NEWSLETTER. **22ND – 26TH MARCH 2021.**

NEWS HIGHLIGHTS:

- USAID goes ‘State 2 State’ with $72m in New Assistance to Strengthen Governance
- Nigeria’s Fiscal Position remains Precarious Despite rising Oil Price
- IMF, JP Morgan list policy options for economic recovery
- LCCI seeks clarity on fiscal, monetary policies
- CBN to issue N570.4m treasury bills in Q2
- DMO List N162.56bn SukuK Bond on NSE
- FG’s March bonds oversubscribed by N183.48bn, says DMO
- Lagos increases housing stock with 360 units of 3-bedroom flats
- Relief for Nigerians as inflation to moderate around May

RATE MONITOR:

MPR = 12.5%

GDP = 0.11 %

IRP = 17.33%

GLOBAL ECONOMY.

- **USAID goes ‘State 2 State’ with $72m in new assistance to strengthen governance :**

U.S. Agency for International Development (USAID) has launched a new State Accountability, and Effectiveness (State2State) Activity to strengthen subnational governance systems in six key states across Nigeria. The five-year, $72 million State2State Activity helps improve how these states plan and budget, raise revenues, increase civil society participation, and oversee service delivery in the health; education; and water, sanitation, and hygiene (WASH) sectors.

The activity will begin operations in Adamawa, Akwa Ibom, Bauchi, Ebonyi, Gombe and Sokoto states and later expand to others. State2State works primarily at the state level, but also supports federal institutions and local government areas by strengthening government processes like public financial management and procurement; monitoring and evaluation related to delivery of services; increasing responsiveness to citizen priorities; and improving capacity to manage societal conflict through prevention, mitigation and reconciliation.

“The scale and scope of the State2State activity is a potent symbol of the U.S. government’s commitment to partner with Nigeria to improve governance,” Ambassador Leonard said at the virtual launch ceremony. “We have made this sizable commitment because we believe dramatic improvements sometimes require considerable resources.” State2State promises to increase accountability, transparency, and effectiveness while building on locally derived solutions, including expanding reforms that have proven effective in other parts of the country.

- **Nigeria’s fiscal position remains precarious despite rising oil price:**

  Bullish crude oil prices since the beginning of the year have raised hope of a better global fiscal performance after severe disruptions caused by COVID-19 pandemic that unsettled oil-dependent economies.

  The price rise of more than 75 percent since November 2020 has been on account of major economies reopening and vaccinating their populations after the pandemic shut down factories and grounded the aviation industry in March 2020.

But with the positive sentiments associated with rise in oil price, celebration from the Nigerian economy, sadly, comes off as premature as the country's fiscal position still remains precarious.

Analysis shows that as of today, Nigeria's economy can attain fiscal break-even position only if oil prices climb as high as $103 per barrel.

This was attained by incorporating the current official exchange rate at N380/$1, Federal Retained Oil Revenue to Gross Oil Revenue at 37 percent, Average Daily Production of 1.7 million barrels per day (OPEC quota), the current budgeted expenditure as well as budgeted Non-Oil + Other Revenue and Unfunded Revenue at N4.6 billion and N8.9 billion, respectively.

- **IMF, JP Morgan list policy options for economic recovery:**

The International Monetary Fund (IMF), JP Morgan and the American Business Council (ABC) have recommended policy options that could aid economic recovery efforts in Nigeria. According to the Financial Institutions, policy options for Economic Growth and Recovery would border on increased pace of vaccination, domestic revenue mobilization and Foreign Exchange Reforms. They added that the implementation of certain economic policies has become necessary due to rising inflation and unemployment in the country. The Mission Chief for Nigeria, IMF, Jesmin Rahman, noted that the upward review of Nigeria's growth forecast was due to the recovery of oil prices and unexpected growth in the fourth quarter of 2020.

At a webinar to present IMF's IV on Nigeria organized by the American Business Council, Rahman, stated: "We projected GDP this year would grow by 1.5 per cent before we had the fourth-quarter data. "However, based on more favorable Q4 data, it is likely that we will be revising our 2021 growth forecast in the next round of projection which will be out next month.

- **Afreximbank, NEXIM sign $50m deal to boost Nigeria's trade sector:**

African Export-Import Bank (Afreximbank) and the Nigeria Export-Import Bank (NEXIM) have signed a Memorandum of Understanding (MoU) to establish a Joint Project Preparation Fund. This will provide early project preparation financing and technical support services to public and private sector organisations operating in Nigeria's trade sector.

Signed on 20 February 2021, the MoU provides that Afreximbank and NEXIM will collaborate through the Joint Project Preparation Fund to unlock investments into sectors such as export manufacturing, agro-processing, solid minerals development and beneficiation services, as well as healthcare, Information, and Communications Technology, and creative industries. The Joint Project Preparation Fund will support public and private sector investors by providing technical and financial support services that will result in a steady pipeline of well-structured, bankable projects that Afreximbank, NEXIM, and other financial institutions can readily fund. The Fund will assist the early development process of projects from concept stage to bank ability by covering the preparation of feasibility studies, project development and advisory services and related costs.

