and bed capacity.
Kenya	• On March 24, the central bank lowered its policy rate by 100 bps to 7.25%; • Lowered banks' cash reserve ratio by 100 bps to 4.25% • Increased the maximum tenor of repurchase agreements from 28 to 91 days; and • Announced flexibility to banks regarding loan classification and provisioning for loans that were performing on March 2, 2020, but were restructured due to the pandemic, among others	• The government earmarked funds for additional health expenditure, including enhanced surveillance, laboratory services, isolation units, equipment, supplies, and communication. • The government also earmarked funds for expediting payments of existing obligations to maintain cash flow for businesses during the crisis. • The President and his deputy will take an 80% pay cut, while the ministers and their assistants will take pay cuts ranging from 20% to 30%.
South Africa	• The central bank reduced the policy rate by 100 bps to 5.25 percent on March 19. • On March 23, the government announced the launch of a unified approach to enable banks to provide debt relief to borrowers.	• The government is assisting companies facing distress through the Unemployment Insurance Fund and special programmes from the Industrial Development Corporation. • Within the realm of the budget, workers with an income below a certain threshold will receive a small monthly payment during the next four months. • The government plans to cut $10.5bn from civil-servant pay in the next three years to halt rapid rise in public debts between 2020 and 2021.

Source: ECB, Financial Times, IMF, Proshare Research

The Nigerian Economy In Relief

Introduction

The emergence of the novel coronavirus (COVID-19) has worsened Nigeria's fiscal sustainability. The economy has been plagued by high unemployment, rising inflation rates and low real GDP growth.

Table 17: ***NCDC Disease Outbreak figures- A Cache of Distress***

NCDC: DISEASE OUTBREAK

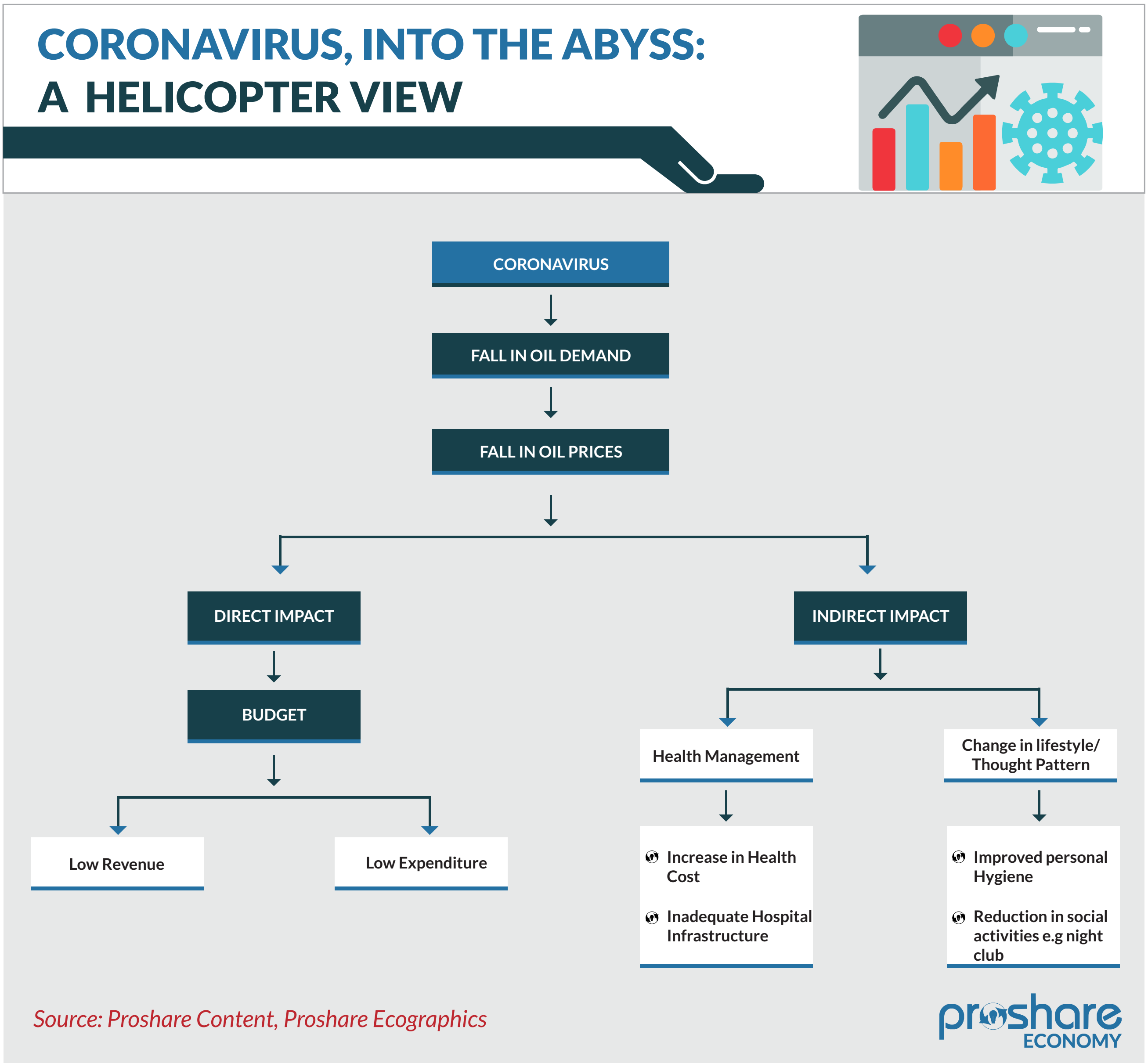
	COVID-19	Lassa Fever	Rubella Outbreak	Measles Outbreak
2020 Update Period Coverage	28-May-20	May 17, 2020	Jan 31, 2020	Jan 31, 2020
Confirmed Case	8915	1006	40	1618
Death	259	194	0	5
Case Fatality Ratio (%)	2.9%	19.3%	0	0.3
State Presence	35+FCT	27	17	30

Source: NCDC

The virus revealed the dire need for restructuring and revitalizing of Nigeria's health care infrastructure, as well as the need for unconventional economic policies to properly position the Nigerian economy for the aftermath of the COVID-19 virus.

Illustration 8: Coronavirus, Into the Abyss - A Helicopter View

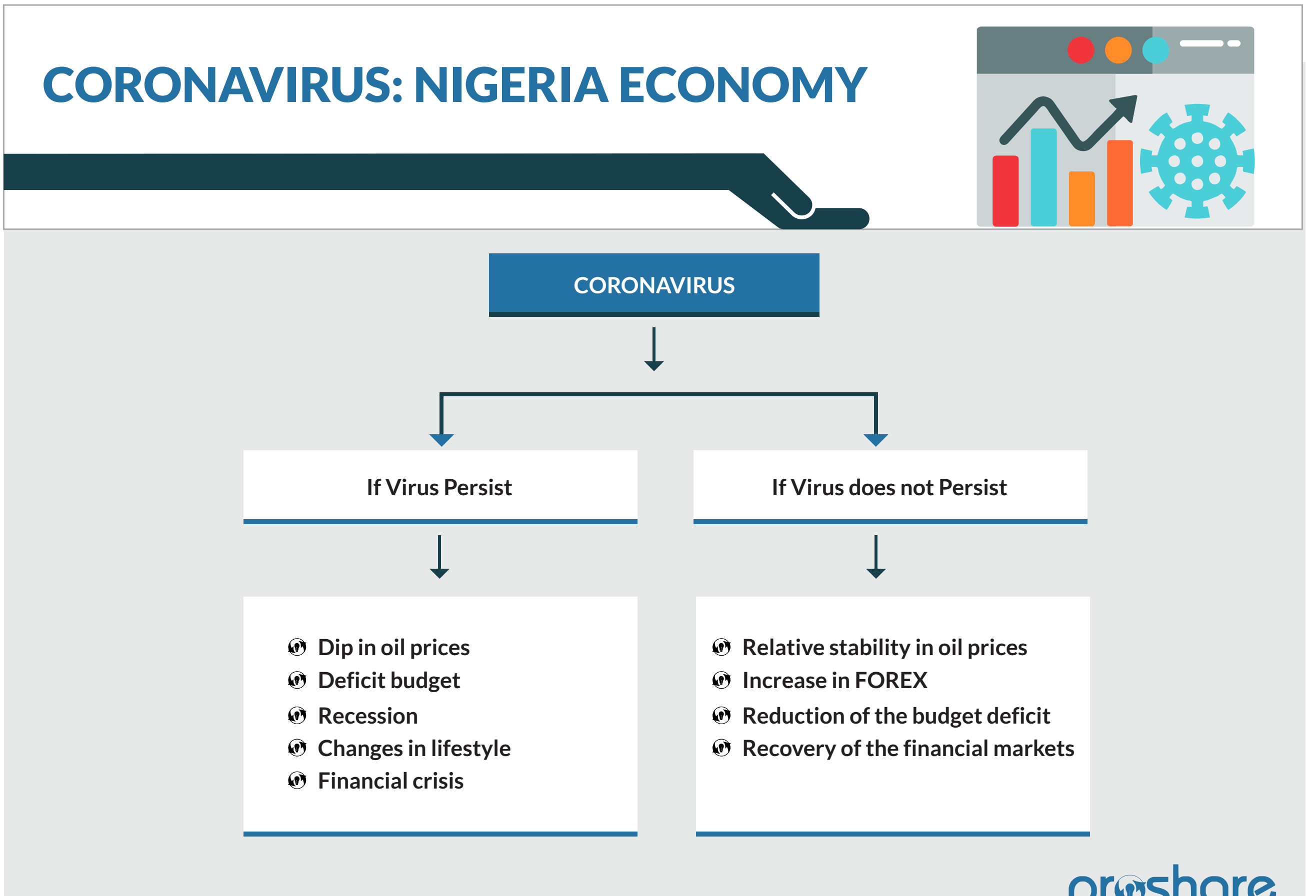
Illustration 8: ***Coronavirus, Into the Abyss - A Helicopter View***



The spread of the pandemic coronavirus has affected the global oil market, commodity market, stock market and the global economy. The Nigerian economy is primarily hinged on oil export revenue making it susceptible to global shocks. Since it's recovery from the recession in 2017, the Nigerian economy has been experiencing slow growth with the population growth rate outmatching the growth of the economy. If the outbreak of the pandemic coronavirus persist, it will further worsen Nigeria's fragile economy and might eventually cause the economy to go into a recession.

Illustration 9: Coronavirus and the Nigeria Economy

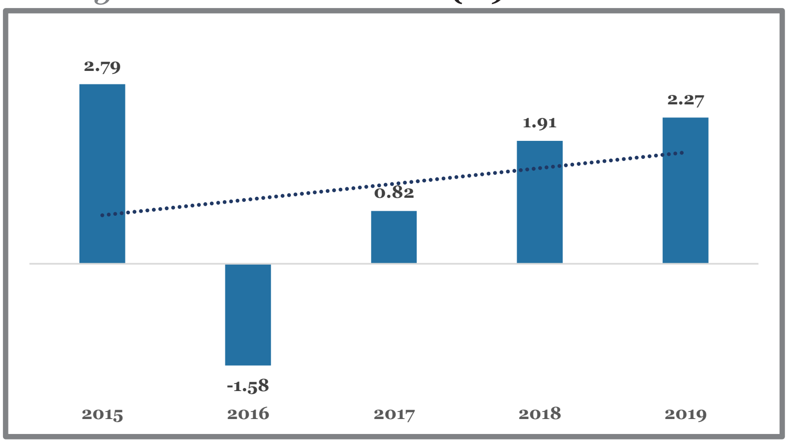
Illustration 9: ***Coronavirus and the Nigeria Economy***



Source: Proshare Content, Proshare Ecographics

Like other developed and developing economies, the coronavirus will most likely impact the Nigerian GDP negatively. In the first quarter of 2020, the Nigerian economy recorded a slow growth of +1.87%, (year-on-year) in real terms, the performance was recorded against the backdrop of significant global disruptions resulting from health crisis, a sharp fall in oil prices and restricted international trade. The performance recorded in Q1 2020 represents a drop of -0.23% points compared to Q1 2019 and -0.68% points compared to Q4 2019, reflecting the earliest effects of the disruption in economic activities caused by the pandemic coronavirus (*see Chart 31*).

Chart 31: ***GDP Growth Rate (%)***



Source: NBS, Proshare Research

The Nigerian government has embarked on various policies such as the restrictions in interstate and foreign travels, restrictions in the movement of people in major cities such as Lagos state, Ogun state and the Federal Capital Territory. The temporary lockdown of the Nigerian economy designed to mitigate the spread of the virus has its benefits as well as its cost. Some of the costs of lockdown include the increase in crime rate, hunger and starvation, loss in revenue for companies and the government while the major benefit of the lockdown is that it helps to curtail the further spread of the virus (*see illustrations 10 and 11*).

Illustration 10: ***Scenario Analysis of Effects Easing and Lockdown on Businesses***

SCENARIO ANALYSIS OF EFFECTS OF EASING AND LOCKDOWN ON BUSINESSES

Early Restrictions

Restricted operations for a variety of hospitality, sporting and entertainment businesses.

Closure of non-essential businesses that would violate social distancing rules.

Public servants and large businesses would be encouraged to provide alternative working arrangements for employees.

Avoidance of non-essential travel.
Closure of state borders.

Possible business impacts include:

Initial confusion as to which businesses may stay open and which businesses may close. The indeterminacy of business survival could lead to the premature closure of businesses that would otherwise have stayed open, causing avoidable economic loss.

Of the businesses that do close, many will suffer significant cash flow difficulties due to a sudden and unexpected drop in sales, precipitating the laying off of staff and contractors and questions over the solvency of some businesses. The closure of these businesses will cause supply disruptions to businesses that continue to operate.

Businesses that close would look for ways to adapt to the new environment to achieve minimal sales.

Most businesses that remain open would experience a slowdown in gross income as a result of people staying at home and a shift towards online sales. The slowdown in sales would have a negative impact on cash flows causing businesses to seek fresh cash support through debts to be repaid, selling non-core assets and obtaining new loans. They would also seek to reduce cash outflows through cost cutting, including reducing staff costs, renegotiating supply agreements and renegotiating or deferring rent.

Businesses would look to delay or cancel investments unless it is essential to support staff working from home or increasing online sales.

Businesses that remain open may experience a short-term spike in the sales of certain items and may experience difficulty meeting that demand.

Businesses that seek to continue to operate may experience some short-term increases in outgoings on technology to support staff working from home as well as protective items for staff.

Businesses may need to move staff to areas of the business experiencing an increase in work, such as online sales.

All businesses would look for concessions from governments, banks and suppliers to remain in business. COVID-19 IMPACT ANALYSIS Possible impacts on Australian businesses from current and projected government responses to the COVID-19 pandemic.

Uncertainty over the future of many business will impact the health of business owners and their staff. Bankruptcies and insolvencies will increase, especially for businesses that were already in a weak financial position before the crisis.

With other countries imposing similar or harsher restrictions, export markets will also be impacted, as will supply from those markets.

Source: Proshare Research

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Illustration 11: ***Scenario Analysis of Effects Easing and Lockdown on Businesses***

SCENARIO ANALYSIS OF EFFECTS EASING AND LOCKDOWN ON BUSINESSES

Easing of restrictions

Restrictions around interstate travel are slowly lifted.

Non-essential businesses begin to re-open, although operations will be limited.

Outdoor gatherings of smaller groups are permitted.

Places of worship reopened.

Businesses reopen and unemployment will start to drop, albeit slowly.

Many businesses will be cautious, with many not returning to pre-crisis levels of activity due to a weakened economy.

Large businesses that survive the crisis with cash reserves may be increasingly dominant and use.

High levels of caution is still advised

Possible business impacts include:

Businesses reopen and unemployment will start to drop, albeit slowly.

Many businesses will be cautious, with many not returning to pre-crisis levels of activity due to a weakened economy.

Large businesses that survive the crisis with cash reserves may be increasingly dominant and use.

High levels of caution is still advised Step Two: post-pandemic All businesses are permitted to reopen and reinstate business as-usual

International travel is reinstated.

Changes in consumer behaviour brought on by the crisis, such as online shopping, will persist and may grow, with businesses able to meet this change most likely to thrive.

The demand for business advice from professionals will be high, especially in restructuring and acquisitions.

Skills of the workforce will need to be realigned to meet the changing needs of business and consumers.

Many sectors and geographic areas of the economy will struggle for many years, requiring long-term government support.

There may be a shift from small businesses typically owned and operated by older people to younger people. With a large proportion of small businesses operated by people over 60, many will close their business even if their business survives the crisis, given the rebuild phase will be difficult. There will be increased opportunities for younger people who may be out of work to acquire an existing business for a reduced price or start their own, more digitally focused business.

Government support for the economy, whether from the Federal Government or CBN, will persist for some time, leading to a long period of budget deficits and government carrying a much larger debt.

Source: Proshare Research

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Illustration 12: ***Scenarios for the Economic Impact of the COVID-19 Crisis***

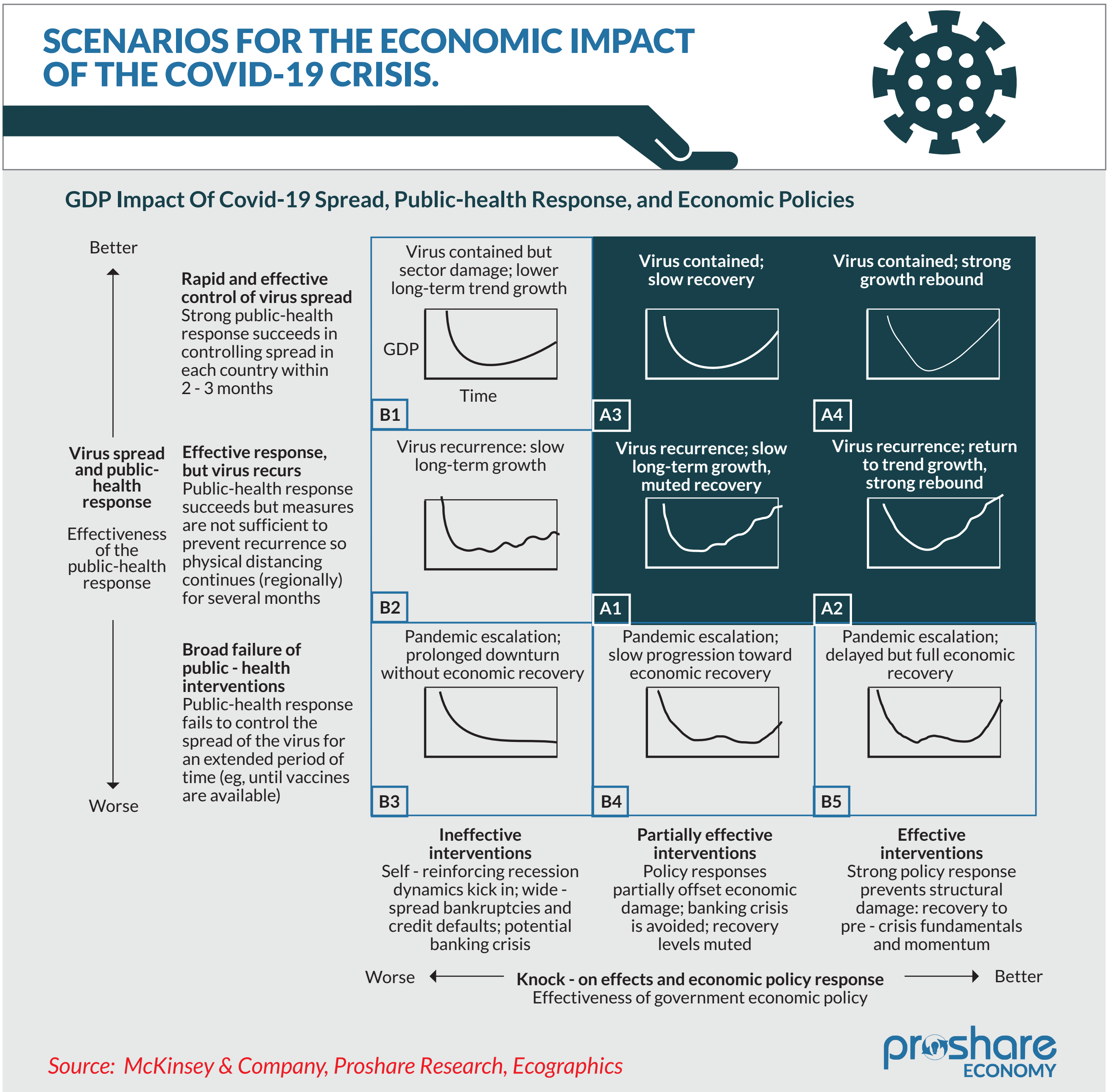
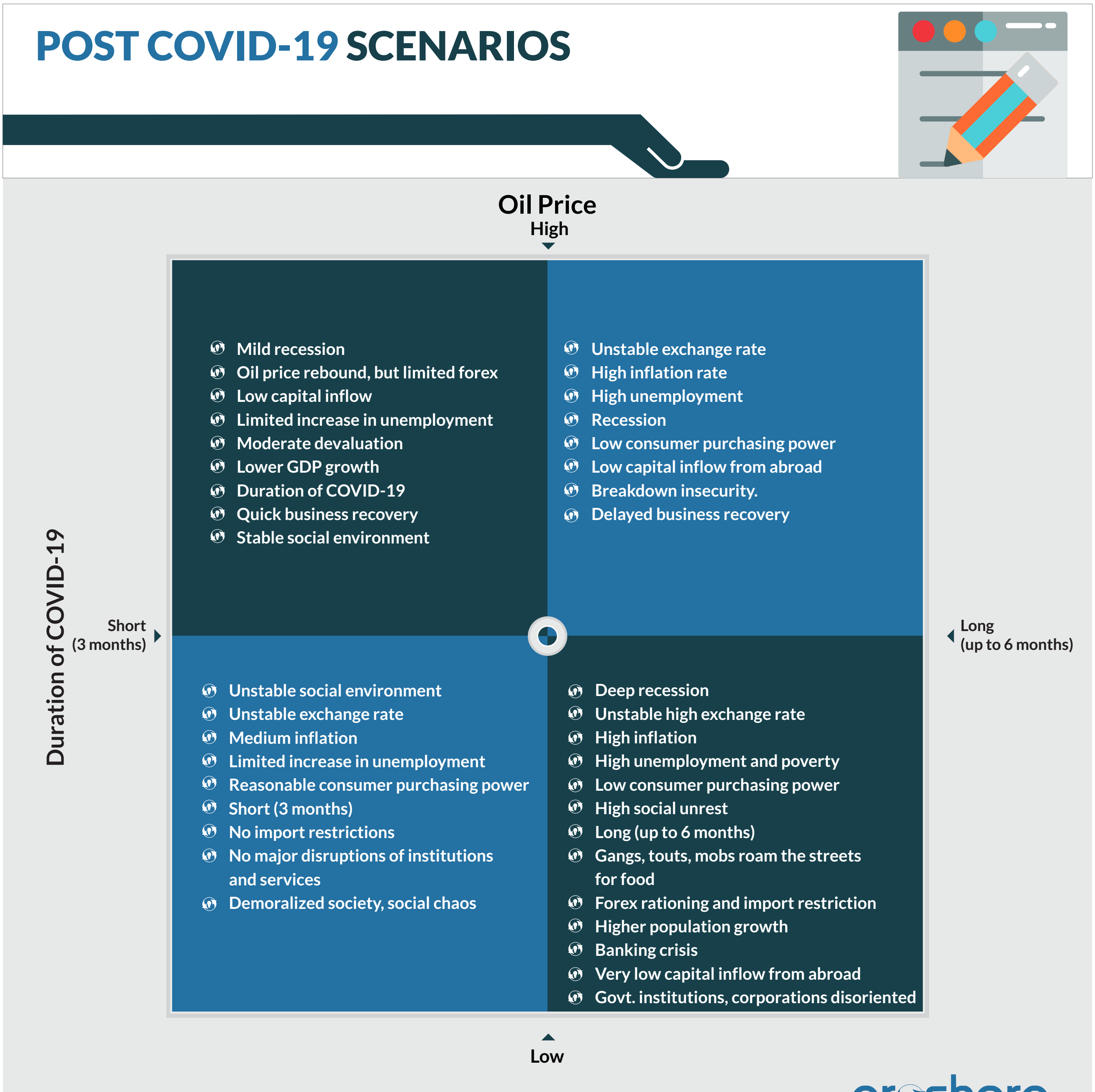


Illustration 13: Post COVID-19 Scenarios

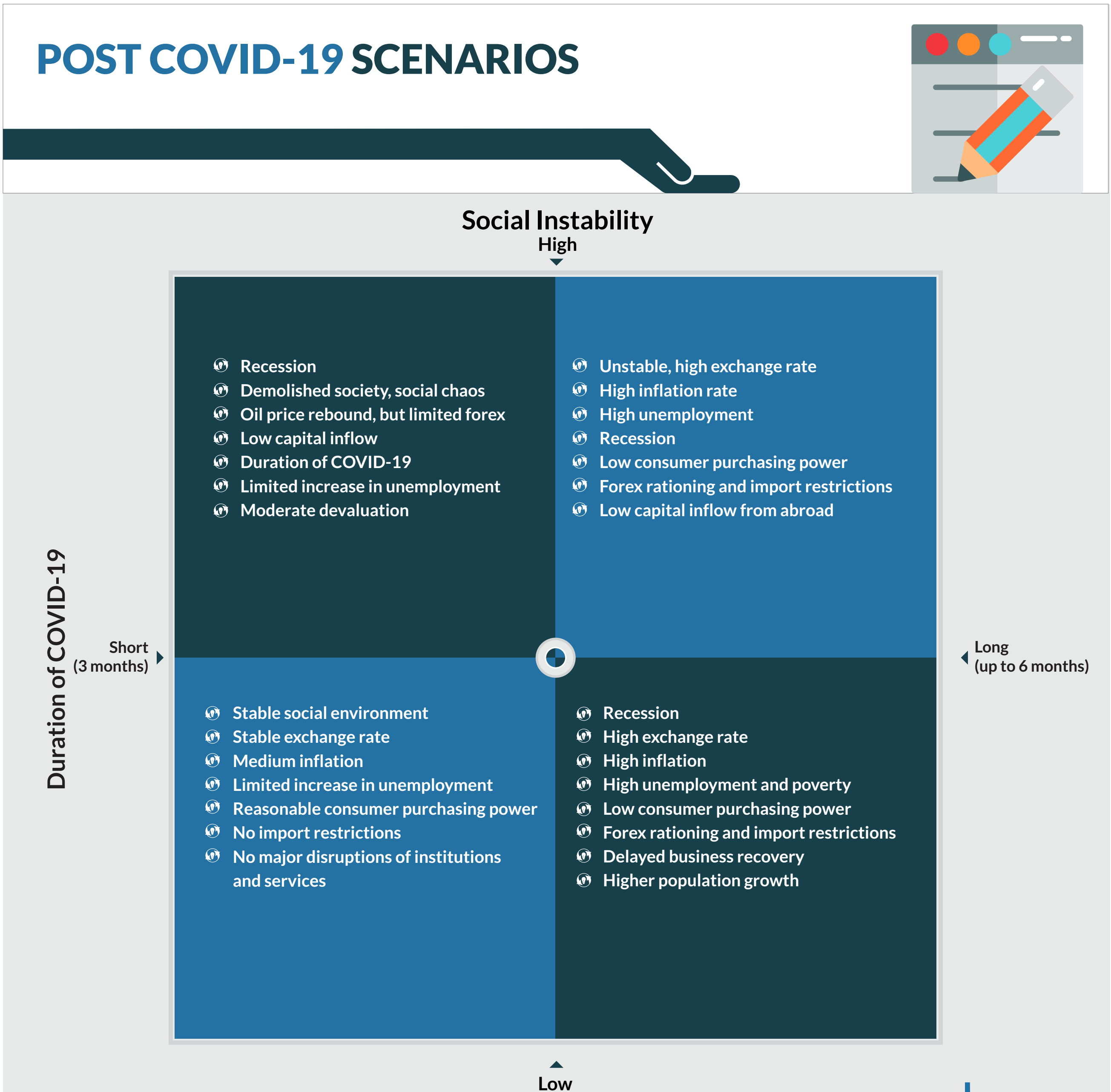
Illustration 13: ***Post COVID-19 Scenarios***



Source: LBS, Proshare Research, Proshare Ecographics

Illustration 13: Post COVID-19 Scenarios

Illustration 14: ***Post COVID-19 Scenarios***



Source: LBS, Proshare Research, Proshare Ecographics

Illustration 13: Post COVID-19 Scenarios

Nigeria: The Budget, The People and Poverty

The restrictions in the movement have negatively affected the demand for oil and have caused uncertainty in the global oil market. During the crisis period, the WTI traded as low as negative $37.63 per barrel in April while the Brent crude oil price fell remarkable too as low as $15.98 per barrel. To meet its current economic realities and to avoid any further shocks that can occur as a result of volatility in oil price, the Nigerian budget, as well as the oil price, was revised downwards. The budget benchmark for oil was revised to $30 per barrel from $57 per barrel while it was announced by the budget minister that the capital expenditure will be cut by 20% and recurrent expenditure will be reduced by as much as 25% in the revised 2020 budget.

Table 18: ***Nigeria's 2020 Budget Summary and Adjustments-Rethinking Reality***

NIGERIA'S 2020 BUDGET SUMMARY AND ADJUSTMENTS-RETHINKING REALITY

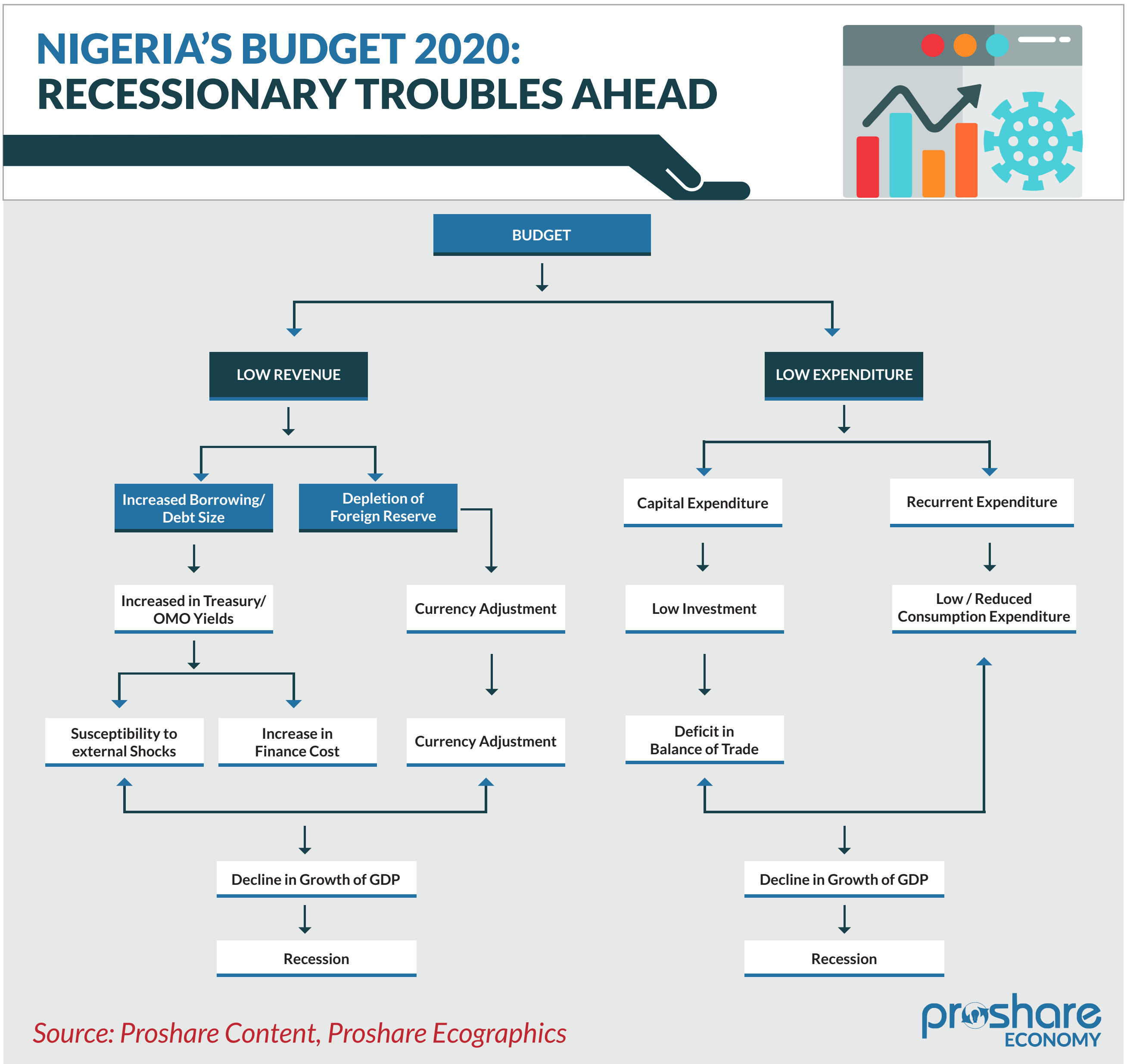
Budget Items	Initial Budget (N'bn)	Proposed Revision (N'bn)	% Change
Statutory Transfers	0.56	0.56	0%
Recurrent Expenditure	7.57	5.68	-25%
Capital Expenditure	2.47	1.97	-20%
Budget Size	10.59	8.21	-22.51%

Source: Budget Office, Proshare Research

Some of the consequences of the reduction in the Nigerian budget include the reduction in revenue and expenditure which could lead to an increase in borrowing, decline in GDP growth rate and eventually a recession in the economy.

Illustration 15: Nigeria's Budget 2020 -Recessionary Troubles Ahead

Illustration 15: ***Nigeria's Budget 2020-Recessionary Troubles Ahead***



The Nigerian economy is on the verge of a macroeconomic crisis which may eventually lead to a recession. The fall in oil prices will affect the overall outlook for the economy in both 2020 and Q1 2021 (*see illustration 15 above*).

Nigeria's Debt Profile– Swimming in Deep Waters

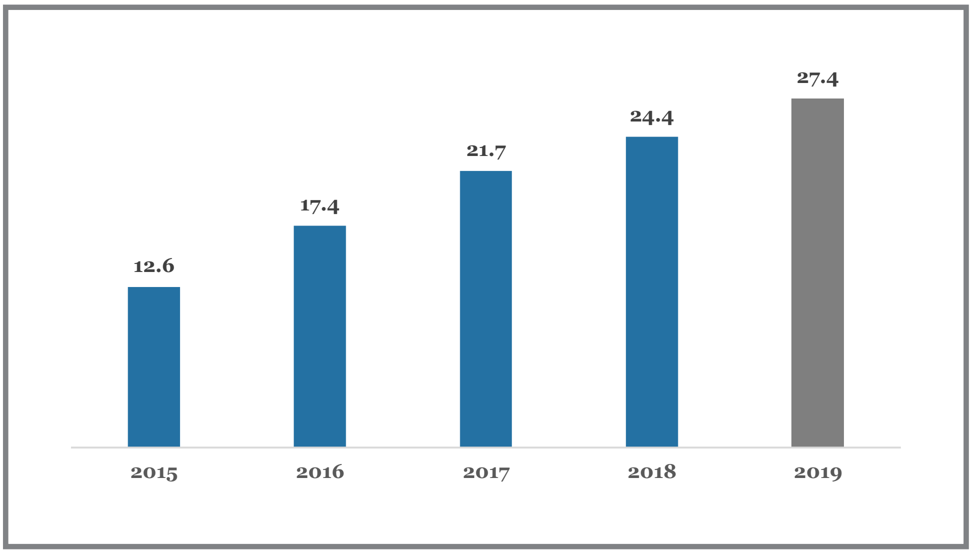
The latest debt data released by the Debt Management Office (DMO) shows that the country's total debt stock as of December 2019 stood at N27.4trn. The debt includes N21.7trn owed by the Federal Government and the N5.6trn owed by the different state governments.

- The Federal Government's debts accounted for 79.59% of the country's total debt, while the states and the FCT government debt accounted for the remaining 20.41%.
- Foreign debt accounted for 32.93% of the total debt at N9.02trn, with the Federal Government owing N7.53trn and the state governments owing N1.48trn.

- Domestic debts accounted for the remaining 67.07%. The Federal Government had a domestic debt portfolio of N14.2trn, accounting for 52.09% of total debt stock, while the states owed N4.1trn, 14.99% of the total debt stock.

Nigeria's mounting debt stock is a major source of worry as the country carries $900bn worth of dead capital by way of the idle physical property and agricultural land. Nigeria's total debt has been increasing but factor productivity growth has slumped. The fall in productivity has meant that the Federal Government's borrowings have not added significantly to economic value. The country's debt service has continued to be a noose around its fiscal neck. Recent debt service figures suggest that the country's debt service obligation in Q1 2020 swallowed up 99.2% of the quarter's fiscal revenue. The government's response so far has been to borrow more money. To be sure digging deeper while inside a hole is not the smartest way to escape a ditch (*see chart 32*).

Chart 32: ***Nigeria's Total Debt (N'trn) 2015-2019***



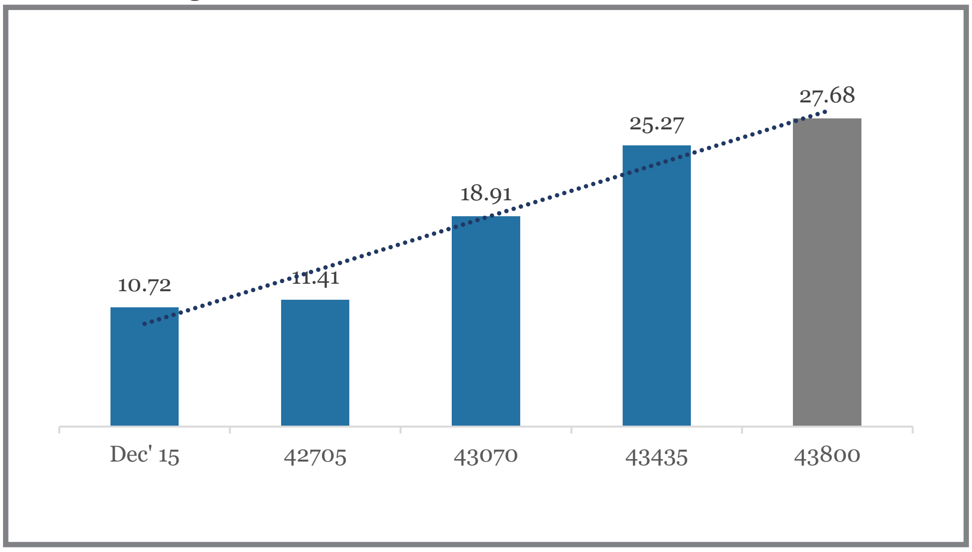
Source: DMO, Proshare Research

Nigeria's External Debt

The coronavirus pandemic will most likely worsen Nigeria's external debt position in 2020 e.g IMF recently approved Nigeria's request for emergency financial assistance of $3.4bn under the Rapid Financing Instrument (RFI) to cover financial emergencies created by the COVID-19 pandemic. Giving the fall in its oil revenue, the need to expand health infrastructures and its huge budget size, the need to seek external debt to bridge its revenue gap becomes inevitable.

Nigeria's external debt trended upwards from December 2015 to December 2019. Nigeria recorded an external debt of $27.68bn in December 2019, the highest recorded since it paid off Paris Club debt in 2006. Nigeria's external debt increased from $10.72bn in December 2015 to $27.68bn in December 2019, a growth of about +158.21%. Plausible reasons for the increase in the external debts include lower oil prices, disproportionate spending and defence of the exchange rate. The categories of the debt owed fall under Multilateral, Bilateral and Commercial loans (European and Diaspora bonds). While Nigeria's external debt to GDP remains under 10% and well below global benchmarks, the debt service commitment of about $1.5bn at the current debt levels is worrisome.

Chart 33: ***Nigeria's External Debt ($'bn) 2015-2019***



Source: Proshare Research, DMO

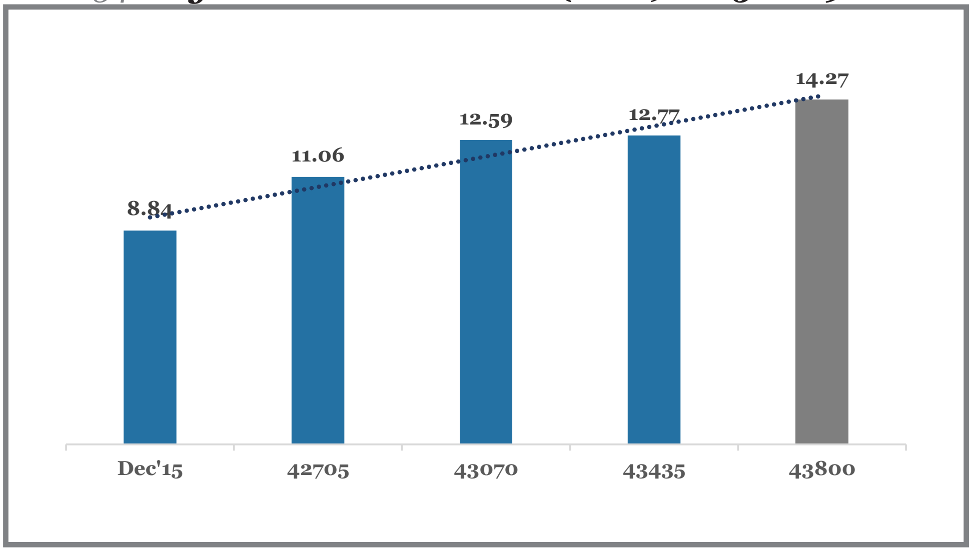
Some economic experts have argued that these borrowings are necessary given the fall in oil revenues and the huge infrastructural deficit needed to propel economic growth. While other economic analyst argued that the increase in the external debt makes the Nigerian economy vulnerable to external shocks. Their argument stems from the fact that Nigeria's external debt levels of $27.68bn is about 75% if external reserves, the highest since 2005. Unlike in previous economic crisis in 2009 and 2016, Nigeria's external reserves may not provide the buffer it requires in 2020. CBN is committed to billions of dollars in forex forward sales and has seen foreign demand for its bills dwindle. Without an uptick in crude oil prices and sales, reserves may fall below $30bn reducing the cover to external debt to below 100%.

To cope with the coronavirus pandemic, economic experts have recommended a more flexible exchange rate to relieve the pressure on the external reserves, which could lead to a fall in the exchange rate before becoming stable.

Nigeria's Domestic Debt

The yearly increase in Nigeria's domestic debt is a major source of concern giving the yearly corresponding rise in its external debt. A major reason for the rise in domestic debt can be attributed to dwindling oil prices and shifting of emphasis to domestic rather than external debt due to foreign exchange translation costs. Since the beginning of the year, Federal Government's bonds have been oversubscribed indicating that there is sufficient liquidity in the domestic market to absorb additional domestic debt, the cost of which is the crowding out of the private investment. Nigeria's domestic debt grew by +62.5% from December 2015 to December 2019. Its domestic debt rose from N8.8trn in December 2015 to N14.3trn in December 2019. It is projected that the domestic debt will rise further in 2020, as a result of coronavirus.

Chart 34: ***Nigeria's Domestic Debt (N'bn) 2015-2019***

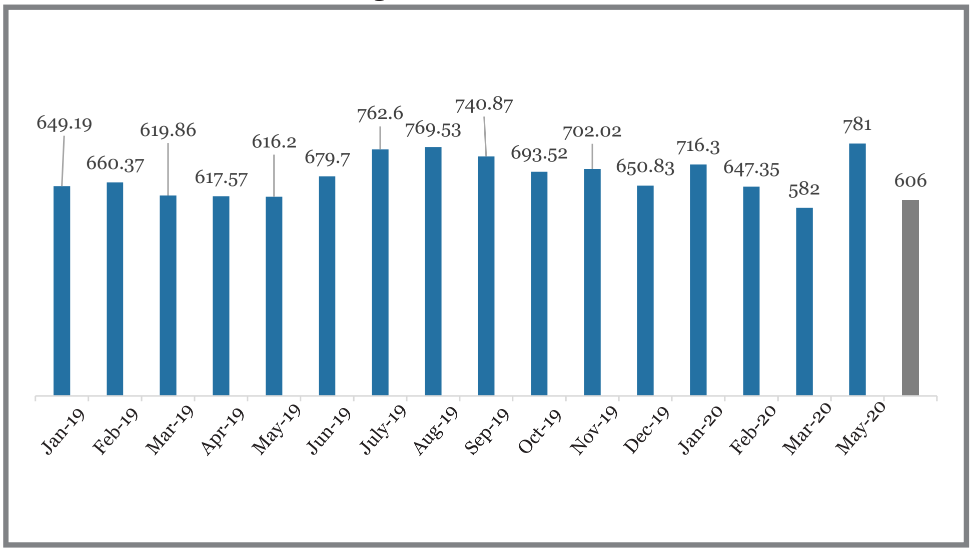


Source: DMO, Proshare Research

Nigeria's National Income– Understanding The Black box

A major reason for the country's rising debt is its dwindling revenues caused by tumbling oil prices. The Nigerian economy is primarily hinged on oil revenue making it susceptible to external oil shocks. Since the discovery of oil in 1956, the emphasis on revenue as slowly drifted from the Agricultural sector which was previously the mainstay of the economy to the oil sector. Despite various calls for the diversification of revenue away from oil, the economy is still highly dependent on the oil export revenue. The economic reality for the need for diversification of revenue has become clear, with the spread of COVID-19 affecting the global oil market. Various economic experts and in most recent times the Minister of Finance Mrs. Zainab Ahmed have emphasized that Nigeria's problem is not a debt problem rather a revenue problem. Due to the emerging fiscal risk which the coronavirus pandemic has caused, the President approved the sum of $150m to be withdrawn from the stabilization fund of the Nigerian Sovereign Investment Authority (NSIA) to support the June 2020 FAAC.

Chart 35: ***FAAC Monthly Disbursement (N'bn)***

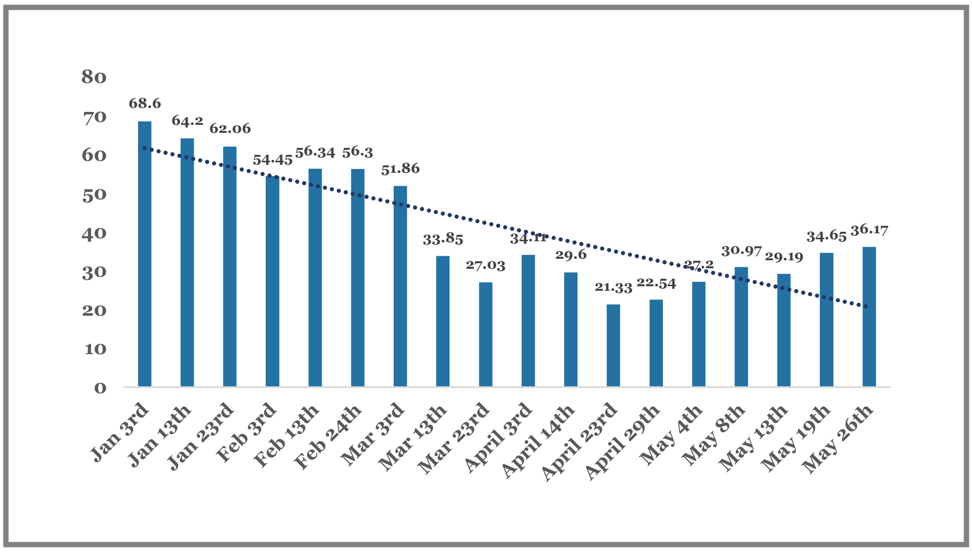


Source: NBS, Proshare Research

Nigeria's major source of revenue can be classified majorly under oil and non-oil revenue. Unfortunately, it has been unable to grow its non-oil revenue significantly while its oil revenue which it mainly relies on has been negatively hit with uncertainty arising from the novel coronavirus. The need to grow its non-oil revenue stems from the fact that non-oil revenue is very much in their control compared to its oil revenue susceptible to supply and demand shocks e.g. the coronavirus which has affected the global oil market negatively.

