

# **THE LAGOS CHAMBER OF COMMERCE AND INDUSTRY**

**2016 1ST QUARTER PRESS CONFERENCE**

**PRESENTED BY THE PRESIDENT,  
LAGOS CHAMBER OF COMMERCE AND INDUSTRY  
CHIEF [DR.] MRS. NIKE AKANDE, CON**

**7<sup>th</sup> April 2016**

**DEPUTY PRESIDENT OF THE LAGOS CHAMBER OF COMMERCE AND  
INDUSTRY,**

**MR. BABATUNDE RUWASE, FCA**

**THE DEPUTY PRESIDENT OF THE LAGOS CHAMBER OF COMMERCE AND  
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**MR. KNUT ULMOVEN, MFR**

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**HERE PRESENT,**

**THE DIRECTOR-GENERAL,**

**MUDA YUSUF**

**DISTINGUISHED GENTLEMEN OF THE PRESS**

I am delighted to welcome you to the first in the series of our quarterly press briefing in 2016. As you know, this is my first press conference as President of the Lagos Chamber of Commerce and Industry [LCCI]. Although I have interacted individually with some of you. I solicit your cooperation in our efforts at building a robust, prosperous and sustainable economy. I would like to express my appreciation to you all gentlemen of the press for the good coverage you have been giving to our activities since my assumption of office. As a Chamber, we hope to sustain this cordial relationship and partnership.

Ladies and gentlemen, let me now review the economic and business environment in the first quarter of 2016. I will highlight our concerns and make recommendations where necessary.

## **MACROECONOMIC ISSUES**

### **Global Economic Update**

Global economic condition remains weak reflecting to some extent the declines in commodity prices. Uncertainty still dominates the economic and business environment. According to the World Bank estimates, global growth is projected at 3.4% in 2016 due to the expected gradual pickup in global activity especially in developing and emerging economies. Modest recovery is also expected to continue in the advanced economies though with a further narrowing of output gaps.

### **Gross Domestic Product**

Nigeria's real Gross Domestic Product (GDP) growth rate fell to 2.11% in the fourth quarter compared to 2.84 % recorded in the third quarter of 2015. Meanwhile, the conditions that characterized economic slowdown in the fourth quarter of 2015, namely, uncertainty around economic policies, adverse external environment, security challenges in some parts of the country affecting production and distribution of agricultural produce, low electricity supply, fuel shortages, and the foreign exchange crisis, persisted in the first quarter of 2016.

## **Inflation**

According to the National Bureau of Statistics, Nigerian consumer price index (CPI) increased to 11.4% in February, 2016, the highest in three years. This represents about 1.8% rise over the 9.6% inflation in January. The increase was attributed to the increases across major segments, which make up the headline index (for instance, the Food sub-index increased by 11.3 per cent, up by 0.71 percentage points from rates recorded in January). Meanwhile, the foreign exchange crisis remains the largest risk to the inflation outlook. This is a huge cause for concern to industry players as patronage, turnover and profit margins outlooks become weaker. The unusual combination of slowing growth and rising inflation present a difficult policy challenge.

## **Exchange Rate**

The average naira exchange rate remained stable at the inter-bank segment of the foreign exchange market with a daily average of N196.99/US\$ between January 25 and March 14, 2016. So far, the value of the naira has depreciated by 17.2 per cent at the CBN window from N165 to the dollar (which it was at the end of December 2014), to the current rate of N196.9. However, the parallel market is still under pressure for the last couple of months even as the depreciation remains huge with the value of naira weakening by almost 100% at an average of N320/\$ to date.

The recent sharp depreciation of the naira exchange rate in the parallel market is a cause for concern. It is a trend that should not be allowed to continue and all necessary steps need to be taken [and urgently too] to stem the slide and volatility. It is as much of an issue to consumers as it is to producers and other

stakeholders that create value in the economy. It calls for an urgent review of the current foreign exchange policy.

It is important to clarify some conceptual issues in this conversation. The discussion at this time should not be about devaluation of the naira. It should be about a pricing mechanism that is sustainable, predictable and transparent. It is about a policy regime that would reduce uncertainty and inspire the confidence of investors. It is about a policy framework that would minimize discretion and arbitrage in the foreign exchange allocation mechanism. This is what the discussion should be about.