DOMESTIC ECONOMY.

- **LCCI seeks clarity on fiscal, monetary policies:**

The Lagos Chamber of Commerce and Industry (LCCI), Director-General, Dr Muda Yusuf, has carpeted what he called the divergent views on Foreign Exchange (forex) Policy. He urged the Monetary Policy Committee (MPC) to give more attention in its deliberations to the forex policy because of its implications for economic performance and the confidence of investors. According to him, forex policies are as important as liquidity management concerns. He said forex framework is key to the price stability mandate of the CBN. He said: "The Chamber notes with concern the divergent positions of both the fiscal and monetary authorities on the country's foreign exchange policy framework. It is important for the fiscal authorities, CBN and Economic Advisory Council to be on the same page as far as the country's foreign exchange policy framework is concerned. This lack of coherence among policymakers' sends a negative signal to the investment community; aggravates uncertainty and undermine the confidence of investors.

According to the statement:

"The Chamber notes the decision of the MPC of the CBN to retain policy parameters during its March 2021 meeting with Monetary Policy Rate (MPR) at 11.5 per cent; Cash Reserve Ratio (CRR)at 27.5 per cent; and Liquidity Ratio at 30 per cent. We appreciate the dilemma which the current stagflation condition presents to the monetary authorities. We note the imperative of striking a balance between stimulating output growth and curbing intensifying inflationary pressures."

- **CBN to issue N570.4m Treasury bills in Q2**

The Central Bank plans to issue treasury bills worth N570.4m in the second quarter. It disclosed this on its website on Thursday on 'Nigeria treasury bills issue programme for second quarter'. It also said maturing bills in the period would total N570.4m.The CBN disclosed it would issue N92.05m 91-day bills; N79.65m 182-day bills; and N398.7m 364-day bills during the period. According to the banking regulator, the maturing bills during the period are N92.05m 91-day bills; N79.68m 182-day bills; and N398.7m 364-day bills. "Offer amounts are subject to change at short notice, one unit of NTB = N1,000 " the CBN stated.

- **DMO List N162.56bn SukuK Bond on NSE**

The Debt Management Office said on Thursday that it listed its third sovereign Sukuk, N162.557bn seven-year 11.200 per cent AL Ijarah Sovereign Sukuk due 2027, on the Nigerian Stock Exchange and the FMDQ Securities Exchange. It said this in a statement on its website titled 'Listing of N162.557bn 7-Year 11.200 per cent Al Ijarah Sovereign Sukuk due 2027 on the Nigerian Stock Exchange and FMDQ Securities Exchange'. The Sukuk, which at the time of issuance was massively subscribed to the tune of N669.124bn or 446 per cent, was issued to finance 44 economic road projects across the six-geopolitical zones, it stated. With the listing, it said, investors who were already holding the Sukuk could trade them while new investors had an opportunity to buy the Sukuk in the secondary market.

The DMO said it started the issuance of sovereign Sukuk in September 2017 as one of the measures towards attaining its strategic objective of bridging the infrastructure gap in Nigeria to promote job creation and economic growth. Following the successful issuance of the N100bn debut Sukuk in 2017, the DMO issued another N100bn Sukuk in 2018.The proceeds of the two Sukuks were deployed to the rehabilitation and reconstruction of road projects across Nigeria. Through the sovereign Sukuk initiative, the DMO said it had raised a total sum of N362.57bn in less than three years for the rehabilitation and construction of major economic roads across the country. It said by issuing sovereign Sukuk, the product range available to investors in the domestic financial market had increased, while several retail investors had been attracted to the financial markets.

- **FG's March Bonds Oversubscribed by N183.48bn, says DMO:**

The Federal Government's bonds for March worth N150bn which were auctioned on Wednesday were oversubscribed by N183.48bn, the Debt Management Office has disclosed. The total subscription received from investors for the bonds was N333.48bn comprising of N65.25bn for 16.2884 per cent FGN March 2027 bonds; N110.19bn for 12.5 per cent FGN March 2035 bonds; and N158.04bn for 9.8 per cent FGN July 2045 bonds. The auction result added that out of 82, 125 and 215 total bids for the tenures, 48, 88 and 176 were successful. It stated that a total of N262.1bn was allotted, comprising of N44.01bn, N86.29bn and N131.80bn respectively. The DMO stated, "Successful bids for the 16.2884 per cent FGN MAR 2027, 12.5 per cent FGN MAR 2035 & 9.8 per cent FGN JUL 2045 were allotted at the marginal rates of 10.5 per cent, 11.5 per cent and 12 per cent respectively.

“However, the original coupon rates of 16.2884 per cent for the 16.2884 per cent FGN March 2027, 12.5 per cent for the 12.5 per cent FGN March 2035 and 9.8 per cent for the 9.8 per cent FGN July 2045 will be maintained. ”The DMO had earlier disclosed that the Federal Government would offer N150bn bonds for subscription, comprising of three bonds worth N50bn each.

- **<u>Lagos increases housing stock with 360 units of 3-bedroom flats:</u>**

The Lagos State government has added 360 units of 3-bedroom flats to the existing housing stock in the state.