Nigeria recorded an oil revenue of N8trn in 2011 and has never been as high since. The big drop happened in 2015 when oil revenues fell from N6.8trn to N3.8trn following a plunge in oil prices and a subsequent drop in oil production due to disruptions from militants in the Niger Delta. Oil prices were above $100 per barrel before the collapse; now we have an assumed price of $30 per barrel for the 2020 budget. Brent crude oil price has a downward trend, this is predicted to worsen if travels and movements are restricted and a vaccine is not found for the novel coronavirus. With a dim oil price outlook given the pandemic coronavirus, Nigeria's fiscal position and external balance will be threatened (*see Chart 36*).

Chart 36: ***Brent Crude Price Jan 2020 – May 2020 $/b***

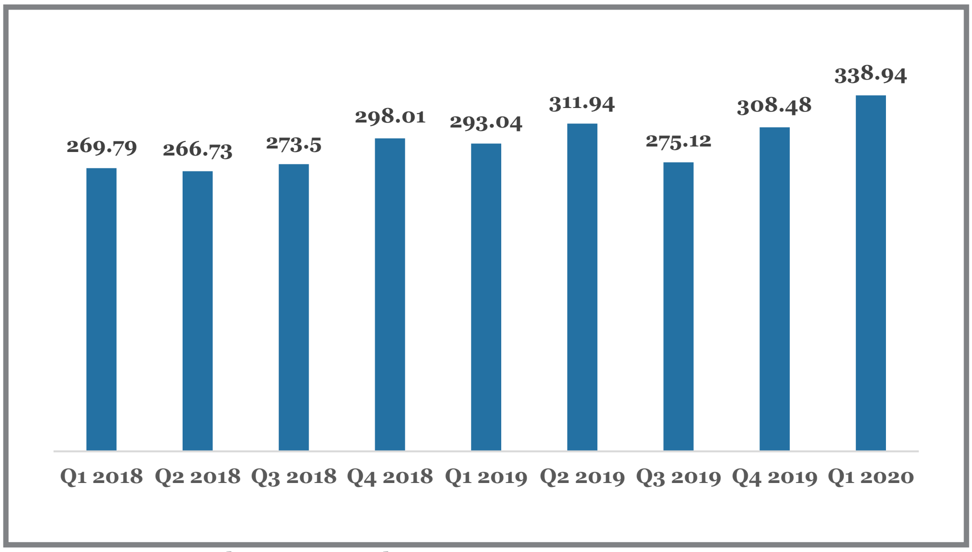


Source: Bloomberg, Proshare Research

To reduce its reliance on oil revenue, the Federal Government increased its VAT from 5% to 7.5%. Whilst this mounts pressures on the average Nigerian consumer and threatens their disposable income, the increase in Nigeria's non-oil revenue is important to fund the country's ambitious expenditure and investment programmes scheduled for the near to long term. Taxes are typically the primary source of government revenue, it accounts for 94% of federal revenue in the U.S, 98% in South Africa, and 80% in Ghana.

The intensified drive by the Federal Government to boost its non-oil revenue should be commended. However, the drive would have limited impact without addressing some structural challenges. First, the attempt of the FGN to introduce creative ways to raise its non-oil revenue would be a futile effort without blocking inherent leakages within the system e.g. the economy has a very large informal system which is yet to be appropriately captured. Second, increasing the tax rate is not nearly enough without improving tax administration and collection.

Chart 37: ***Nigeria's VAT (N'bn) Q1 2018- Q1 2020***



Source: NBS, Proshare Research

The latest data from the National Bureau of Statistics reveals that the total Value Added Tax (VAT) collected in Q1 2020 was N338.94bn the highest recorded since NBS began publishing the data in Q1 2013, a growth of 10% when compared with N308.48bn collected in Q4 2019. The significant growth in VAT is a reflection of the impact of the increase in VAT from 5% to 7.5%.

The increment in VAT collection in Q1 2020, could be predicted given the mild impact of the coronavirus on the Nigerian market and its supply chains. Going forward, it is predicted that there will be a reduction in VAT collected as demand weakens due to a reduction in income levels, job losses, closure of hotels and bars etc. It is also expected that VAT on imported goods will be constrained by the disruption in the global supply chain, as importers and manufacturers cut back on purchasing plans in response to the slowdown in demand for goods and services.

Deconstructing Nigeria's Trade

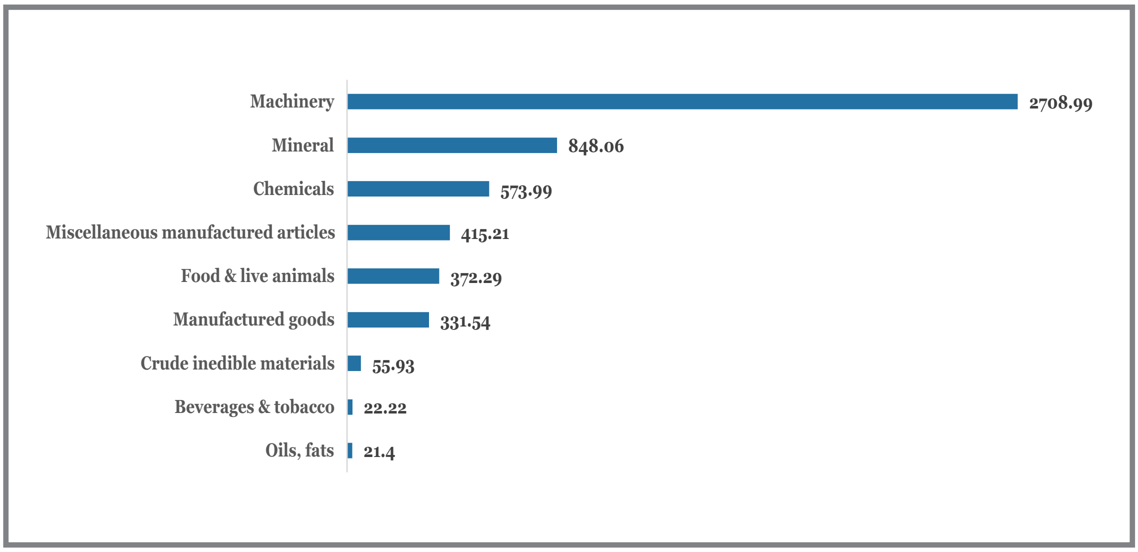
Nigeria's economy like other open economies of the world engages in international trade. A major source of its revenue comes from its trading relations with other nations. In Q4 2019, the value of its total trade was N10.1trn, or 10.2% higher than the value recorded in Q3 2019 and 25.9% higher than in Q4 2018. On an annual basis, the value of total trade in 2019 was recorded at N36.15bn, representing a 14.05% increase over 2018.

To understand the dynamics as well as the channel of transmission of the impact of the COVID-19 on the nations trade balance, it is important to breakdown the trade components.

Imports

Nigeria's total imports stood at N5,349.63bn in Q4 2019 representing an increase of 37.2% over the value recorded in Q3 2019 and 49.34% over the corresponding quarter of 2018. In 2019, total imports grew by 28.8% compared to 2018.

Chart 38: **Value of Imports By Section (N'bn) Q4 2019**



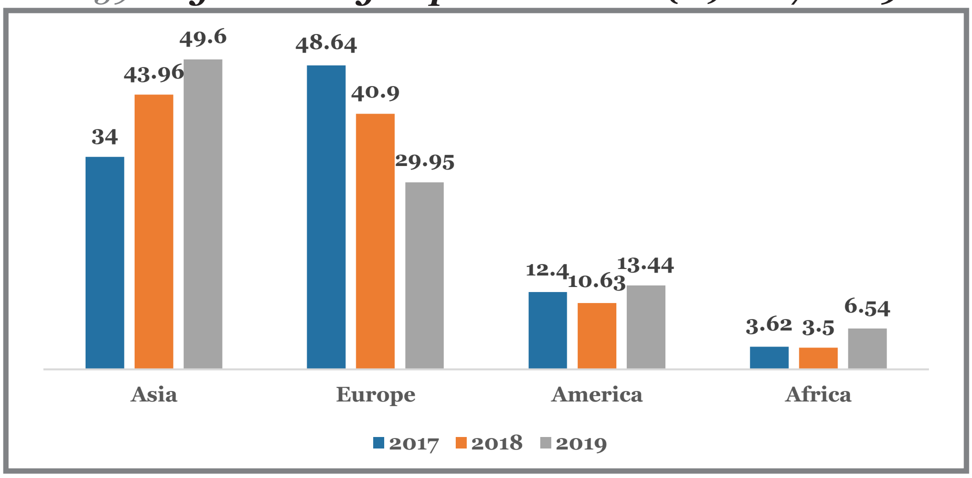
Source: NBS, Proshare Research

Imported manufactured goods recorded the highest increase in imported goods of 40.74% in Q4 2019 from Q3 2019 and 77.50% more than in Q4 2019. This was due to the importation of other electro diagnostic apparatus during the quarter. For 2019, the value of imported manufactured goods imports was 60% higher than in 2018.

While the value of imported Agricultural goods decreased by 2.8% in Q4 2019, compared to Q3 but rose 6.6% compared to the corresponding quarter in 2018. The value of agricultural imports in 2019 was 12.7% higher than in 2018.

The Nigerian economy is heavily reliant on imported manufactured goods. A disruption to the global supply chain as a result of the coronavirus (or any other health pandemic for that matter) would negatively affect strategic imports and hobble domestic production. On the brighter side, the virus opened the eyes of the Nigerian government to the urgent need to follow through on a policy of backward supply chain integration to reduce the impact of international contagion on the local economy.

Chart 39: **Nigeria's Key Import Partners (%) 2017-2019**



Source: NBS, Proshare Research

Nigeria's two key import partners in 2019 were Asia and Europe both accounting for 49.6% and 29.95% respectively of Nigeria's imports. Any disruption to their economies resulting from the coronavirus would adversely affect the Nigerian economy as the effect would likely be transmitted through foreign exchange translation costs and supply disruptions. Some European nations such as Italy, Spain, the UK, Germany and France were initially on lockdown leading to import disruptions and replacement cost pricing of products. The disruption in product and service flows were incorporated into end-product pricing, which raised production costs and put pressure on the local producer price index (PPI) (*see Chart 39*).

Exports

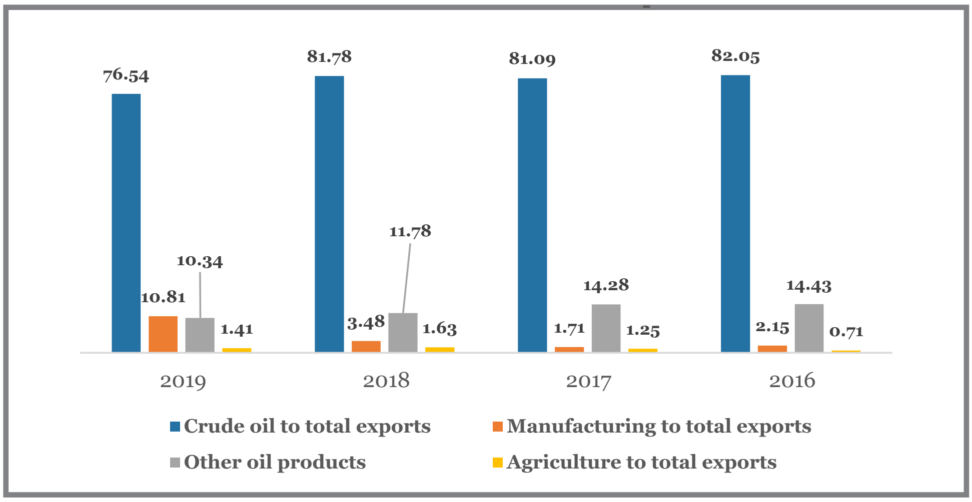
Nigeria's total export value was 9.79% lower in value in Q4 2019 relative to Q3 2019 but 7.06% higher relative to Q4 2018. In 2019, the value of total exports was 3.56% higher than in 2018.

Agricultural goods exports grew in value by 61.89% in Q4 2019, compared to Q3 2019 but decreased by 30.23% when compared with Q4 2018. In 2019, the value of agricultural goods exports fell by 10.74% relative to 2018.

Manufactured goods exports in Q4 2019 were 48.9% less in value than that recorded in Q3 2019 and 573.19% higher than Q4 2018. In 2019, the value of manufactured goods export was over 200% higher than in 2018.

Crude oil exports in Q4 2019 were 3.16% lower than the value in Q3 2019 and 0.88% lower than Q4 2018. For 2019, the value of oil exports was lower than in 2018 by 3.08%.

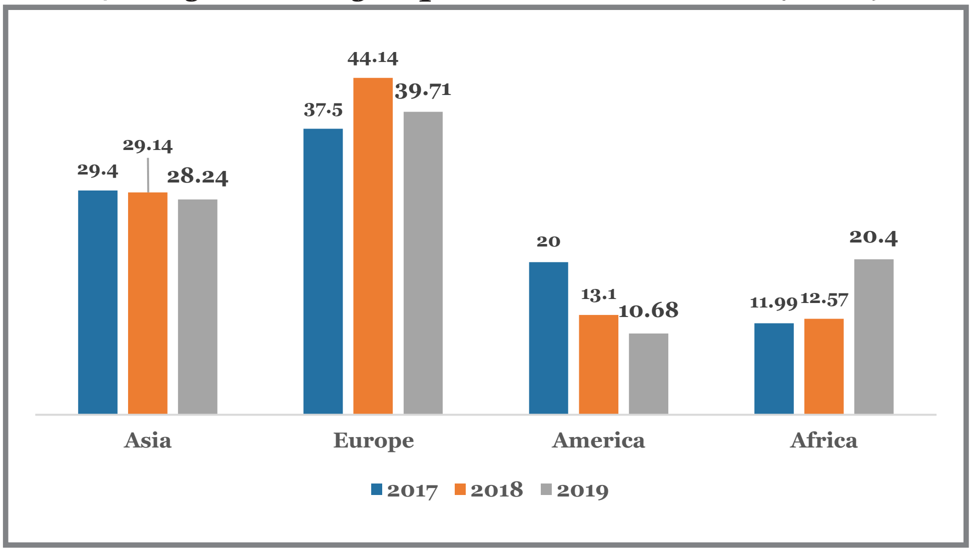
Chart 40: ***Share of Total Exports (%) 2016-2019***



Source: NBS, Proshare Research

Nigeria's top four export products in 2019 were crude oil, other oil products, manufacturing and agricultural products. In 2019, Nigeria recorded a decline in its share of crude oil exports to total exports to 76.54% from 81.78% in 2018. There was also a decline in the share of agriculture exports to total exports to 1.41% in 2019 from 1.63% in 2018. Manufacturing exports to total exports recorded an increase to 10.81% in 2019 from 3.48% in 2018. The latest statistics reveal that the Nigerian economy is still largely dependent on oil exports. The fall in oil demand as a result of the spread of coronavirus would adversely affect Nigeria's revenues in 2020 and perhaps Q1 2021 (*see Chart 40*).

Chart 41: ***Nigeria's Key Export Partners (%) 2017-2019***



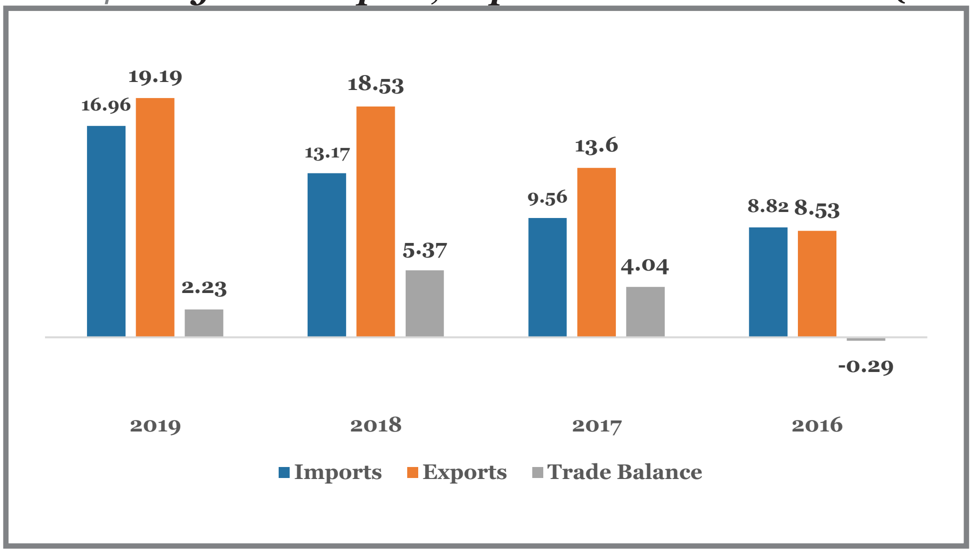
Source: NBS, Proshare Research

Nigeria's key export partners in 2019 were Europe and Asia accounting for 39.71% and 28.71% respectively of Nigeria's export. A disruption in Nigeria's key export partner's economy resulting from coronavirus adversely affected Nigeria's revenue generation capacity (*see Chart 41*).

Nigeria's Trade Balance-A case of Pain Overriding Gain

Nigeria's trade balance declined from N5.37trn in 2018 to N2.23trn in 2019. The drop in the country's trade balance was caused by an increase in its imports relative to exports in 2019. Nigeria's export increased by +3.56% while its imports increased by +28.78%. A continuous spread of the coronavirus across various countries and within the Nigerian economy will disrupt global supply chains, productivity and hence revenue generation which will have adverse effects on Nigeria's trade balance (*see Chart 42*).

Chart 42: ***Nigeria's Import, Export and Trade Balance (N'trn) 2017-2019***



Source: NBS, Proshare Research

Sub-nationals: Digging Deep, Wide and Hard

To understand the effects of COVID-19 on Nigeria's various states, a deep dive into their debt profiles tells a compelling story of financial leverage going awry, especially when placed side-by-side with their federation account allocation (FAAC) and internally generated revenues (IGR). The spread of COVID-19 across states is gradually turning budgetary challenges into fiscal nightmares as many states see their wallets depleted as their debt service obligations outrun their revenues and leave recurrent expenditure thin and vulnerable. The gaps between recurrent fiscal revenues and expenditures will poke large holes in the state's 2020 fiscal strategies. Each region has states that stick out like sore thumbs for high levels of foreign and local debt. In a pos-COVID-19 era, this could prove damaging to fiscal sustainability as FAAC revenues begin to slide downwards from Q2 2020 through to Q1 2021.

State Debt Bungee Dive By Regions

Most states in Nigeria generate little revenue outside of their monthly FAAC allocation. The majority of states depend almost exclusively on monthly allocations of federal revenues, which has declined significantly with the fall in global crude oil prices. Many states have therefore resorted to borrowing to meet their salary obligations, often at exorbitant interest rates as high as 25%.

Some of Nigeria's richest states are equally its most indebted, with the examples of Lagos state, Osun state, Cross Rivers state, Kaduna state and Edo state. State governments, therefore, need to tremendously embrace a high level of transparency and accountability, develop workable economic plans, take haircuts-especially on overheads-expand their internally generated revenue (IGR) base, and cut down on debt accumulation without a concrete repayment plan. They owe the most both in terms of overall dollar amounts and as a percentage of internally generated, non-federally derived revenues. Lagos state had an external debt of $1.4bn which was more than ten times the size of the debt of other sub nationals in the country. The top regions with the highest accumulation of external debt in December 2019 were the South-West and North-West region with an external debt of $1.87bn and $848.28bn respectively. While regions with the highest level of domestic debt as of December 2019 were South-South region and South-West region with a total accumulated domestic debt of N1.15trn and N971.15bn respectively (*see Table 19*).

Table 19: ***External and Domestic Debt by Regions as of December 2019***

EXTERNAL AND DOMESTIC DEBT BY REGIONS AS OF DECEMBER 2019

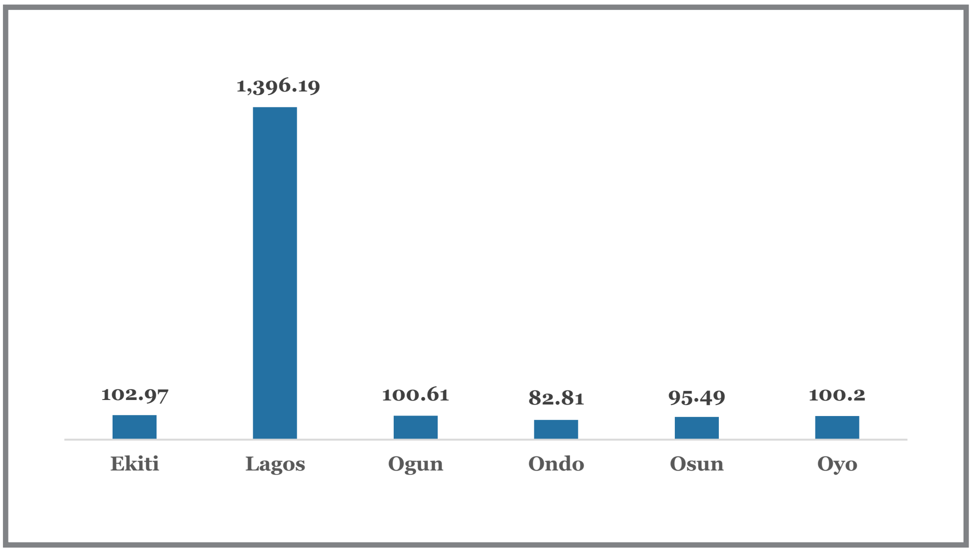
Region	EXTERNAL $'m	DOMESTIC N'bn
South - West	1,87.18	971.15
North - West	848.28	475.24
South - South	733.38	1,148.74
South - East	458.64	374.89
North - East	343.89	482.74
North - Central	302.42	653.54

Source: DMO, Proshare Research

South-West External Debt and Domestic Debt

The total external debt for the South-West region stood at $1.87bn in December 2019. The top three states in the region with the highest amount of debt were Lagos State, Ekiti State and Ogun State with an external debt of $1.4bn, $102.9m and $100.61m respectively (*see Chart 43*).

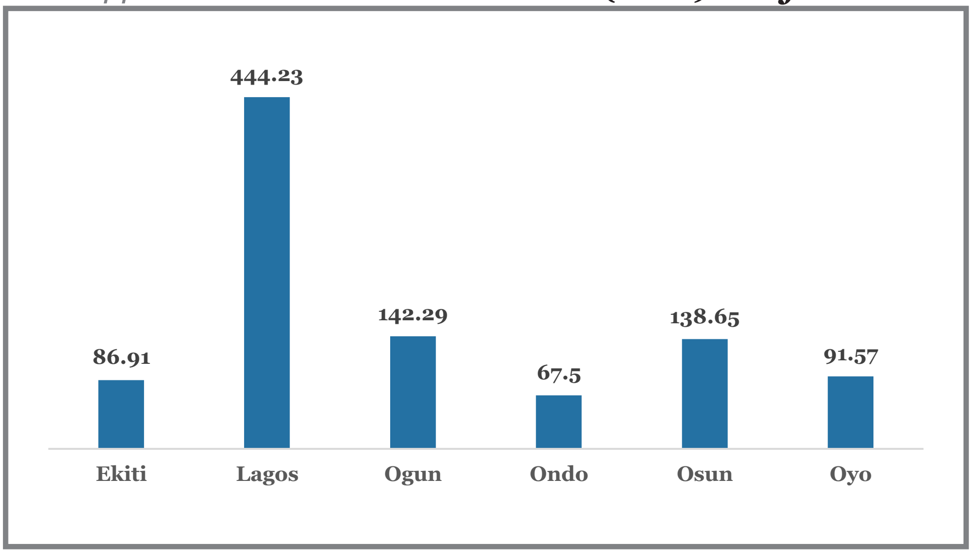
Chart 43: ***South-West External Debt ($'m) as of December 2019***



Source: DMO, Proshare Research

South-West total domestic debt stood at N971.15bn as of December 2019. The top three states with the highest amount of domestic debt were Lagos State, Ogun State and Osun state with domestic debts of N444.23bn, N142.29bn, N138.65bn respectively (*see Chart 44*).

Chart 44: ***South-West Domestic Debt (N'bn) as of December 2019***

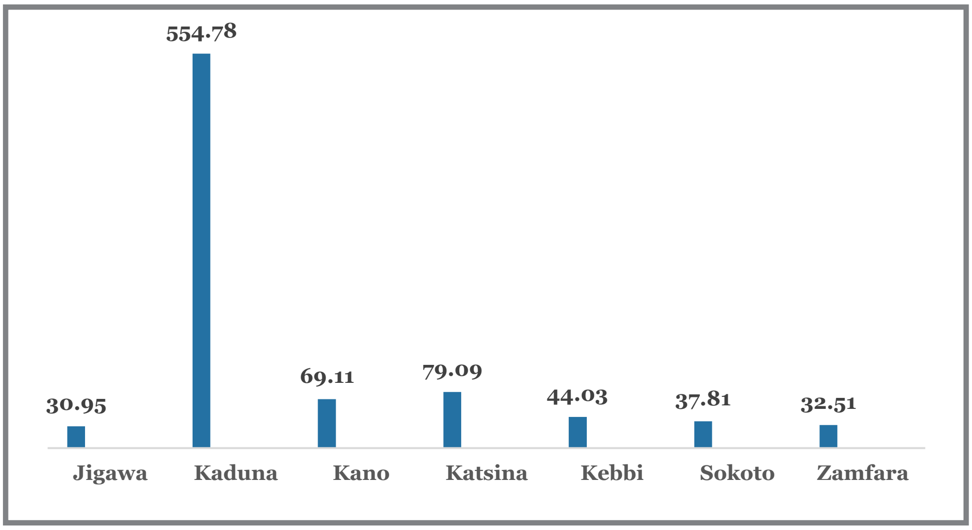


Source: DMO, Proshare Research

North-West External Debt and Domestic Debt

North-West external debt stood at $848.28m as of December 2019. The top three states with the highest external debt were Kaduna State, Katsina State and Kano State with external debts of $554.78m, $79.09m and $69.11m respectively (*see Chart 45*).

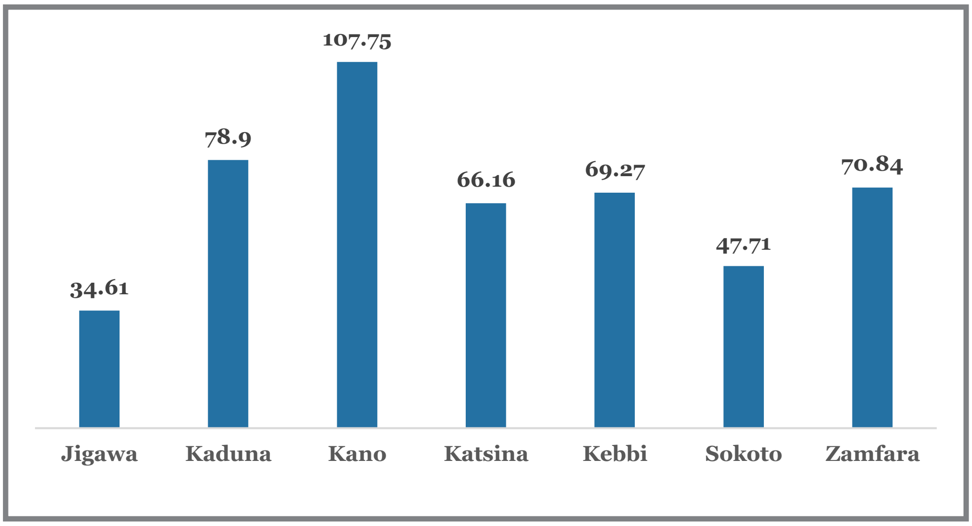
Chart 45: ***North-West External Debt ($'m) as of December 2019***



Source: DMO, Proshare Research

While its domestic debt stood at N475.24bn as of December 2019. The top states in this region with the highest domestic debts were Kano State, Kaduna State and Zamfara State with debts of N107.75bn, N78.9bn and N70.84bn respectively (*see Chart 46*).

Chart 46: ***North-West Domestic Debt (N'bn) as at December 2019***



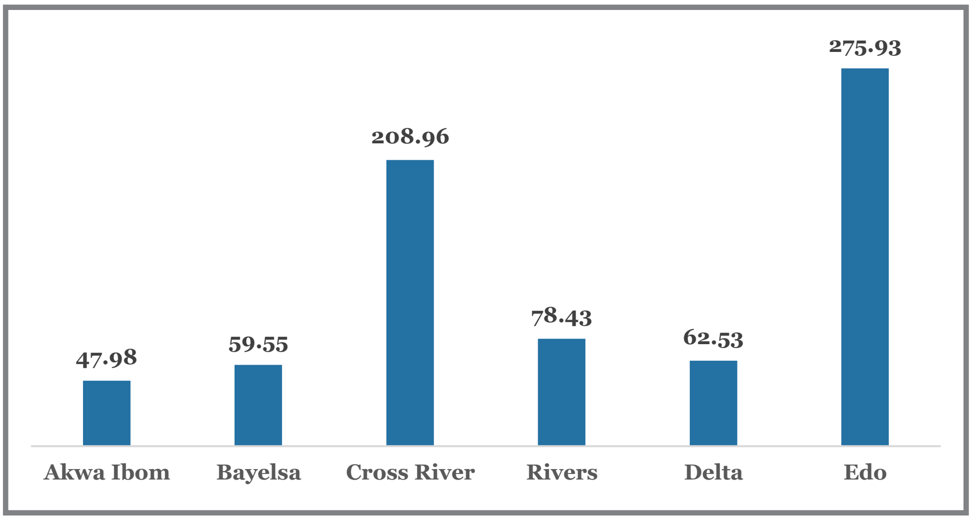
Source: DMO, Proshare Research

South-South External Debt and Domestic Debt z

South-South's cumulative external debt as of December 2019 stood at $733.38m. Edo State's external debt of $275.93m was the highest in the region while Akwa Ibom recorded the lowest external debt of $47.98m as of December 2019 (*see Chart 47*).

Chart 47: South-South External Debt ($'m) as of December 2019

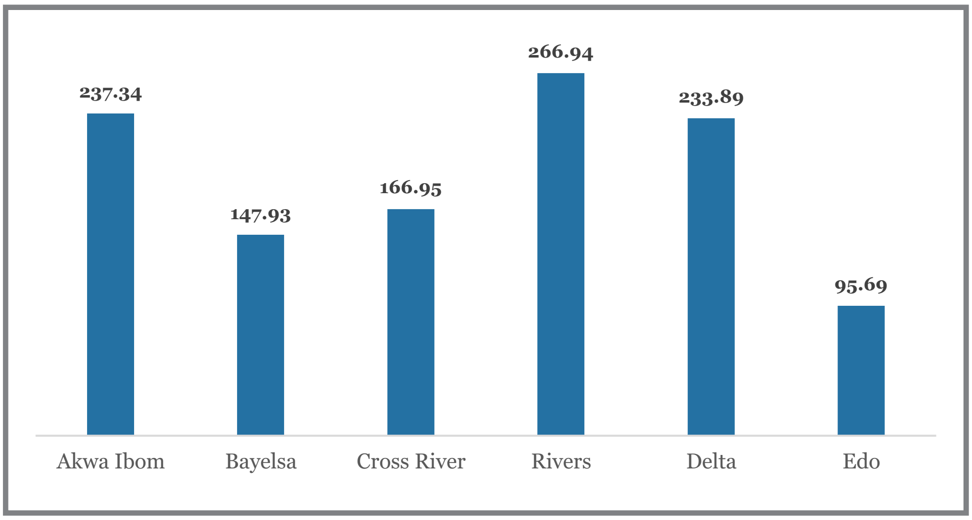
Chart 47: ***South-South External Debt ($'m) as of December 2019***



Source: DMO, Proshare Research

The South-South region recorded the highest domestic debt of N1.15trn as of December 2019. Rivers State recorded the highest domestic debt of N266.94bn while Edo State recorded the lowest debt of N95.69bn as of December 2019 (*see Chart 48*).

Chart 48: ***South-South Domestic Debt (N'bn) as of December 2019***



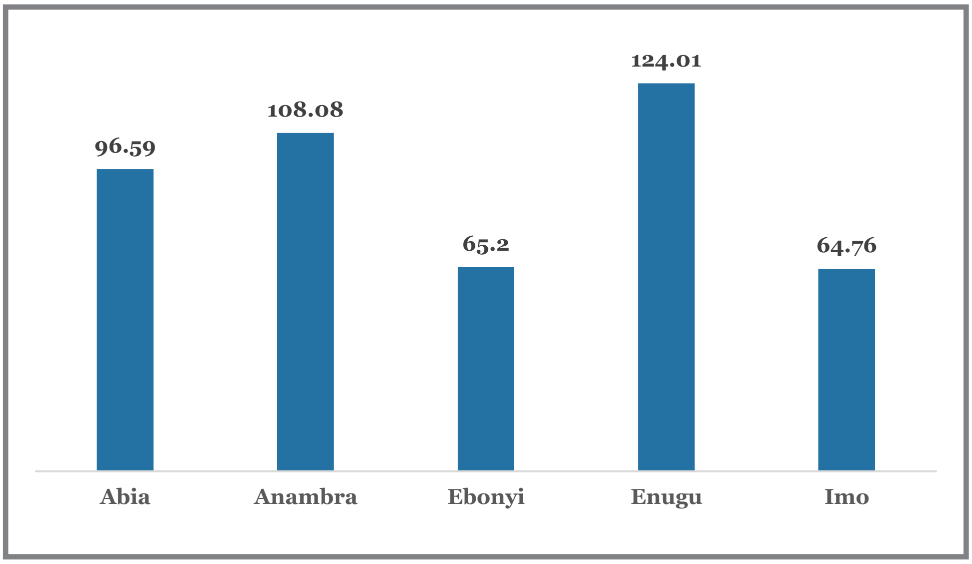
Source: DMO, Proshare Research

South-East External Debt and Domestic Debt

South-East external debt stood at $458.64m as of December 2019. Enugu State recorded the highest external debt of $124.01m while Imo State recorded the lowest external debt of $64.76m as of December 2019 (*see Chart 49*).

Chart 49: South-East External Debt ($'m) as of December 2019

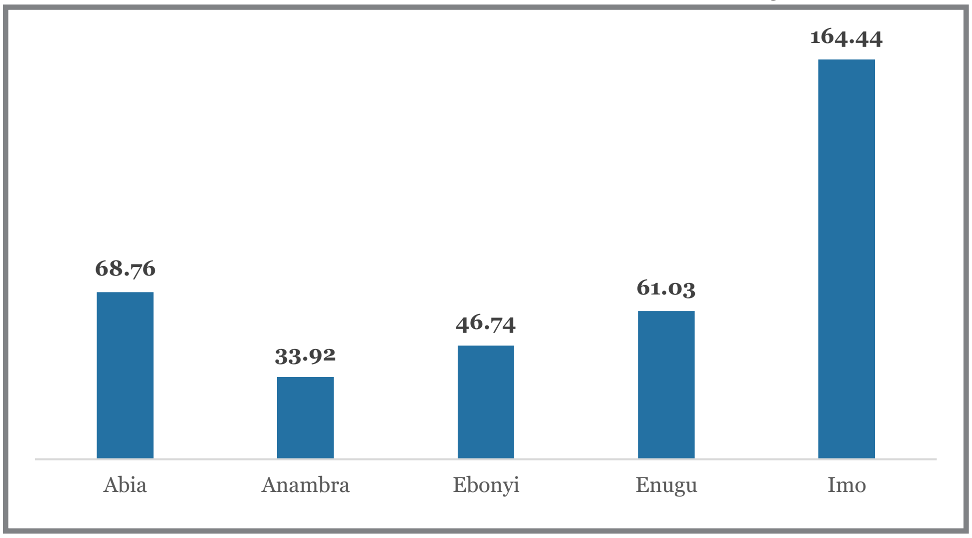
Chart 49: ***South-East External Debt ($'mn) as of December 2019***



Source: DMO, Proshare Research

South-East domestic debt stood at N374.89 as of December 2019. Imo state recorded the highest domestic debt of N164.44bn while Anambra State recorded the lowest domestic debt of N33.92bn (*see Chart 50*)

Chart 50: ***South-East Domestic Debt (N'bn) as of December 2019***

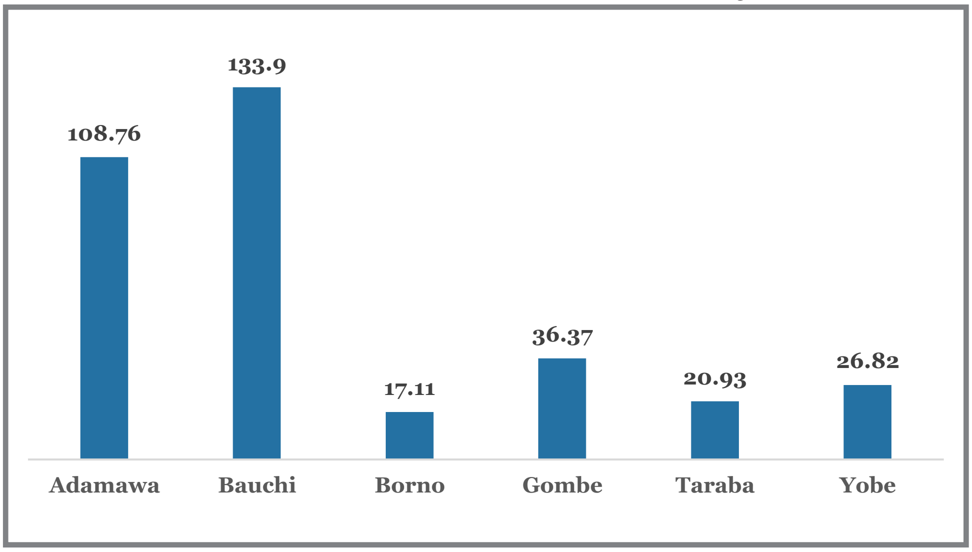


Source: DMO, Proshare Research

North-East External Debt and Domestic Debt

The North-East recorded an accumulated external debt of $343.89m as of December 2019. Bauchi State recorded the highest external debt of $133.9m while Borno State recorded the lowest debt of $17.11m in the region (see *Chart 51*).

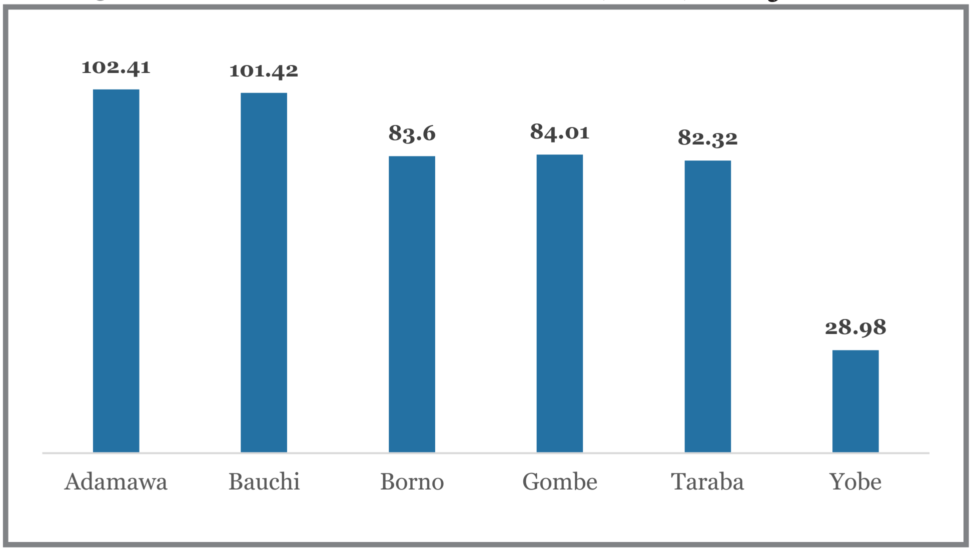
Chart 51: ***North-East External Debt ($'m) as of December 2019***



Source: DMO, Proshare Research

The North-East recorded an accumulated domestic debt of N482.74bn as of December 2019. Adamawa State recorded the highest domestic debt of N102.41bn while Yobe State recorded the lowest domestic debt of N28.98bn in the region (*see Chart 52*).

Chart 52: ***North-East Domestic Debt (N'bn) as of December 2019***

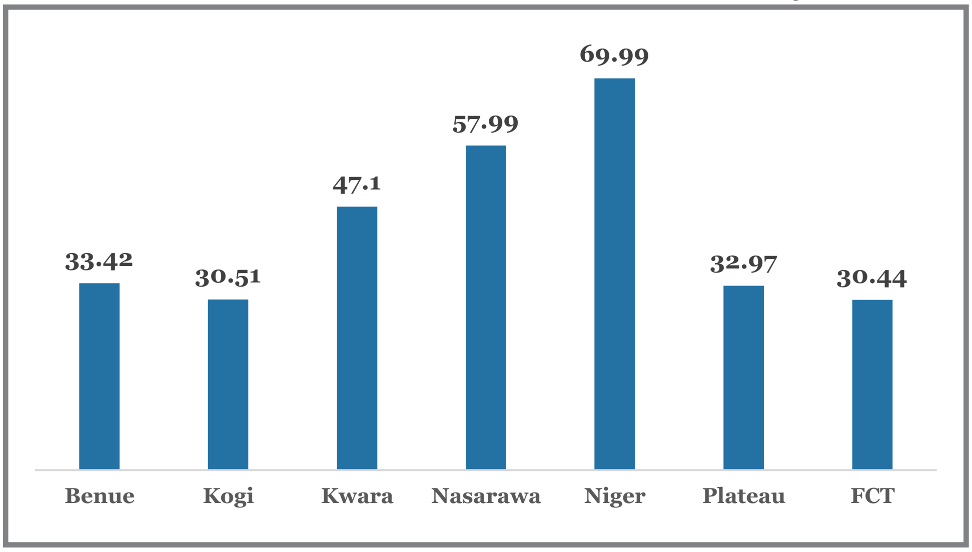


Source: DMO, Proshare Research

North-Central External Debt and Domestic Debt

The North-Central region recorded the lowest external debt of $302.42m as of December 2019. Niger State recorded the highest external debt of $69.99m in the region while FCT recorded the lowest external debt of $30.44m in the region (*see Chart 53*).

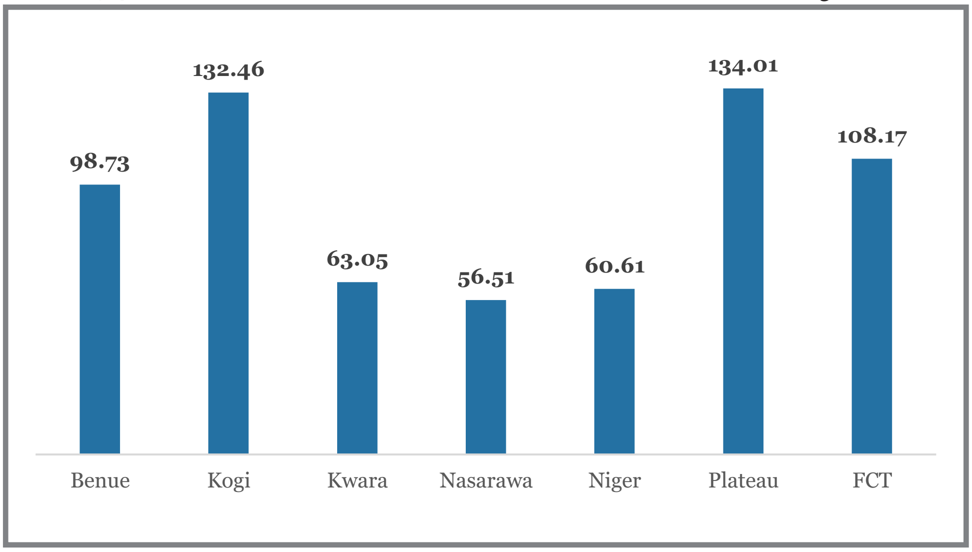
Chart 53: **North-Central External Debt ($'m) as of December 2019**



Source: DMO, Proshare Research

The North Central's domestic debt was N653.54bn as of December 2019. Plateau State recorded the highest domestic debt of N134.01bn while Nasarawa State recorded the lowest domestic debt of N56.51bn in the region (*see Chart 54*).

Chart 54: **North-Central Domestic Debt (N'bn) as of December 2019**



Source: DMO, Proshare Research

Selected Sub nationals-The Different Faces of Trouble and Redemption

Selected Sub nationals-The Different Faces of Trouble and Redemption

Lagos State; Tracking Excellence

Lagos state's economy is service-driven. Economic activities in the state can be classified in an unconventional manner of a Night economy, Marine economy, Service Economy and Faith-based economy. Lagos State derives a majority of its revenue from sub-national taxes. The biggest piece of the state's revenue pie is its PAYE (Pay As You Earn) Tax.

The Night Economy

Lagos is an amalgam of activities stitched together in kaleidoscope of contrasts. The complex nature of its economy represents both a weakness and a strength. The strength derives from reinforcing revenue streams from activities ranging from commerce and trade to finance and manufacturing and ICT. But in this mix, the state loses tonnes of money from under-exploiting the potentials of its silent but massive night economy.
The state could potentially run a 24-hour economic cycle that would perhaps double its annual internally generated revenue (IGR) to about N798bn from its 2019 figure of just under N400bn. To move the night economy forward some steps need to be taken:

- **Improve around the clock security.** The state must install 24-hour surveillance CCTV Cameras in all areas of business concentration starting from Ikeja, the state capital. The state's neighbourhood watch patrol in collaboration with the Nigerian police can provide security coverage for night trading activity with Ikeja used as a pilot project.
- **LAWMA should be retooled and reorganized.** The state's environmental sanitation body should have a night squad, responsible for cleaning up trading centres at night. The night team would go around markets and clear refuse after certain schedules have been agreed with market associations.
- **Cinemas and Shopping Malls should be allowed to run night schedules.** Cinemas and shopping malls should be given special protection at night with at least two Neighbourhood Watch/Police squad cars attached to each location. CCTV Cameras should be located around each premise with 24-hour surveillance.
- **Lagos is called the land of aquatic splendour, but where is its night fish market?** Lagos needs to leverage its marine status by building a night fish market that would eventually be continentally renowned for the quality of its fish and the acquatic design of its infrastructure would would include a 'sushi' bar and 'bukkas' which sell fish pepper soup amongst other fish delicacies. ***How does the state finance the building of the market?*** With April 2020 Federal Bond issues being oversubscribed by 459%, the domestic capital market is sufficiently liquid to meet such aspirations.

The Marine Economy

The other side of Lagos that disappears into a sinkhole of political talk with little action is its marine economy. Lagos State is essentially a collection of small Islands but so far successive governments of the state have not been able to leverage its riverine nature to upscale IGR and the state's GDP per Capita. The last best effort at developing commercial water transportation in the state was during the government of governor Lateef Jakande between 1979 and 1983. The second nest attempt was under governor Babatunde Fashola, between 2007 and 2015. The Fashola marine transport effort that took life in his second term between 2011 and 2015. The project got stumped as a result of weak follow-through. Lagos state's marine economy is critical to its post-COVID-19 future for the following reasons:

- Water transportation would decongest the number of people that use bus services, thereby, reducing vehicle congestion and interpersonal physical contact. Water transportation would also reduce the time it takes workers, traders, and other individuals to get to different locations, especially between Ikorodu, Epe, Badagry and Lagos Island and Mainland.
- The marine economy also builds on the state's many fishing ports spread from Badagry to Ikorodu and Epe and the Island. The ports could be upgraded to mini-fish markets with fish processing facilities and financing options that provide micro-credit, micro-insurance and micro-leasing. The state's various seashores are well-known for their crabs, shrimps and prawns and so its seafood economy could be supported to generate at least three times its current earnings. With seafood clusters constructed across the state with 24-hour security and power, this part of the state's marine life could ride a wave of double-digit growth with twelve months. The clusters would be COVID-19 compliant by ensuring the required codes of cleanliness and social distancing. Indeed, digital tech applications could be used to order fish or other seafoods while live streaming of market prices and quantity of fish types could enable fish buyers to experience new types of digital-based commercial transactions using mobile phone apps. Digital TV could cover markets across the states and give buyers and sellers opportunities for continuous daily engagement by remote interaction.
- The state's marine economy should tie into a medium-term energy strategy where its water resources also serve as a means of energy generation to supply industrial clusters across the state with at least 10MW of light per cluster. This would improve business activity, reduce the cost of doing business in the state and increase the state's GDP and IGR.