A flexible exchange rate regime is often adopted to cope with changing demand and supply conditions in the forex market. The benefits of this approach are as follows:

- i. It enhances liquidity in the foreign exchange market.
- ii. It reduces uncertainty in the foreign exchange market and therefore enhances the confidence of investors.
- iii. It is more transparent as a mechanism for forex allocation.
- iv. It minimizes discretion in the allocation of forex.
- v. It reduces opportunities for round tripping and other sharp practices.

The current framework adopted by the CBN is a fixed exchange rate regime. This model is better suited for a country that has adequate reserves to support the fixed rate. But in our case, we do not have the reserves to support the exchange rate at N197/\$. This is the fundamental issue at this time. The consequences are already manifesting in the following ways:

- i. Widening gap between the official and parallel market exchange rates to an unprecedented level of over 60%.
- ii. Lack of liquidity in the foreign exchange market resulting in acute scarcity.
- iii. Mounting trade debts.
- iv. Increasing factory closures as many manufacturers are not able to access foreign exchange for raw materials and other inputs.
- v. Many investors are not able to meet offshore obligations.
- vi. Mounting inflationary pressures
- vii. Sharp drop in capital inflows

In the light of the foregoing, we recommend the following policy options to mitigate the current crisis:

- i. Adoption of a flexible exchange rate regime. This would improve liquidity in the forex market, reduce uncertainty and enhance investors' confidence.
- ii. Deepen the autonomous foreign exchange market through the liberalization of inflows from Export Proceeds, Diaspora Remittances, Multinational Companies, Donor Agencies etc. Market rates should be allowed to prevail in the autonomous window.

### **Interest Rate**

The Monetary Policy Committee (MPC) of the Central Bank of Nigeria (CBN) on Tuesday, 22<sup>nd</sup> March, 2016 resolved, among other issues, to raise the Monetary Policy Rate (MPR) to 12% from 11%. It also increased bank's Cash Reserve Ratio

(CRR) to 22.5% from 20%. The upward review signals a reversal to monetary tightening.

Among other implications for business and economy, the increase in the Monetary Policy Rate (MPR) from 11% to 12%; and review of CRR from 20% to 22.5% stand to trigger upward trend in the lending rates and hence, borrowing and overall costs in the economy. This could also result in the channelling of available funds into financial instruments to the detriment of real sector.

### **Capital Inflow**

Over the past three years, the flow of investment into the country has been declining. According to the National Bureau of Statistics (NBS), in the last three years, Nigeria has recorded a total decline of \$11.68bn (N2.3tn) in investment inflow with total investment inflow of \$51.7bn (N10.18tn). The report revealed that all the three major components of investment such as foreign direct investment, portfolio investment and other investments all recorded declines within the three-year period. This drop especially in 2015 is not unconnected with the tough economic environment resulting from the lower global oil price and prevailing foreign exchange policies.

In order to reverse this trend and increase capital inflows into Nigeria, the government needs to step up efforts to enhance capital flows into the economy by relaxing existing foreign exchange policies to facilitate inflows from export proceeds, diaspora remittances, and foreign investment.

## **Nigerian Stock Market**

The downward trend in the Nigerian stock market is showing no sign of abating any time soon as the market capitalization has continued to tumble. As at 18<sup>th</sup> March, 2016, the NSE All-Share Index and Market Capitalization depreciated by 1.13% at 25,694.79 and N8.839 trillion, respectively. However, investors and market stakeholders expect an improvement in market situation as the economic and policy thrust of the new administration becomes clearer.

The stock market performance is largely a reflection of the sentiments of investors in the larger economy. As the fundamentals of the economy improve, and the policy environment gets better, the stock market would rebound.

## **BUSINESS ENVIRONMENT ISSUES**

The business environment has been experiencing some challenges which have impacted negatively on business performance. Some of the challenges are as follows:

### **Scarcity of Petroleum Motor Spirit (PMS)**

The prolonged scarcity of petrol [PMS] in the past few weeks has taken a major toll on business. Apart from the considerable loss of man-hours as a result of long fuel queues and associated traffic issues on the highways, the fuel scarcity challenge also promotes proliferation of black market.

Therefore, there is urgent need for the government to liberalize the downstream petroleum sector for unfettered private sector participation and investment. This would improve efficiency, attract more investment, generate more jobs and reduce the pressure on the country's foreign reserves.