The new 360 units completed under the Lagos homes Phase 2 scheme in Igbogbo, Ikorodu, given the opportunity to the would-be buyers/residents of that axis of the state to own and live a decent apartment.

And in what came as a surprise, the state governor, Babajide Sanwo-Olu, while commissioning the houses on Wednesday, gifted a popular figure in Nollywood’s Yoruba series, Lanre Hassan, known by the stage name “Mama Awero”, one of the flats. The veteran actress was on the verge of being ejected from her rented apartment when the governor intervened. Sanwo-Olu also named the scheme after a former deputy governor of Lagos and an All Progressives Congress (APC) Apex Leader in Ikorodu, Abiodun Ogunleye.

The scheme, which is sited on 6.24 hectares of land, was conceived in 2012 under the former Governor Babatunde Fashola’s administration. It has 10 blocks each of 120 units of one-bedroom flat, 120 units of two-bedroom flat and 120 units of three-bedroom apartments. The project is bordering Oba Adeboruwa Housing Estate, which is the first phase of the housing scheme. Sanwo-Olu said the decision to complete the Igbogbo housing scheme was in tune with his pledge at the commissioning of Lateef Jakande Estate, Igando in 2019, where he reiterated his commitment to deliver all housing projects inherited by his administration.

- **<u>Relief for Nigerians as inflation to moderate around May:</u>**

Nigeria’s economy may likely heave a sigh of relief should the inflation rate moderate in May as optimistically stated by Godwin Emefiele, Governor, Central Bank of Nigeria (CBN), after announcing a hold on its benchmark interest rate and other parameters on Tuesday. The Monetary Policy Committee (MPC), which concluded its two-day meeting on Tuesday, has been confronted with a policy dilemma, with inflation rising for 18 consecutive months to 17.33 percent in February 2021. The dilemma that confronted the MPC relates to whether to focus on efforts to stimulate output growth or focus on the raging inflation, which at 17.33 percent is almost attaining the January 2017 inflation rate of 18.72 percent. “The country just crawled out of recession in Q4 2020, if the MPC tightens, it would constrain liquidity, the interest rate would be high and it would make it difficult to access credit needed that investment need to drive growth and the economy could slip back into recession,” Emefiele said.

Nigeria’s Gross Domestic Product (GDP) grew by 0.11 percent (year-on-year) in real terms in the Q4 2020, representing the first positive quarterly growth in the last three quarters. Though weak, the positive growth reflects the gradual return of economic activities following the easing of restricted movements and limited local and international commercial activities in the preceding quarters, the National Bureau of Statistics (NBS)

- **<u>Considering inflation, CBN holds benchmark interest rate at 11.5%:</u>**

The Central Bank of Nigeria (CBN) on Tuesday retained its benchmark interest rate, known as the Monetary Policy Rate (MPR), at 11.5 percent after the two-day Monetary Policy Committee (MPC) meeting in Abuja, citing inflation concerns. This comes not as a surprise as analysts in the financial services sector had expected a hold following persistent uptick in inflation rate and weak growth. Nigeria’s inflation rose to 17.33 percent in February 2021 from 16.47 percent in January 2021, according to data from the National Bureau of Statistics (NBS). In the fourth quarter of 2020, Nigeria’s economy sluggishly recovered from a recession it slipped into in the second quarter (Q2) of 2020 – after output contracted for two consecutive quarters. Real GDP grew by 0.11 percent in the fourth quarter of 2020, from -3.62 percent in Q3 2020, according to NBS data.

The CBN also retained the Cash Reserve Ratio (CRR) at 27.5 percent, Liquidity Ratio at 30 percent as well as the Asymmetric Corridor around the MPR at +100/-700 basis points. Given the fact that the rise in inflation has been due to cost-push factors rather than demand pull factors, Godwin Emefiele, governor of the CBN, said the Monetary Policy Committee has placed greater weight on utilizing tools that would strengthen the nation's productive base as a nation. Taiwo Oyedele, head of Tax and Corporate Advisory Services at PwC, had said the rising inflation would be of concern to the MPC as it does not support any expansionary policy changes. He said a contractionary policy adjustment would hurt the fragile economic growth and recovery.

- **<u>Nigeria spends lowest in 6yrs servicing T-bills:</u>**

The federal government spent the lowest amount it has in six years to service debt raised through Treasury Bills last year thanks to a low-interest-rate environment that crashed borrowing costs. This comes as investors of fixed-income instruments were left with nothing to cheer after higher inflation amid a low-interest-rate environment meant they settled for a negative real return on their assets. The interest payment on Nigeria's fixed income instrument, particularly treasury bills fell to N318.04 billion, the lowest in six years, according to data analyzed by BusinessDay from the Debt Management Office (DMO). That's a decline of 9.7 percent and 50.4 percent from the N352.3 billion and the N640.68 billion, spent servicing T-bills in 2019 and 2018 respectively. The decline in interest was despite T-bills sales hitting a three-year high of N3.44 trillion in the period, a pointer to how the low yields helped the government in paying less as interest on the short-term instruments than it would have paid if rates were much higher.