Service Economy

Lagos state is the financial hub of the country, just as London is the business epicentre of the United Kingdom (UK) and New York the financial hub of the United States of America (USA). Lagos shares the blessings and curses of both cities. In light of the complexities of major business hubs globally, the Lagos state government needs to transition into a more efficient ecosystem to ensure that service delivery excellence is provided to support expanding private enterprise. Some key options are available to the state which could include, but may not be limited to, the following:

- Building a G2B and G2C service delivery platform that makes the interaction between enterprises and citizens less cumbersome. Businesses and citizens should be able to process documents and get approvals digitally rather than engage in physical interfaces with public officers.
- Public governance protocols must be elevated to ensure that transparency is elevated to a routine rather than a hit-and-miss occasional achievement of execution. The transparency question once resolved should lead to public service efficiency and effectiveness. In post-COVID-19 reality obscurity is a foe rather than a friend as investible funds will flow to markets that are cost-competitive, yield-superior and governance transparent. The debacle that happened with the Lagos State Government Municipality Bond Issue in 2019 should not be allowed to repeat itself.

- To support a 24-hour economy agenda, a 24-hour public service must be in place to provide the regulatory and operational public service support needed to drive an economy without boundaries. Time should be a resource, not a constraint. A Lagos that defies time limitations will rapidly ramp up GDP and IGR thereby improving the standard of living of state households.

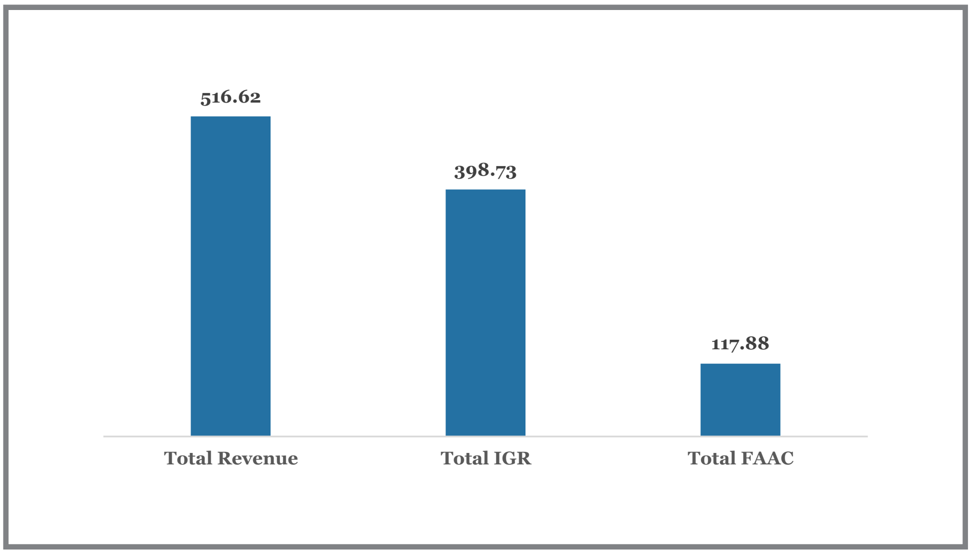
Faith-Based Economy

After Ogun state, Lagos state may have the largest faith-based economy with large Christian and Muslim congregants, this allows for the state to collaborate with faith-based institutions to improve the well-being of state households through FPPs or faith and public projects. The FPP model integrates faith-based resources into providing services to societies most vulnerable, enabling the government to partner churches and mosques in schemes that help congregants grow micro-businesses, access micro-insurance and leverage micro-mortgages while also providing improved protection to the socially vulnerable people such as aged and the physically and mentally challenged.
The state with faith-based partnerships can build purpose-fit facilities where these individuals can get help and live meaningful lives rather than depend on informal structures that could be dangerous or simply unsustainable.
The various types of economies of Lagos would require or contribute to robust state revenues and expect efficient cost management.

Lagos State Revenue

The state's total revenue grew by 3.07% in 2019, leveraging its night and marine economy alone the state could triple this growth rate in eigthteen months. Its total revenue in 2019 was N516.62bn from N501.21bn in 2018. Its total IGR was 77.18% of total revenue while its FAAC was 22.82% of total revenue. A firmer harnessing of state resources and a realignment of its strategy could see IGR rise to 97% of total revenue and FAAC fall to about 3% of the state's total annual earnings (*see chart 55*).

Chart 55: ***Lagos State Total Revenue (N'bn) 2019***

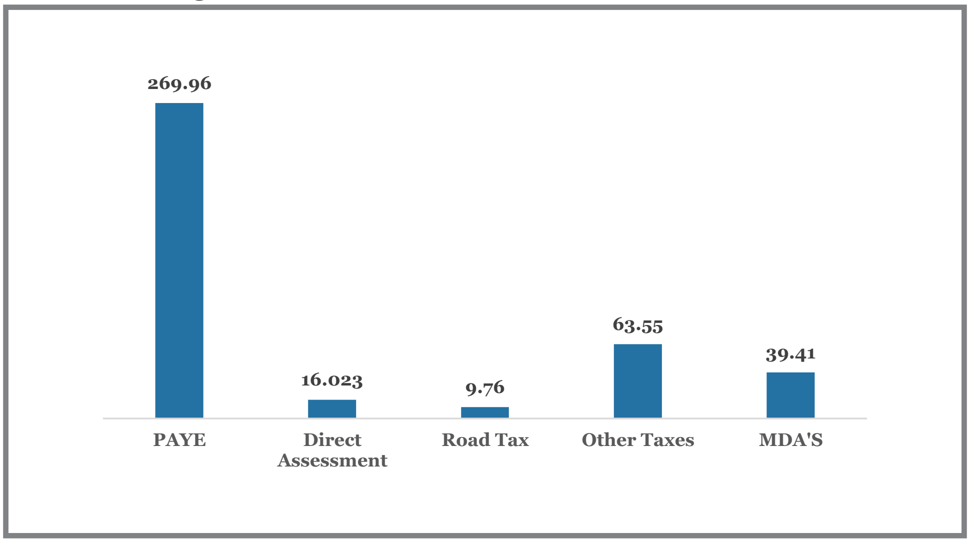


Source: NBS, Proshare Research

Lagos State IGR

In understanding the state's current revenue structure its is noteworthy to realize that the state's major source of internally generated revenue is its PAYE which accounts for about 68% of the state's IGR, while revenue generated from other taxes as well as from MDAs (Ministries, Departments and Agencies) accounts for 16% and 10% of IGR respectively (*see Chart 56*). For the state to position properly for a post-COVID-19 world, its must rethink IGR composition by reducing PAYE to roughly 30% of IGR and increasing the proportion of IGR from taxes, levies, fines and fees to about 70% of state IGR.

Chart 56: ***Lagos State IGR (N'bn) 2019***

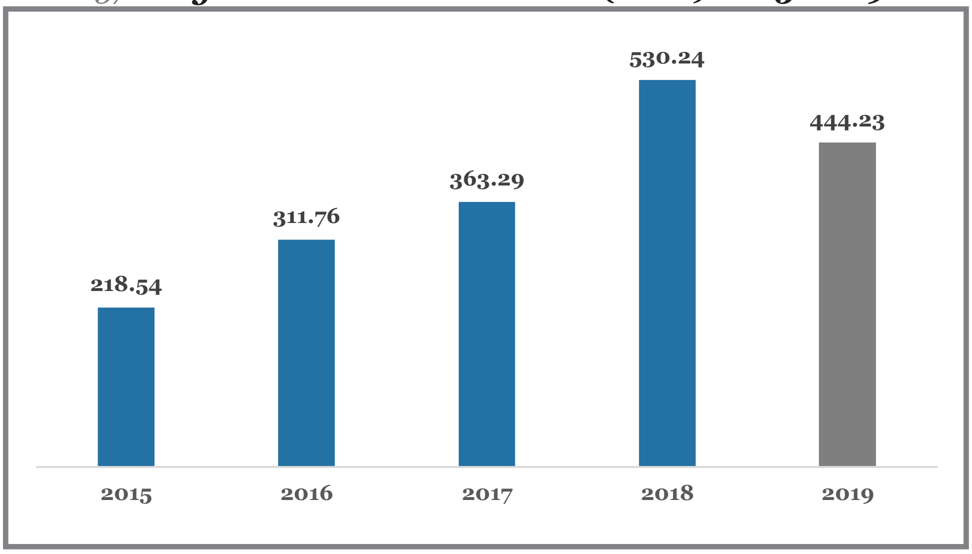


Source: NBS, Proshare Research

Lagos State Domestic Debt

Lagos state's domestic debt stood at N444.23bn as of December 2019, a reduction from N530.24bn as of December 2018.

Chart 57: ***Lagos State Domestic Debt (N'bn) 2015-2019***



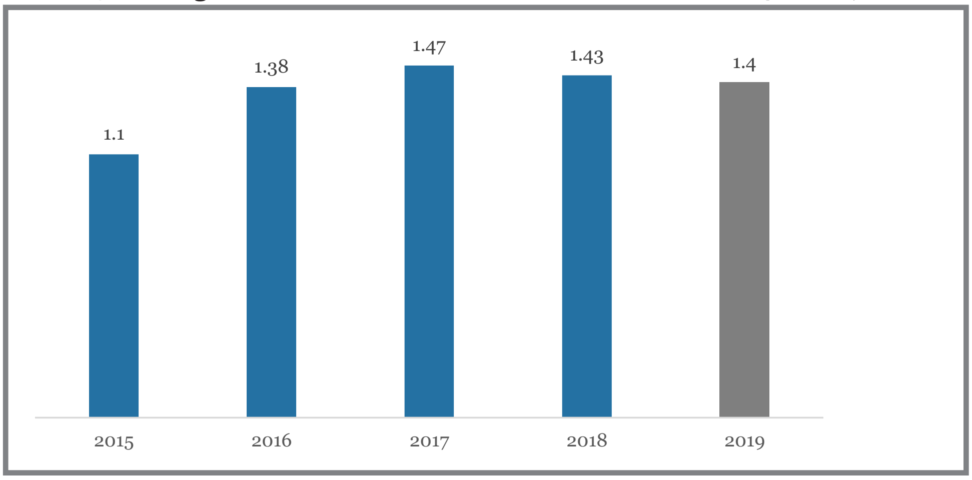
Source: NBS, Proshare Research

Despite the drop in its domestic debt from N530.24bn in December 2018 to N444.23bn in December 2019, the size of its public debt is worrisome as it poses a potential burden for future administrations/generations (*see Chart 57*).

Lagos State External Debt

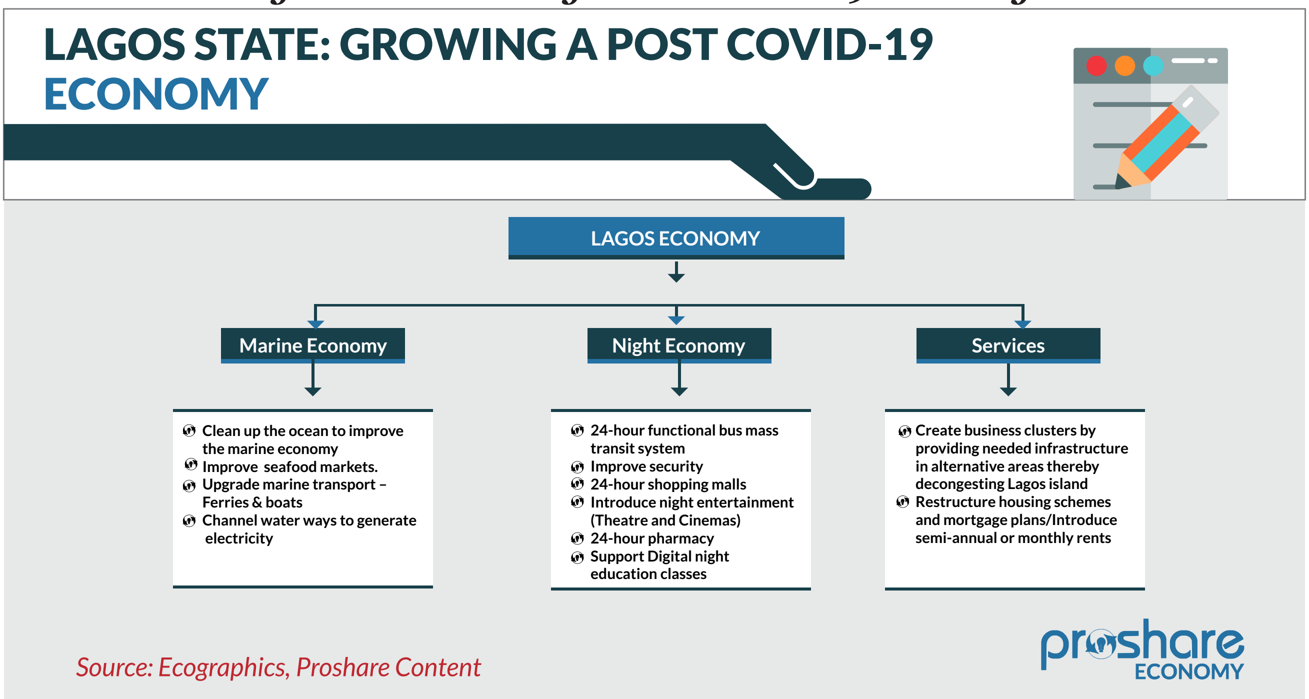
Lagos state's external debt declined to $1.4bn in December 2019 from $1.43bn in December 2018. The fall in the debt may be considered desirable but it still leaves the state with a major foreign exchange exposure. The fact that most of the state's revenue is naira denominated, the large foreign debt exposure threatens the state's fiscal balance with foreign exchange translation risks and could result in a downgrade of its credit rating and a rise in its cost of finance.

Chart 58: ***Lagos State External Debt ($'bn) 2015-2019***



Source: DMO, Proshare Research

Illustration 16: ***Lagos State-Growing A Post COVID-19 Economy***



The State of Osun

Osun state is on the opposite side of the revenue pendulum from Lagos state. The state recorded the lowest IGR and the lowest revenue in the South-West region in 2019. It posted an IGR of N17.92bn in 2019, while its total FAAC received in 2019 was N24.2bn in 2019.
The State of Osun is a dark horse on a white canvass. The opportunities of the state well outstrip its challenges, but its present fiscal structure robs it of development, growth and human well-being. Its large public sector (over 2.2m people) relative to the overall population (around 5.5m people) suggests

Low Hanging Fruits

To kick off an aggressive rebuilding of the Osun economy with limited public financial outflows the government may need to do the following:

- Take inventory of all idle state government enterprise assets and prepare them for private-sector acquisition
- Convert the states cultural and faith-based advantages into economic opportunities through tourism
- Upgrade the states Aso Oke industry into a medium-sized private sector-led joint venture that involves clothing design, manufacturing, fashion fairs and export. Patents and copyrights would be obtained by the government and kept as contingent assets.
- The cola nut business of Ede would be upgraded and will form the basis of a major exportable Kolanut trade

The real potential of Osun State follows from a clear vision to achieving the following:

- Building a State with a strong AgriTech framework that integrates agriculture and technology in a manner that brings about "Green Economy" efficiency, effectiveness and innovation. Producing agricultural throughputs at globally competitive prices and quality will bring revenue streams that reduce State Debt -to-Revenue ratios and Improve IGR-to-Total Revenue numbers.
- Improving specialized human capital skills in the areas of AgriTech, Mining and Commodities, including expertise in commodities trading, product derivatives and forward and futures contracts trading. The economy of the future is knowledge-based and reliance on raw commodities and minerals would push the State to the least rewarding end of the future production and service value chains. The State of Osun must prepare itself for 4IR. The fourth Industrial Revolution (4IR) is technology and science-driven requiring education in the State of Osun to be remodelled in a way that is fit-for-purpose in an era of disruptive economic competition. Roadshows about the State's agricultural resources and mining potential are only as useful as they feed into a narrative that shows how these resources can support a new technological paradigm that creates uncommon value by way of technology.
- Leveraging Religious/Spiritual Tourism is the 'soft' aspect of the Osun economy that has been either intentionally or unintentionally been ignored. The State of Osun is known to have the largest number of hills in the South West associated with, allegedly efficacious, spiritual essence and power. The various 'Okes' known as magnets for religious faithful seeking communion with

God possess an underlying value that is yet to be explored. Also, festivals such as the 'Osun Osogbo' and other annual traditional fiestas need to be harnessed in a way that attracts a global tourist audience beyond the present numbers. Religious/Spiritual tourism could ignite cash flows well beyond past conservative calculations.

- Creating Industrial Clusters/Parks with Tech Incubators that leverage the verdant agricultural landscape of Osun to build digital businesses that scale agricultural marketing, sales and production. The AgriTech valley would collaborate with coastal economies to build agricultural export pipelines that are both virtual and physical that merge into a helix-like interchange of economic value. If structured and implemented properly, the attendant Agricultural Tourism would create a unique stream of investing and operational cash flows that could organically increase the State's GDP by at least another 10% or N147.5bn based on available National Bureau of Statistics (NBS) 2018 data.

State GDP and Its Imperatives

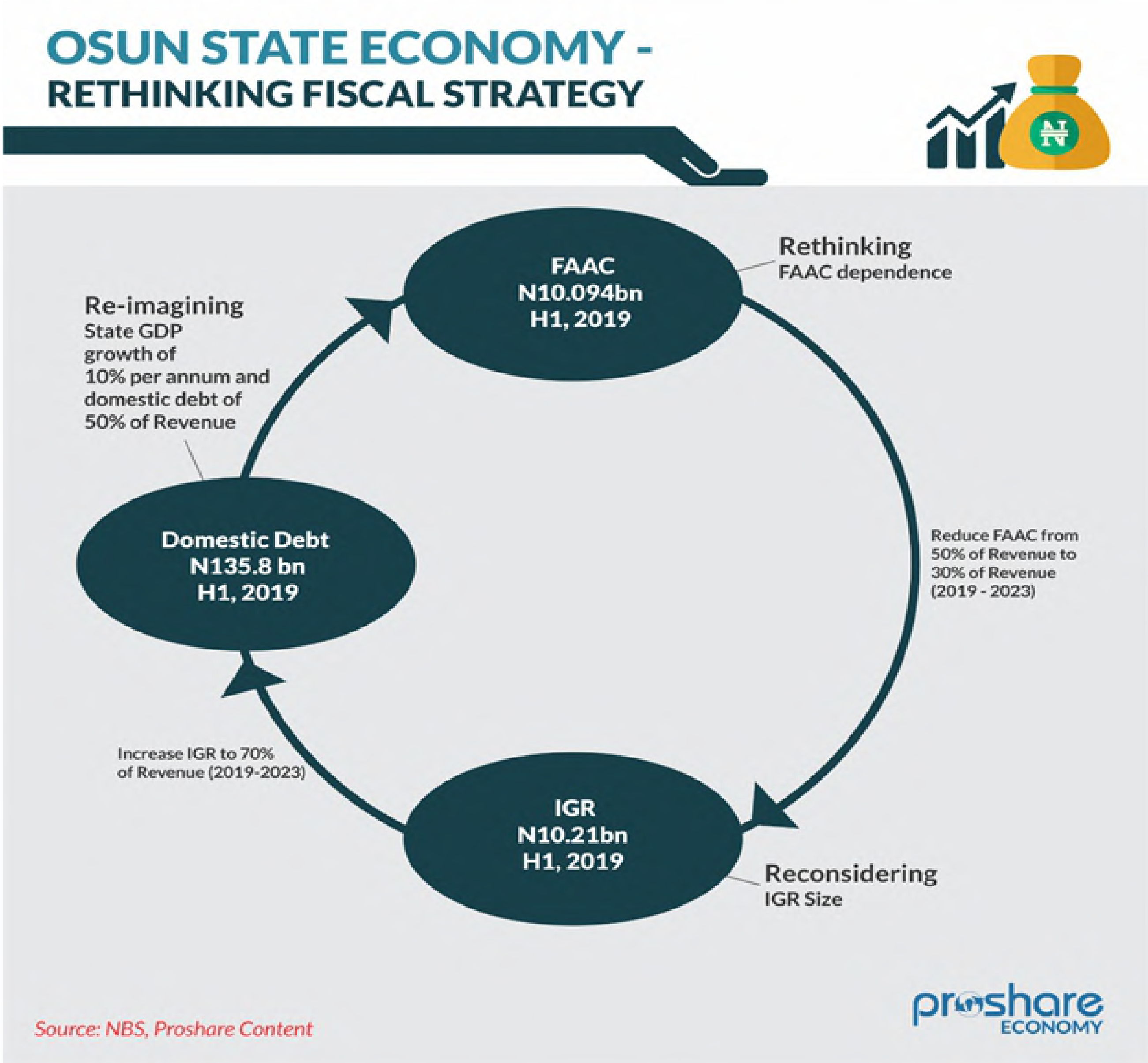
Accelerating Industrial Development and Increased Industrial Activities are linked to economic growth, trade and market development. As a component of the States GDP trade has been largely consistent in its rising trend of contribution to the economic size of the State of Osun. This stands at 5.8% in 2017, from 5.55 in 2014. Trade alone is the third-largest contributor to State GDP (estimated at N1.47trn in 2018) and the second-largest contributor to the monetary value of service sector output in 2017.

The GDP numbers open up a myriad of potential opportunities to investors in the areas of:

- Modern Farming
- Manufacturing
- Logistics
- Storage
- Warehousing
- Value Chain Management
- Tech Conference Centres
- Infrastructure Development et al.

However, these potential business growth areas depend on new frameworks and not ageing fiscal and business growth models of the past. These traditional businesses will need to be reworked within a 4IR mind set. The State of Osun will need to Rethink the past, Reconsider the present and Reimagine its Future if it is going to make a success of the transformation of the State's economy between 2020 and 2023 (*see illustration 17*).

Illustration 17: ***The State of Osun Economy; Rethinking Fiscal Strategy***



The State's fiscal condition must inspire the confidence of private investors who need to buy into a strong fiscal narrative so that they can match the fiscal discipline and foresight of the State government with the experience and cash of their own, as they align their local business plans with that of the State Government. **Hard data tell the best stories of future business opportunities and outlook, government speeches are good but they are crafted to inspire hope and as American Army General, Gordon R. Sullivan (Rtd.), once noted, *"hope is not a method"*.**

A critical component of the growth strategy for the State of Osun over the next few months should be to drive a rapid socio-economic data gathering, collation, organization and analysis process that provides investors with broad and deep data upon which they can base their investment decisions.

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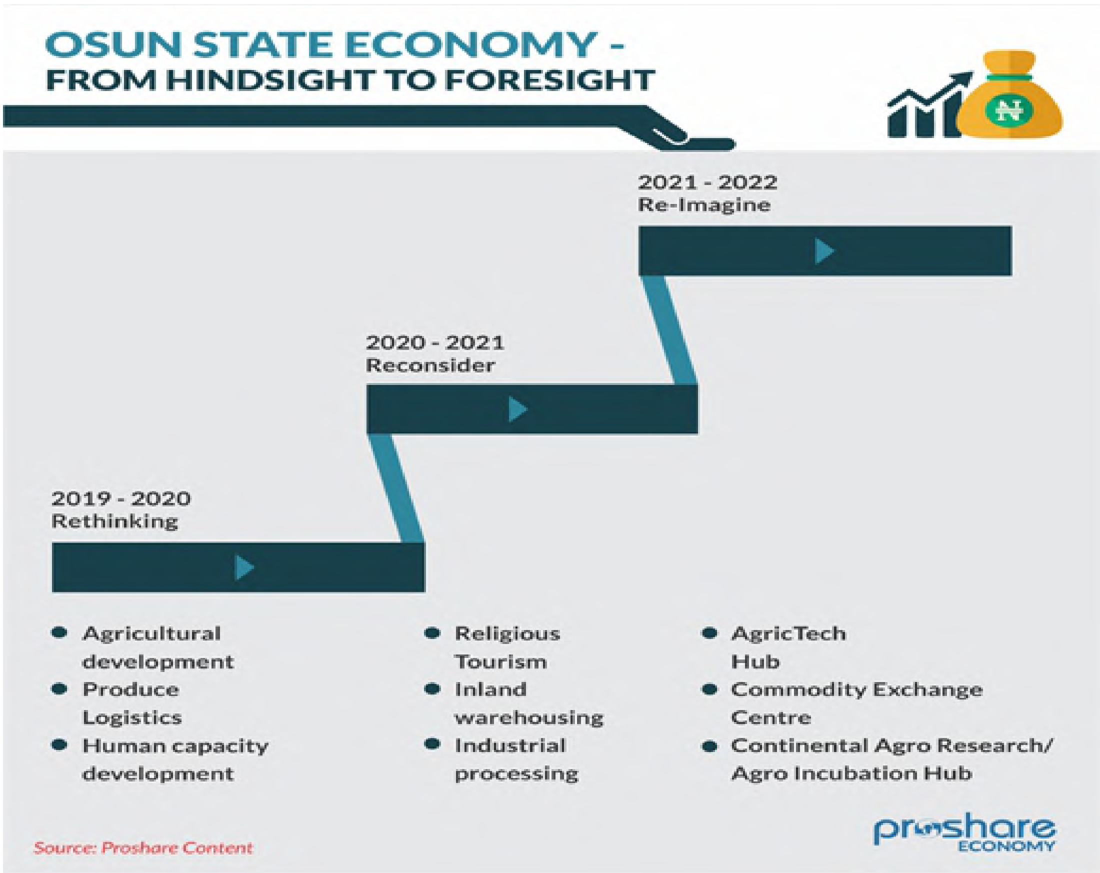
Indeed, with credible data available for interrogation and review, the business case becomes easier to establish and the cost of attracting foreign and local investors would decline sizably. It must be observed that Investors are not philanthropists they expect to make reasonable returns on their investments and so, the data upon which critical investment decisions are made is fundamental to attracting their money.

With the data available and registration and licensing of businesses made easy, The State of Osun should see investments in the following areas if the 4IR mindset is adopted:

- Industrial Parks/Estates
- Shopping Malls
- International Conference Centres
- Warehousing Facilities
- Commodity Storage Silos
- Inland Container Ports
- Housing Estates
- Health /Religious Resorts

The benefit of the limitations of the State of Osun economy in hindsight should strategically spark the required action plans for the new economy with the benefit of foresight (*see illustration 18*)

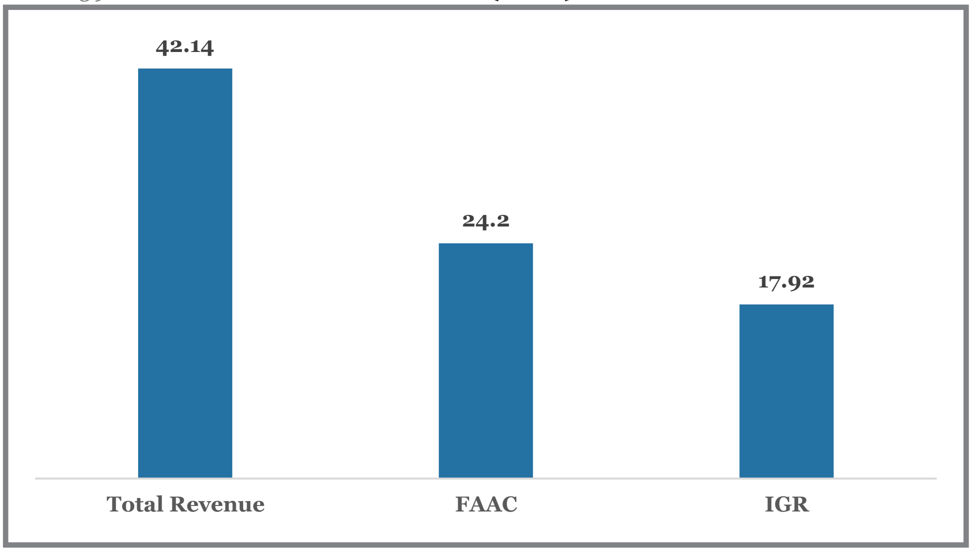
Illustration 18: ***The Benefits of Hindsight and Foresight Based on Insight***



Osun State Revenue

Osun state's total revenue grew by 26.87% in 2019. Osun recorded total revenue of N42.14bn in 2019, an improvement from total revenue of N33.22bn in 2018. It mainly relies on revenue derived from its FAAC. In 2019, its total FAAC received was N24.2bn while its IGR was N17.92bn.

Chart 59: ***Osun State Total Revenue (N'bn)***

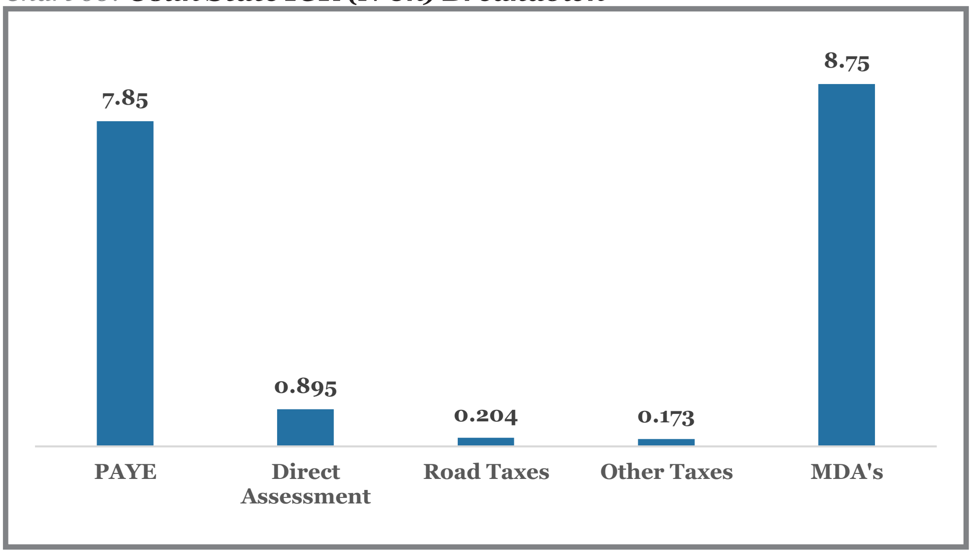


Source: NBS, Proshare Research

Osun State IGR

Osun State recorded a total IGR of N17.92bn in 2019. The breakdown of Osun states' IGR reveals that its major source of revenue comes from its MDA's while PAYE was its second main source of revenue. Its MDA's generated a total of N8.75bn in 2019 while it generated a total of N7.85bn from PAYE.

Chart 60: ***Osun State IGR (N'bn) Breakdown***



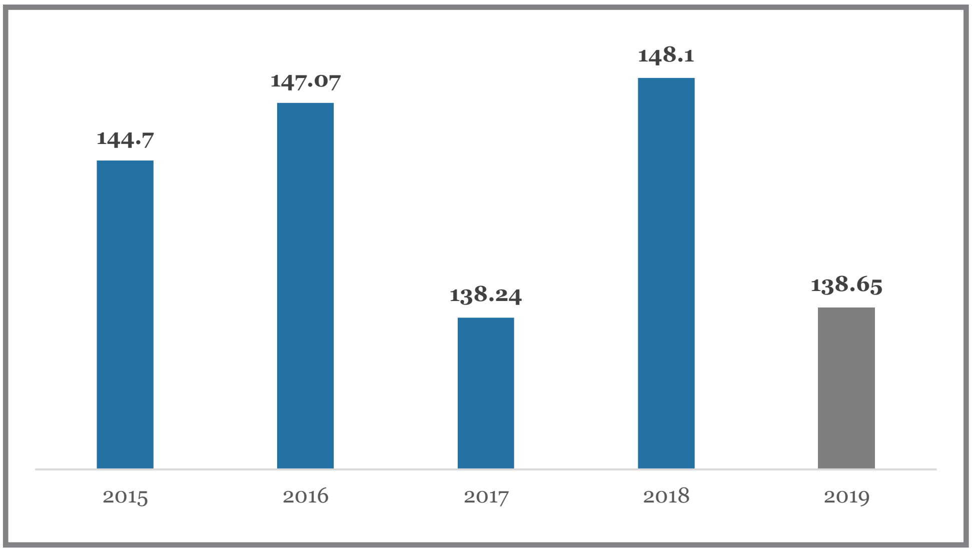
Source: NBS, Proshare Research

Osun State Domestic Debt

The state's domestic debt declined to N138.65bn in December 2019 from N148.1bn in December 2018.

Given its low level of total revenue, it is expected that its domestic debt might continue to rise in the future.

Chart 61: ***Osun State Domestic Debt (N'bn) 2015-2019***

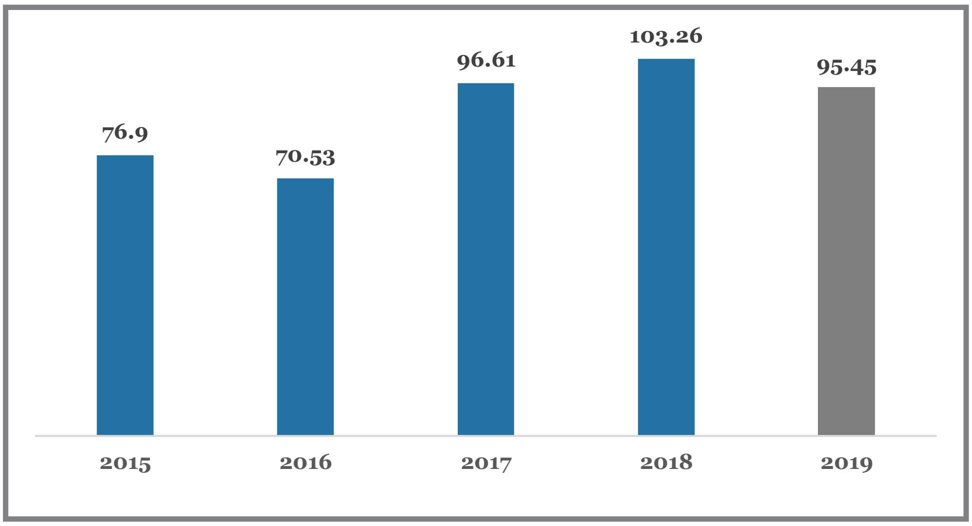


Source: DMO, Proshare Research

Osun State External Debt

Osun state's external debt declined to $95.45m in December 2019 from $103.26bn in December 2018.

Chart 62: ***Osun State External Debt ($'m) 2015-2019***



Source: DMO, Proshare Research

FCT

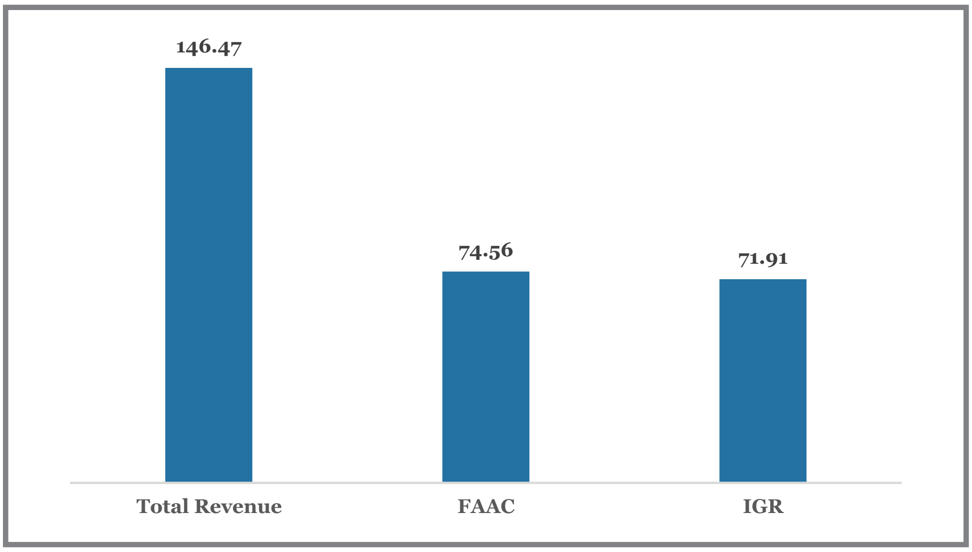
The FCT is known for a large number of commercial activities that take place in its territory. It had the highest total revenue of N146.47bn in the North-Central region. But for sustainability, the territory needs to turn itself into a conference and public policy mecca on the African continent. The federal capital needs to be more than a public service showpiece and more of a 21st-century community prepared to be the hotbed of policy and ideas for the African continent. The capital needs to be a city choke-full of think tanks and world-class libraries and schools. To support this the following would be required:

- **The city's urban mass transit system needs to be upgraded.** Abuja's transport system is currently less than is required for a first-class continental conference and research hub.
- **The city requires a network of CCTVs in major areas that serve as gathering destinations for large crowds.** A post-COVID-19 era would see buses carrying 20 people with sufficient distancing in compliance with the new social ethos. This means a larger number of crowd 'pockets' would need to be handled around the clock.
- **Abuja needs to transmute into a 24-hour city.** The city would require around the clock bus transport services, pharmacies, cinemas, theatres, restaurants, and retail markets. The 24-hour economy never sleeps so security in the capital would have to be top-notch.
- **The FCT administration would have to leverage the domestic capital market to provide the necessary structures to build the city into the strategic go-to policy and research destination of the continent.**

FCT Total Revenue

FCT total revenue grew by 5.61% in 2019. Its revenue rose to N146.47bn in 2019 from N138.69 in 2018. The major source of its revenue was from its IGR which amounted to N74.56bn (50.91% of total revenue) in 2019 while its allocated FAAC in 2019 was N71.91bn (49.09% of total revenue).

Chart 63: ***FCT Total Revenue (N'bn) 2019***

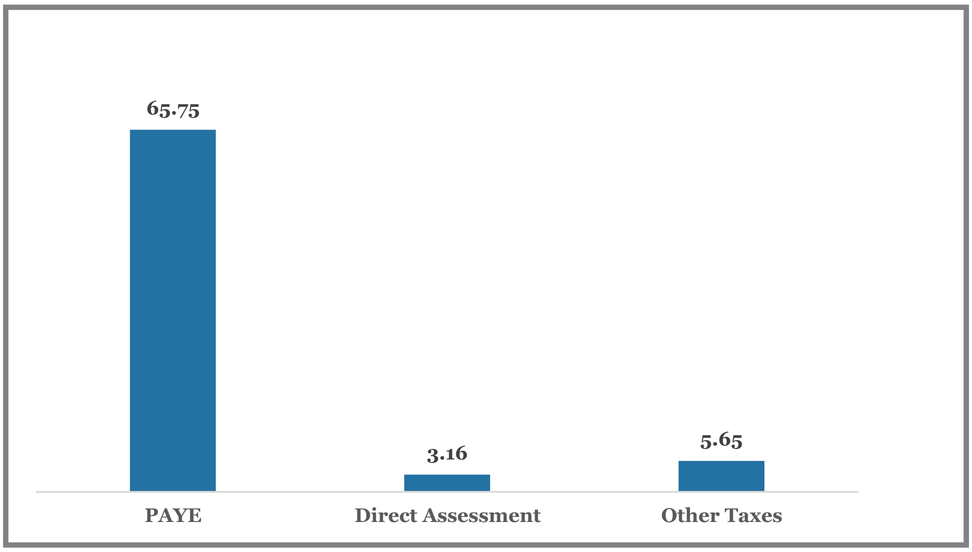


Source: NBS, Proshare Research

FCT State IGR

The FCT gets all its IGR from taxes levied by the states. The major chunk of the tax income comes from PAYE accounting for N65.75bn of the total IGR recorded in 2019 (*see Chart 64*).

Chart 64: ***FCT IGR (N'bn) 2019***

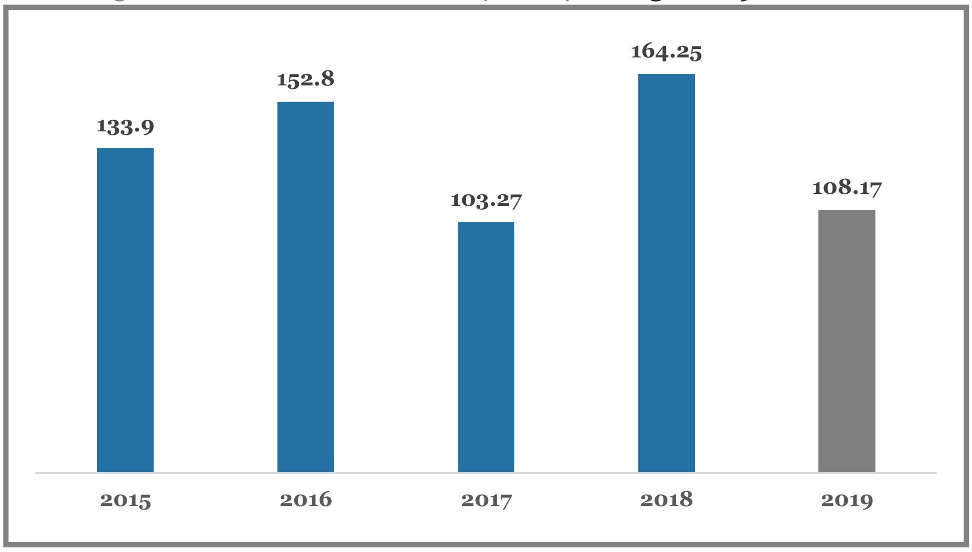


Source: NBS, Proshare Research

FCT Domestic Debt

FCT's domestic debt declined by 34.1% in 2019. FCT domestic debt as of December 2019 stood at N108.17bn a decline from a domestic debt of N164.25bn in December 2018.

Chart 65: ***FCT Domestic Debt (N'bn) 2015-2019***

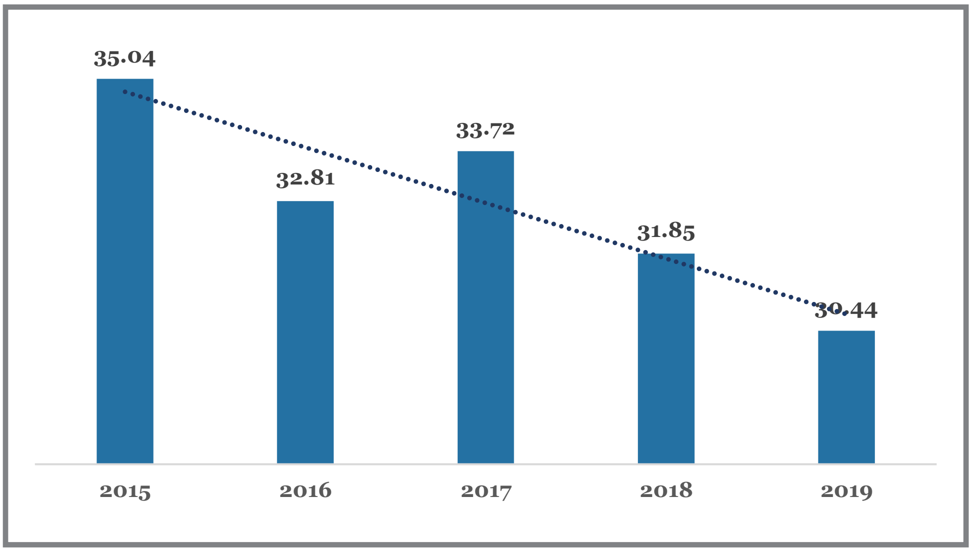


Source: NBS, Proshare Research

FCT External Debt

FCT's external debt declined by -4.43% in 2019. FCT's external debt declined to $30.44m in December 2019 from $31.85m in December 2018 (*see Chart 66*).

Chart 66: ***FCT External Debt ($'m) 2015-2019***



Source: DMO, Proshare Research

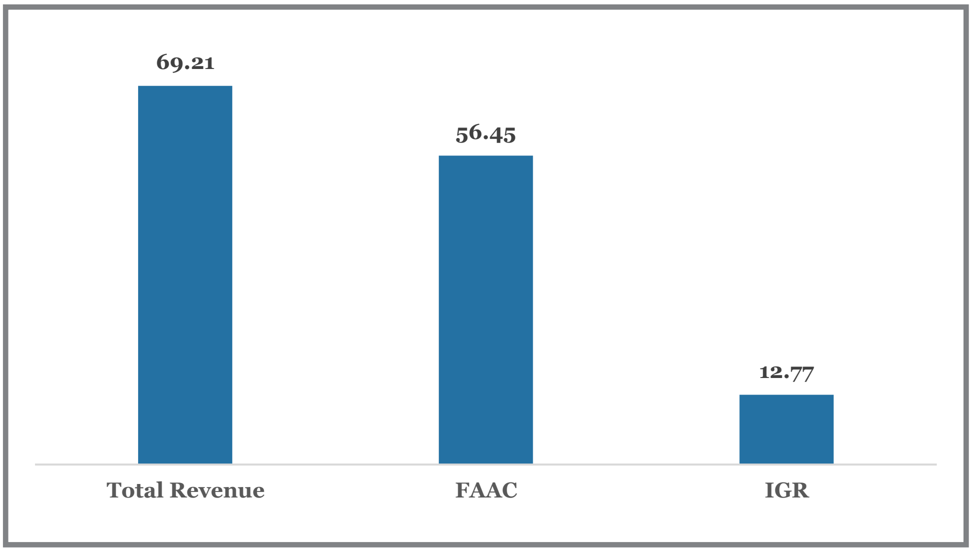
Niger State

Niger state recorded a sum of N69.21bn as revenue in 2019, which was the third in its region. The state relies mainly on its FAAC allocation as its source of revenue.

Niger State Total Revenue

Niger state revenue grew by 1.85% in 2019. Its total revenue in 2019 was N69.21bn, an increase from N67.95bn in 2018. Its allocated FAAC accounted for 81.56% (N56.45bn) of its total revenue while its IGR accounted for 18.44% (N12.77bn) of its total revenue (*see Chart 67*).

Chart 67: ***Niger State Total Revenue (N'bn) 2019***

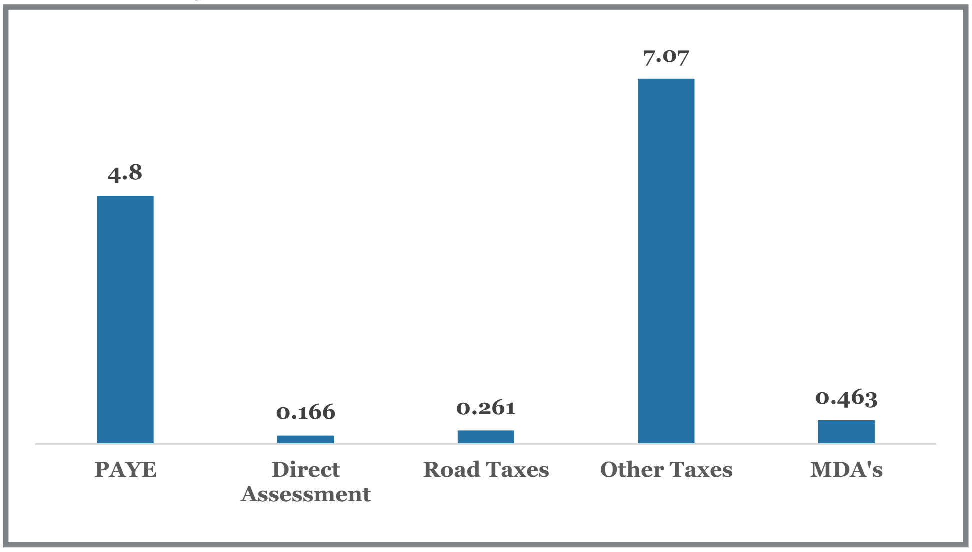


Source: NBS, Proshare Research

Niger State IGR

Niger State's major source of IGR comes from the taxes it levied, with a major chunk from 'other taxes'. It earned N7.07bn from other taxes while it earned N4.8bn from PAYE *(see Chart 68)*.