### **Dwindling Power Situation**

The Lagos Chamber of Commerce and Industry join other stakeholders in the economy to draw the attention of Government to the worsening power supply across the country over the last couple of months. The situation continues to pose challenges to business operators, despite the tariff increase. There are complaints across all sectors about high energy costs especially high expenditure on diesel and petrol for large and small businesses respectively. Most businesses spend as much as 15-25% of their total operating cost on alternative power sources.

There is need to review the current framework/model with a view to finding a sustainable solution to the current challenges in the sector. There is an urgent need to explore alternative models of power provision which focuses on diversification of energy sources and decentralization of power supply channels. The high dependence on gas pipelines from the Niger delta is characterized by high vulnerability risks which the economy and the citizens can no longer bear.

### **IMPERATIVE OF ECONOMIC DIVERSIFICATION**

These are very challenging times for the Nigerian economy, especially with the slump in crude oil price by over 60% in the last one year. This portends

considerable challenges, not only for the Government, but also for the Private sector. As business owners, we are committed to supporting the various programmes of the Government to promote the diversification of the economy. We realise that at a time like this, there are no easy choices. There is need for adjustments and sacrifices on both the public and private sector sides in line with current realities.

In order to facilitate the adjustment process, we urge the Government to create an enabling environment that will enhance the capacity and productivity of Private Sector Enterprises. The policy and institutional environment need to be enabling. There are numerous sectors of the economy whose potentials are largely untapped. We believe that this is the time to look very closely at these various sectors, in order to accelerate the economic diversification process.

### **Activities of Lagos State Government at Improving Business Environment in Lagos State**

We would like to commend the efforts and commitment of the Lagos State government in promoting good governance and improving the ease of doing business in Lagos through prioritizing the critical pillars of economic development. We note the activities of the government at strengthening the fundamentals of the investment climate in Lagos state. We specifically note and commend the following:

- Investment on security equipment and logistics in support of security agencies in the state.
- Unveiling of N25 billion employment Trust Fund for youths

- Light up Lagos Project which has boosted the night economy and enhanced the beauty of the city.
- The creation of the Office of Overseas Affairs and Investment under the direct supervision of the State Governor.
- Promotion of Public Private Partnership [PPP] initiatives.

### **National Assembly Business Environment Roundtable**

We wish to commend the leadership of the National Assembly for the recent efforts to identify, analyze and review some laws which are no longer in tune with the reality of contemporary investment environment. New legislations are also being contemplated to improve the ease of doing business in the country. This is in line with our calls for government to embark on sector wide regulatory and legal reforms. The World Bank in its 2016 Annual Ease of Doing Business Report ranks Nigeria 169 among 189 countries, with Mauritius ranking 32 as the best in Africa.

It is widely believed that the following bills will make huge positive impact across several sectors of the economy if passed:

1. Petroleum Industry Bill (1st introduced in the NASS in 2003)
2. Solid Mineral Industry Reform Bill
3. Railway/Rail Transport Reform Bill
4. Inland Waterways Bill,
5. Port Reform Bill - Ports and Harbour Bill,
6. National Transport Commission Bill,
7. Competition and Consumer Protection Bill,

8. Currier & Postal Sector Reform Bill,
9. Land Use Bill

We are optimistic that the above bills when passed will provide the much needed legal latitude for economic diversification drive and support private sector to create economic opportunities in the country. The overall objective is for Nigeria to retain existing investment, attract new investors, create favourable business environment and boost current level of trade flows.

### **Reforming the Budget Process**

There is a need to improve the budgetary process to ensure timely presentation and expeditious consideration by the national assembly. We propose statutory timelines to guide each stage of the budget process. There are currently too much of discretion on the part of both the Executive and Legislature on timing. There is need for framework that would be time bound as it is the practice in more advanced democracies. There should be statutory timeline for budget presentation; consideration by the national assembly and assent by the President. Such a structure would be beneficial to the economy in the following ways:

- It makes planning better for public and private sectors of the economy.
- It enhances faster delivery of infrastructure which is critical for productivity in the economy.
- It reduces uncertainty about the budgetary process.
- It enhances the cash flow in the economy and trickle down effects of government spending.

## **Conclusion**

The issues raised here are not exhaustive. Our advocacy activity is a continuous one. We have a collective responsibility with various stakeholders to ensure a better investment environment for the progress of the Nigerian economy and the good of everyone.

I thank you for your kind attention.

**CHIEF [DR] MRS NIKE AKANDE, CON**  
**President,**  
**Lagos Chamber of Commerce and Industry**  
**April 2016**