Chart 68: ***Niger State IGR (N'bn) Breakdown 2019***

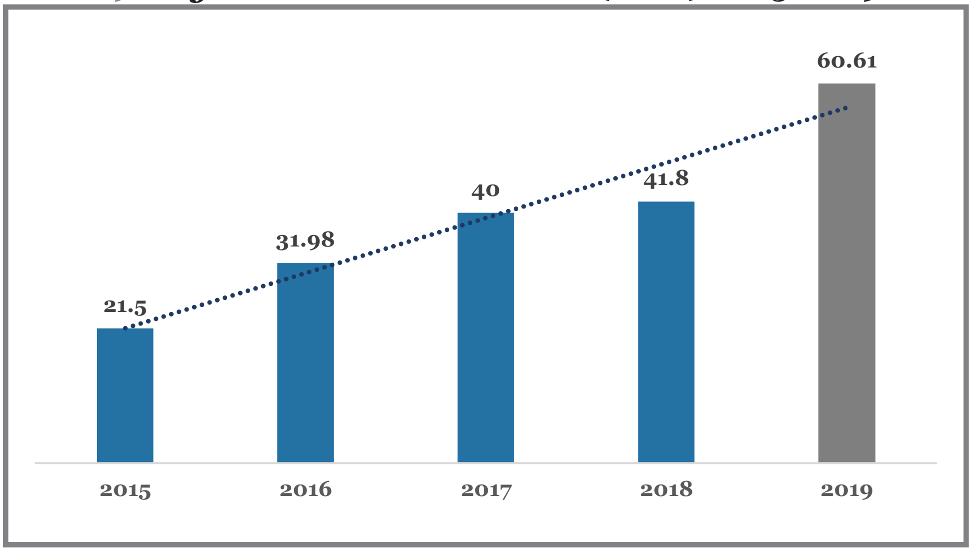


Source: NBS, Proshare Research

Niger State Domestic Debt

Niger state domestic debt grew by 45% in 2019. Its domestic debt recorded an upward trend from 2015 to 2019. Niger state domestic debt has continuously been on the rise since December 2015. Its domestic debt peaked at N60.61bn in December 2019 from N41.8bn in December 2018 (*see Chart 69*).

Chart 69: ***Niger State Domestic Debt (N'bn) 2015-2019***

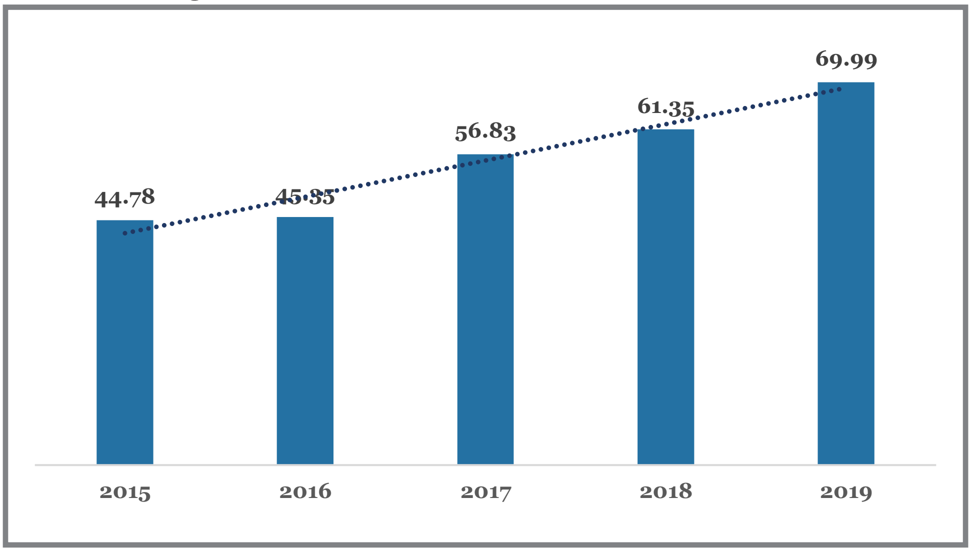


Source:DMO, Proshare Research

Niger State External Debt

Niger State's external debt peaked at $69.99m in December 2019 from $61.35m in December 2018. Its external debt has continuously been on the rise since December 2015 (*see Chart 70*).

Chart 70: **Niger State External Debt (N'm) 2015-2019**



Source:DMO, Proshare Research

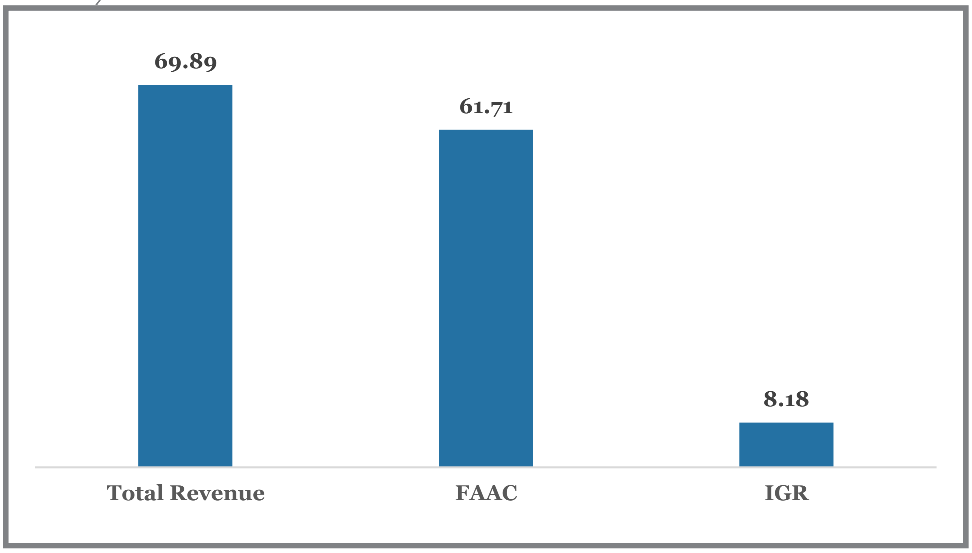
Borno State

Borno state is characterized by a low level of commercial activity as well as its high level of insecurity which has impeded the growth of its economy.

Borno State Total Revenue

Borno state's major source of revenue in 2019 was its FAAC. Its FAAC accounted for 88.30% of its total revenue while its IGR accounted for 11.70% of total revenue.

Chart 71: **Borno State Total Revenue**

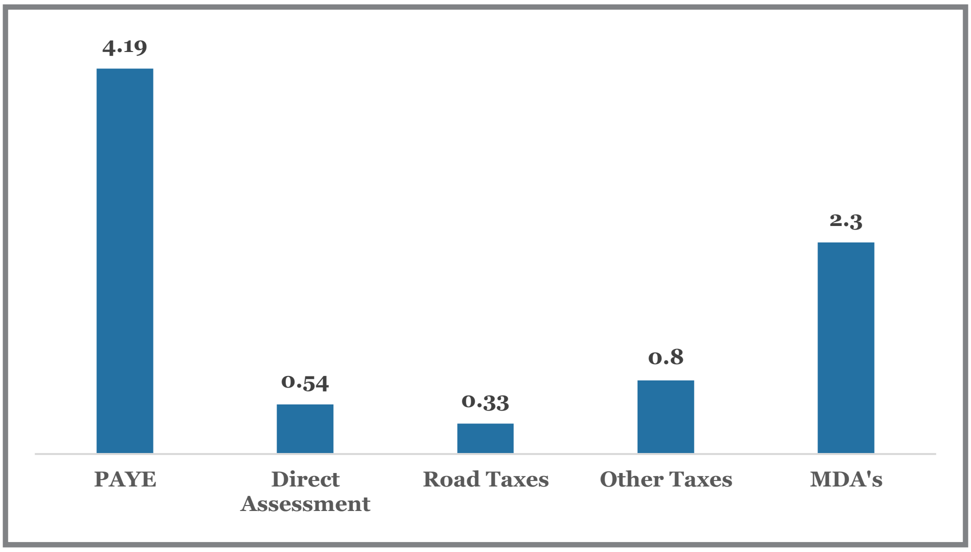


Source:NBS, Proshare Research

Borno State IGR

The major source of Borno state IGR is gotten from its PAYE. In 2019, its PAYE accounted for N4.19bn while the revenue generated from the MDA's was N2.3bn (*see Chart 72*).

Chart 72: ***Borno State IGR (N'bn) Breakdown 2019***

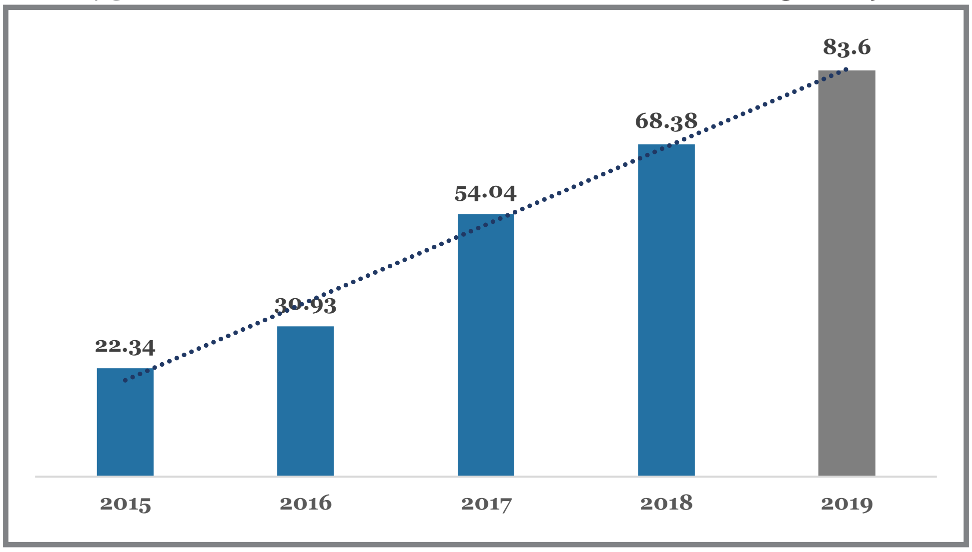


Source: NBS, Proshare Research

Borno State Domestic Debt

Borno state domestic debt grew by 22.1% in 2019. Its domestic debt peaked at its highest in December 2019. Its debt increased to N83.6bn in December 2019 from N68.38bn in December 2018 (*see Chart 73*).

Chart 73: ***Borno State Domestic Debt (N'bn) 2015-2019***

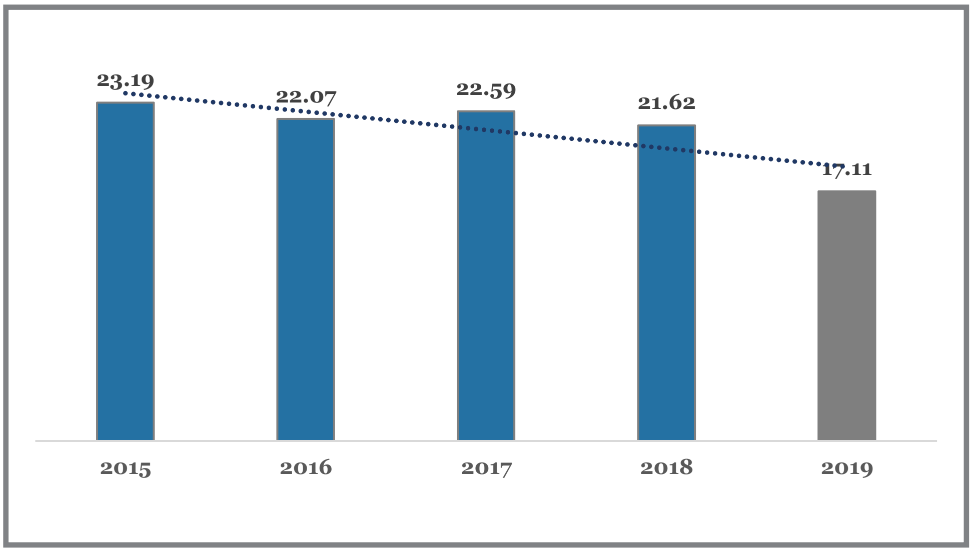


Source: DMO, Proshare Research

Borno State External Debt

Borno state external debt declined by 20.86% in 2019. Its external debt had a downward trend. Its external debt declined from $21.62m in 2018 to $17.11m Borno state recorded its lowest external debt of $17.11m in December 2019 (*see Chart 74*).

Chart 74: ***Borno State External Debt ($'m) 2015-2019***



Source: DMO, Proshare Research

Adamawa State

Adamawa in most recent times has been overwhelmed by banditry. The state relies significantly on revenue from FAAC allocation. The state's huge dependence on FAAC is abnormally large. The state is potentially one of the country's breadbaskets. With rich and verdant land and a strong farming culture, the state has massive potential to drive an agricultural revolution in the country.

Thinking Strategically

Adamawa State can attract large scale agricultural companies into the state if its philosophy is private sector-led. The COVID-19 period provides a great opportunity for the state to upscale agriculture through the use of technology a major factor in breaking poverty cycles according to the late Professor Clayton Christensen, Efosa Ojomo, and Karen Dillon in their award-winning book the "Prosperity Paradox".

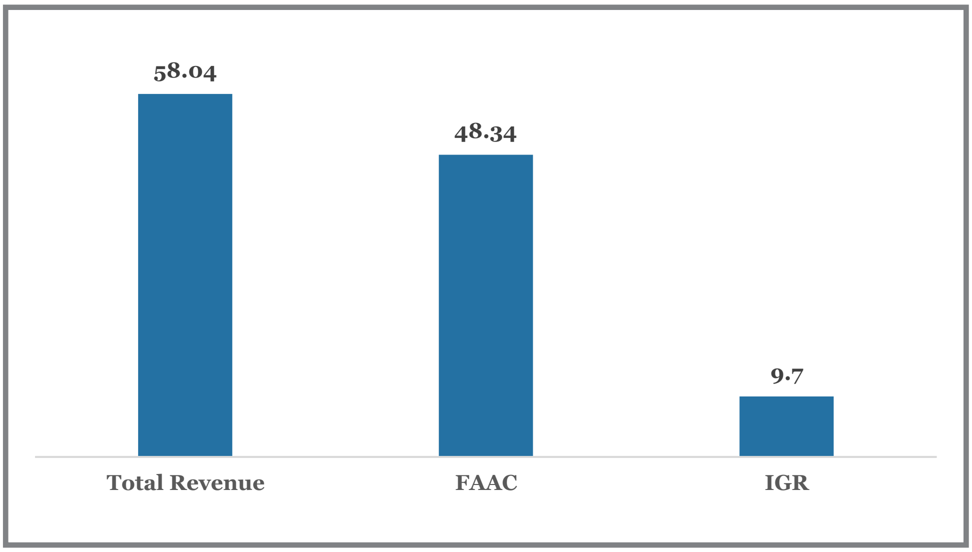
Adamawa may need to do the following:

- Shift to more mechanized modes of farming
- Adopt cattle ranching as a system of nurturing animal protein and providing leather as inputs for the fashion, automobile, and furniture industries. The cattle reared could also provide milk and yogurt as in-puts to other businesses such as confectionary.
- Mining activities should be formalized with artisanal activities eased out as larger and better-equipped corporations are encouraged to mine.

Adamawa State Revenue

Adamawa state derived 83.28% of its total revenue from FAAC while 16.72% of its revenue was derived from its IGR in 2019. Its total revenue earned in 2019 was N58.04bn. Its allocated FAAC in 2019 was N48.34bn while its IGR was N9.7bn (*see Chart 75*).

Chart 75: ***Adamawa State Total Revenue (N'bn) 2019***

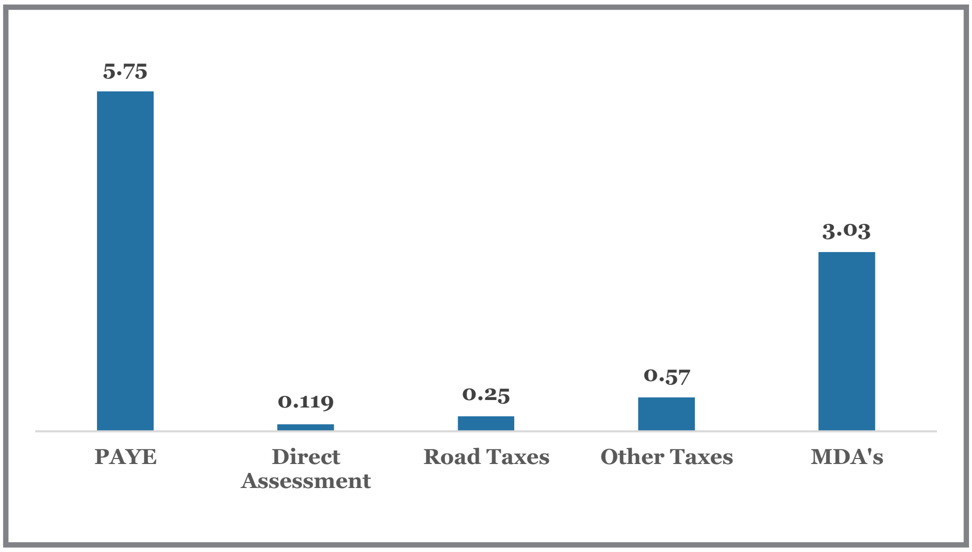


Source:NBS, Proshare Research

Adamawa State IGR

The major source of its IGR is its PAYE. In 2019, Adamawa state recorded a PAYE of N5.75bn while its MDA's generated a total of N3.03bn (*see Chart 76*).

Chart 76: ***Adamawa State IGR (N'bn) Breakdown 2019***

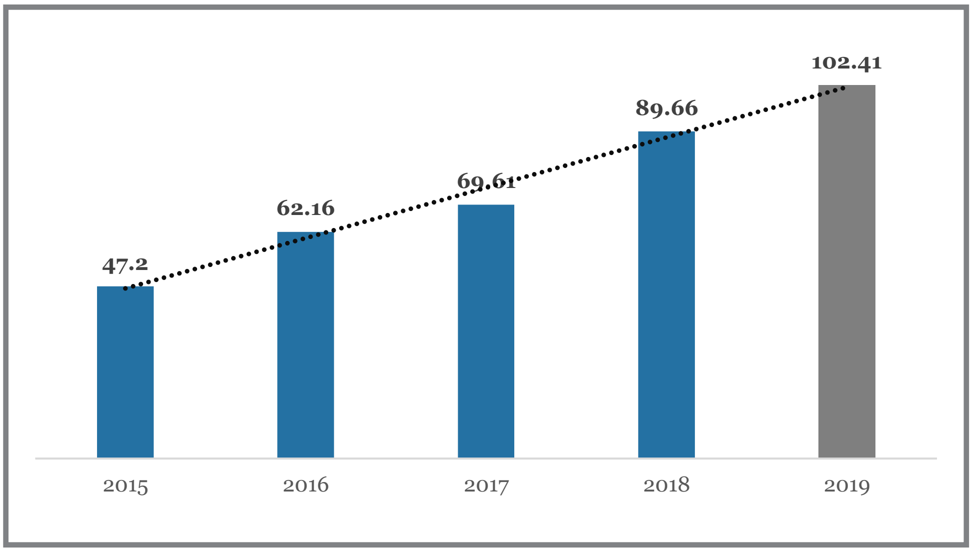


Source:NBS, Proshare Research

Adamawa State Domestic Debt

Adamawa state's domestic debt has consistently risen since December 2015. Adamawa state recorded its highest domestic debt of N102.41bn in December 2019. Its domestic debt rose from N89.66bn in December 2018 to N102.41bn in December 2019.

Chart 77: ***Adamawa State Domestic Debt (N'bn) 2015-2019***

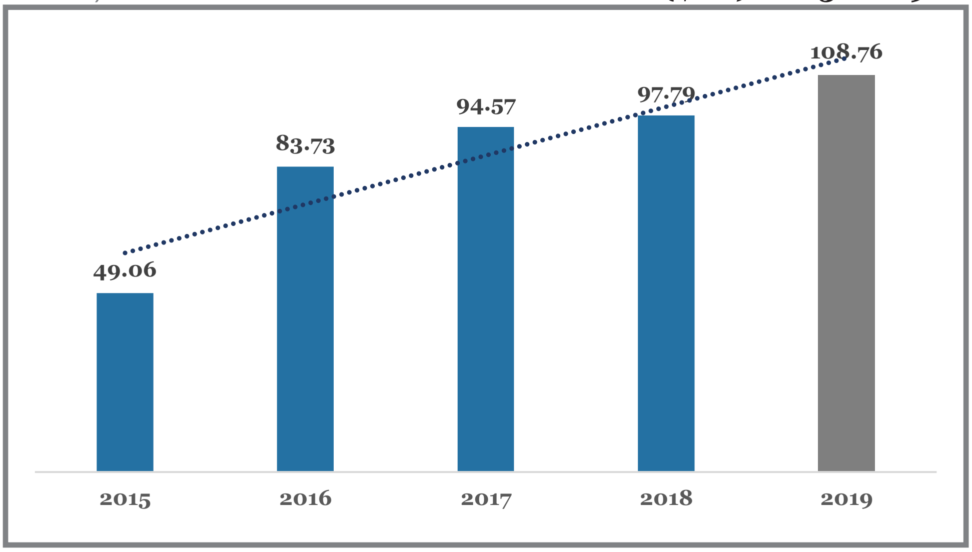


Source: DMO, Proshare Research

Adamawa State External Debt

Adamawa state's external debt has an upward trend. Its external debt rose consistently each year and peaked at $108.76m in December 2019. Its external debt rose from $97.79m in December 2018 to $108.76m in December 2018 (*see Chart 78*).

Chart 78: ***Adamawa State External Debt ($'m) 2015-2019***



Source: DMO, Proshare Research

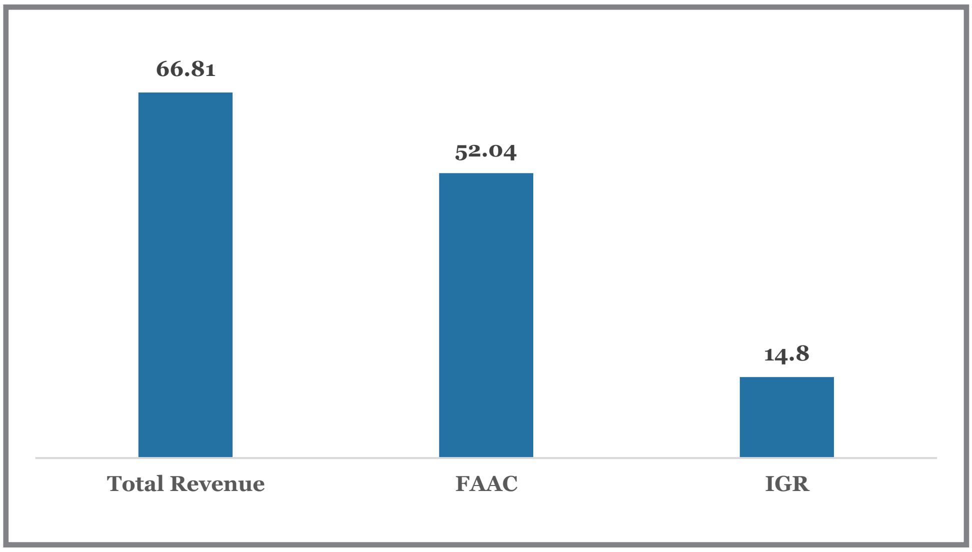
Abia State

Abia state relies mainly on FAAC collected as its main source of revenue. In 2019, its FAAC allocated accounted for 77.89% of its total revenue while its IGR was 22.11% of its total revenue.

Abia State Total Revenue

Abia state's total revenue declined by -4.78% to N66.81bn in 2019 from N70.16bn in 2018. Its FAAC accounted for 77.89% of total revenue while its IGR accounted for 22.11% (*see Chart 79*).

Chart 79: ***Abia State Total Revenue (N'bn) Breakdown 2019***

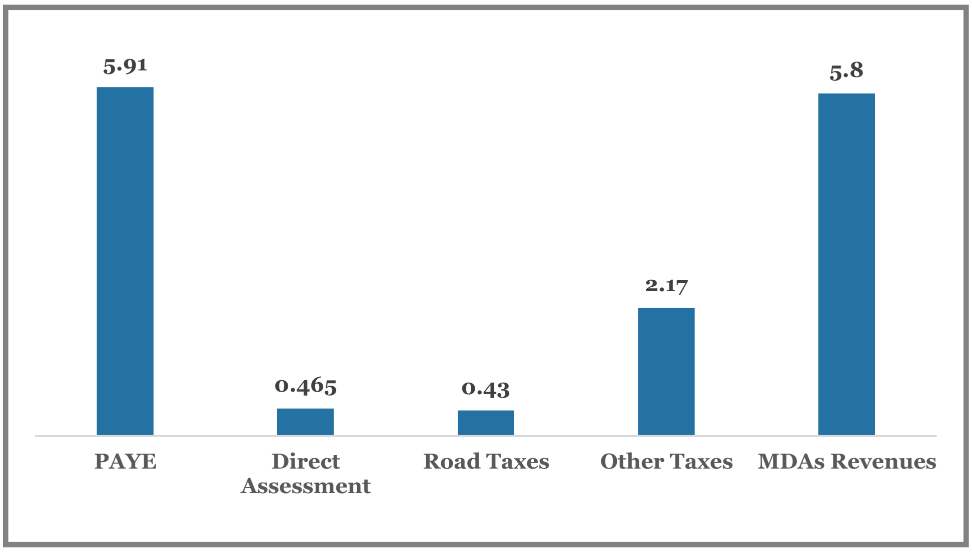


Source: NBS, Proshare Research

Abia State IGR

Its two major sources of IGR in 2019 were its PAYE and revenue derived from its MDA's. Revenue derived from PAYE and MDAs in 2019 were N5.91bn and N5.8bn respectively.

Chart 80: ***Abia State IGR (N'bn) Breakdown 2019***

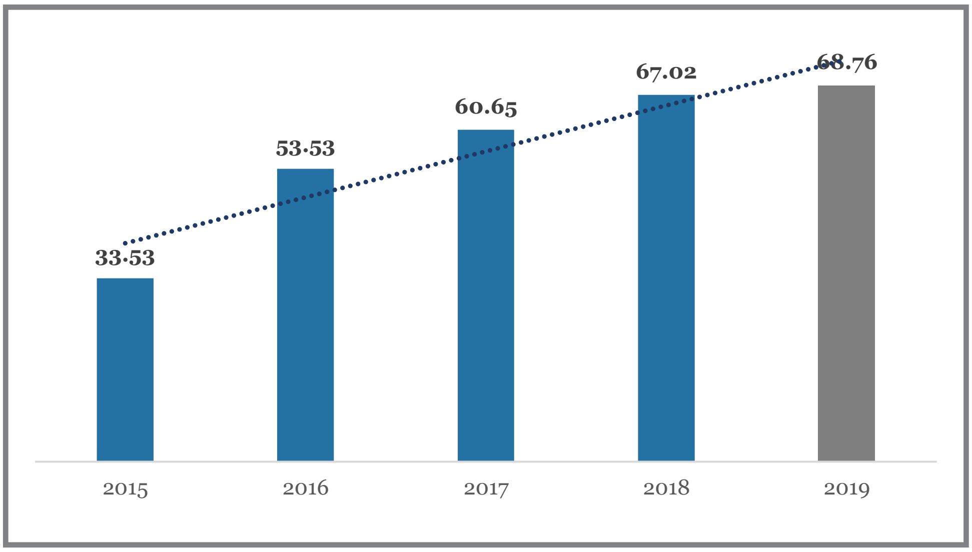


Source: NBS, Proshare Research

Abia State Domestic Debt

Abia state had an upward trending domestic debt, as its domestic debt increased yearly. Its highest domestic debt recorded was N68.76bn in December 2019. Its domestic debt increased from N67.02bn in December 2018 to N68.76bn in December 2019 (*see Chart 81*).

Chart 81: ***Abia State Domestic Debt (N'bn) 2015-2019***

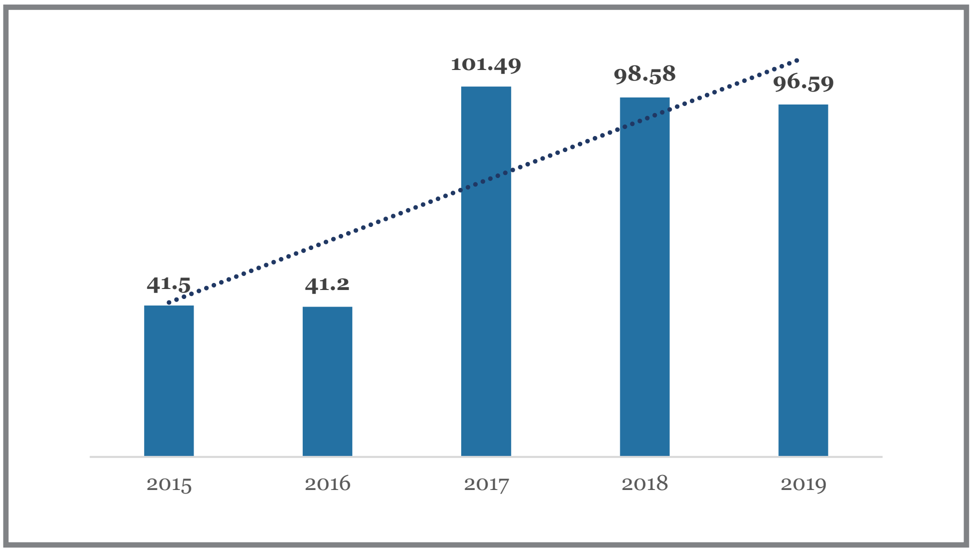


Source: DMO, Proshare Research

Abia State External Debt

Abia state external debt declined by -2.02% in December 2019. Its external debt declined from $98.58m in December 2018 to $96.59m in December 2019 (*see Chart 82*).

Chart 82: ***Abia State External Debt ($'m) 2015-2019***



Source: DMO, Proshare Research

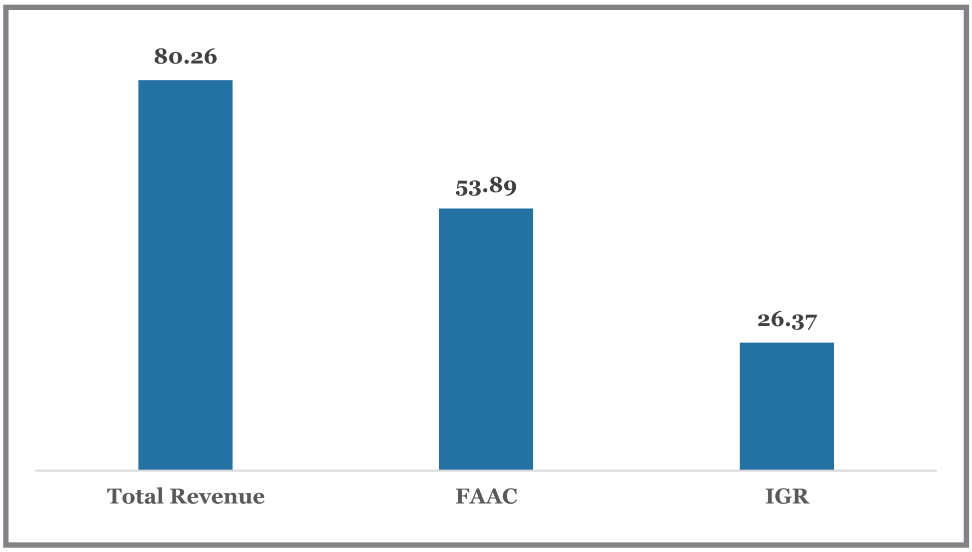
Anambra State

Anambra state recorded an increase in its debts and revenue in 2019. Its total revenue increased by 7.66% in 2019. Its main source of its IGR is its PAYE.

Anambra State Total Revenue

Anambra state's total revenue increased by 7.66% in 2019. Its total revenue increased from N74.56bn in 2018 to N80.26bn in 2019. The major source of its revenue in 2019 was from its FAAC. Its FAAC in 2019 was N53.89bn (67.15% of total revenue) while its IGR was N26.37bn (32.85% of total revenue).

Chart 83: ***Anambra State Total Revenue (N'bn) Breakdown 2019***

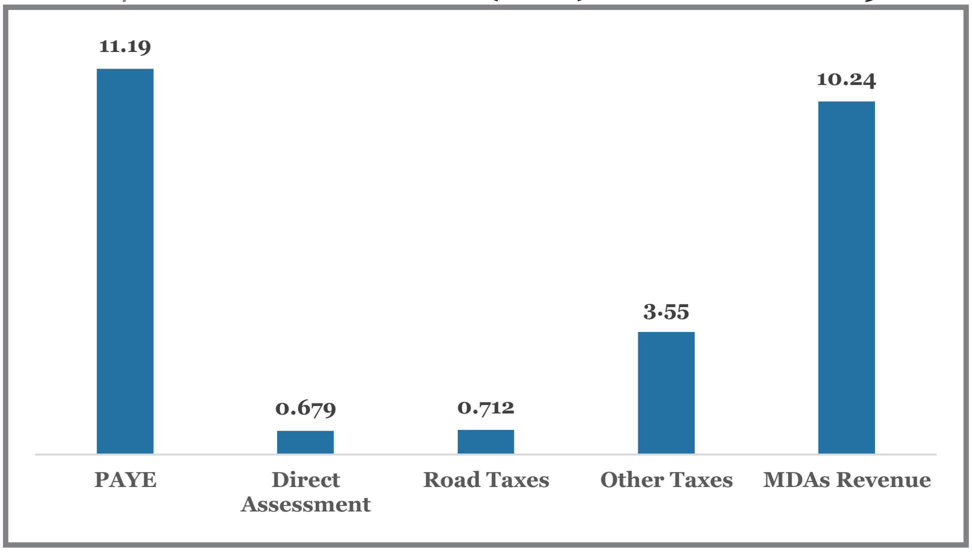


Source: NBS, Proshare Research

Anambra State IGR

Anambra state's two major sources of its revenues are its PAYE and MDAs revenue. In 2019, its PAYE accounted for N11.19bn of total revenue while its MDAs revenue accounted for N10.24bn of total revenue (*see Chart 84*).

Chart 84: ***Anambra State IGR (N'bn) Breakdown 2019***

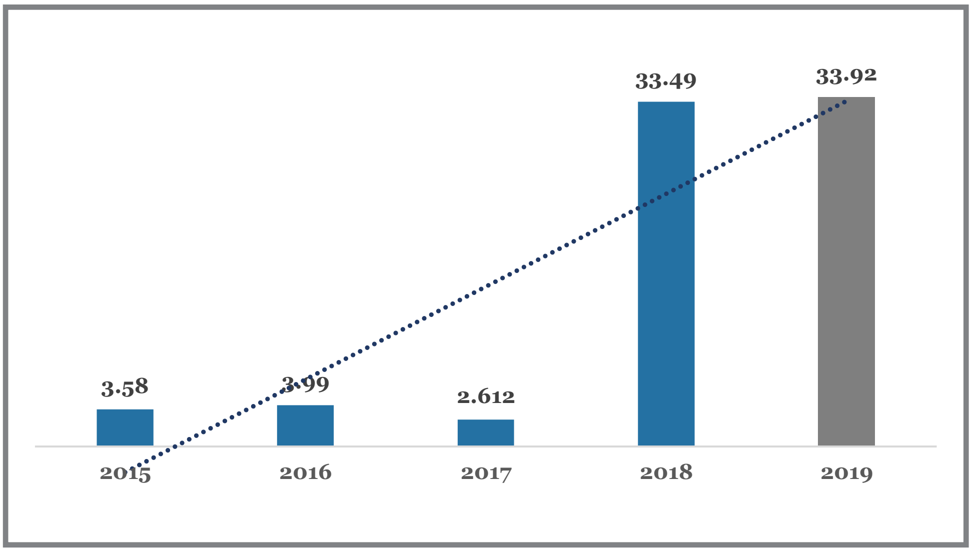


Source: NBS, Proshare Research

Anambra State Domestic Debt

Anambra state's domestic debt rose significantly from N2.61bn in December 2017 to N33.92bn in December 2019. Its highest domestic debt of N33.92bn was recorded in December 2019 (*see Chart 85*).

Chart 85: ***Anambra State Domestic Debt (N'bn) 2015-2019***

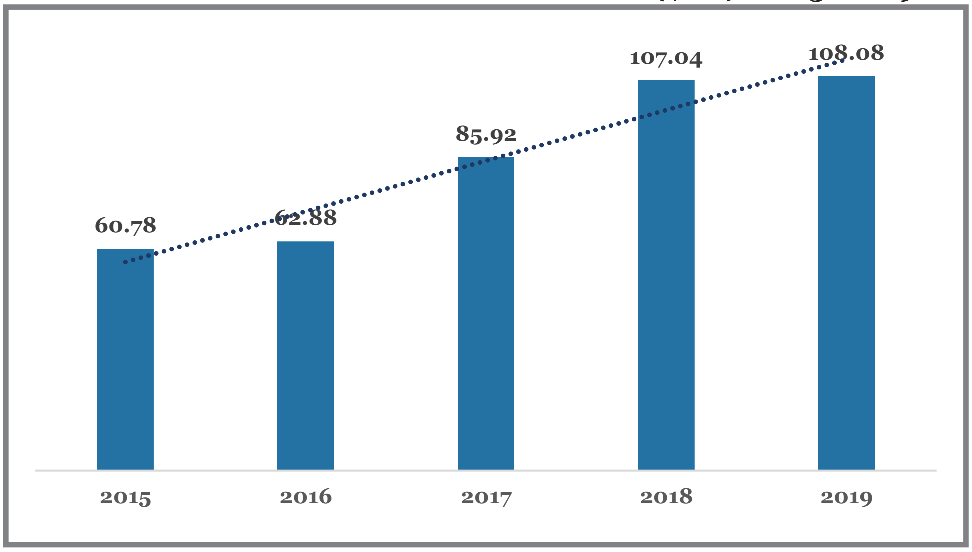


Source: DMO, Proshare Research

Anambra State External Debt ($'m) 2015-2019

Anambra state's external debt grew slightly by 0.97% in 2019. Its external debt rose consistently from December 2015 to December 2019. Its highest external debt recorded was $108.08m in December 2019 (*see Chart 86*).

Chart 86: ***Anambra State External Debt ($'m) 2015-2019***



Source: DMO, Proshare Research

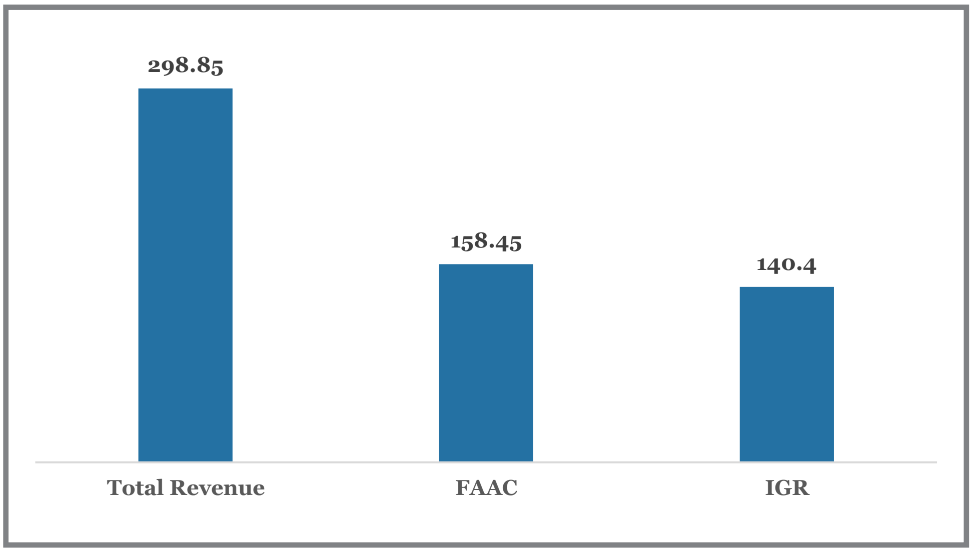
Rivers State

River state is characterized by large economic activities. It's the second state in Nigeria with the highest amount of total revenue earned in 2019.

Rivers State Total Revenue

Its total revenue increased by 4.71% in 2019. Its total revenue rose from N285.41bn in 2018 to N298.85bn in 2019. Rivers state recorded a total FAAC allocation of N158.45bn and an IGR of N140.4bn in 2019 (*see Chart 87*).

Chart 87: ***Rivers State Total Revenue (N'bn) 2019***

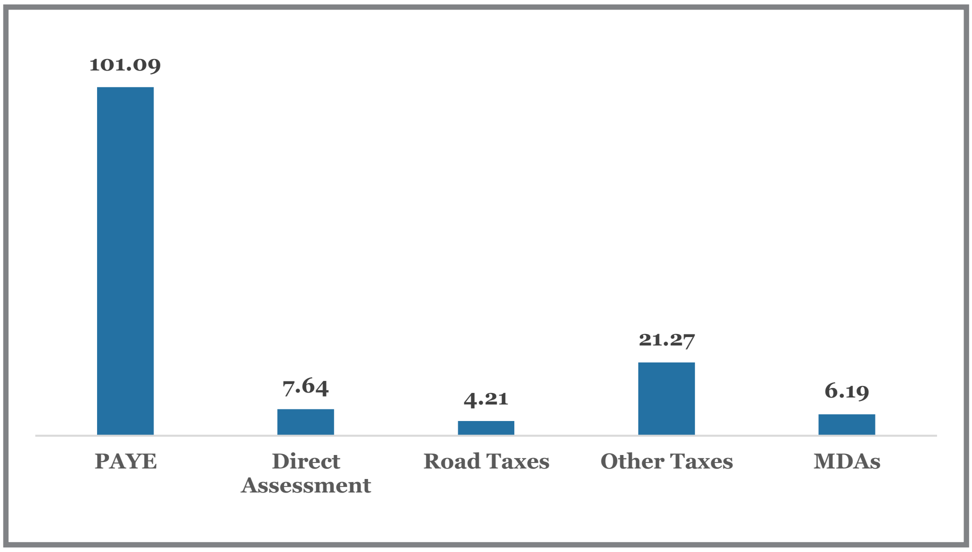


Source: DMO, Proshare Research

Rivers State IGR

Rivers State's major source of revenue was from PAYE and other taxes. In 2019, its PAYE earned was N101.09bn while its revenue earned from other taxes was N21.27bn.

Chart 88: ***Rivers State IGR (N'bn) 2019***

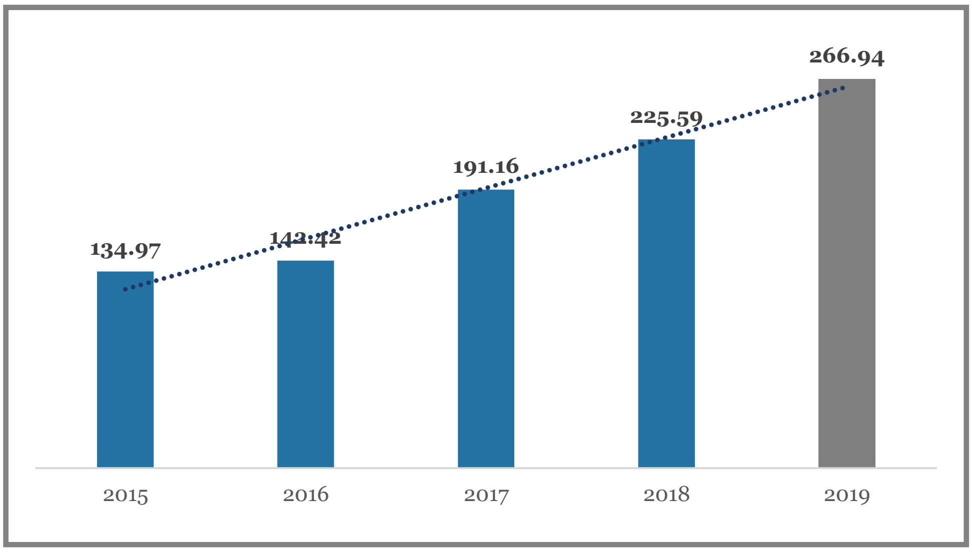


Source: DMO, Proshare Research

Rivers State Domestic Debt

Rivers state domestic debt was upward trending from December 2015 to December 2019. Its domestic debt peaked at N266.94bn in December 2019. Its domestic debt rose from N225.59bn in December 2018 to N266.94bn in December 2019 (*see Chart 89*).

Chart 89: ***Rivers State Domestic Debt (N'bn) 2015-2019***

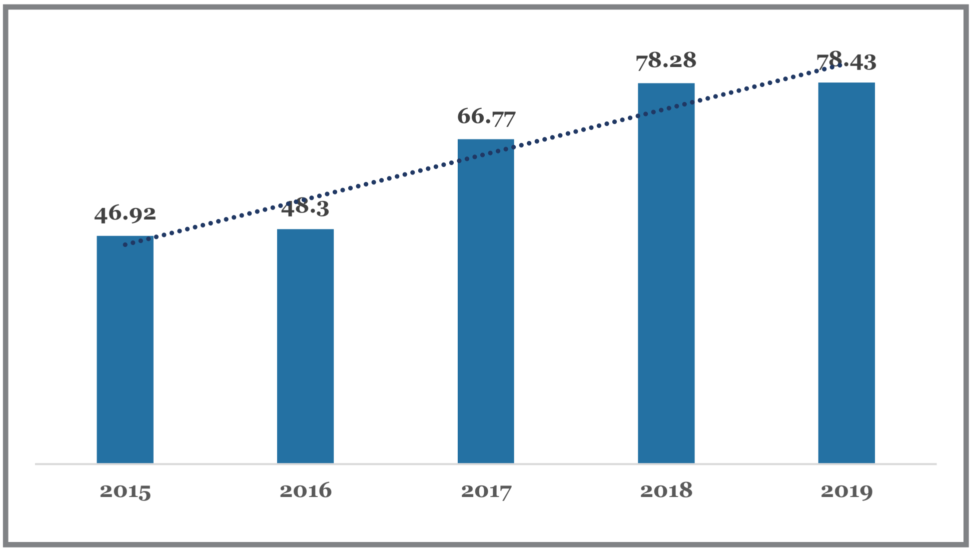


Source: DMO, Proshare Research

Rivers State External Debt ($'m) 2015-2019

Rivers state had was upward trending external debt from December 2015 to December 2019. Its external debt rose slightly by 0.19% from $78.28m in December 2018 to $78.43m in December 2019 (*see Chart 90*).

Chart 90: ***Rivers State External Debt ($'m) 2015-2019***



Source: DMO, Proshare Research

Delta State

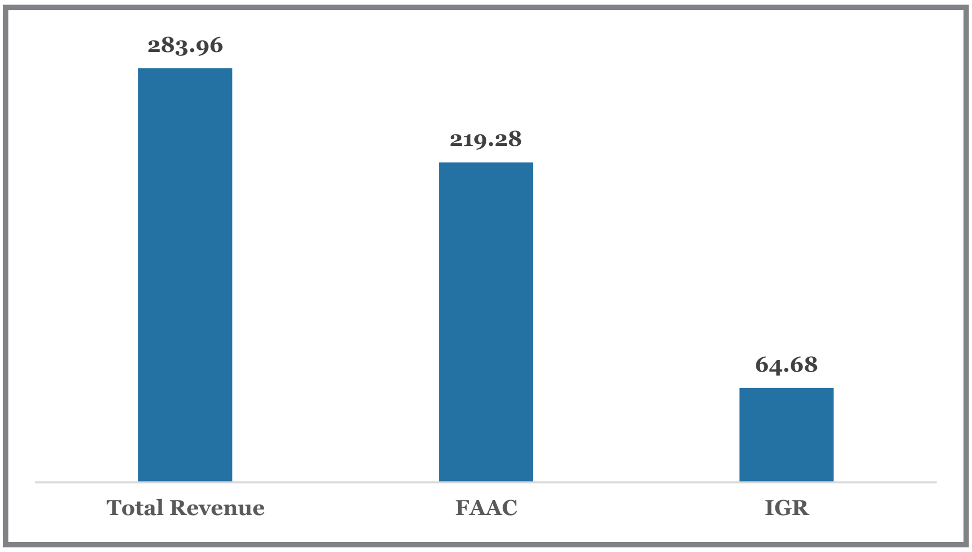
Although the state is richly endowed with various resources, especially oil, the resources are yet to be fully harnessed to significantly improve the welfare of the people. Besides abundant oil and gas, the state has a variety of other resources and facilities which gives it comparative advantage over other states in the Federation. These resources include: solid minerals such as silica, lignite and kaolin; abundant land for cropping and plantation agriculture; forest resources; water bodies for recreation and tourism; aquatic resources with vast potentials for aquiculture, several port, etc.

The Delta states economy is primarily dependent on its revenue derived from FAAC. Its primary source of its IGR is its PAYE

Delta State Total Revenue

In 2019, Delta state recorded an increase in its total revenue by 4.37%. Its total revenue increased from N272.07bn in 2018 to N283.96bn in 2019. Delta states major revenue comes from its FAAC. Its FAAC accounted for 77.22% of its total revenue while its IGR accounted for 22.78% of its total revenue in 2019. In 2019, it recorded a total allocated FAAC of N219.28bn while its IGR was N64.68bn.

Chart 91: ***Delta State Total Revenue (N'bn) Breakdown 2019***



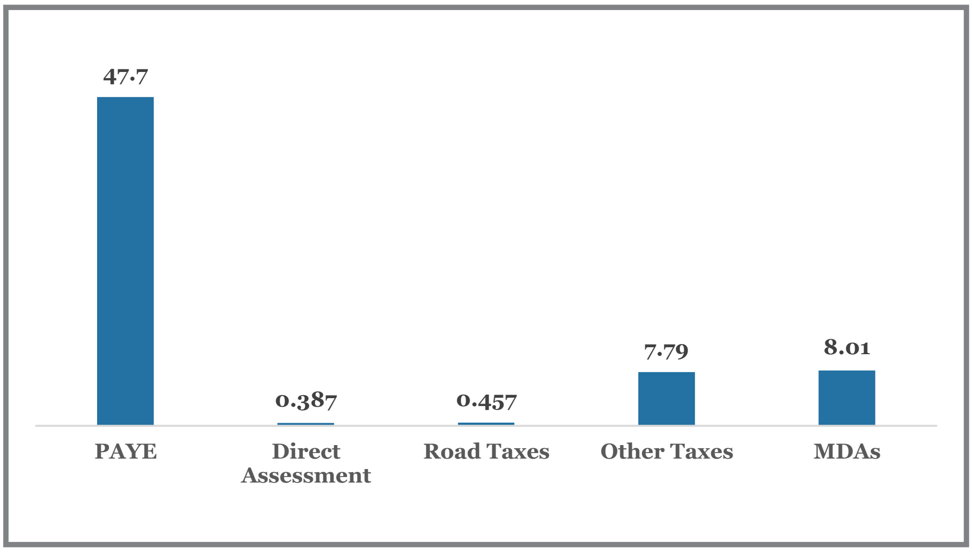
Source: NBS, Proshare Research

Delta State IGR Breakdown

Delta's state major source of IGR is its PAYE and its MDAs. In 2019, it derived N47.4bn from its PAYE while N8.01bn was derived from its MDAs.

Chart 92: Delta State IGR (N'bn) Breakdown 2019

Chart 92: ***Delta State IGR (N'bn) Breakdown 2019***

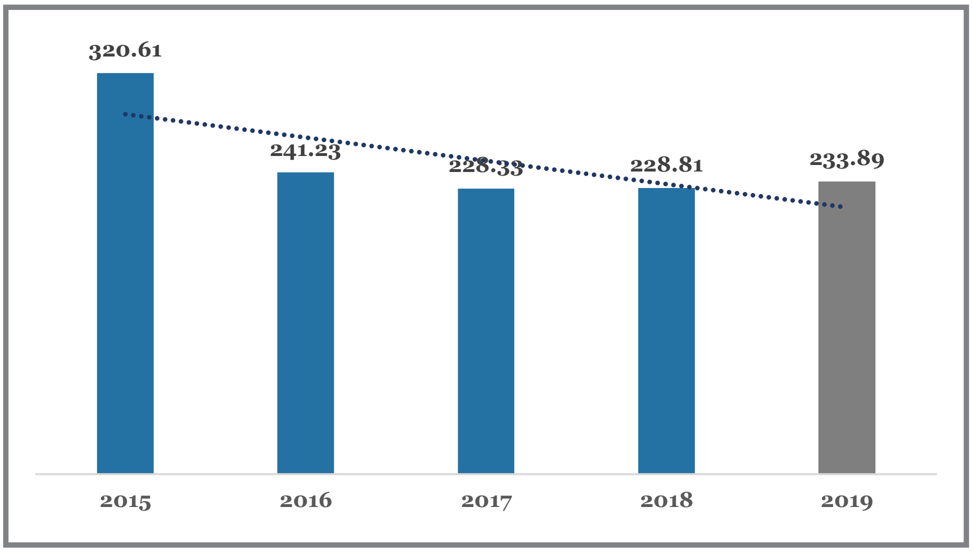


Source: NBS, Proshare Research

Delta State Domestic Debt

Delta state domestic debt increased marginally by 2.22% in December 2019. Its domestic debt increased from N228.81bn in December 2018 to N233.89bn in December 2019 (*see Chart 93*).

Chart 93: ***Delta State Domestic Debt (N'bn) 2015-2019***

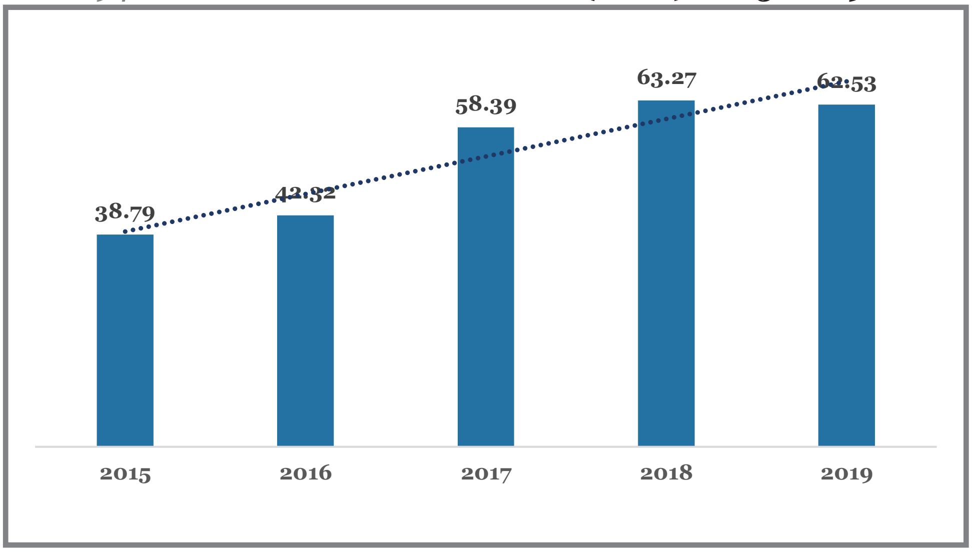


Source: DMO, Proshare Research

Delta State External Debt

Delta state external debt declined marginally by -1.17% in December 2019. Its external debt declined from $63.27m in December 2018 to $62.53m in December 2019 (*see Chart 94*).

Chart 94: ***Delta State External Debt (N'bn) 2015-2019***



Source: DMO, Proshare Research

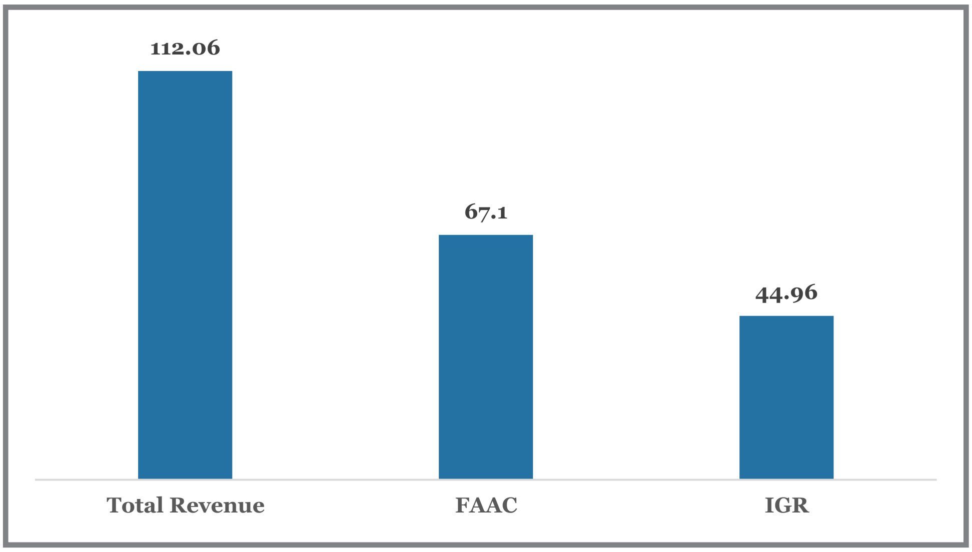
Kaduna State

Kaduna state is an industrial centre of Northern Nigeria and the Middle Belt, Manufacturing products like textiles, machinery, steel, aluminum, petroleum products and bearings

Kaduna State Total Revenue

Kaduna states total revenue grew by 14% in 2019. Its total revenue increased to N112.06bn in 2019 from N98.3bn in 2018. Its major source of revenue was revenue derived from FAAC allocation. In 2019, its total FAAC allocated was N67.1bn (59.88% of total revenue) while its IGR was N44.96bn (40.12% of total revenue).

Chart 95: ***Kaduna State Total Revenue (N'bn) Breakdown 2019***

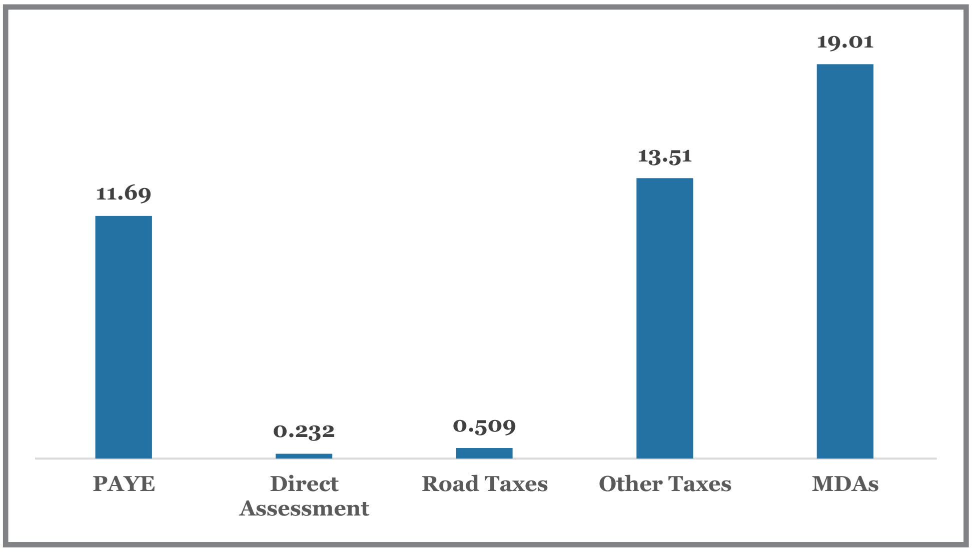


Source: NBS, Proshare Research

Kaduna State IGR

Kaduna state's major source of its IGR is derived from its MDAs and PAYE. In 2019, its MDAs generated revenue of N19.01bn while N11.69bn was generated from PAYE (*see Chart 96*).

Chart 96: ***Kaduna State IGR (N'bn) Breakdown 2019***

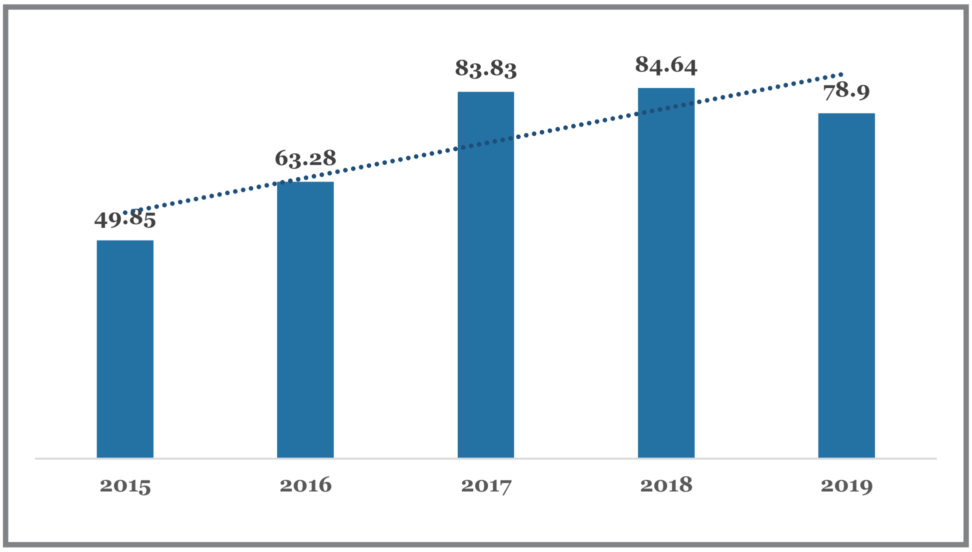


Source: NBS, Proshare Research

Kaduna State Domestic Debt

Kaduna state domestic debt was N78.9bn as of December 2019. Its domestic debt declined by -6.78% in 2019, its domestic debt declined from N84.64bn in December 2018 to N78.9bn in December 2019 (*see Chart 97*).

Chart 97: ***Kaduna State Domestic Debt (N'bn) 2015-2019***

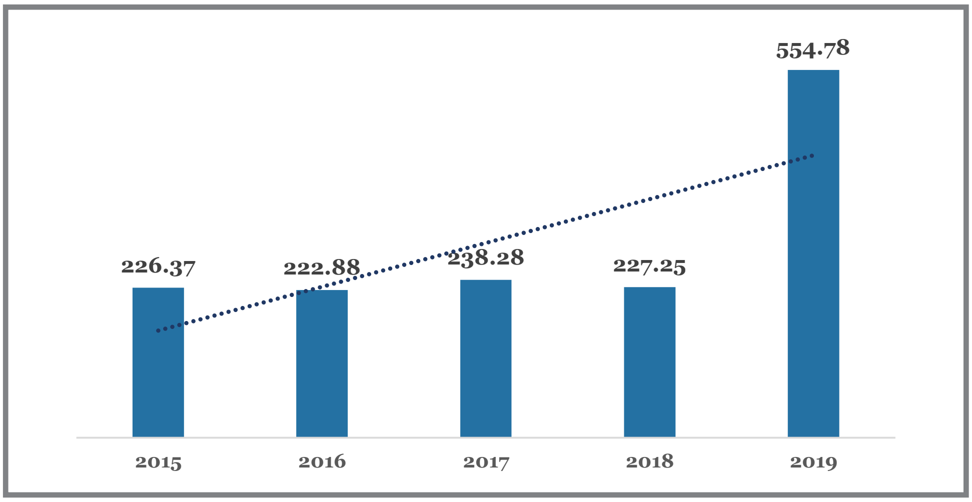


Source: DMO, Proshare Research

Kaduna State External Debt

Kaduna state's external debt grew by 144.13% in December 2019. Its external debt increased from $227.25m in December 2018 to $554.78m in December 2019 (*see Chart 98*).

Chart 98: ***Kaduna State External Debt ($'m) 2015-2019***



Source: DMO, Proshare Research

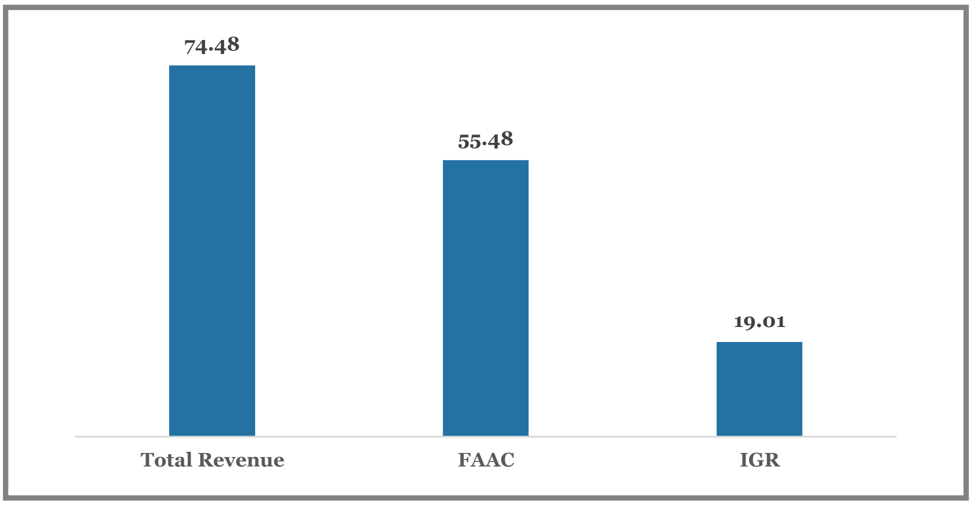
Sokoto State

Sokoto state is highly dependent on its FAAC as its revenue generated from IGR is low. Sokoto state is yet to tap fully into profitable ventures such as sugarcane, groundnut and guinea corn and rice production. It is blessed with minerals such as phosphate, gypsum, limestone and kaolin.

Sokoto State Total Revenue

Sokoto state's total revenue increased slightly in 2019. Its total revenue increased by 1.72% in 2019. Its total revenue increased from N73.2bn in 2018 to N74.48bn in 2019. The major source of its revenue was its FAAC, which accounted for 74.48% of the state's total revenue and 25.52% of its total revenue was generated from its FAAC. In 2019, its total FAAC allocated was N55.48bn while its IGR was N19.01bn (*see Chart 99*).

Chart 99: ***Sokoto State Total Revenue (N'bn) Breakdown 2019***

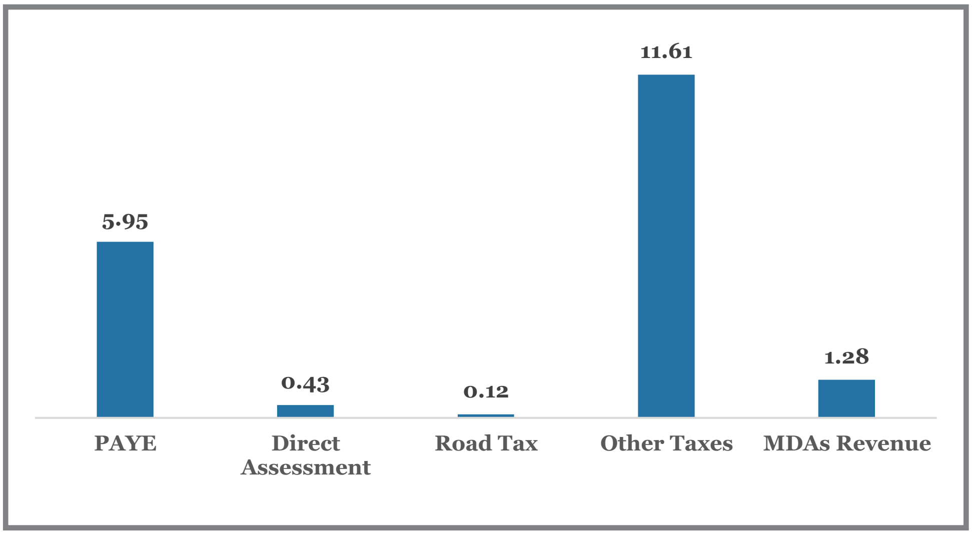


Source: NBS, Proshare Research

Sokoto State IGR

Sokoto state's major source of its revenue was derived from Other taxes and PAYE. In 2019, revenue derived from other taxes was N11.61bn while revenue derived from PAYE was N5.95bn (*see Chart 100*).

Chart 100: ***Sokoto State IGR (N'bn) Breakdown 2019***

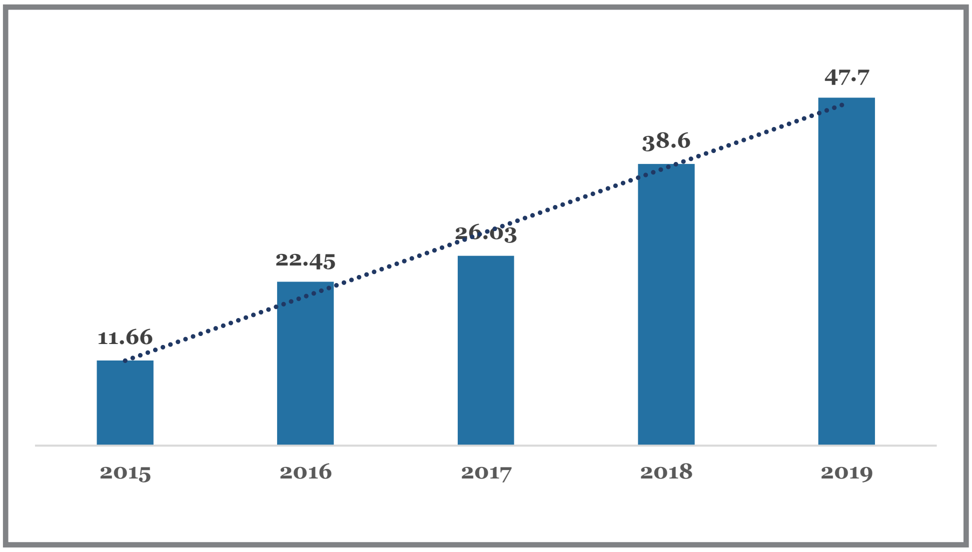


Source: NBS, Proshare Research

Sokoto State Domestic Debt

Sokoto state domestic debt increased significantly by 23.58% in December 2019. Its domestic debt had an upward trend and increased consistently yearly, its domestic debt increased from N38.6bn in December 2018 to N47.7bn in December 2019 (*see Chart 101*)

Chart 101: ***Sokoto State Domestic Debt (N'bn) 2015-2019***

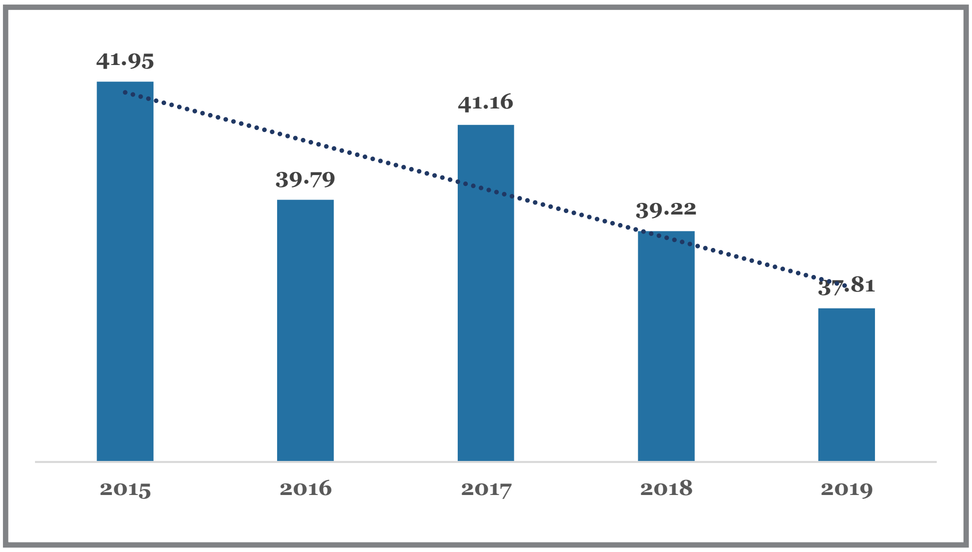


Source: DMO, Proshare Research

Sokoto State External Debt

Its external debt declined slightly by -3.60% in December 2019. Its external debt declined from $39.22m in December 2018 to $37.81m in December 2019 (*see Chart 102*).

Chart 102: ***Sokoto State External Debt ($'m) 2015-2019***



Source: DMO, Proshare Research

Table 20: Debt to Revenue Per State-A "COVID" chill

Table 20: **Debt to Revenue Per State-A "COVID" chill**

DEBT TO REVENUE

State	Total Public Debt	Total Revenue	Debt to Total Revenue	Excess of 50%
Adamawa	119.68	55.33	175.83	125.83
Akwa Ibom	212.68	202.37	241.73	191.73
Anambra	66.35	55.25	120.09	70.09
Bauchi	133.48	54.02	247.1	197.1
Bayelsa	147.43	153.1	96.29	46.29
Borno	75.02	63.27	118.57	68.57
Crossriver	225.91	36.95	611.31	561.31
Delta	248.24	213.63	116.2	66.3
Ebonyi	76.06	44.96	169.19	119.19
Edo	171.63	69.17	248.13	198.13
Ekiti	150.62	39.33	383	333
Enugu	93.768	53.1	176.57	126.57
Gombe	74.82	43.81	170.79	120.79
Imo	117.05	54.18	216.04	166.04
Jigawa	44.99	60.33	74.58	24.58
Kaduna	154.4	68.85	224.26	174.26
Kano	136.55	84.21	162.16	112.16
Katsina	49.93	61.65	80.98	30.98
Kebbi	81.44	54.58	149.22	99.22
Kogi	94.62	53.37	177.27	127.27
Kwara	74.055	44.57	166.14	116.14
Lagos	968.16	119.02	813.41	763.41
Nassarawa	103.53	47.55	217.73	167.73
Niger	60.66	57.52	105.46	555.46
Ogun	130.42	39.6	328.97	63.84
Ondo	73.64	64.69	113.84	63.84
Osun	178.52	22.84	781.71	731.71
Oyo	123.75	59.29	208.72	158.72
Plateau	109.23	43.89	248.9	198.9
Rivers	249.62	172.63	144.6	94.6
Sokoto	50.64	54.46	92.99	42.99
Taraba	68.14	47.87	142.33	92.33
Yobe	36.21	52.87	68.48	18.48
Zamfara	70.19	40.83	171.91	121.91
FCT	174.02	73.17	237.83	187.83

Source: FRC, D.M.O, Proshare Research

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The high debt to revenue ratio across the various states of the federation is another source of concern. According to the DMO guidelines on borrowing, no state should have outstanding loans that are more than 50% of their total revenues in the previous 12 months. However, statistics provided by the FRC in its 2018 Annual Report show that all the states had debts beyond 50% of their previous 12-month revenues. Lagos State recorded the highest debt to revenue ratio. It had net revenue of N119.02bn, with a total debt of N968.16bn. This left the state with a debt to revenue ratio of 813.41%. It also means that the state had gone beyond the DMO limit by 763.41%. Lagos was quickly followed by Osun State with a debt to revenue ratio of 781.7%. While it had net revenue of N22.84bn, its total public debt stood at N178.52bn. This means that the state had a debt to revenue ratio of 781.71% and had gone beyond the limit set by the DMO by 731.71%. Other top states in terms of high debt to revenue ratios include Cross River, Ekiti, Ogun, Plateau, Edo, Bauchi, Adamawa, Kaduna, Nasarawa, Imo and Oyo states. The spread of the coronavirus is projected to worsen the state's debt to revenue ratio in 2020 (*see Table 20*).

Illustration 19: Understanding the Challenges, Mining the Opportunities

Illustration 19: ***Understanding the Challenges, Mining the Opportunities***

STATES: UNDERSTANDING THE CHALLENGES, MINING THE OPPORTUNITIES

State	High debt	Low IGR	Unique challenges	Post Covid-19 Opportunities
Lagos	✓	✗	• Highly populated-large informal sector • Infrastructural failure • High water levels – flooding, coastal erosion	• Bridging the divide between the informal and formal sector • Diversification of the transport sector – railways, ferries • Flood management plans -generate electricity, increase in marine activities
Osun	✓	✓	• Poor ease of doing business • Weak planning and budgeting system and poor budget performance • Gross infrastructural deficit • Over bloated public service	• A productive, efficient and productive economy leading to increased employment • Leverage on agriculture to improve productivity and reduce unemployment • Leverage culture to improve tourist activities thereby generate revenue World class infrastructure that effectively supports economic growth and development
Niger	✓	✓	• Insecurity; Boko Haram, farmer-herder clashes • Low education level -High fertility without birth controls • High poverty rate	• Improve educational sector • Investment opportunities in agribusiness such as yam, cassava, shea butter, sorghum and maize • Sensitization of the public on birth control
Adamawa	✓	✓	• Insecurity; Boko Haram, farmer-herder clashes, intercommunal clashes	• Improve security • Increased investment in the agribusiness, tourism and healthcare
Borno	✓	✓	• High unemployment rate • Food insecurity • Low agricultural production caused by insecurity • Economic stagnation caused by insecurity	• Financial inclusion • Provide livelihood programs across sectors • Improve security • Increased investment in the agribusiness, cattle ranching.
Rivers	✓	✗	• Negative effects of oil exploration • Particle (soot) pollution • Poor drainage system	• Drainage infrastructure • Electricity could be provided using the gas flared invariably reducing particle pollution and providing cleaner air • Improve ranch farming (animal protein)
Delta	✓	✓	• Pipeline vandalism • Insecurity	• Investment opportunities lies in the agribusiness such as rubber, cassava, cashew and cocoa • Opportunities also lies in mineral resources such as the silica, tar sand, clay and limestone
Kaduna	✓	✓	• Communal clashes • Cattle rustling (theft) which decimated the livestock sector	• Opportunities lies in the solid mineral sector of the state such as the iron-ore, gold, gemstones, granite and marbles • Investment opportunities in the agribusiness such as the maize, rice, millet, ginger and sorghum.
Sokoto	✓	✓	• Poverty • Illiteracy • High level of unemployment	• Leverage on culture and tourism • Investment opportunities in the agribusiness such as sugarcane, groundnut, Guinea corn, rice. Improve the education thereby bridging the gap between the informal sector and formal sector • Investment opportunities in solid minerals such as phosphate, gypsum, limestone and kaolin.
Abia	✓	✓	• Infrastructural failure	• World class infrastructure that effectively support economic growth and development. Investment opportunities in auto components • Improve the ease of doing business

Source: Proshare Research

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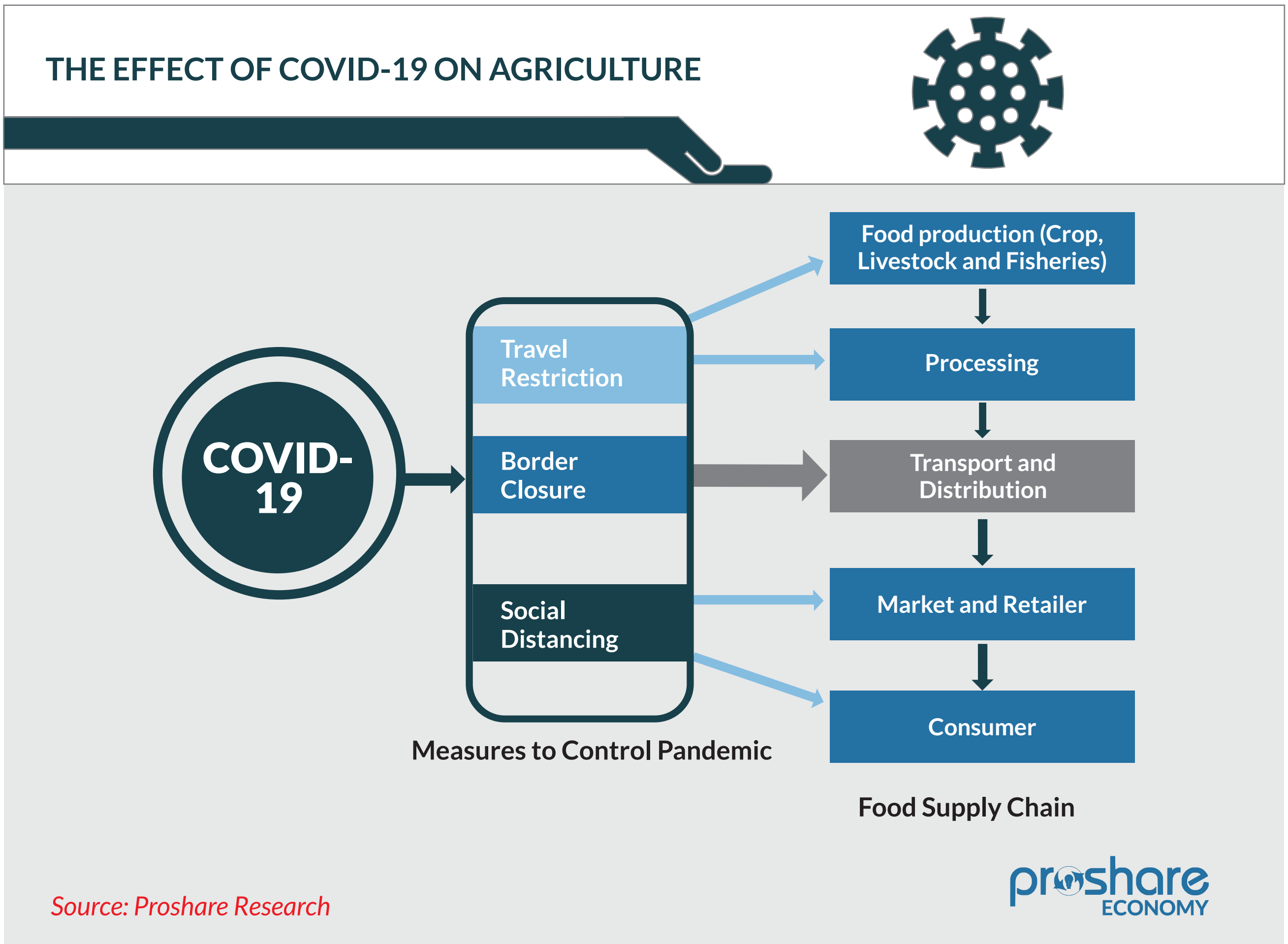
Sectorial Analysis

Agricultural Sector

COVID-19 has had a quantum impact of Nigeria's Agricultural sector as lockdowns whether partial of full have led to disruptions in the agricultural supply chain and created problems for small and large farm holders across the various states. Inter-state transportation disruptions and upward price adjustments have led to commodity price hikes and lower consumer demand after a point of inelasticity creating what economists prefer to call a “kinked-demand' curve. Travel restrictions, the closure of land borders and the requirement of social distancing have combined to place both demand and supply chokeholds on farmgate products (*see illustration 20*).

Illustration 20: ***Effect of COVID-19 on Agricultural Sector***

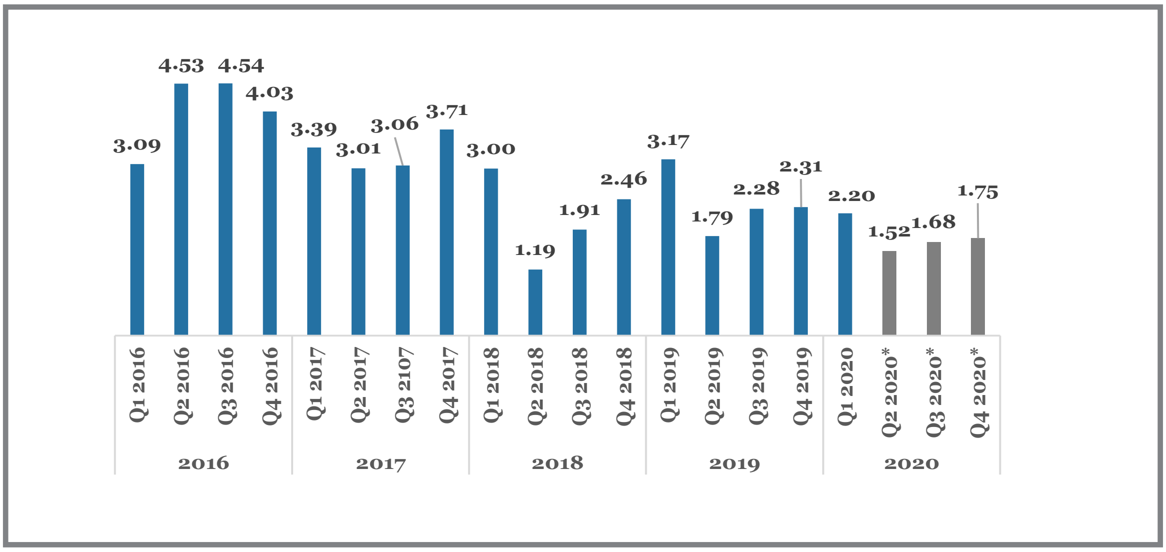


The temporary lockdown in some states in Nigeria has harmed the farming and agriculture generally. The restrictions in the movement of goods and people have affected farmer's productivity as labour shortage has been a major issue in limited productive capacity and sales. Transport restrictions and quarantine measures have impeded farmers' access to markets. Access to inputs such as fertilizers has also faced problems. For example, the lockdown in China severely affected international fertilizer trade.

The latest statistics released by NBS reveals that the agricultural sector grew by 2.20% in Q1 2020 from 2.31% in Q4 2019 and 3.17% in Q1 2019. The major driver of the sector was crop production which grew by 2.38% in Q1 2020. Other sub-sector activities in the agricultural sector which are livestock, forestry and fishing grew by 0.63%, 1.71% and 1.49% respectively.

Going forward, if the coronavirus persists, it is expected that the agricultural sector will experience slow growth in the remaining quarters of the year on the backdrop of slow growth in sub-activities which includes the crop production, livestock, forestry and fishery while we expect a recovery to set off in Q4 2020 (*see Chart 103*).

Chart 103: ***Agricultural Sector Quarterly Growth Rate (%)***



Source: NBS, Proshare Research

Note Asterisk (*) – Forecasted figures

Case Study

Okomu Oil Palm Company

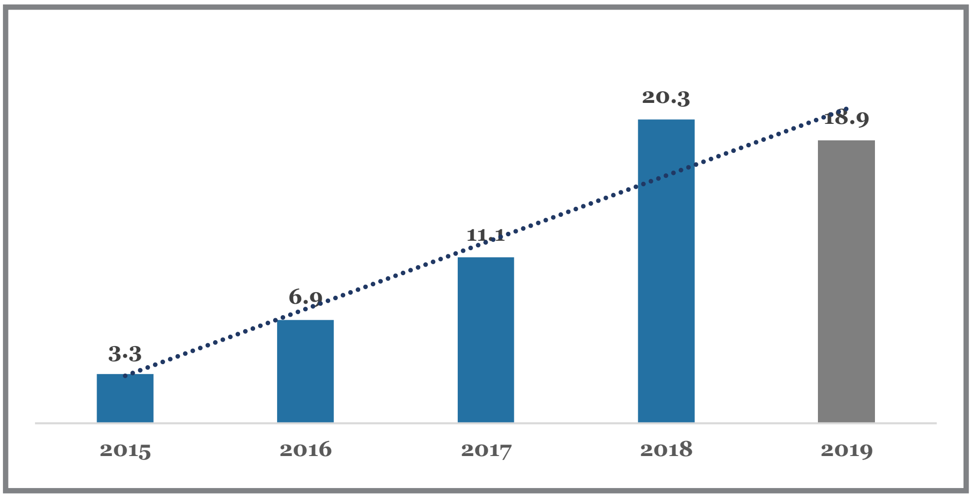
Okomu oil palm company plc is involved in the cultivation of oil palm, processing of fresh fruit bunches into crude palm oil for resales, rubber plantation and processing of rubber lumps to rubber cake for export. It operates through two segments: Palm oil products and Rubber products.

Okomu Oil Palm PBT

Okomu oil palm plc profit before tax rose consistently from 2015 to 2018 and declined slightly in 2019. It recorded its highest profit before tax of N20.3bn in 2018 and its lowest profit of N3.3bn in 2015 (*see Chart 104*).

Chart 104: Okomu Oil Palm PBT (N'bn) 2015-2019

Chart 104: ***Okomu Oil Palm PBT (N'bn) 2015-2019***



Source: Okomu Oil Palm Financials, Proshare Research

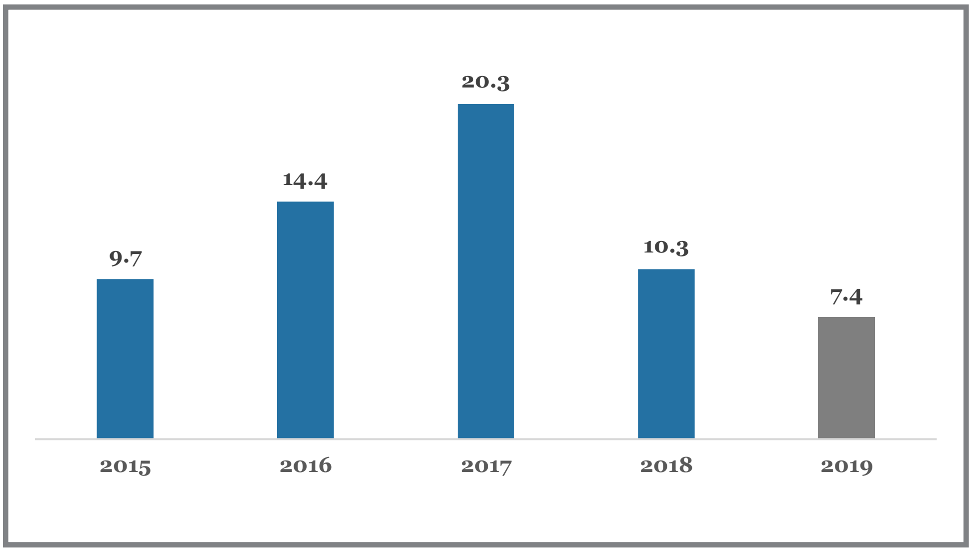
Unlike in 2016, when Okomu oil palm recorded a rise in its profit before tax by 109.09%, it is forecasted that the coronavirus will affect its profitability negatively in 2020. Due to the pandemic virus, there has been a rise in the cost of operations, shortage of labour as a result of the lockdown and decline in consumer demand. It is forecasted that its profit before tax will most likely decline in 2020 due to the coronavirus.

Okomu Oil Palm Revenue

Okomu oil palm recorded a decline of -28.16% in its revenue. Its revenue declined from N10.3bn in 2018 to N7.4bn in 2019. Despite the recession in Nigeria in 2016 and2017, Okomu oil palm's revenue increase in 2016 and 2017 to N14.4bn and N20.3bn respectively.

In 2019, the narrative is projected to be different as Okomu oil palm's revenue is forecasted to decline due to the pandemic coronavirus which has led to slow economic growth and fall in consumption demand (*see Chart 105*).

Chart 105: ***Okomu Oil Palm Revenue (N'bn) 2015-2019***



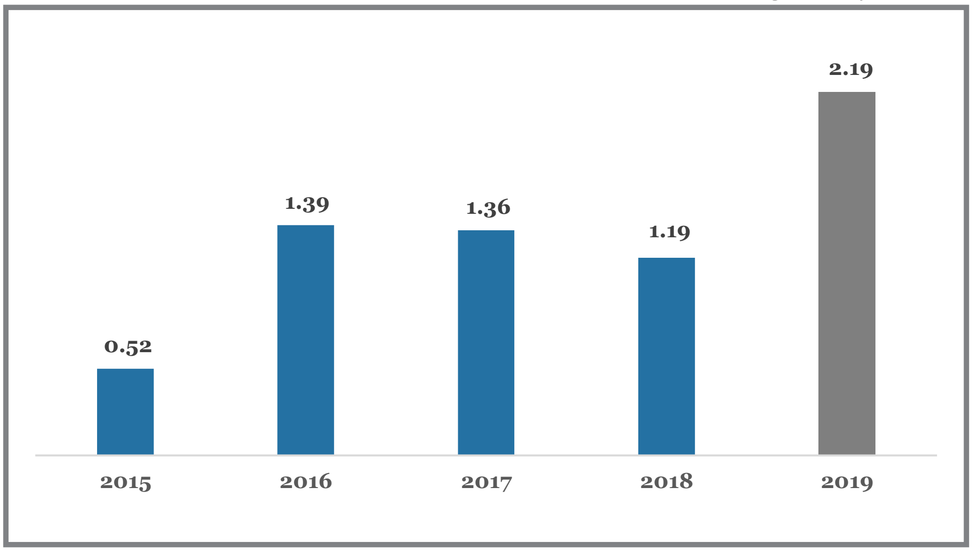
Source: Okomu Oil Palm Financials, Proshare Research

Okomu Oil Palm Acid Test Ratio

The higher the acid ratio, the better the position of the company. Despite the contraction in 2016, Okomu Oil Palm's acid-test ratio was above one which indicates that they were able to meet their short-term obligations using its most liquid assets.

Its acid-test ratio is expected to drop in 2020 due to the coronavirus affecting the growth of the economy and consumer demand.

Chart 106: ***Okomu Oil Palm Acid Test Ratio 2015-2019***



Source: Okomu Oil Palm Financials, Proshare Research

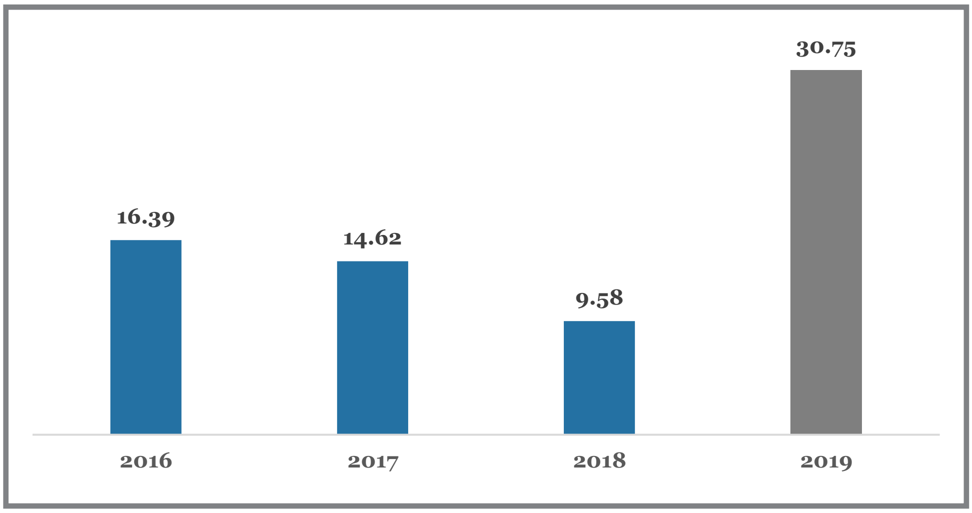
Okomu Oil Palm Leverage Ratio

Okomu Oil Palm's recorded its highest leverage ratio of 30.75% in 2019. Its leverage ratio increased remarkably from 9.58% in 2018 to 30.75% in 2019. A higher financial leverage ratio indicates that a company is using debt to finance its assets and operations (*see Chart 107*).

It is expected that Okomu Oil Palm will record a rise in its leverage ratio for 2020, as a result of an increase in its cost of operations as well as a fall in demand.

Chart 107: Okomu Oil Leverage Ratio (%) 2015-2019

Chart 107: ***Okomu Oil Leverage Ratio (%) 2015-2019***



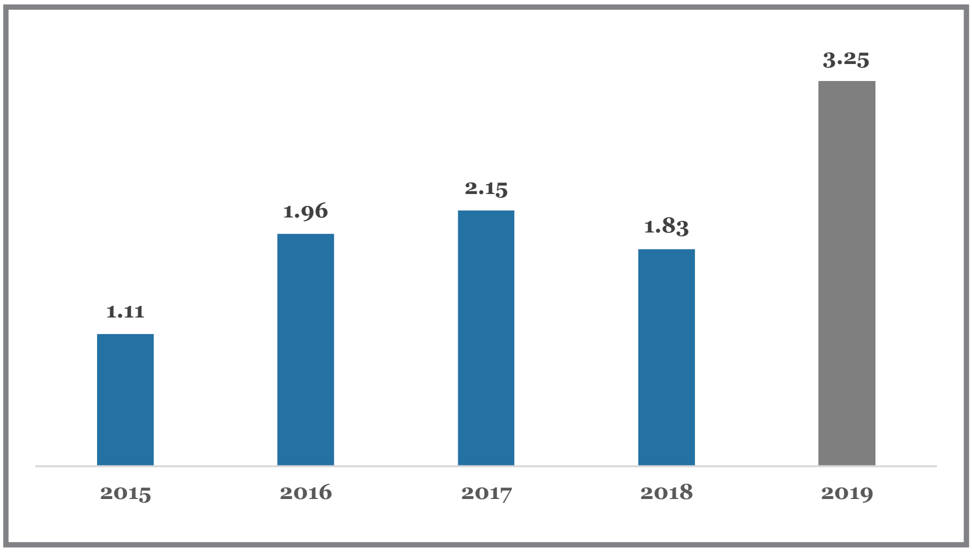
Source: Okomu Oil Palm Financials, Proshare Research

Okomu Oil Palm Current Ratio

Okomu Oil Palm recorded its highest current ratio of 3.25 in 2019. Its current ratio increased from 1.83 in 2018 to 3.25 in 2019. The high current ratio signifies financial strength, but it also raises concerns that a company is inefficient at investing what cash it has (*see Chart 108*).

Due to the pandemic, it is most likely that its current ratio will decline due to the need of the Oil Palm company to sustain productive activities and stay afloat despite the slow economic growth.

Chart 108: ***Okomu Oil Palm Current Ratio 2015-2019***

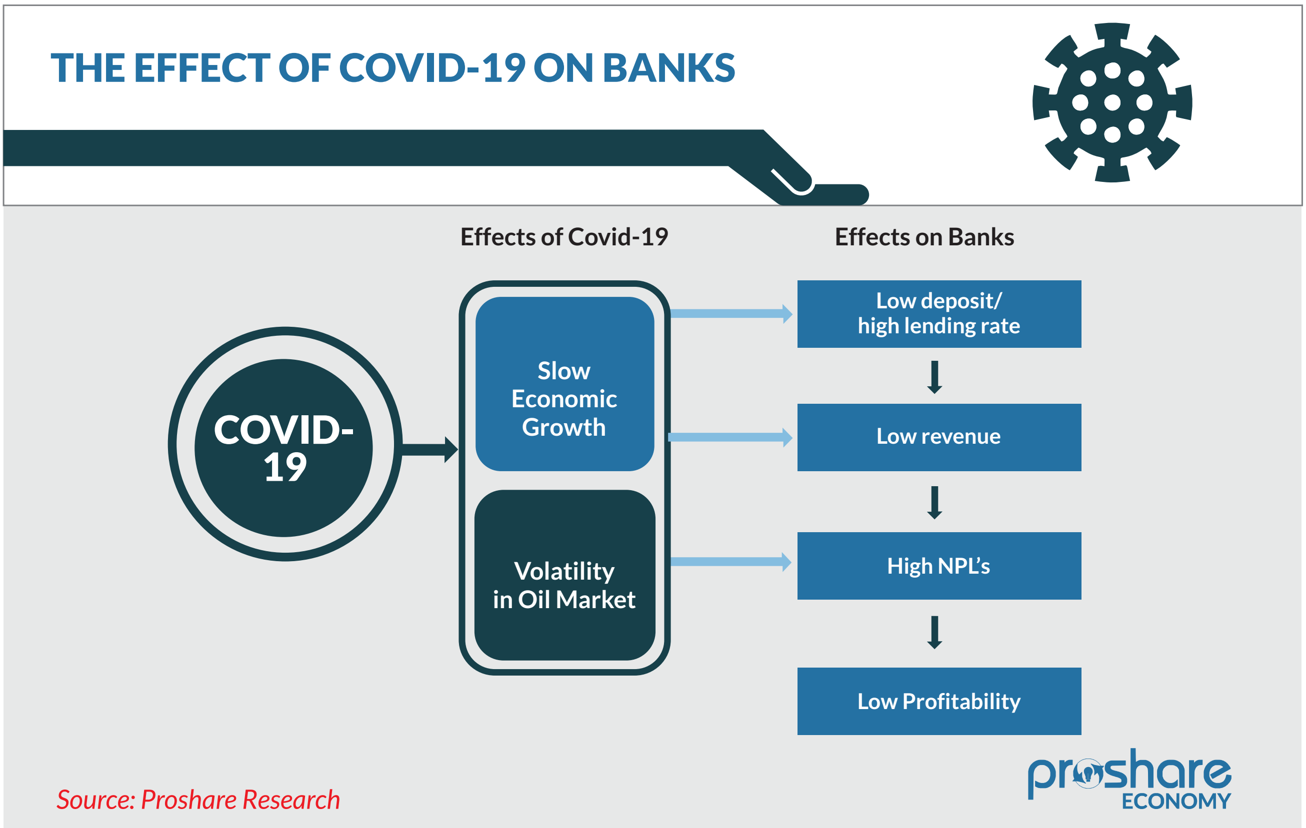


Source: Okomu Oil Palm Financials, Proshare Research

Finance and Insurance Sector

Despite the spread of COVID-19, the finance and insurance sector grew remarkably in the Q1 2020. The sector grew by 20.79% in Q1 2020, an improvement from 20.18% in Q4 2019. Financial institutions grew by 24.0% in Q1 2020 from 22.33% in Q4 2019 and -9.21% in Q1 2019. The insurance sector grew by 2.94% in Q1 2020 from 3.21% in Q4 2019 and 2.58% in Q1 2019.

Illustration 21: ***Effect of COVID-19 on Banks***



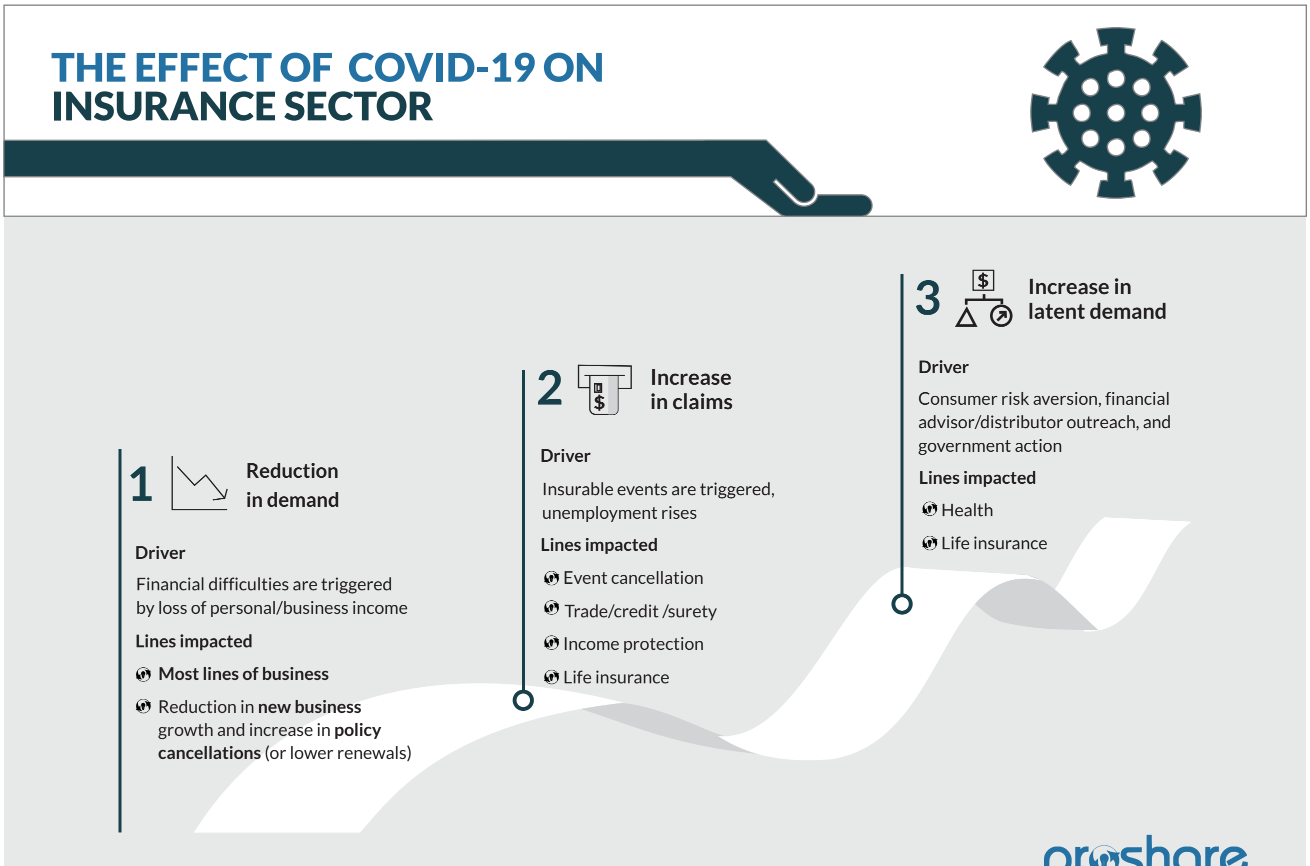
The pandemic is forecasted to have a negative significant effect on the finance and insurance sector in Q2 2020 and probably the rest of the year. Coronavirus has adversely affected global trade such as the global oil market, causing volatility in oil prices. Data from bank's financials reveals that the majority of their gross loans are allocated to the oil and gas sector making them vulnerable to increase indebtedness i.e. increase in NPL. Weak economic activities caused by the coronavirus will affect the ability of businesses to repay debt, thus weaken asset quality of banks (including microfinance banks). The coronavirus induced interest-rate reduction will weaken the profitability of banks.

COVID-19 and The Burden on Banks

- **Credit Risk:** Increased defaults due to a decline in economic activities, higher credit exposures and rating downgrade of customers, an increase in expected credit losses and non-performing loans.
- **Profitability/Capital Adequacy:** Low business activities and higher impairment and losses will likely lead to a reduction in profit level and capital depletion, with Capital Adequacy Ratio likely falling below regulatory limits.
- **Market Risk:** Expected fair value losses on the back of increased credit spreads, as well as the impact of net foreign exchange (FX) devaluation varying with banks' net FX position
- **Operational Risk:** Banks are likely to suffer from Business execution and process management failures as well as the likelihood of system failures and business disruption due to alteration in employee working arrangements in the wake of the Work-from-Home strategy adopted to curtail the spread of the virus.
- **Liquidity Risk:** Banks' liquidity position likely to be affected by the reduced cash inflows from loan repayments. Increased cash withdrawals relative to reduced savings, a decline in transactional activities will also affect liquidity.

- **Cyber Risk:** The prevalence of Work-from-Home conditions means increased exposure to cyber risks. Cybercriminals may exploit remote access weakness using new techniques to perpetrate cyber fraud
- **Currency Risk:** Banks with a mismatch in their foreign currency (FCY) denominated assets and liabilities may experience face significant exposure to currency risk occurring from the expected defaults on the FCY assets compounded with the recent adjustments in exchange rates by the CBN.

Illustration 22: ***Effect of COVID-19 on Insurance Sector***

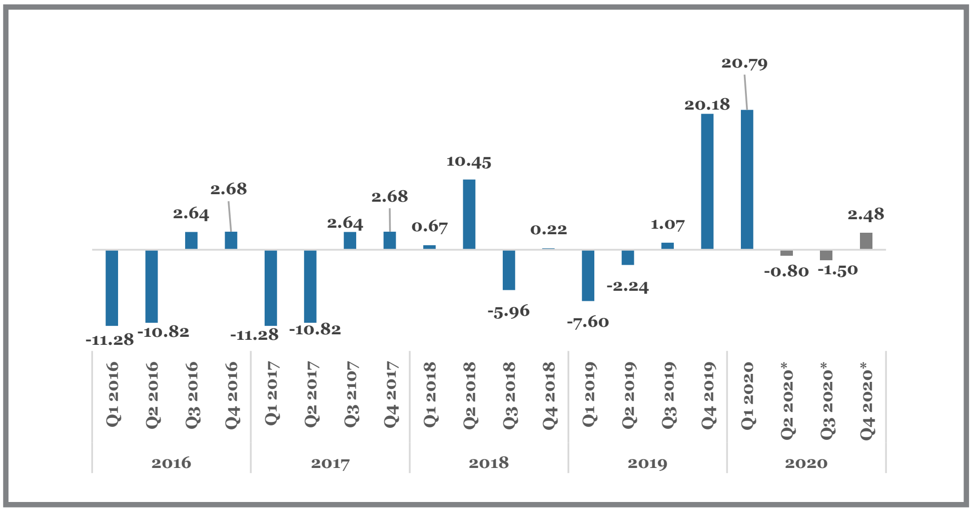


Source: Proshare Research

The decline in premiums which form the major source of revenue for insurance companies will adversely affect the revenue of insurers and hurt their business sustainability.

Chart 109: Finance and Insurance Sector Quarterly Growth Rate (%)

Chart 109: ***Finance and Insurance Sector Quarterly Growth Rate (%)***



Source: NBS, Proshare Research

Note Asterisk (*) – Forecasted figures

Case Study

Zenith Bank

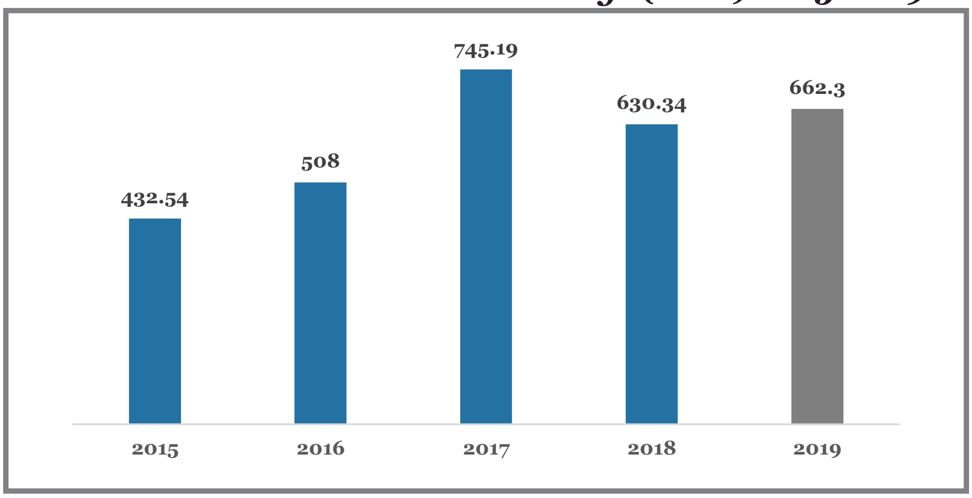
Zenith Bank is engaged in the provision of banking and other financial services to corporate and individual customers. The Bank's segments include corporate, retail banking and pension custodial services.

Zenith Bank Gross Earnings

Zenith Bank's gross earnings rose by 5.07% in 2019. Its gross earnings rose from N630.34bn in 2018 to N662.3bn in 2019 (*see Chart 110*).

Despite a contraction in Nigeria's economy in 2016 and 2017, Access Bank's gross earnings grew by 17.44% and 46.69% respectively. The narration is predicted to be different in 2020. The Bank's gross earnings are predicted to decrease slightly due to the pandemic virus which has affected the oil sector and the overall economy.

Chart 110: ***Zenith Bank Gross Earnings (N'bn) 2015-2019***

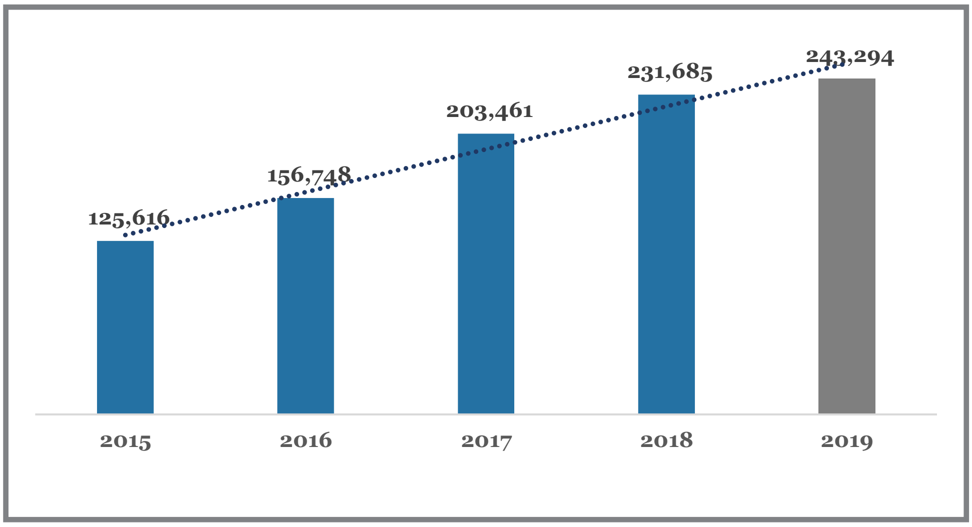


Source: Zenith Bank Financials, Proshare Research

Zenith Bank PBT

Zenith Bank's profit before tax rose consistently from 2015 to 2019. Its profit grew by 5.01% in 2019. Its profit rose from N231.69bn in 2018 to N243.29bn in 2019 (*see Chart 111*).
Zenith Bank's profit before tax was resilient despite the contraction in the economy in 2016 and Q2 2017. In 2016 and 2017, its profit grew by 24.78 and 29.8% respectively. Its profit is forecasted to decline in 2020, due to a fall in global oil demand and the slow down in the Nigerian economy.

Chart 111: ***Zenith Bank PBT (N'm) 2015-2019***



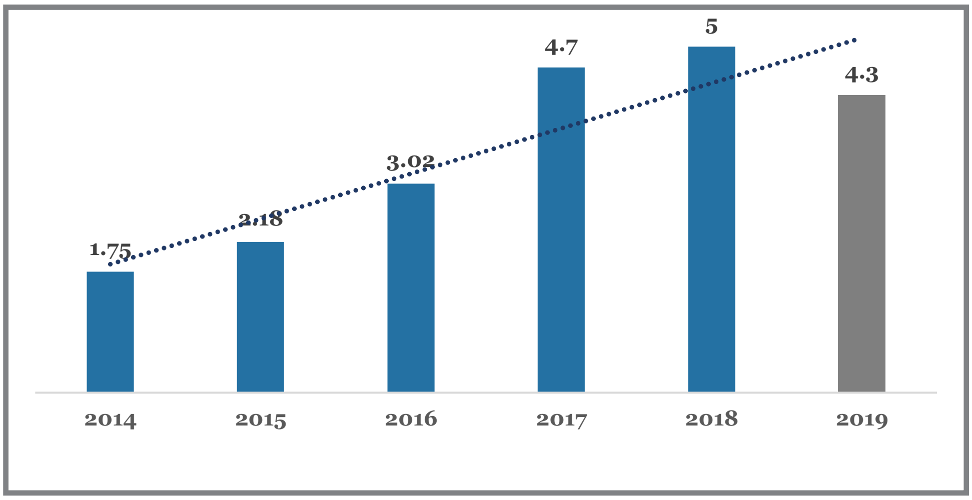
Source: Zenith Bank Financials, Proshare Research

Zenith Bank NPL Ratio

Zenith Bank's NPL ratio declined to 4.3% in 2019 from 5% in 2018. In 2016 and Q2 2017 when the economy contracted, Zenith Bank's NPL ratio rose consistently. Its NPL ratio increased in 2016 and 2017 to 3.02% and 4.7% respectively (*see Chart 112*).

It is forecasted that Zenith Bank's NPL ratio would most likely increase in 2020. This is so because the major chunk of the bank's gross loans goes to the Oil sector which has been adversely affected by COVID-19.

Chart 112: ***Zenith Bank NPL Ratio (%) 2015-2019***

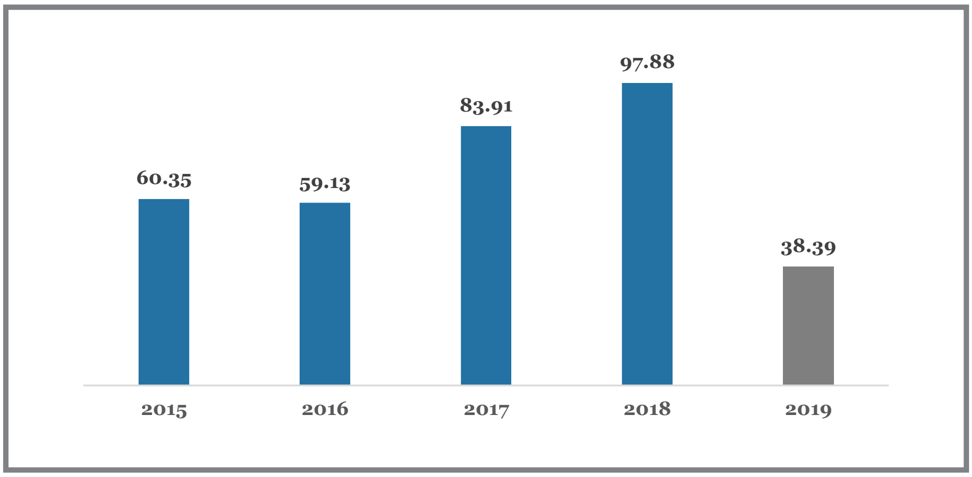


Source: Zenith Bank Financials, Proshare Research

Zenith Bank Leverage Ratio

Zenith Bank recorded its lowest leverage ratio of 38.39% in 2019. Its leverage declined from 97.88% in 2018 to 38.39% in 2019. Its low leverage ratio implies it has higher equity relative to its debt. Its leverage ratio is forecasted to rise in 2020 due to the virus (*see Chart 113*).

Chart 113: ***Zenith Bank Leverage Ratio (%) 2015-2019***

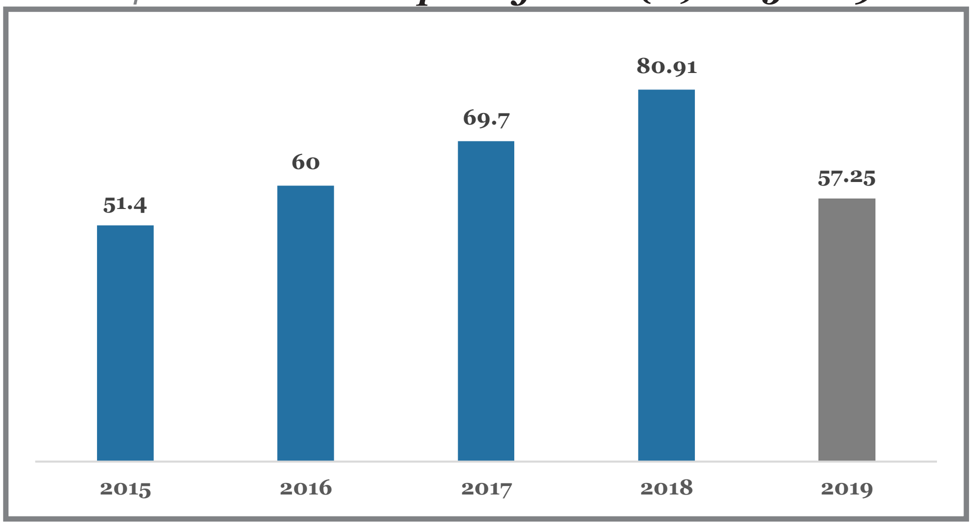


Source: Zenith Bank Financials, Proshare Research

Zenith Bank Liquidity Ratio

Zenith Bank's liquidity ratio declined to 57.25% in 2019. Its liquidity ratio declined from 80.91% in 2018 to 57.25% in 2019. Its liquidity ratio is forecasted to decline further in 2020 due to the coronavirus (*see Chart 114*).

Chart 114: ***Zenith Bank Liquidity Ratio (%) 2015-2019***



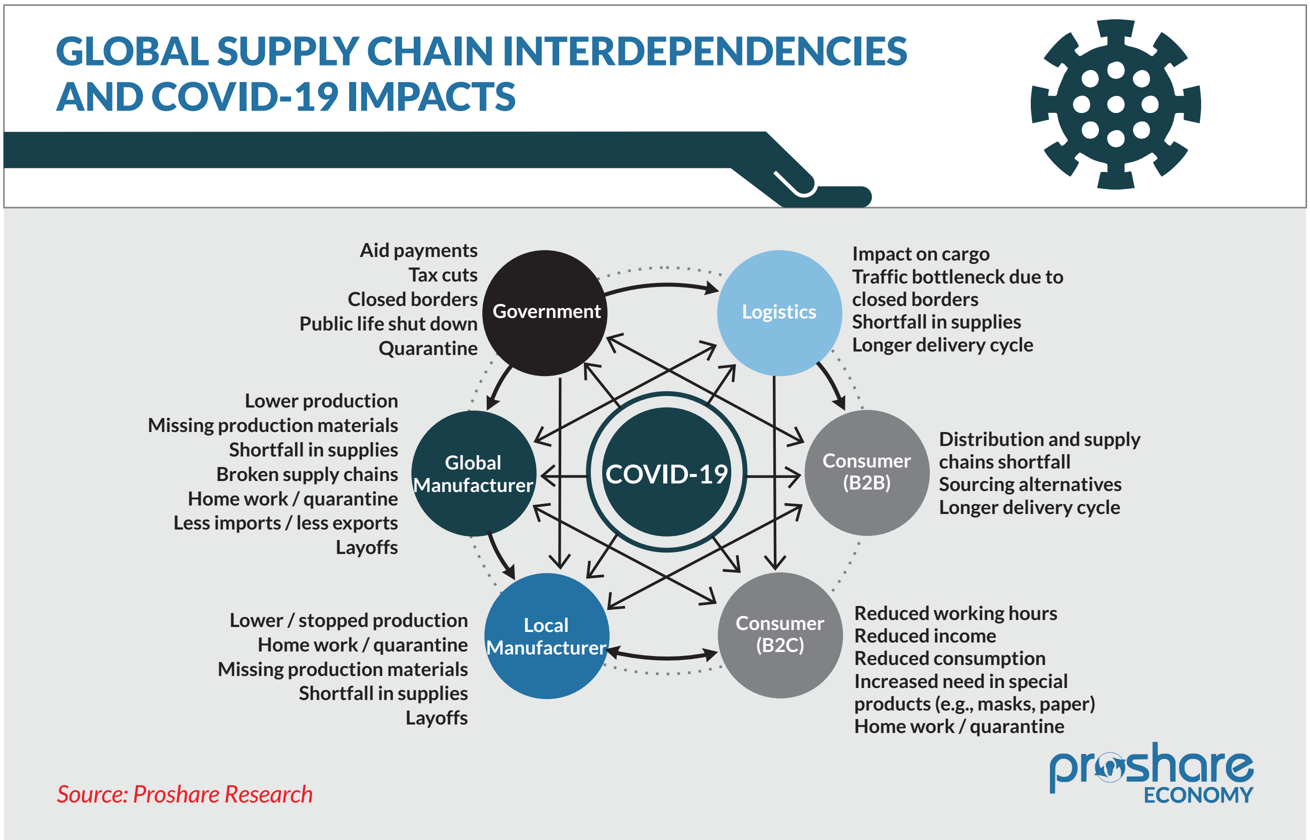
Source: Zenith Bank Financials, Proshare Research

Manufacturing Sector

Manufacturing Sector

The manufacturing sector in Nigeria is comprised of thirteen activities: Oil Refining; Cement; Food, Beverages and Tobacco; Textile, Apparel, and Footwear; Wood and Wood Products; Pulp Paper and Paper products; Chemical and Pharmaceutical products; Non-metallic Products, Plastic and Rubber products; Electrical and Electronic, Basic Metal and Iron and Steel; Motor Vehicles and Assembly; and Other Manufacturing.

Illustration 23: ***Global Supply Chain Interdependencies and COVID-19 Impacts***

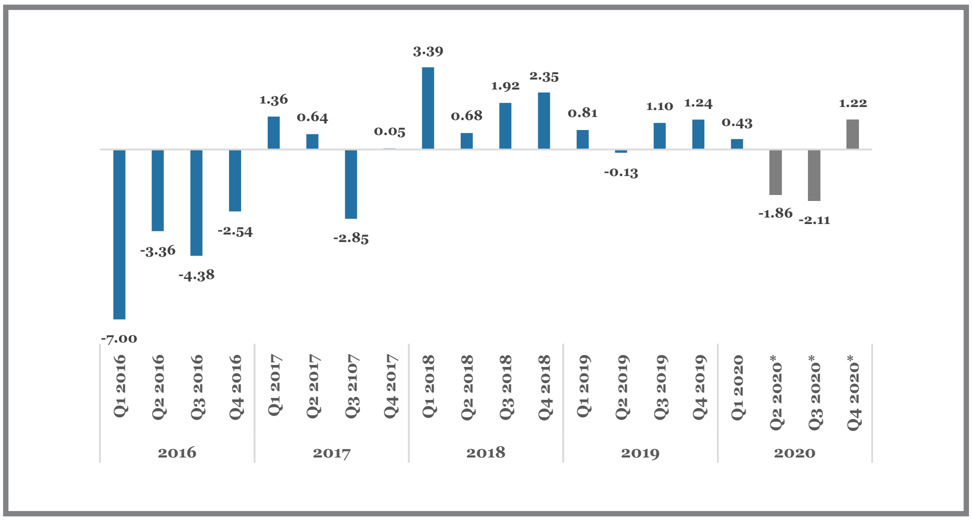


Disruption of the global supply chain has negatively affected the manufacturing sector in Nigeria. The manufacturing sector recorded slow growth in Q1 2020. It grew by 0.43%, lower than Q1 2019 growth rate of 0.81% and Q4 2019 growth rate of 0.43%. Many manufacturers and service providers in the country are already experiencing an acute shortage of raw materials and intermediate inputs. This shortage has affected their capacity utilization, employment generation, adequacy of product supply to the domestic market and has led to an increase in the cost of inputs which are largely imported.

Other challenges in the manufacturing sector attributable to the pandemic includes an increase in foreign exchange risks and increasing operational cost, dip in sales as Nigerian are focused on staying alive.

Chart 115: Manufacturing Sector Quarterly Growth Rate (%)

Chart 115: ***Manufacturing Sector Quarterly Growth Rate (%)***



Source: NBS, Proshare Research

Note Asterisk (*) – Forecasted figures

Case Study

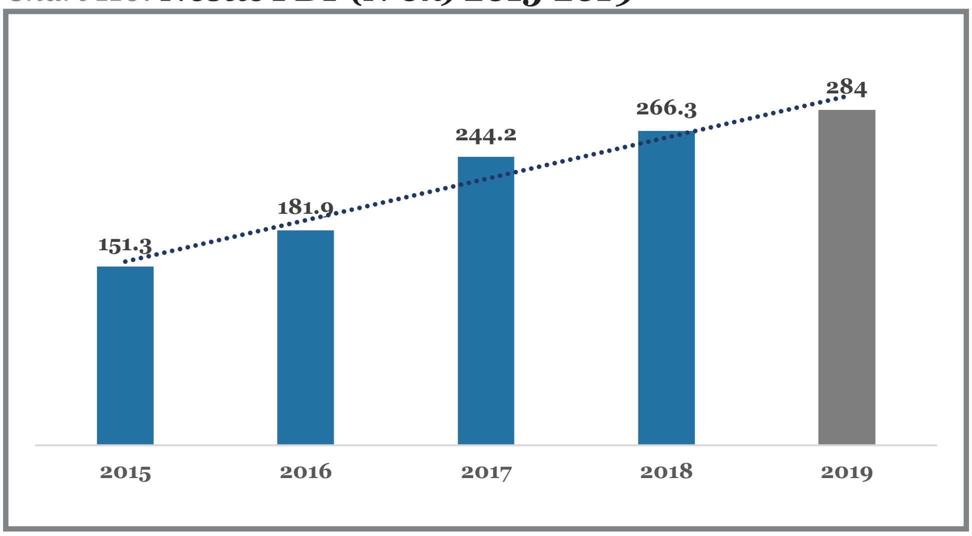
Nestle Nigeria Plc

Nestle Nigeria Plc is a food manufacturing and marketing company. It is engaged in manufacturing, marketing and distribution of food products, including purifies water throughout the country. It operates through two segments: Food and Beverages.

Nestle Plc PBT

Nestle Plc recorded an upward trending PBT between 2015 and 2019. Its PBT grew by 6.65% in 2019. Its PBT increased from N266.3bn in 2018 to N284bn in 2019 (*see Chart 116*). Its PBT is projected to decline slightly in 2020 due to an impending recession caused by the coronavirus.s

Chart 116: ***Nestle PBT (N'bn) 2015-2019***

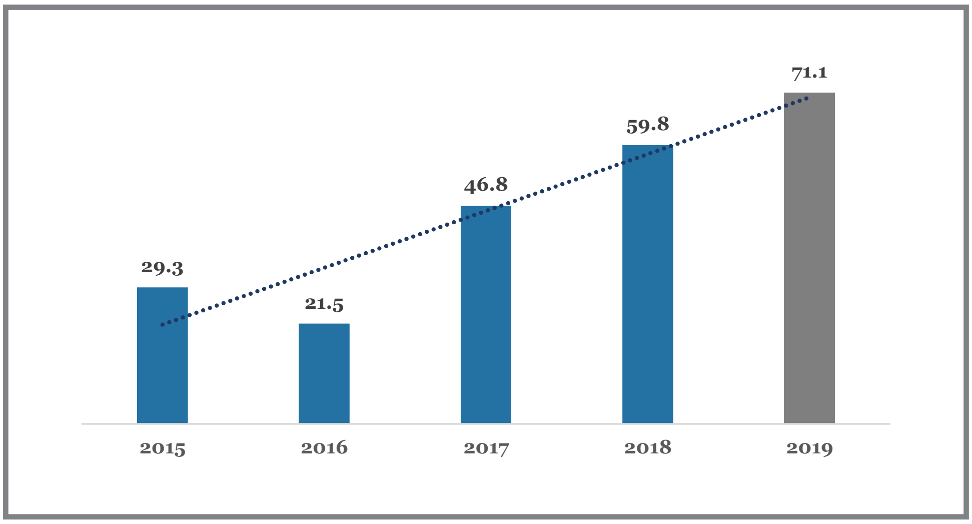


Source: Nestle Plc Financials, Proshare Research

Nestle Plc Revenue

Nestle Plc recorded a yearly increase in its revenue. Its revenue grew by 18.9% in 2019. Its revenue increased from N59.8bn in 2018 to N71.1bn in 2019 (*see Chart 117*). Nestle Plc's revenue for 2020 is projected to decline slightly in 2020 due to the looming impending recession in the economy and projected fall in consumption demand.

Chart 117: ***Nestle Plc Revenue (N'bn) 2015-2019***

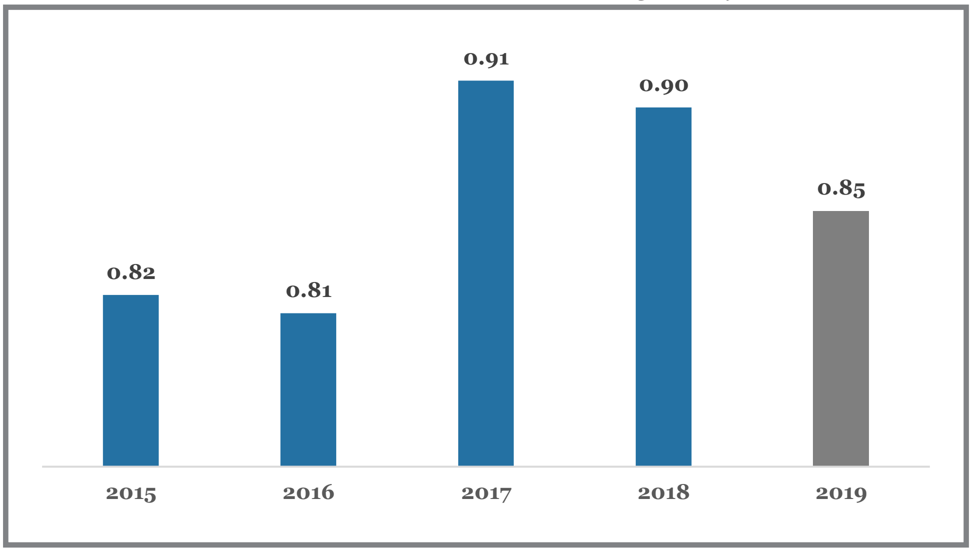


Source: Nestle Plc Financials, Proshare Research

Nestle Plc Current Ratio

Nestle Plc's current ratio fluctuated between 0.81 and 0.91 from 2015 to 2019. Its current ratio is 2019 was 0.85, a decline from 0.90 in 2018 (*see Chart 118*). Its low current ratio implies that Nestle Plc may have liquidity problems, meaning that it might have problems meeting its short-term obligations. Its current ratio may not significantly respond to the virus's effect on the economy.

Chart 118: ***Nestle Plc Current Ratio 2015-2019***

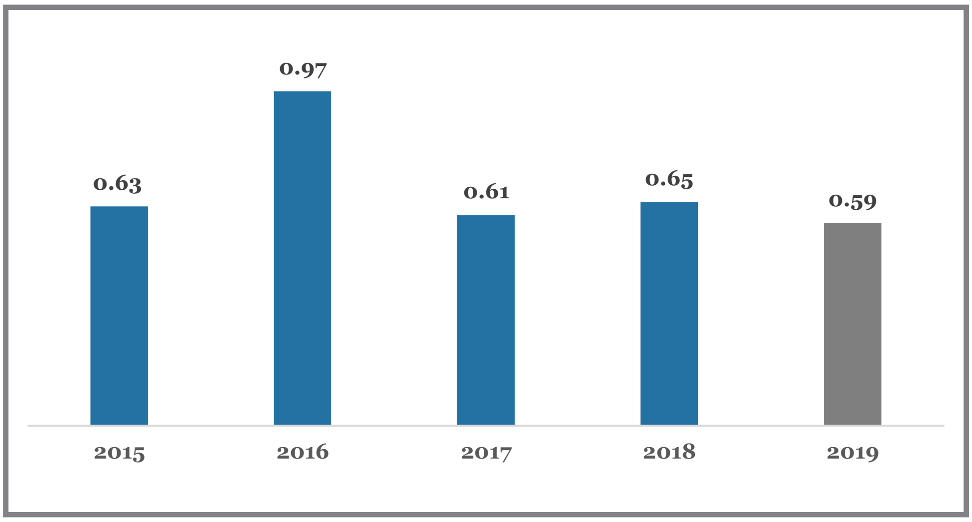


Source: Nestle Plc Financials, Proshare Research

Nestle Plc Acid-Test Ratio

The company's acid-test ratio fluctuated between 0.59 and 0.97 from 2015 to 2019. Its acid-test ratio declined from 0.65 in 2018 to 0.59 in 2019 (*see Chart 119*). It indicates that the company does not currently have sufficient current assets to cover its current liabilities which means it is heavily invested in inventory. Its acid-test ratio is projected to decline further due to the coronavirus.

Chart 119: ***Nestle Acid-Test Ratio 2015-2019***

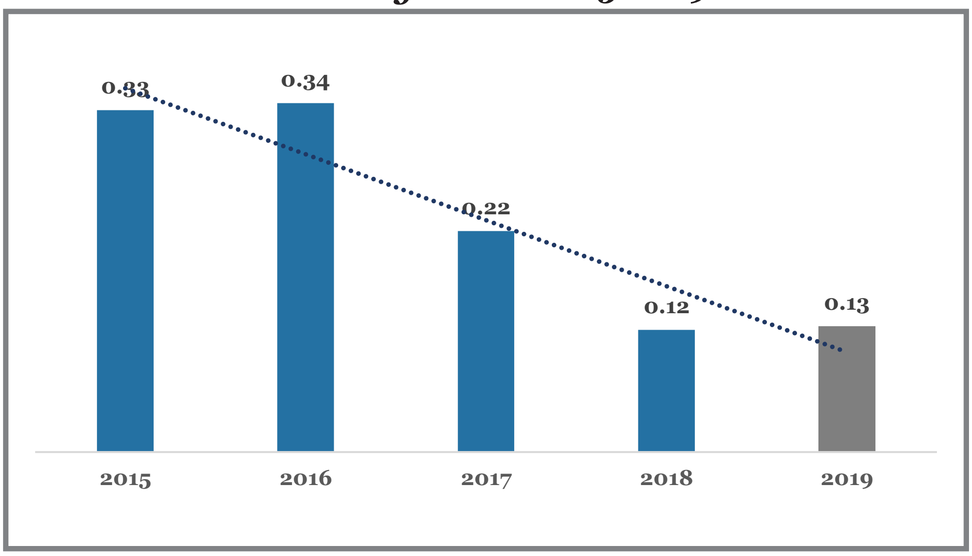


Source: Nestle Plc Financials, Proshare Research

Nestle Leverage Ratio

The confectioners leverage ratio was 0.12 in 2019. It did not record any change from the previous year (*see Chart 120*). Its low leverage ratio implies that Nestle Plc's operations and sales are generating enough revenue to grow its assets through profits. Its projected decline in profit in 2020 due to the impending recession coupled with the need to expand operations would most likely lead to a rise in its leverage ratio for 2020.

Chart 120: ***Nestle Leverage Ratio 2015-2019***



Source: Nestle Plc Financials, Proshare Research

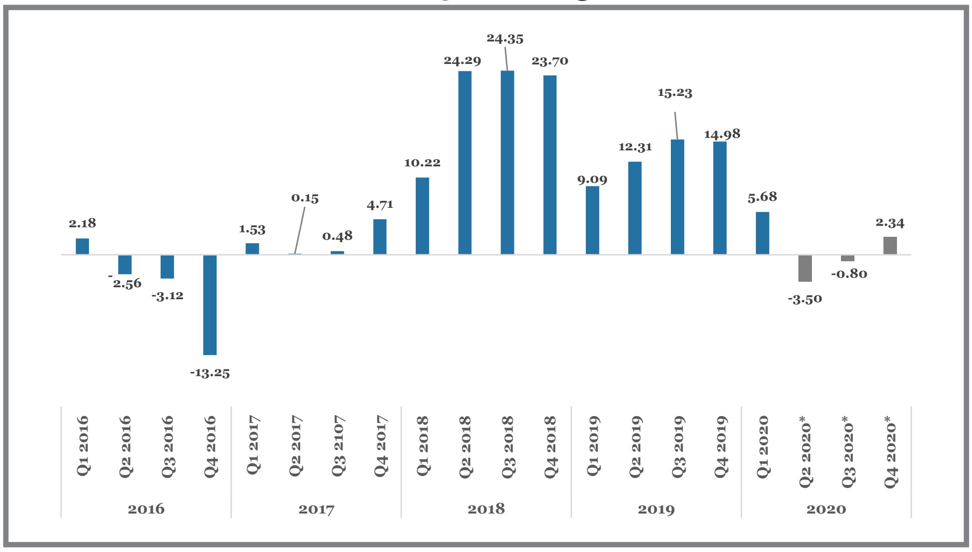
Transportation and Storage

Transportation and storage sector is made up of six activities which include road transport, rail transport and pipelines, water transport, air transport, transport services and post and courier services. The transportation and storage grew by 2.82% in Q1 2020 from -0.80% in Q4 2019 and 19.50% in Q1 2019.

In 2019, road transport grew by 2.83%, rail transport & pipelines under transportation sector grew by 2.09%, water transport recorded a slight growth of 0.08%, air transport recorded the highest growth of 5.68%, transport services contracted by -1.38%, post and courier services contracted by -1.01%.

To curb the further spread of the coronavirus, there have been restrictions in international travels as well as inter-state travels which has negatively affected the air transport sector as some airline companies have laid off some staff, furlough some of them and have recorded a significant rise in their debts. The lockdown in some parts of the country hindered the free movement of goods and services and hence limited some transporters' ability to generate income.

Chart 121: ***Aviation Sector Quarterly Growth Rate (%)***



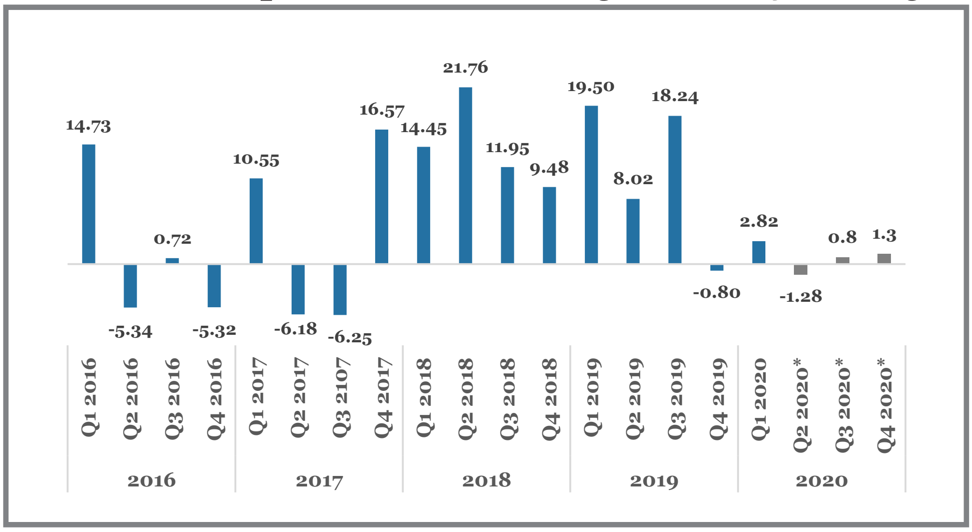
Source: NBS, Proshare Research

Note Asterisk (*) – Forecasted figures

It is predicted that the transport sector will record very slow growth in Q2 2020 and the rest of the year while it is expected to record full recovery in 2021 (*see Chart 122*).

Chart 122: Transportation and Storage Sector Quarterly Growth Rate (%)

Chart 122: ***Transportation and Storage Sector Quarterly Growth Rate (%)***



Source: NBS, Proshare Research

Note Asterisk (*) – Forecasted figures

Case Study

Understanding The ABC of Transport

ABC Transport Plc is a road transportation company that ferries goods and people across surface transport networks along the West African coast. The company is involved in haulage services, importation and sales of vehicle spares, installation of motor vehicle speed governing devices, assembly of heavy-duty trucks under the automative policy of Nigeria and the hospitality business.

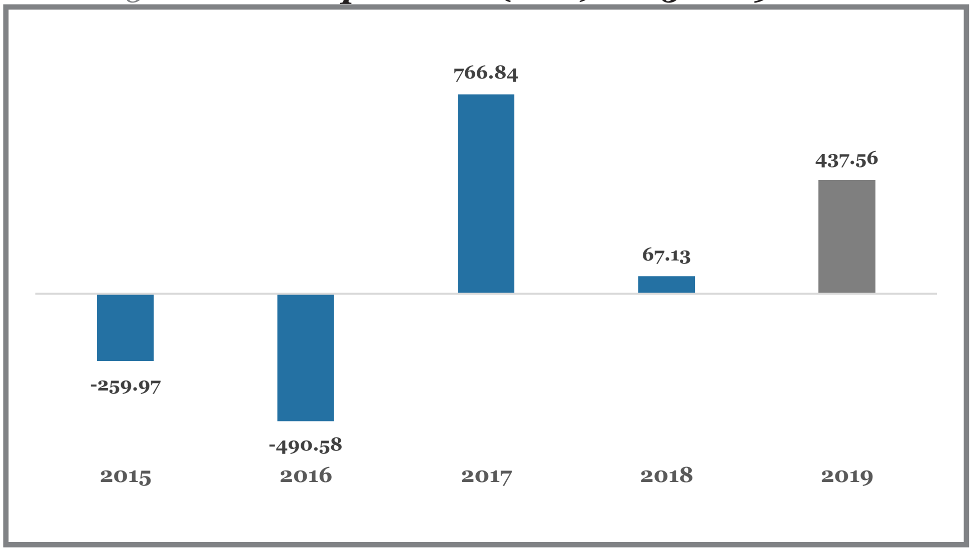
ABC Transport Profit Before Tax

ABC Transport recorded mixed earning performance between 2015 and 2019. It recorded losses in 2015 and 2016 of N259.97m and N490.58m respectively. Its profit grew by 551.81% in 2019. Its profit increased from N67.13m in 2018 to N437.56m in 2019 (*see Chart 123*).

In 2016, when there was a recession it recorded a loss of N490.58m. Due to the recent COVID-19 pandemic, there has been a series of nationwide lockdowns and restrictions which may cause a decline in the company's 2020 revenue and profit.

Chart 123: ABC Transport PBT (N'mn) 2015-2019

Chart 123: ***ABC Transport PBT (N'm) 2015-2019***

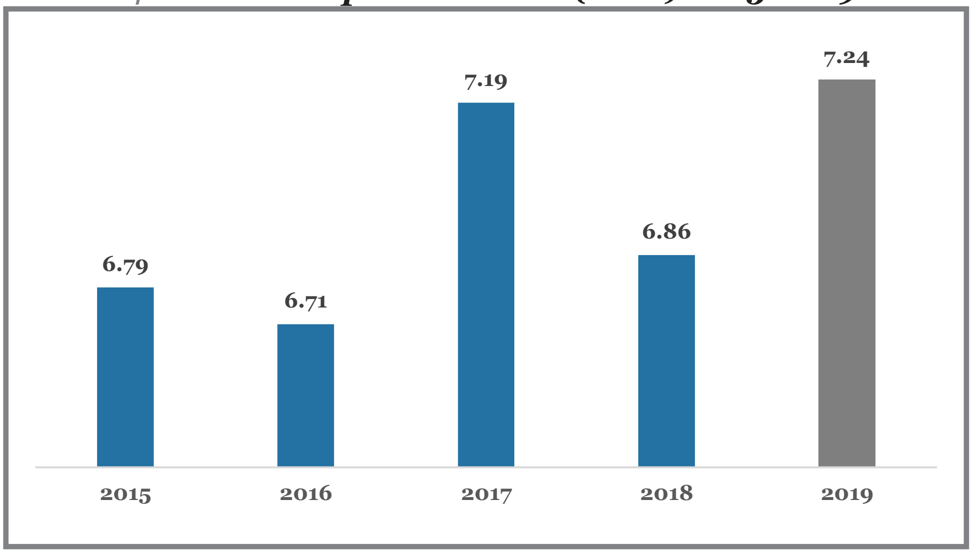


Source: ABC Transport Financials, Proshare Research

ABC Transport Revenue

ABC Transport revenue grew by 5.54% in 2019. Its revenue increased to N7.24bn in 2019 from N6.86bn in 2018. The lockdown is predicted to hurt the revenue of ABC Transport . The restriction and lockdown affected transport workers, as they could not engage in interstate travel neither within the state. If the virus continues to spread the revenues of the company are predicted to further worsen (*see Chart 124*).

Chart 124: ***ABC Transport Revenue (N'bn) 2015-2019***



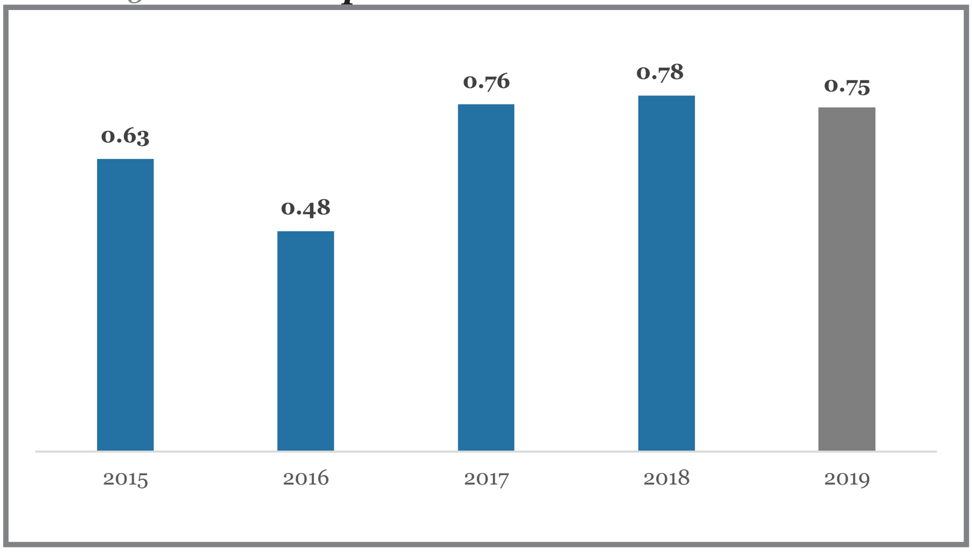
Source: ABC Transport Financials, Proshare Research

ABC Transport Current Ratio

ABC Transport Current Ratio

ABC Transport current ratio declined to 0.75 in 2019 from 0.77 in 2018. A low current ratio indicates that a firm may have difficulty meeting current obligations. The pandemic is predicted to further worsen its ability to meet its current obligations (*see Chart 125*).

Chart 125: ***ABC Transport Current Ratio***

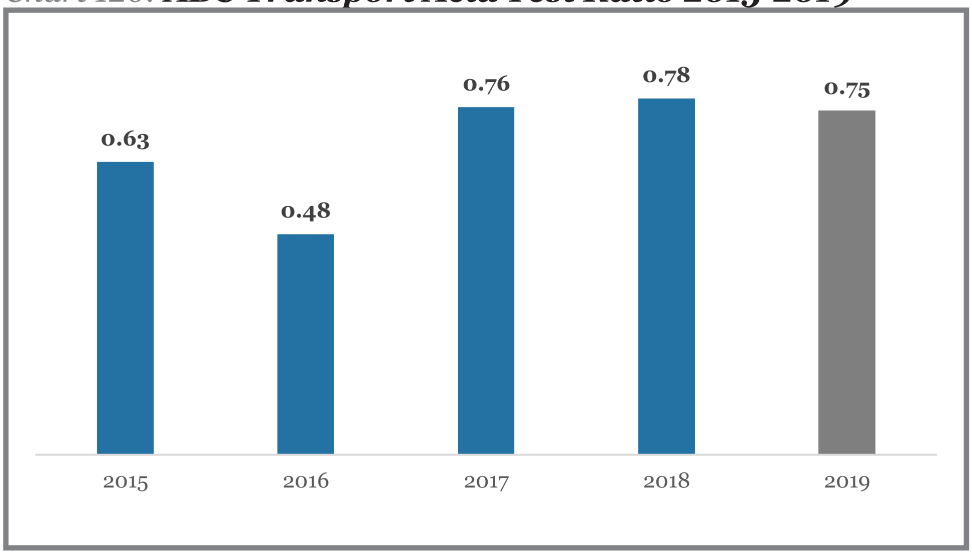


Source: ABC Transport Financials, Proshare Research

ABC Transport Acid-Test Ratio 2015-2019

ABC Transport acid-test ratio was below one between 2015 and 2019. This indicates that ABC Transport does not have adequate assets that could easily be converted to cash to pay off all its current liabilities. Its acid test ratio is forecasted to worsen due to the coronavirus pandemic (*see Chart 126*).

Chart 126: ***ABC Transport Acid Test Ratio 2015-2019***



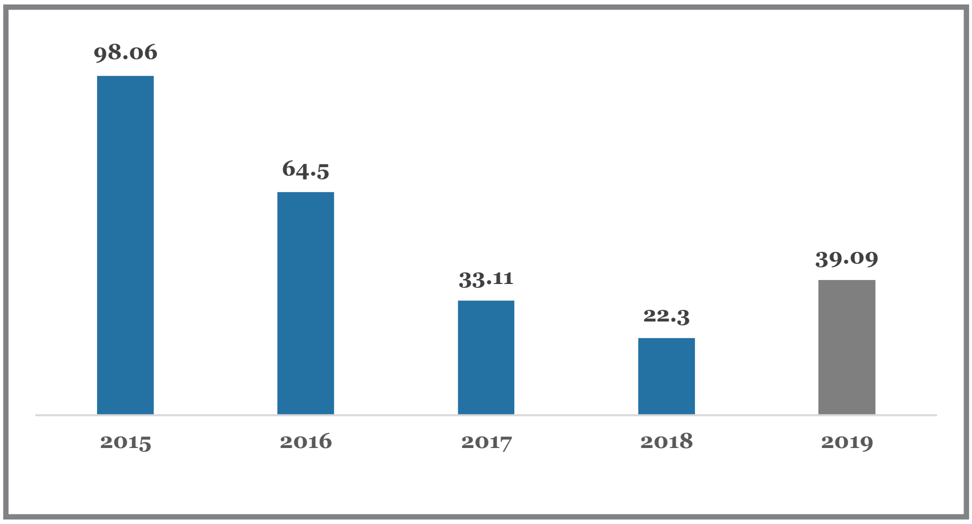
Source: ABC Transport Financials, Proshare Research

ABC Transport Leverage Ratio

The company's leverage ratio was 39.09% in 2019. Its leverage ratio increased from 22.3% in 2018 to 39.09% in 2019 (*see Chart 127*).

It is expected that ABC Transport will record a rise in leverage ratio for 2020, as a result of an increase in its cost of operations as well as a downturn in customer patronage and revenue.

Chart 127: ***ABC Transport Leverage Ratio (%) 2015-2019***



Source: ABC Transport Financials, Proshare Research

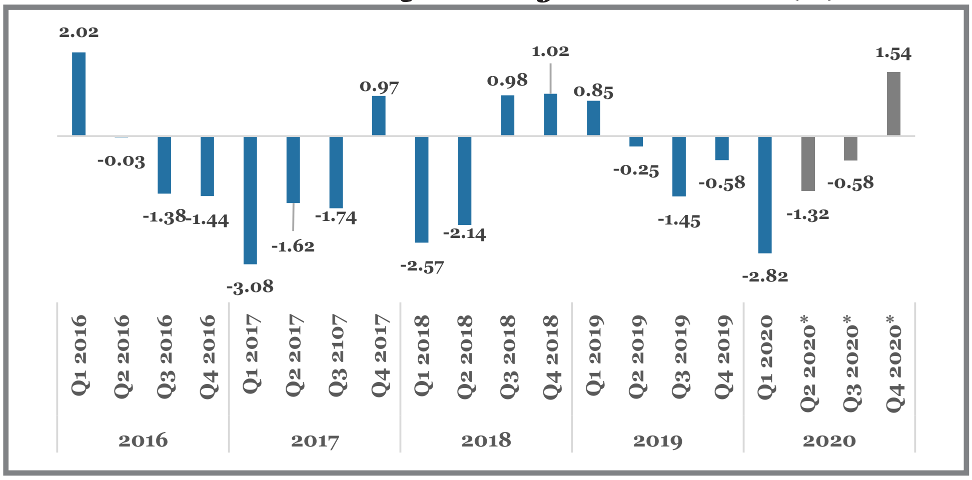
Trade Sector

The trade sector contracted by -2.82% in the first quarter of 2020 from -0.58% in Q4 2019 and 0.85% in Q1 2019. The trade sector was adversely affected by the global spread of the coronavirus. The restrictions in international travels as well as interstate travels disrupted the supply chain and distributional efficiency of almost every sector. The growth of the trade sector was further worsened with the decline in consumer's demand, the volatility of the foreign exchange market as well as dwindling oil prices.

It is forecast that the trade sector will contract further in the second quarter, and gradually recover in the fourth quarter while full recovery is expected in 2021 as the economy is fully opened and the virus is effectively managed (*see Chart 128*).

Chart 128: Trade Sector Quarterly Growth Rate (%)

Chart 128: **Trade Sector Quarterly Growth Rate (%)**



Source: ABC Transport Financials, Proshare Research

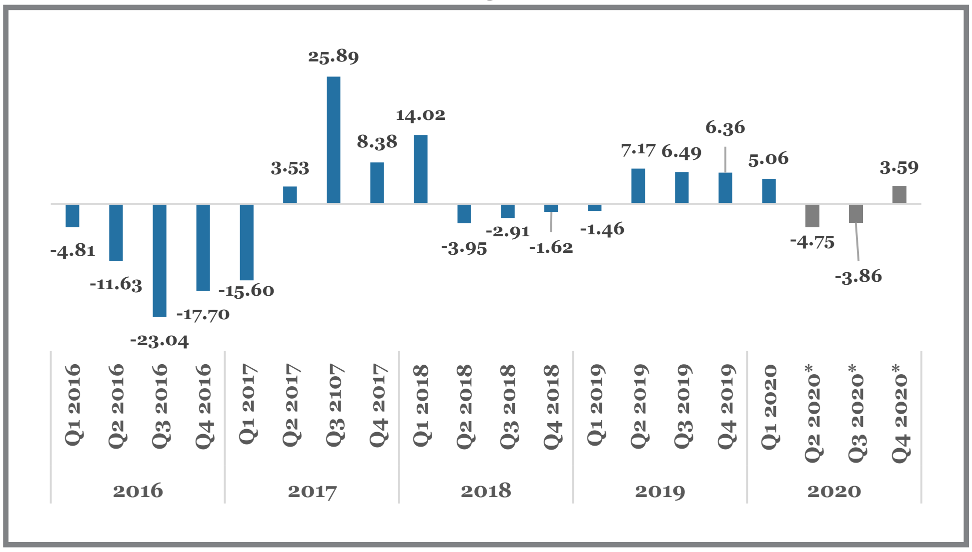
Note Asterisk (*) – Forecasted figures

Oil Sector

The oil sector is one of the hardest-hit sectors of the economy. Despite the negative effect of the coronavirus on the oil sector, the sector recorded a growth rate of +5.06% in Q1 2020, an improvement from a growth rate of -1.46% in Q1 2019 and a decline from the growth rate of 6.36% recorded in Q4 2019. The pandemic led to a fall in global demand for oil and oil prices. The intervention of OPEC+ and top oil-producing countries through output cut has still not impacted significantly on oil prices or stabilized the market (the oil price recorded fluctuations).

If the pandemic lingers on, the Nigerian oil sector is predicted to contract further in the remaining quarters of the year (*see Chart 129*).

Chart 129: **Oil Sector Quarterly Growth Rate (%)**



Source: ABC Transport Financials, Proshare Research

Note Asterisk (*) – Forecasted figures

Case Study

Getting To Know Oando PLC

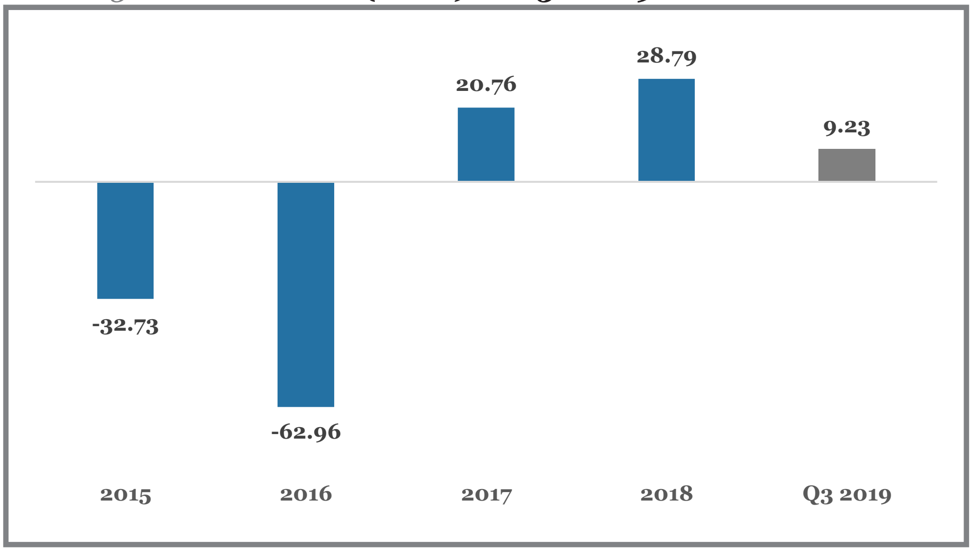
Oando Plc is an integrated energy solution company. The company operates through four segments: Exploration and Production (E&P), Supply and Trading, Gas and Power, and Corporate and Others.

Oando PBT (N'm) 2015-2019

Oando Plc recorded a loss of N32.73bn and N62.96bn in 2015 and 2016 while it recorded a profit of N20.76bn and N28.79bn in 2017 and 2018. Its PBT declined in 2016 as a result of the decline in the oil price which led to a recession in the economy.

The spread in the coronavirus globally which has led to uncertainty in the global oil market will affect the profitability of Oando. It is projected that its profitability will decline in 2020 due to the fall in oil demand caused as a result of the restriction in movement (*see Chart 130*).

Chart 130: ***Oando PBT (N'bn) 2015- 2019***



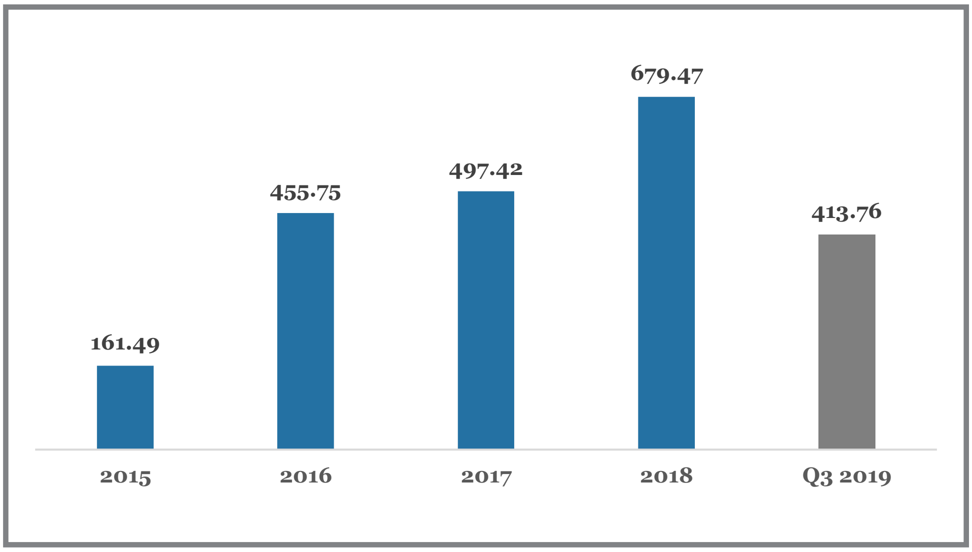
Source: Oando Plc Financials, Proshare Research

Oando Revenue

The firm's revenue is projected to decline significantly in 2020. This is due to the poor performance of the global oil market which has been badly hit by the coronavirus.

Chart 131: Oando Revenue (N'bn) 2015-2019

Chart 131: **Oando Revenue (N'bn) 2015-2019**

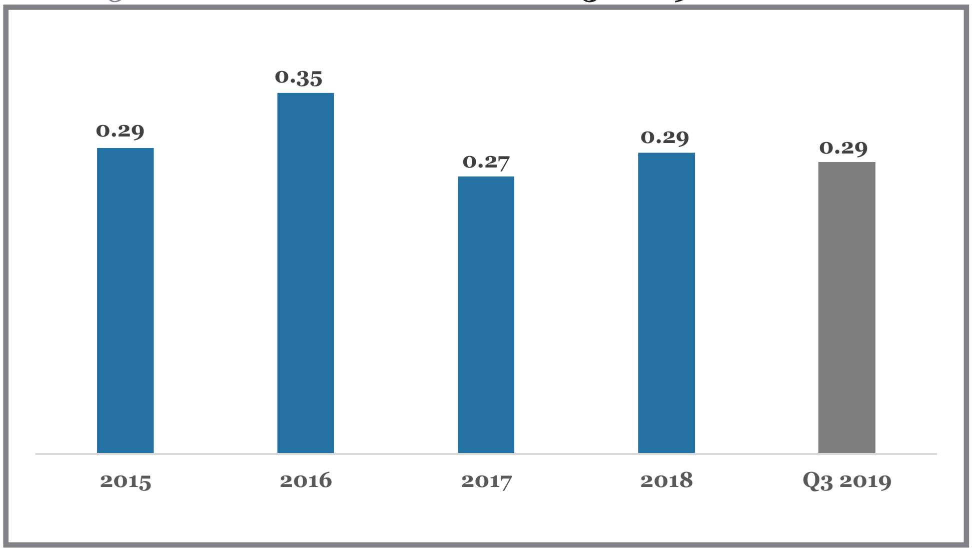


Source: Oando Plc Financials, Proshare Research

Oando Current Ratio

The oil producers current ratio has been below 0.5 since 2015. A current ratio less than 1 indicates that the company may have problems meeting its short-term obligations. Oando's present current ratio indicates a relatively weak financial position. Oando's current ratio is predicted to worsen further due to the coronavirus (*see Chart 132*).

Chart 132: **Oando Current Ratio 2015-2019**



Source: Oando Plc Financials, Proshare Research

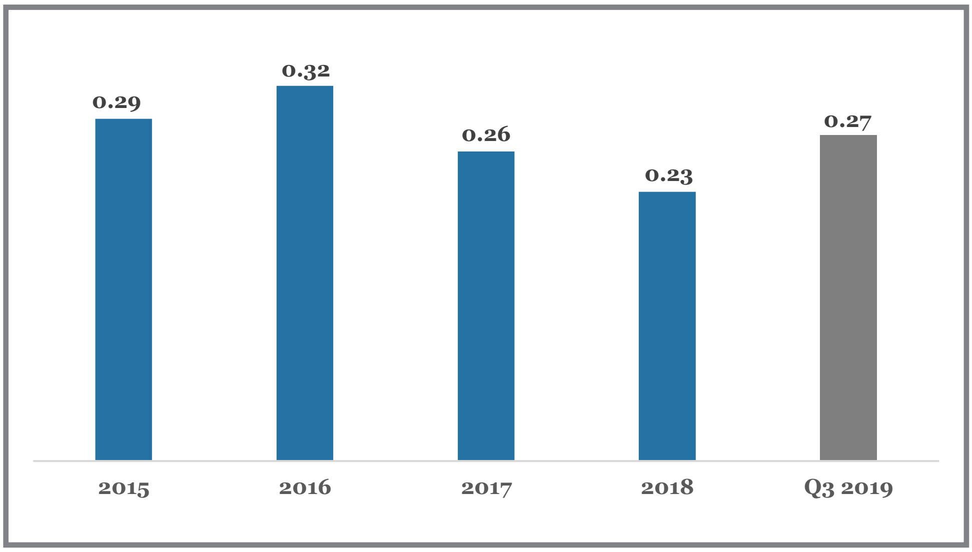
Oando Acid-Test Ratio

Oando Acid-Test Ratio

Oando acid-test ratio was below 0.5 between 2015 and 2019. Its low acid-test ratio indicates that they do not have enough liquid assets to pay their current liabilities and should be treated with caution (*see Chart 133*).

The pandemic virus is projected to worsen Oando's acid-test ratio for 2020, as international oil price is expected to stay volatile.

Chart 133: ***Oando Acid-Test Ratio 2015-2019***



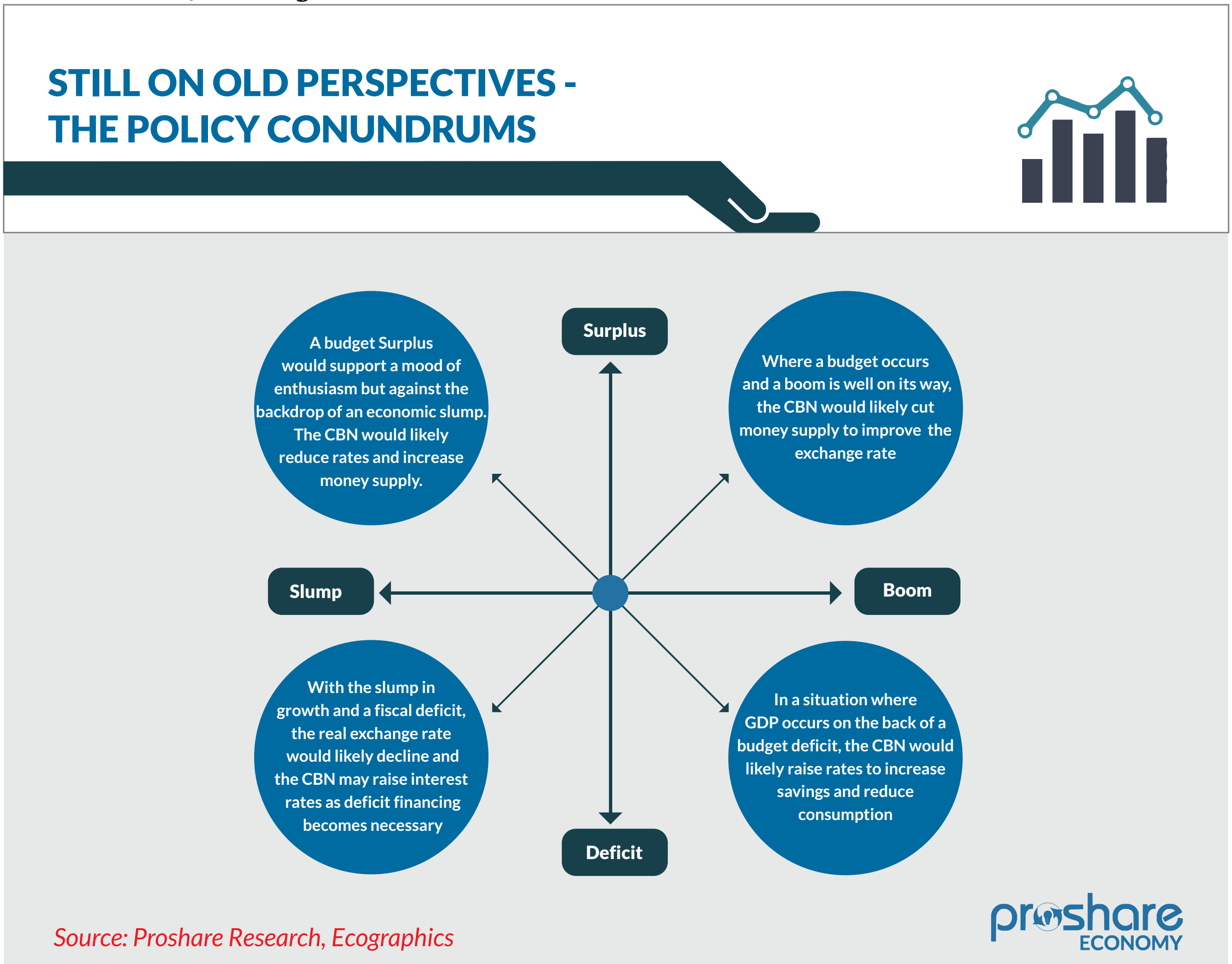
Source: Oando Plc Financials, Proshare Research

A Regulator's burden-CBN's Tale of Heterodoxy

Against the background of Central Banks across the globe cutting interest rates and buying back domestic treasuries (T-bills and bonds), Nigeria's Central Bank recently announced a six-step policy initiative to head off a recessionary dip as the Coronavirus pandemic takes a toll on global economies and threatens to lead them into a recessionary spiral.

Illustration 24: Policy Conundrums

Illustration 24: ***Policy Conundrums***



The CBN's six policy Steps include the following (*see Table 17*):

- Temporary and time-limited restructuring of the tenor and loan terms for businesses and households. This should create stability of the lending sector as disruptions to business would make repayments difficult, thereby increasing the non-performing loans (NPLs) of the sector which had gradually started sliding towards the CBN required rate per bank of 5% or less.
- Cutting down of interest rates on intervention programmes from 9% to 5%. The rate cut on intervention fund would cushion the adverse consequence of business disruption that would likely result from production closures, supply chain disruptions and demand collapse as social distancing and restricted movement lead to lower domestic consumer and producer spending.
- A N50bn targeted credit facility would be expected to assist in creating liquidity in the domestic credit market. The support of the credit market with an additional N50bn may prove inadequate to repel a recession as it would not address the tricky problems of supply chain disruptions, rising domestic inflation rate (reduced real consumer spending power) and the rising risk of lending into a reclining domestic economy.
- Regulatory forbearance would mean that the CBN would ease enforcement of strict rules around advancing credit. The relaxed enforcement regime would allow the banks give customers breathing space to repay loans without suffering heavy charges against their profit and loss accounts by way of impairments. In other words, the CBN would hope to keep the financial system, particularly the credit market, stable. The move is commendable but may not

achieve much as the problem would remain the lack of production throughputs to create sellable goods which in turn would generate revenues, profits and free cash flows.

- Strengthening the loan to deposit ratio (LDR) of banks is obscure. The CBN raised LDR twice in 2019 and banks are still struggling to meet the recent 65% ratio. Pushing banks to lend further in a recessionary environment could adversely impact the industry's falling non-performing loans (NPLs).
- Support for the health care industry is a brilliant initiative, except for the fact that if health care companies cannot import critical inputs to manufacture drugs, no matter how low interest rates fall or how much credit they can get, the financial situation of pharmaceutical companies may not improve significantly. To get Pharma running supply chains need to be restored and effective demand of consumers augmented.

Table 21: ***The Good, The Bad and The Neutral***

THE GOOD, THE BAD, AND THE NEUTRAL

	Price Stability	External Reserves	Interest Rate Stability	Financial Stability
Interest rate reduction			✓	
Creation of a N50bn targeted credit facility	✓	✓		
Credit support for health care industry	✓			
Regulatory for bearance	✓			✓
Strengthening of the CBN LDR policy	✓		✓	
Extension of moratorium	✓			✓

Source: CBN, Proshare Research

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In addition to its six-step policies, the CBN announced a N1.1trn intervention fund to support critical sectors of the economy. The CBN governor in a recent statement noted that about N1trn would be used to support the local manufacturing sector as well as intensify import substitution. The remaining N100bn would be used to support the health sector to ensure laboratories, researchers and innovators work with scientists around the world to patent and produce vaccines and test kits in Nigeria.

Classical Macroeconomic Approach to COVID-19

Illustration 25: ***Expansionary Fiscal Policy and Contractionary Monetary Policy***

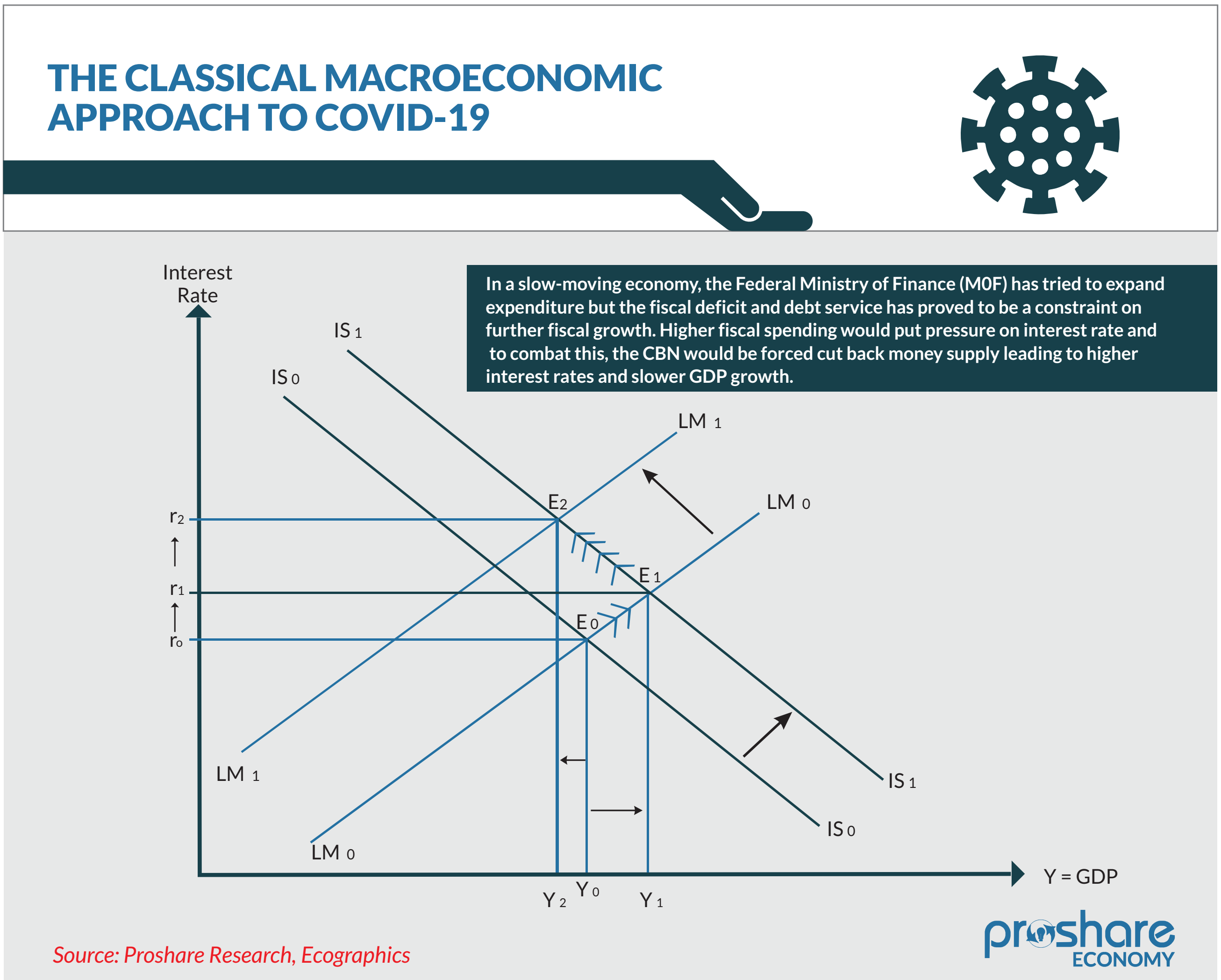
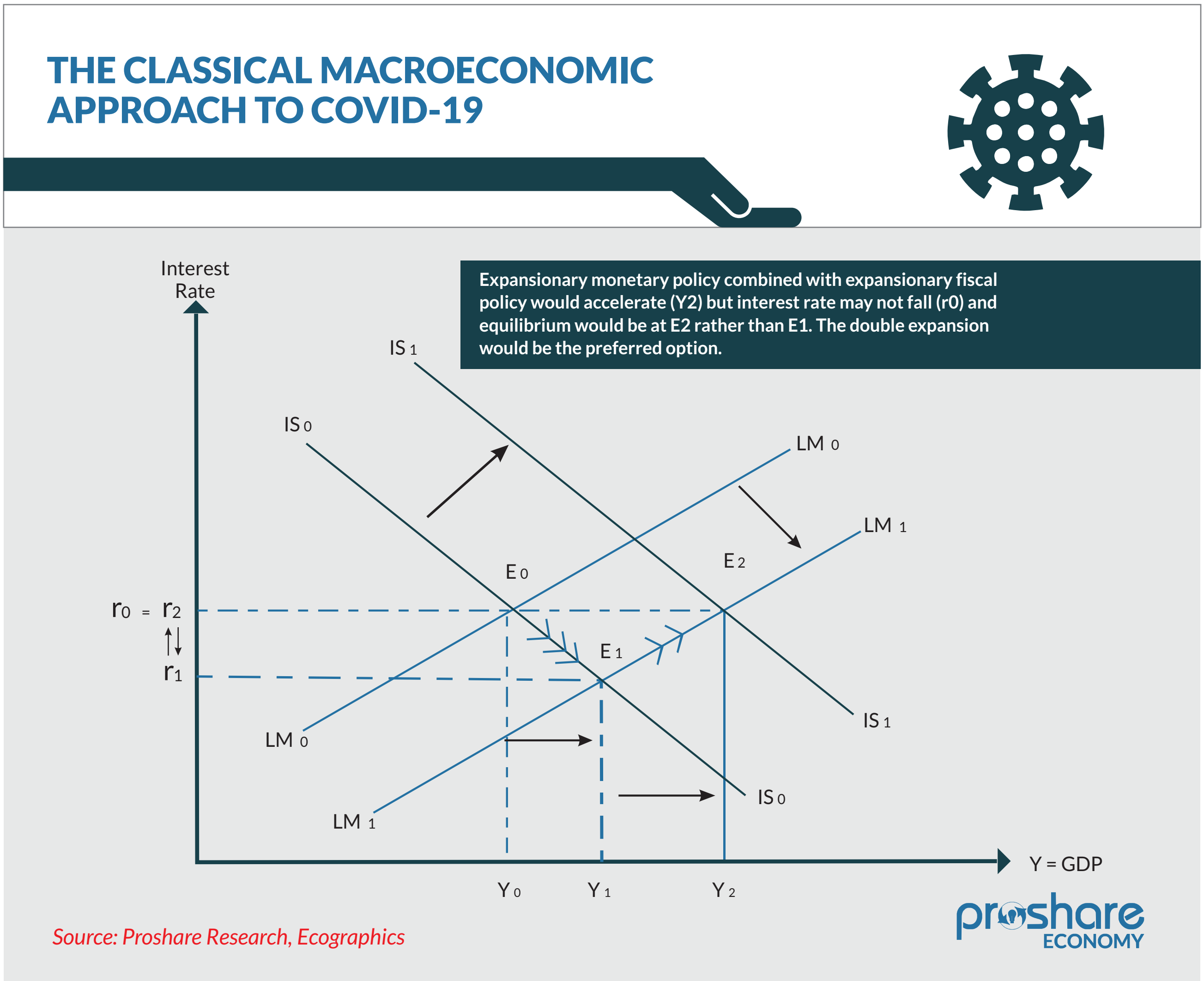


Illustration 26: Expansionary Fiscal Policy and Expansionary Monetary Policy

Illustration 26: ***Expansionary Fiscal Policy and Expansionary Monetary Policy***



Source: Proshare Research, Ecographics

Illustration 27: Expansionary Monetary Policy

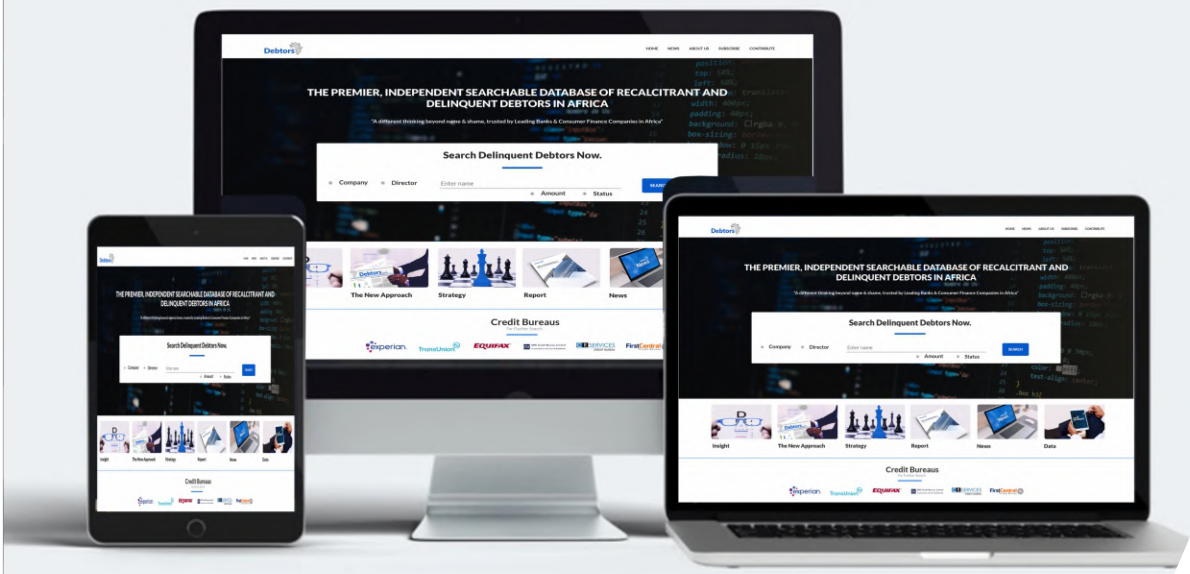
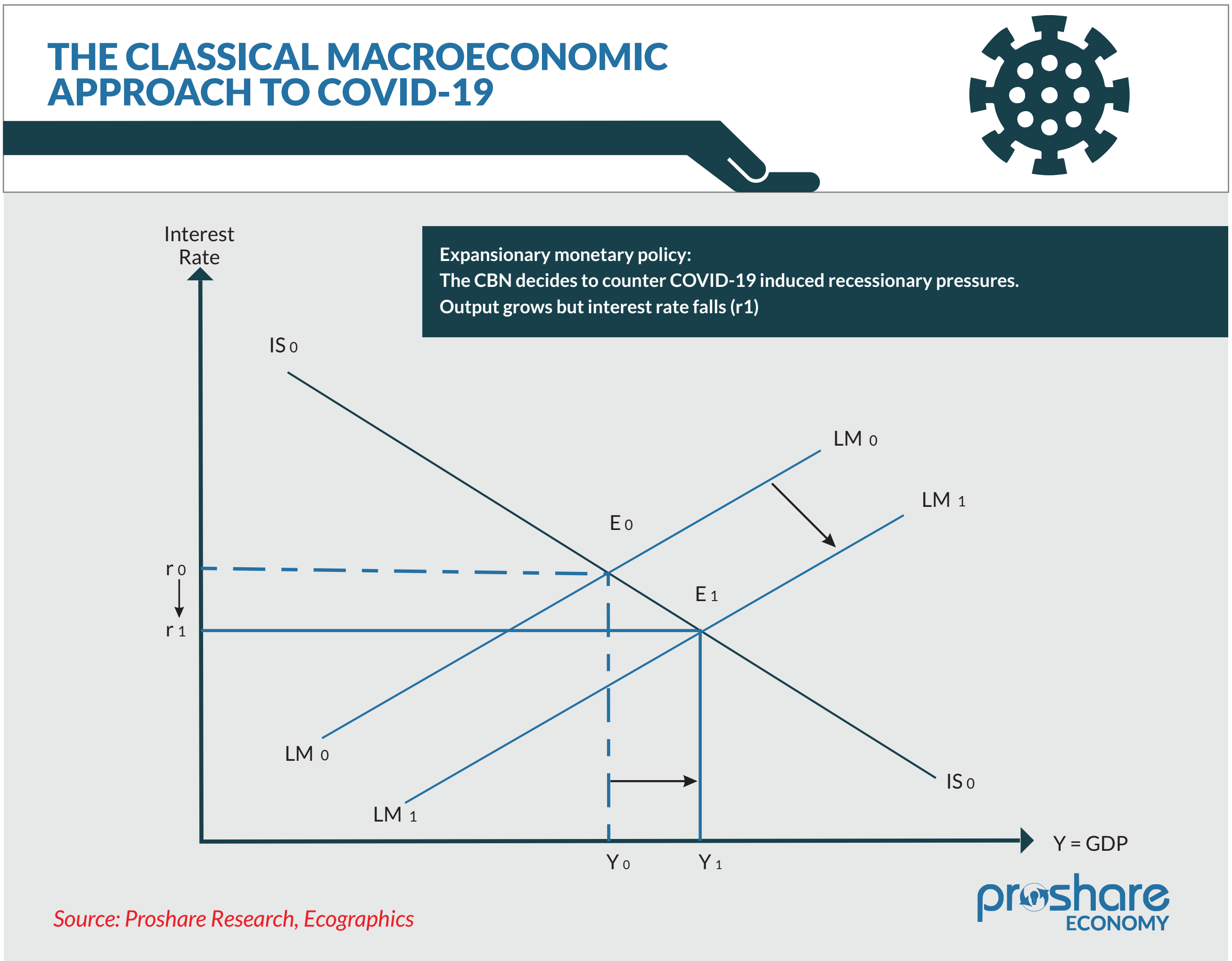


Illustration 27: ***Expansionary Monetary Policy***



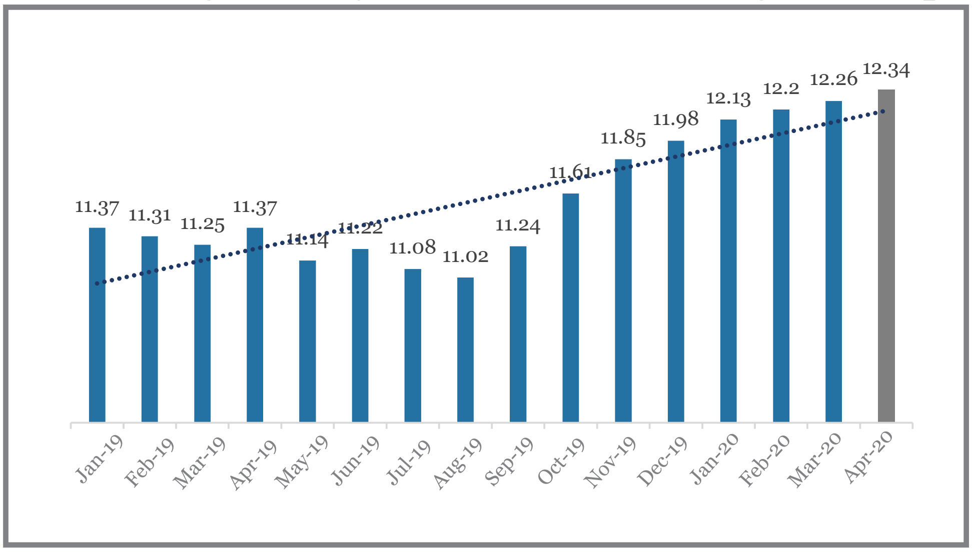
CBN's Vexing Trilemma

The single-sector bias of the Nigerian economy with its huge dependence on crude oil sales for 90% of its foreign exchange earnings and 70% of its fiscal revenues lays out a path to a perfect trilemma:

- The first problem is that if the CBN tries to stimulate the economy through monetary expansion it would create massive inflationary pressure as added liquidity would meet with heavy domestic supply logjams as manufacturers, wholesalers and retailers find it difficult (if not impossible) to restock production inputs or finished products as a result of global supply chain challenges and domestic logistic disruptions caused by countries closing their borders and ports. More money chasing the dwindling supply of goods merely raises consumer and producer prices.

Chart 134: Nigeria's Inflation Rate (%) January 2019 – April 2020

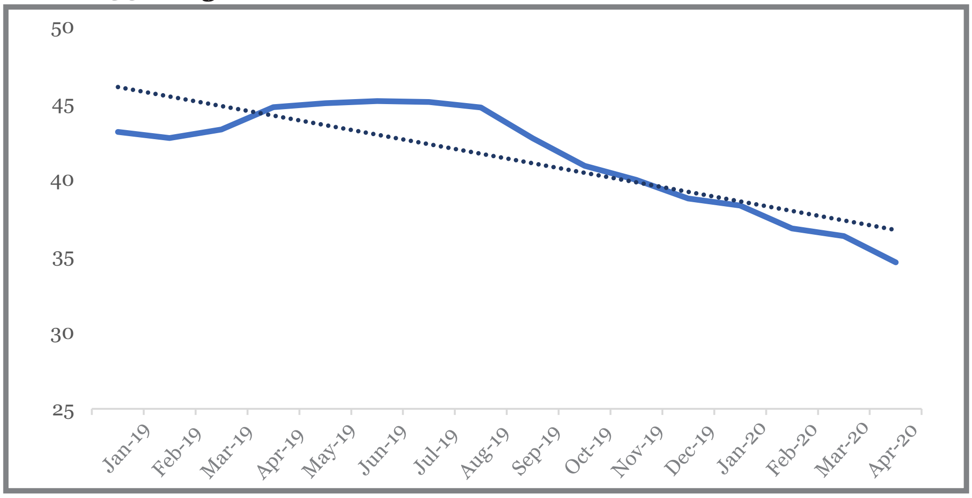
Chart 134: ***Nigeria's Inflation Rate (%) January 2019 – April 2020***



Source: NBS, Proshare Research

- Another major problem faced by the CBN is the question of whether it should continue maintaining the exchange rate at the expense of depleting foreign reserves.

Chart 135: ***Nigeria's External Reserve***



Source: NBS, Proshare Research

CBN and The Rest of The World

Analysts believe that the CBN's policy response to the novel Coronavirus or COVID-19 was late. The argument was that the central bank needed to have anticipated the consequences of an economic slowdown and put a counter-recessionary monetary framework in place as early as the first known incident of the virus in February 2020. This may be somewhat of a stretch. The problem with the COVID-19 virus response by central banks globally was that they adopted swift monetary policy responses to what was essentially a public health challenge, the monetary policy measures were more appropriate for issues related to insufficient domestic liquidity than supply chain disruptions caused by the pandemic.

In other words, the challenge is not one of stimulating growth by lowering interest rates or increasing money supply but that of taking charge of the pandemic by limiting and reversing its spread. The slowing down of the disease was a health management problem and not an economic policy challenge. The use of monetary and fiscal tools could only prove effective when supply chains are settled and manufacturers kickstart production. The revival of production would require re-establishing forward contracts and ensuring that demand cycles were restored. The point of the relevance of interest rate cuts and money supply growth would be to reduce production costs and improve demand by off-takers and consumers, two events that were relevant only after the taming of the pandemic.

To get a handle on the economic consequence of supply chain disruptions it has been necessary for policymakers to craft a realistic projection of what the economy would look like (*see Table 22*). The table gives insights into where the Nigerian economy may head in 2020.

Table 22: ***Nigeria Economic Realities***

ECONOMIC REALITIES

Economic Indicator	Present	Projection
Inflation (%)	12.34	14.7
Growth rate (%)	2.27	-3.32
Exchange rate reserves($'bn)	34.58	27
Unemployment	23.1	43.8
Brent crude($/barrel)	31.46	25
Interest rate (%)	12.5	13
Exchange rate (Naira to dollar)	361	458
Total Public debt (N'trn)	25.7	30
Cash Reserve Ratio	27.5	30

Source: Bloomberg, CBN, NBS, Proshare Research

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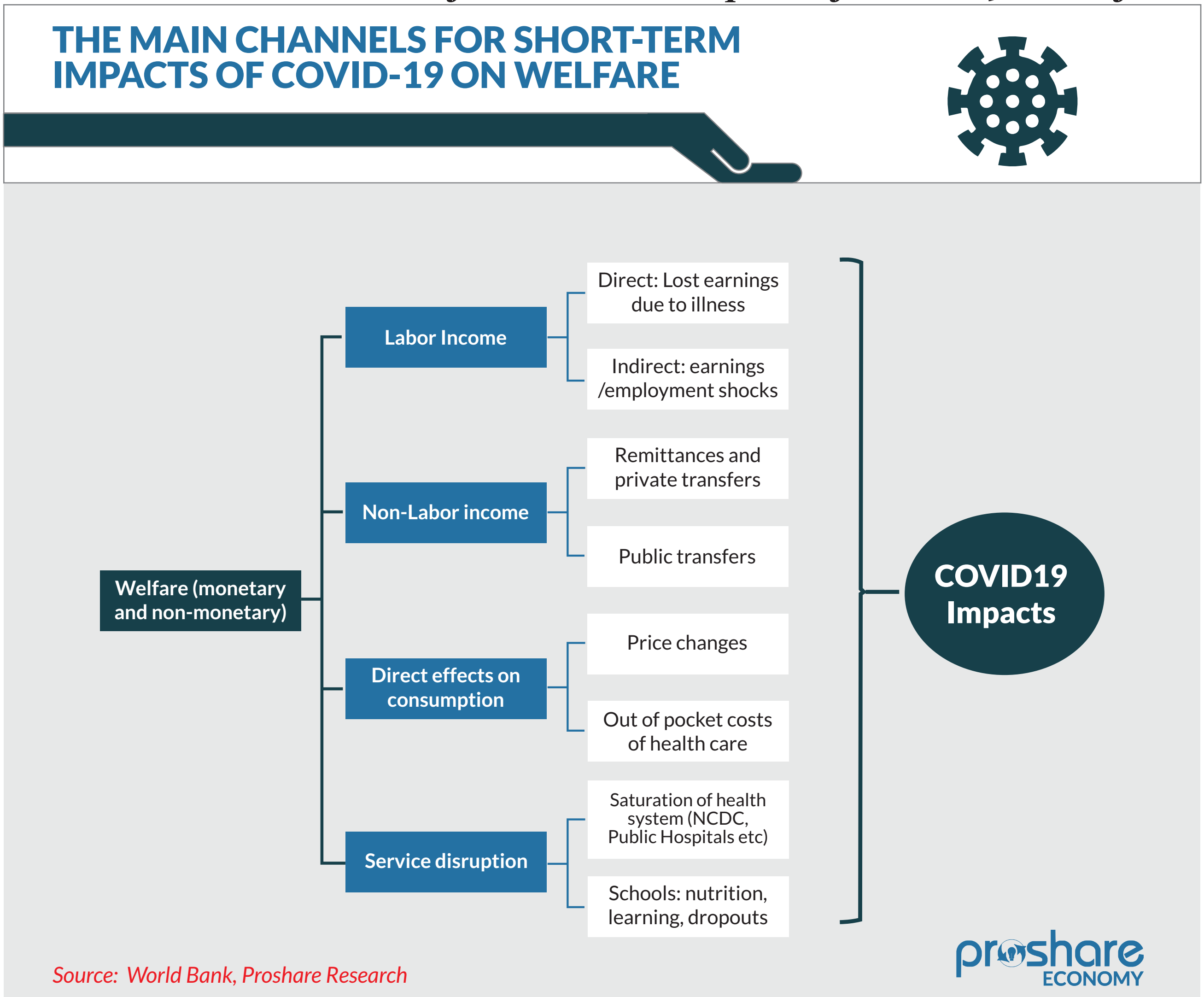
Impact of Government Policy and Restrictions on Households

The federal government in an attempt to prevent the further spread of the virus in the country restricted movement in major cities like Lagos state, Ogun state and the Federal Capital Territory. The restrictions/lockdowns in some parts of the nation caused a shutdown in economic activities which hurt businesses, government activities and most notably households (*see illustration 28*).

Illustration 28: ***Main Channels for Short-term Impacts of COVID-19 on Welfare***



Some of the effects of the lockdown have been an increase in malnutrition especially amongst vulnerable households, rising prices and a reduction in purchasing power, and a rise in the jobless rate (23.1% in Q3 2018).

According to World Bank Aggregate shocks to economic activity can affect welfare (and well-being) at the household and individual level through the following channels:

Impact on labor income due to

- The direct effect of lost earnings because of illness or the need to take care of sick household members
- The indirect effect of shocks to earnings and employment, caused by decline in aggregate demand and supply disruptions. The impacts can take one or more of the following forms: (a) decline in quantity of work, either hours (intensive margin) or employment (extensive margin);

(b) decline in wages, which is unlikely for salaried workers in the short-run but may occur over time due to furloughs or wage-cuts by some employers to avoid layoffs; (c) decline in income of self-employed, due to reduction of economic activity (sales, production) in micro and small enterprises due to fall in demand and disruptions in supply of inputs, or due to mobility restrictions, particularly for migrants engaged in seasonal agriculture.

Impact on non-labor income due to:

- Decline in international (and domestic) remittances resulting from the economic impacts of the crisis in places where the migrants are employed, and potentially in private transfers as economic stress can reduce transfers between households or charitable support
- Potential change in public transfers – e.g. increase as governments respond to mitigate the impacts of the shock or decrease as fiscal constraints force countries to choose between existing social protection and health care.

Direct impact on consumption through:

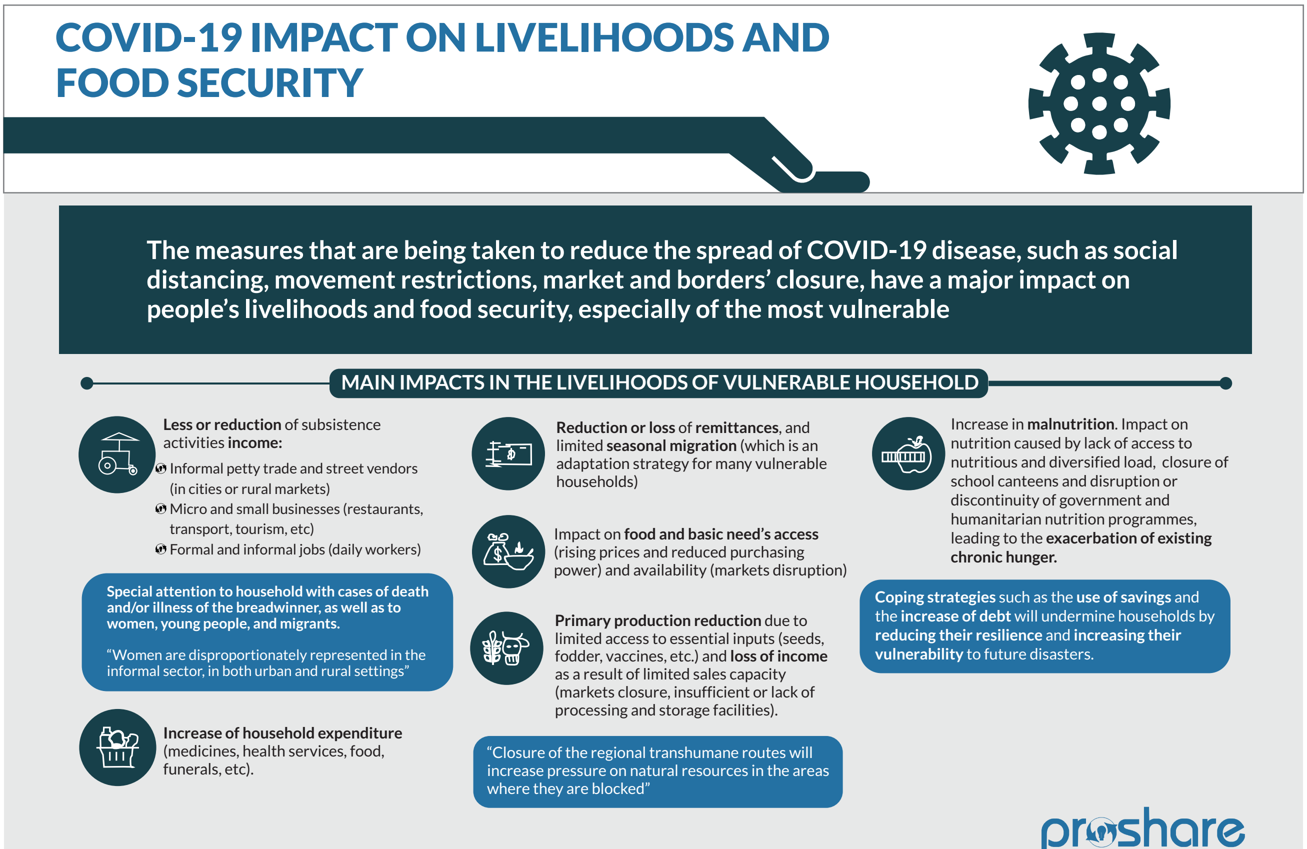
- Changes in prices and shortages of basic consumption goods and essentials (such as food and medicines), due to disruptions in the functioning of markets because of decline in trade (including import or export restrictions) or a fall in domestic production. This effect is in addition to the indirect welfare impact of any increase in the prices of production inputs, which would affect cost of production and labor income
- Rise in out-of-pocket cost of health care for those directly affected by the pandemic, which may reduce consumption of other necessities among credit-constrained households

Service disruptions with adverse impact on non-monetary dimensions of welfare:

- Suspension of classes and feeding programs in schools, leading to impacts on student retention, learning, and nutrition.
- Potential saturation of health system in countries with high incidence of COVID-19, leading to inadequate

Illustration 29: COVID-19 Impact on Livelihoods and Food Security

Illustration 29: ***COVID-19 Impact on Livelihoods and Food Security***



Source: Proshare Research

Nigeria Equity and Fixed Income Market

Nigeria's Fixed Income Market

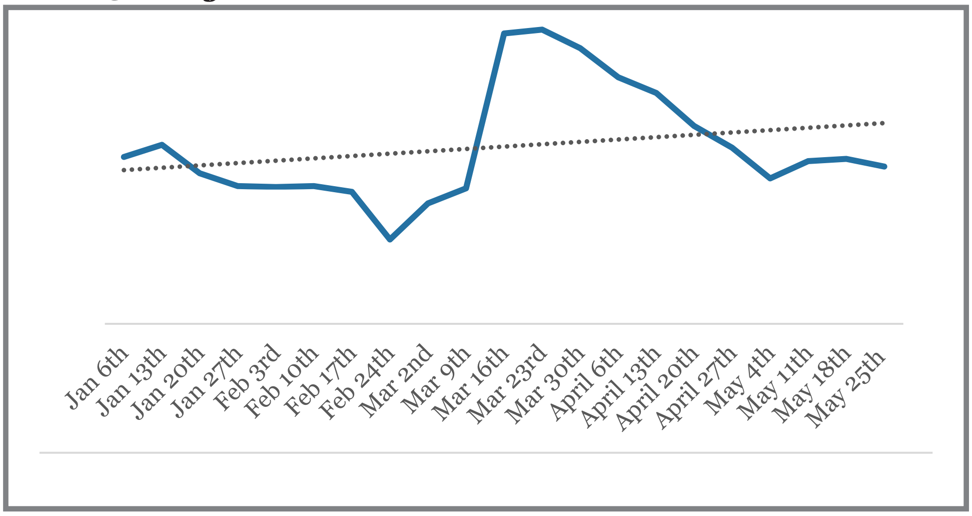
As the virus continues to spread in Nigeria, yields of the 10-year government bond are declining. This indicates that there has been a rise in the demand for bonds which has pushed the yields down as the price of bonds and the yields are inversely related.

Due to the impact of the coronavirus, the Nigerian government has resorted to borrowing domestically rather than seeking external funds. There will likely be an increase in the yields of the bonds with the government's new plan to borrow domestically. However, because of the inverse relationship between the price and yields, the yields will likely decline if there is an increase in the demand of the bond, which will happen most likely.

Data from DMO released in May 2020, revealed there was an over subscription of the government bonds by over 300% in the 5-year, 15-year and 30-year bonds.

Chart 136: Nigeria 10 Year Government Bond Yields (%)

Chart 136: ***Nigeria 10 Year Government Bond Yields (%)***



Source: World Government Bonds, Proshare Research

Nigerian Stock Market as of 29th May 2020

The year-to-date sectorial performance of the NSE shows that majority of the sectors recorded a decline in their performance (as of May 29,2020). The food and beverage sector recorded the highest dip of -28.3% while the NSE IND recorded the highest gain in the year to date performance of +12%.

In March/April when major economies were hit hard by the COVID-19, the NSE had a positive performance, this was on the back of the cash inflows from foreign portfolio investors (FPIs) and an increase in global and local financial liquidity.

Table 23: ***Nigerian Stock Market as of 29th May 2020***

NIGERIAN STOCK MARKET AS AT 29TH MAY, 2020

Sectors	31-Dec-19	29-May-20	YTD (%)
NSE-IND	1075.6	1204.7	12.0
Insurance	125.82	131.81	4.76
NSE-ASEM	734.99	762.45	3.74
NSE PENSION	1054.1	1020.88	-3.1
NSE-30	1177.8	1096.28	-6.9
Oil and Gas	262.54	228.3	-13.0
Banking	356.84	304.11	-14.8
Food and Beverages	592.85	424.96	-28.3

Source: NSE, Proshare Research

The New Normal

As lockdowns are lifted and loosened, policymakers and experts are debating how to avoid a spike in new cases. World leaders and scientists are also placing much hope on quickly finding a vaccine for COVID-19. Despite some reason for optimism, a viable treatment is still unlikely until well into 2021, which means many of us may have to get used to a very different lifestyle, even if some restrictions are eased.

Therefore, it is vital to narrate what the new normal will most likely look like for customers, businesses and the government.

Illustration 30: ***Customers Digital Transition***

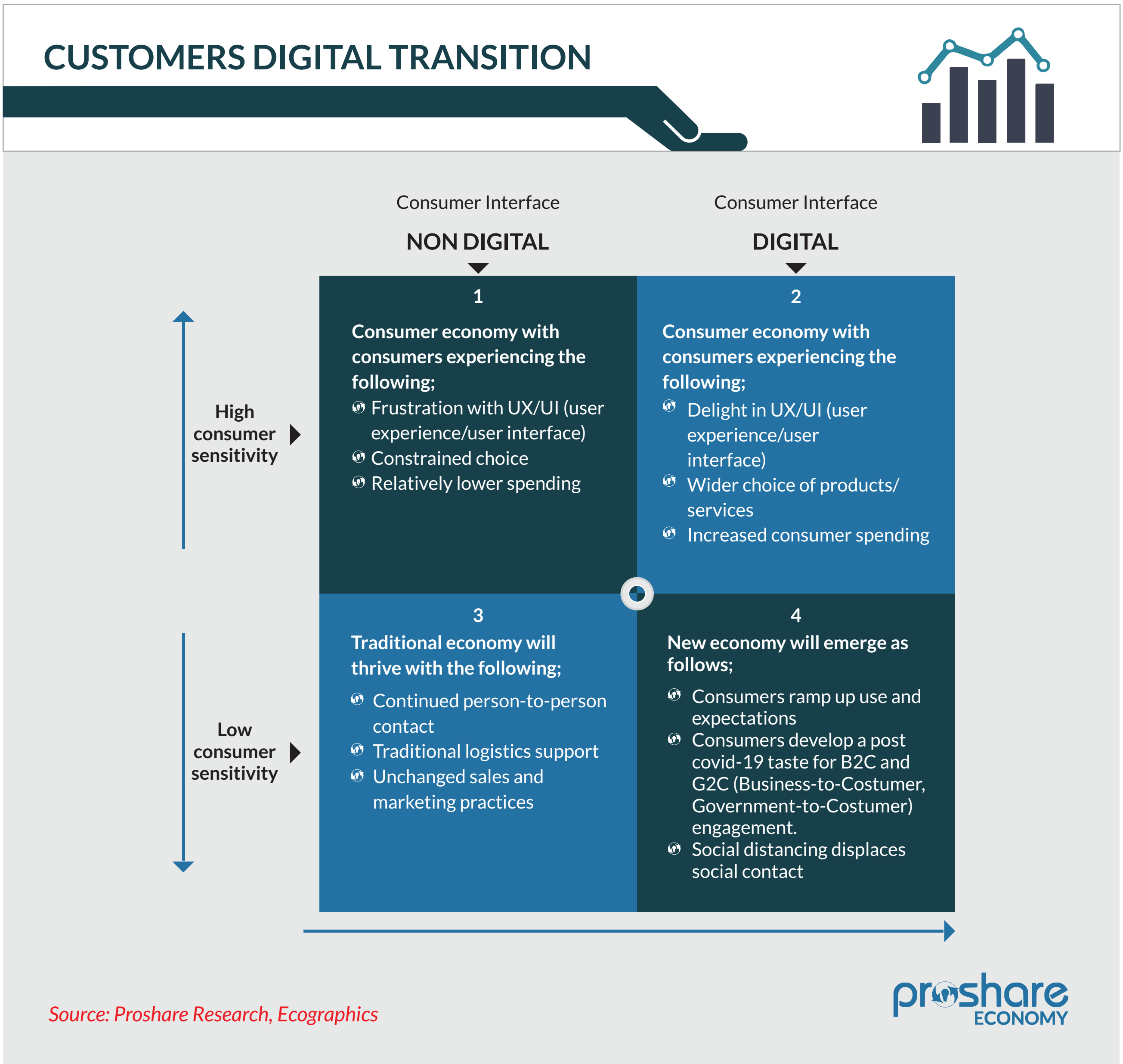


Illustration 31: ***Nigeria's New Normal-Risks and Opportunities***

NIGERIA'S NEW NORMAL – RISKS AND OPPORTUNITIES

Risks in the New Normal	Opportunities in the New Normal
Large informal sector • Low income earners • Low knowledge of technology • Low educational level	**Restructuring of the economy** • Reducing the size of the informal sector • Improvement in technological communication • Increase government revenue when the informal sector is captured. • Increased business-to-government activities and government-t0 -citizens transaction
Infrastructural gap • Inadequate power supply • No easy access to the internet to encourage remote working	**Growth in e-governance** • Government services should be more e-based • Improvement in the ease of doing business
Increase in cost of business processes • Cyber security and data breaches	**Improvement in domestic production base** • warehousing, processing, storage/refrigerating
	Reduction in foreign exchange exposure
	Improvement in the ease to doing business • Improved application of technology for micro and small business environment

Source: Proshare Research

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Back of The Envelop

BacK of the Envelop

Hard Policy Choices -A Policy Shot To The Arm and A Mild Spell of Illness

- The government's priority policies for 2020 need to be focused on healthcare reforms and expenditure. The government needs to approve and implement a much larger healthcare budget targeted at preventive community-based healthcare services that would deliver the infrastructure and personnel needed to address communicable diseases at local government and local community development area levels. Registration and data collection at these levels would make epidemic or pandemic containment significantly easier in the future. In other words, community-based healthcare data collation and informatics would take the thunder out of any future healthcare storm in the form of a pandemic virus. Part of the healthcare budget should go into medical research that would provide the indigenous capacity to treat surprise viral infections using the locally produced medication as is the case in Madagascar where, as at May 5, 2020, the country had 158 reported cases of COVID-19 with no deaths, ostensibly the country has been able to treat COVID-19 cases by using a local herb combination. The African Union has hopped onto the potential of the Madagascan solution to explore a continent-wide application of the herbal remedy.
- Government spending should be increased to, at least, as large as the prospective domestic economic costs of the COVID-19 pandemic, focusing primarily on direct cash disbursements to firms and households. The fiscal spending stimulus would translate to effective private and business spending which would in turn restore domestic supply chain linkages and stave-off unemployment in both the formal and informal sectors of the economy. ***However, a caveat may be necessary.*** While a CBN monetary splurge may improve domestic liquidity and increase potential demand, it would not restore or repair broken supply chains if the global economic output is not restored. The meaning of this is that domestic monetary expansion is a feeble weapon in the face of difficult global production situations. The expansion of output in the domestic economy is outside the ability of the CBN to engineer to the extent that production inputs must be imported. ***The lesson here is that Nigeria must build a backwardly integrated industrial substructure to support an economic superstructure supportive of CBN monetary stimulus.***
- The CBN may need to provide financial support for the government, not just through reserves but also by printing money, if necessary. Of course, this comes with inflationary consequences but in the short-term, the country may have to live with this as a lesser of two evils of a recession/depression and a rising average annual price level. To counter the inflationary impact would be in-built stabilizers such as additional tax revenues (VAT, CIT and PIT) and faster economic growth accompanied by higher corporate revenues and individual incomes and incrementally lower budget deficits.
- Tax reliefs, tax cuts, tax holidays, and tax incentives. Take reliefs and tax cuts would be difficult to initiate at the moment as an expansion of money supply would lead to rising price levels and strains on the country's foreign currency value. To reduce the severity of the effect of upward price adjustments on fiscal stability, tax rates would have to remain where they are presently and tax reliefs may need to be deferred. Tax holidays may also need to be considered at a more auspicious time, while tax incentives may be allowed for greenfield and brownfield projects that bring in sizable foreign investment and create a large number of new jobs. The recent increase in value-added tax (VAT) from 5% to 7.5% would have to stay to improve the countries revenue to debt ratio and to reduce its debt servicing gap.
- Tax rebates and temporary universal income to households; cash grants to firms.
- Cut interest rates, launch QE programmes and lending schemes.

Coronanomics: A Million Voices And A Few Good Economists

A few local economists and public policy analysts have expressed varied but interesting opinions about different aspects of the policy implications and potential outcomes of the COVID-19 pandemic in Nigeria, a few of the perspectives are represented below:

*"The long and short of it is that the economics of Coronavirus or Coronanomics, shows the interconnectedness of everything, that is the value chain of human existence from biology to economics, politics, technology, trade, investment, race, culture, identity and everything else. In the face of such infinitude, what is most required is leadership to help the people regain a sense of balance and restore all things that may have gone awry" – **Dr. Reuben Abati***

*"It is important to strengthen Nigeria's healthcare infrastructure and delivery systems, because good health leads to economic wealth. There is need for effective governance measures through institutions and pragmatism from policy makers, to navigate the challenges arising from the coronavirus disease. Sustainable economic development depends on productivity and productivity depends on incentives, robust institutions and innovations" – **Dr. Temitope Oshikoya***

*"Nigeria can do well in the midst of much lower oil revenues, but we need to make tough choices, enforce tax compliance, invest in securing life and property, subsidize only the poor and weak not everyone in town, subsidize in ways that do not blow big holes in the budget of Government, partner with the private sector in the key areas that will grow output, re-train and certify our work force, manage our population, account for taxes collected in a transparent manner" - **Bode Agusto***

"The government should engage in the following seven steps/roadmaps in rebooting Nigeria's economy from COVID-19. The seven steps are:

- *Policy coherence and leadership which is sadly lacking at the moment.*
- *Ensuring an orientation of stimulating the financial sector with any spending done in this period.*
- *Establishing a fresh N5trn COVID-19 recovery fund.*
- *Allowing Professionals meeting standards of governance and internal controls standards and the group of MSMEs they are incubating to apply for productivity loans under this arrangement.*
- *Giving priority to professionals partnering with youth or women run enterprises to ensure the effectiveness of spending, especially where larger companies are ready to incorporate them into their supply chains.*
- *Pay some debt owed to infrastructure contractors and large employers of labour to safeguard jobs and stimulate infrastructural renewal where possible and issue new contracts to urgently refurbish critical infrastructure.*
- *Registering all Nigerians over the next 100 days by deploying agents full kitted in Personal Protective Equipment." – **Soji Apampa***

"For the countries that see the shocks as signalling structural shifts (which it largely is), the focus should be on exploiting the opportunities offered by the crises to press the re-set button. It requires a realistic diagnosis and admission that the existing business model has been rendered obsolete. Crafting a new business model that encompasses the whole range of institutional, technological, structural, macroeconomic, and even politico-governance arrangements takes time and demands for disruptive thinking. It would require mainstreaming creative non-debt-creating financing

options and new forms of economic partnerships." – ***Professor Charles Soludo***

"The imminent decline of oil revenue in the wake of the pandemic should be a call to action for policy makers. Diversification of the Nigerian economy needs to be taken up on a war footing to create momentum in the next 1 to 3 years. There is the need to identify the "quick wins" and assiduously create an enabling environment for the private sector to realise them. This is the right time to bring up the NEPC's "Zero Oil Policy" for serious consideration and implementation. The impetus given to the cotton-textile sector needs to be sustained. Enough of rhetoric. The time to act is now."- ***Ade Adefeko and JP Olanrewaju***

"Five top areas that need attention at the present time:

- *Nigeria needs a clear and cohesive national strategy to integrate our factor endowment to become globally competitive*
- *Nigeria needs a carefully crafted Industrialisation Policy*
- *Nigeria needs to identify value chains with clear timelines and goals to achieve stated objectives*
- *Nigeria needs to create a new financial system different from the current banking system or perhaps create a new commercial development bank.*
- *Nigeria needs entrepreneurial financing; banks need to be developmental in orientation to support the growth of the economy" –* ***Prof. Pat Utomi***

"Nigeria has limited monetary policy leeway as a result of low external reserves and low international oil price. Therefore, policy orientation should tilt towards fiscal policy. The main problem to solve now is to raise external liquidity to where we can regain monetary policy control." – ***Dr. Ayo Teriba***

"Nigeria government should focus on the following:

- *We need to manage our debt very carefully over the medium term.*
- *We need to mobilise more revenue by improving efficiency in the collection of taxes and reduce corruption.*
- *In terms of public expenditure, we need to focus on more things that government would imply a greater impact of fiscal spending per capita and improved growth of the productive real sector of the economy." –* ***Dr. Temitope Oshikoya***

"Post covid-19 blues will have a significant impact on the Nigerian economy as the country still displays a large and fragile informal sector. To sterilize the impact of global economic changes on the domestic economy, the size of the informal sector needs to be shrunk; hoping this would occur in the short term is like hoping that Nigeria's debt-burden suddenly vanishes. The dream is likely but reality is less kind". – ***Boason Omafaye***

Closing Thoughts

The COVID-19 virus will be with mankind for some time, a vaccine will be developed but the politics, faith-based religious emotions and simple irrational preferences will slow down the elimination of the virus. It would, therefore, be safer for governments, corporations and individuals to prepare for a world with the virus rather than one without it, meaning that social distancing, greater healthcare expenses, commitment to higher personal, corporate and communal standards of hygiene, and more effective crowd management are permanent features of the new way societies conduct their affairs.

At the broad economic level key matters concerning COVID-19 include:

- Higher fiscal spending on healthcare, medical research, pharmaceutical production, and on-line digital infrastructure.
- Upscaling and redirecting the educational system to align human resource training with labour supply gaps. The high underemployment rate (20.1% in Q3 2018) was largely the result of education and labour market misalignment.
- Improving agricultural productivity by scaling up production and infrastructure by the adoption of technology and large farm holding structures in place of the small farmstead structures that tend to be labour intensive and inefficient. The smaller farmers could remain in the value chain as out croppers growing produce for the larger farms that would aggregate output and negotiate better farmgate prices for everyone.
- COVID-19 has shown clearly that no nation can afford to depend exclusively on foreign supply chains. The new 'normal' economic framework would require deeper supply chain relationships within the domestic economy.
- Monetary policy will likely remain hawkish for most of 2020 as the CBN keeps an eye on inflation and the exchange value of the naira. On the other hand, to keep GDP growing by at least +2.00% per annum the fiscal authorities will need to expand spending. A combination of tight monetary and loose fiscal policy will raise interest rates and cut GDP growth rates. The CBN's recent cut in monetary policy rate (MPR) by 100 basis points from 13.5% to 12.5% will have little if any impact on increasing growth. GDP growth rate in Q1 2020 was +1.87% which was lower than the +2.10% growth rate in Q1 2019. Analysts expect that Q2 2020 GDP growth would be much slower than Q2 2019. The economy is expected to contract by about -3% by the end of the year. Presently Nigeria's debt-to-revenue ratio is 61.4%.

At the Industry Level

- Industry supply chains were disrupted during the high watermark of the coronavirus pandemic. The disruption meant that several companies either closed or worked within the confines of skeletal operations. The result would be that by the end of the year annual revenues would slide with the attendant fall in profitability.
- The most severe difficulties are supply chains that are linked to foreign suppliers of inputs to domestic manufacture. Most of the inputs have been historically imported from China and at the height of the pandemic, the local companies were shut out from their foreign suppliers. The new normal would require supply chains to be protected from foreign contagion. Phased industrial protection going forward would require an aggressive import substitution strategy. The low hanging fruits would be in the area of produce inputs but machinery inputs may take a while longer. However, industrial metallurgy hubs such as Aba, in Abia State, Nnewi and Onitsha in

Anambra State could be primed to develop foreign machinery import substitutes within the medium to long-term.

- Cereal research and improved seed technology should be accelerated to improve agricultural yields, especially in the areas of oil palm seeds and cassava. Other crops of note would be cotton, cashew, cocoa, sorghum, barley, yam, beniseed and corn. The private sector needs to be able to pull value from tertiary institution research and convert research ideas into market-ready solutions.
- COVID-19 has raised the stakes for the rapid industrialization of the country and the preparedness of politicians to take decisive steps towards providing incentives for private entrepreneurs to build capacity and indigenize production processes. The recent purchase of Toyota branded vehicles in preference to indigenous Innoson vehicles by the national assembly (NASS), reveals an obtuse understanding of Nigeria's dire economic situation by national lawmakers.

As Dan Ariely points out in his book ***"The Upside of Irrationality"***, individuals must be prepared to make short term-term sacrifices for longer-term benefits. *" We routinely behave as if sometime in the future we will have more time, more money, and feel less tired or stressed. "Later" seems like a rosy time to do all the unpleasant things in life, even if putting them off means eventually having to grapple with a much bigger jungle in our yard, a tax penalty, the inability to retire comfortably, or unsuccessful medical treatment. In the end, we don't need to look far beyond our noses to realize how frequently we fail to make short-term sacrifices for the sake of our long-term goal"* Ariely observes.

At the Sub-National Level

- Sub-national governments will need to rethink, reconsider and reimage the fiscal structure of their states and they must also review their state's tactical/strategic objectives. The big issue in the new age would not be the size of the state or its seen and unseen 'potentials' but the skill of its workforce and the application of the technology by its digital natives to achieve superior state economic value. The more analogue a state remains the more difficult it will find its ability to grow state GDP and attain acceptable standards of living for its citizens.
- All states will need to grow their IGRs and reduce their dependence on monthly FAAC allocations from the federal government. The ground rule for state prosperity in 2020 and beyond would be the rule of thumb that each state must achieve a revenue ratio such that 70% of total revenue comes from IGR and 30% from FAAC. The 70:30 rule would quarantine the states from the contagion of federal fiscal uncertainty and the possible transmission of international oil price declines on state economic development.
- States would need to trim down fat and realign workforce requirements with service delivery needs. With the high debt to revenue ratios of some states, the continued reliance on FAAC would see them slide into a fiscal hole from which they would be incapable of clawing out. The states need to wind down their internal and external borrowings and find imaginative ways of propping up their internal revenues. If borrowings must remain high, then revenue to borrowing ratios must come down. The meaning of this is that state's would need to increase commercial and industrial activities under arrangements with higher private sector participation rates. The capacity to achieve this would require governance transparency, respect for contractual obligations and commitment to project objectives, milestones and metrices.
- States must prepare themselves for the sale of idle assets. Almost all states have held on to physical assets with no immediate or prospective benefits to the state's revenue. Showpiece projects need to be offloaded and the proceeds of the sales used in supporting projects that would add economic value to the state.

A walk through the economic realities of COVID-19 offer up several opportunities of both the federal and state governments to reposition their economies. The same repositioning and resetting remains true for private sector actors, the COVID pandemic may have its human health challenges but in the realms of public and private corporate management, the winds are blowing nicely for those that set their sails in the right direction. In life what usually is critical is not what happens to individuals, companies and governments but how these entities choose to respond. Failure is as much a choice as success, a pandemic is a situation, the playbook of actors in different economic sectors determines the final outcome.

8.0 Report Methodology

The report relies on three (3) primary sources of information: 1. The National Bureau of Statistics (NBS) 2. Secondary data sources from the International Monetary Fund (IMF) and the World Bank 3. Proshare TheAnalyst Pages. The report relied on extensive data from the NBS and other institutions such as the Central Bank of Nigeria (CBN) and the Nigerian Stock Exchange (NSE). We also relied on extensive discussions with local Nigerian economists. The data sets were disaggregated for meaningful analysis and interpretation. We equally engaged in other in-house modeling processes to provide clarity by way of dimensioning time series and cross-sectional data. The cut-off date for our analysis was April 5th, 2020, reports submitted outside this date were not considered and would be included in any subsequent report we publish on the Nigerian economy and Coronanomics. Data sets used for the analysis spanned a period of 20 years from 2000 to 2020.

The analysis essentially took a time series approach to historical data and looked at macroeconomic data globally, continentally and locally. The qualitative aspects of the report were drawn from discussions with local economists or theoretical economic constructs applied to emerging market developments.

Regression analysis and e-views analytical tools were applied to a variety of data sets from macroeconomic data from NBS, IMF and the World Bank to establish relationships between dependent and independent variables within the data architecture. Some results were frivolous, others consistent with existing theory while some were interesting oddities that contradicted basic theoretical postulations. The detailed regression and other analytical results were deliberately left out of the report to make it as easy to read and understood as possible and to ensure that the technical details do not distract from the central insights gained during the research process.

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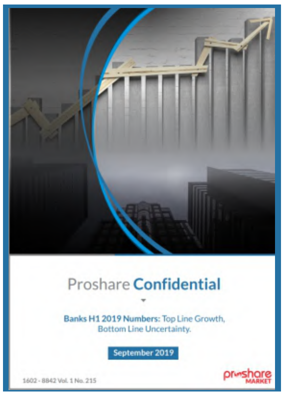

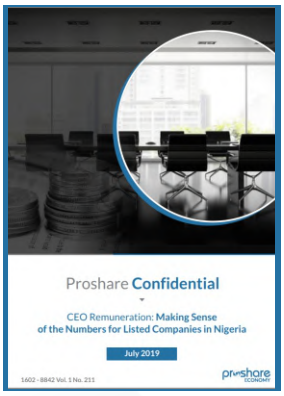

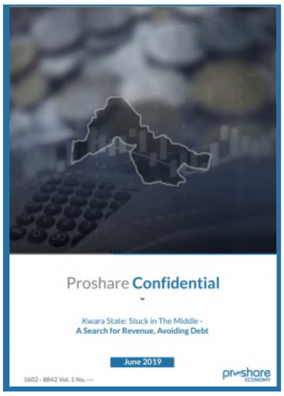

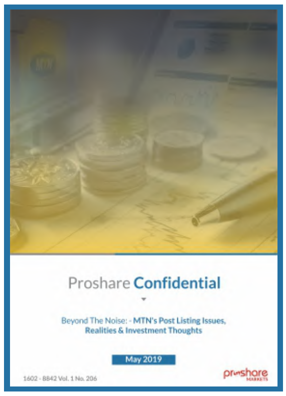

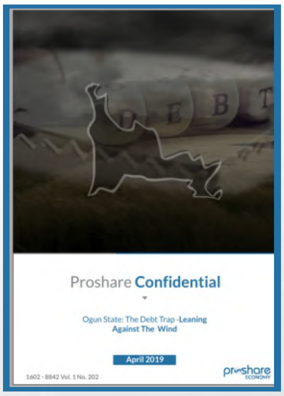

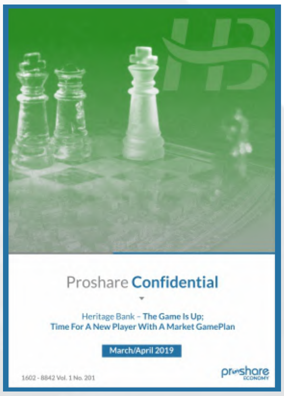

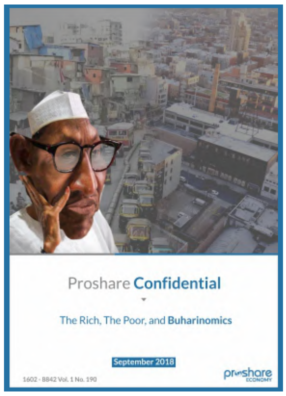

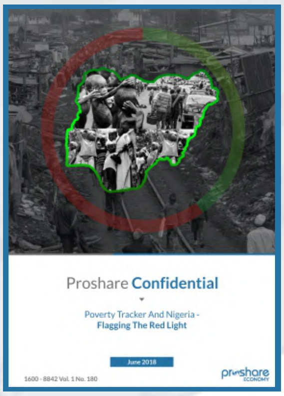

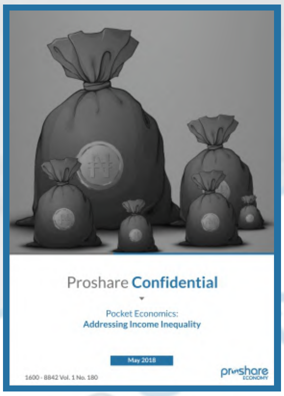

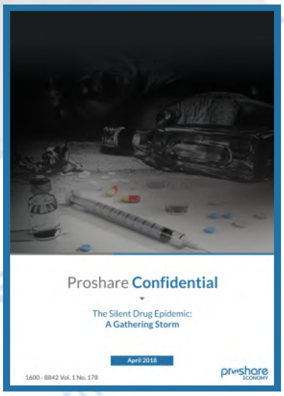

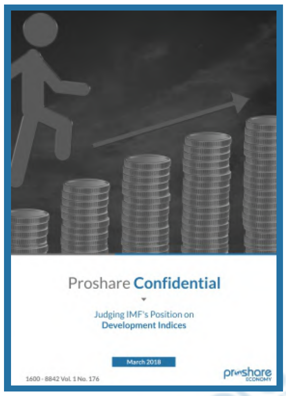

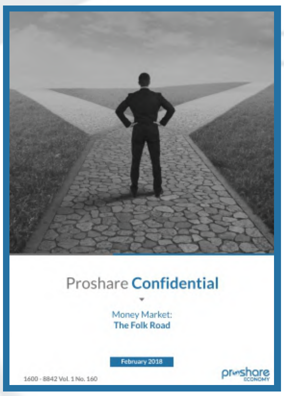

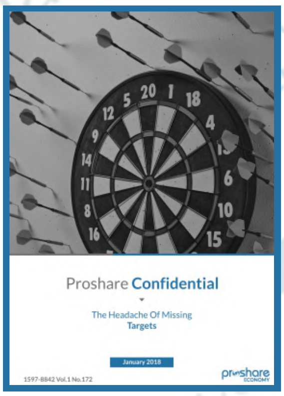

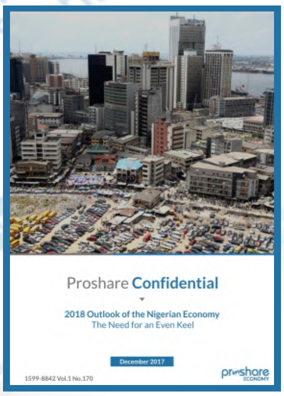

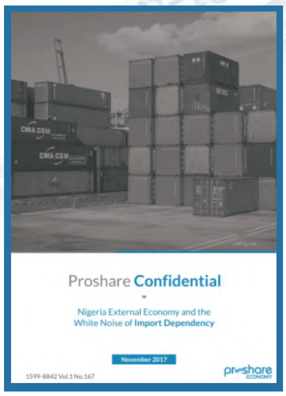

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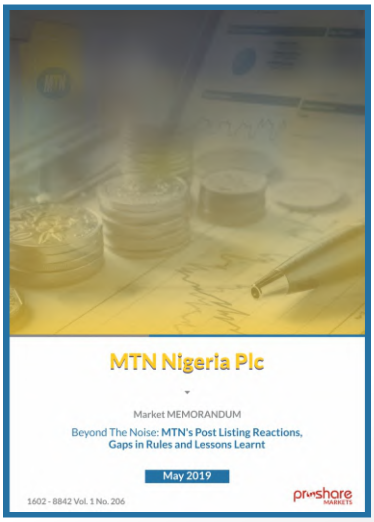

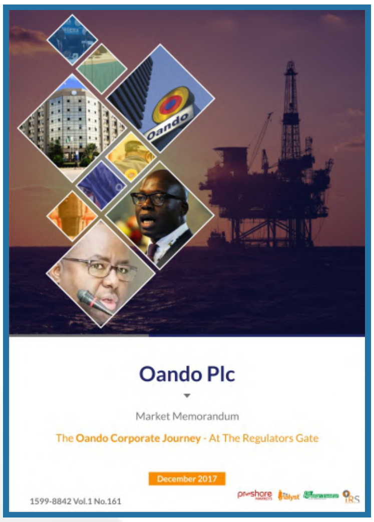

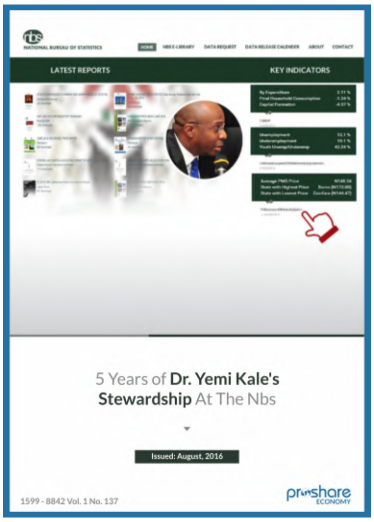

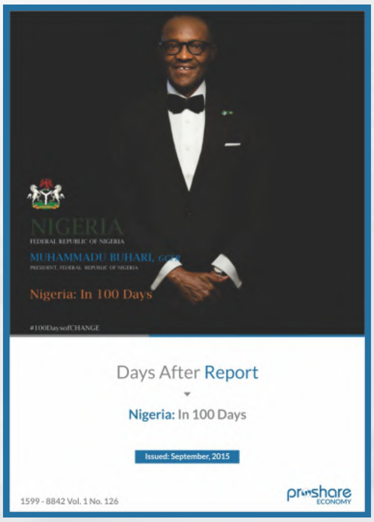

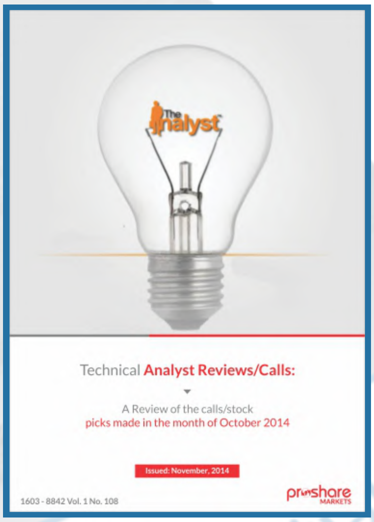

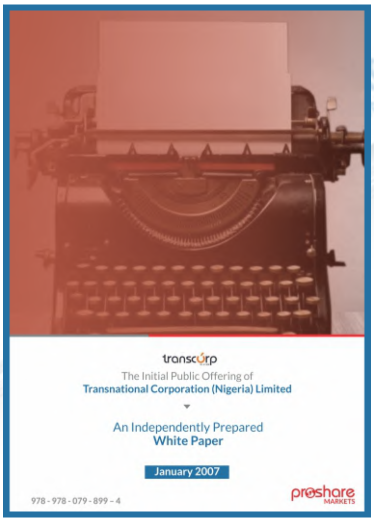

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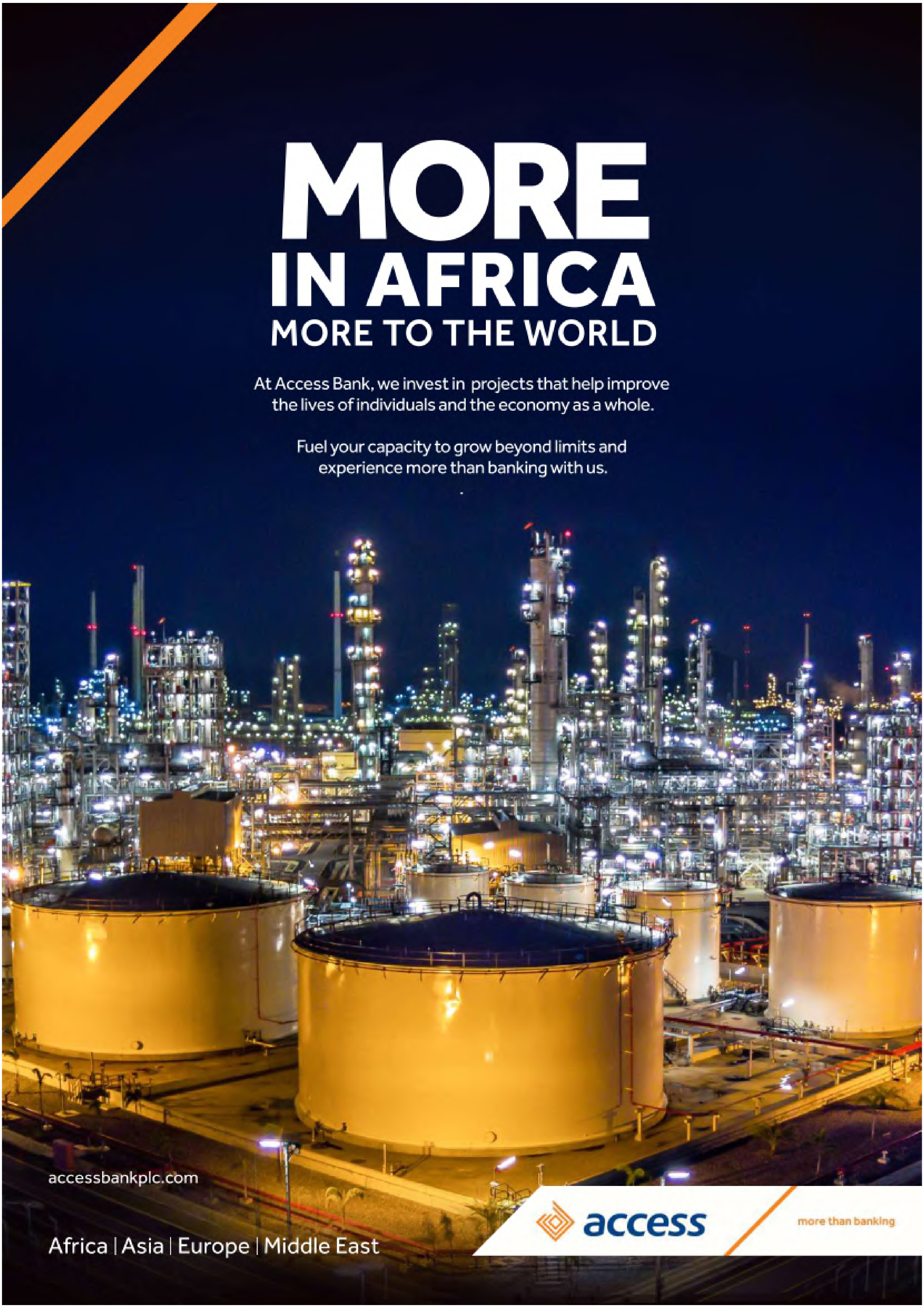
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