PRESS CONFERENCE BY THE PRESIDENT OF THE LAGOS CHAMBER OF COMMERCE AND INDUSTRY, MR BABATUNDE PAUL RUWASE, FCA ON THE STATE OF THE ECONOMY AND THE STATE OF THE NATION HELD ON WEDNESDAY 24TH JANAUARY 2018

DEPUTY PRESIDENT OF THE LAGOS CHAMBER OF COMMERCE AND INDUSTRY MRS TOKI MABOGUNJE

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

VICE PRESIDENTS AND OTHER OFFICERS OF THE CHAMBER
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 press briefings in 2018. 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 for the good coverage you have been giving to our activities since my assumption of office. As a Chamber, we are committed to the sustenance of this cordial relationship and partnership.

This press conference has been called to review the state of the economy and the state of the nation. Since the beginning of the year, there had been significant developments on the economic, social, and political fronts. As a leading policy advocacy institution, we have a responsibility to comment on these issues, highlight our concerns and make recommendations where necessary.

<u>MACROECONOMIC ISSUES</u>

The Nigerian economy is on the path of slow and fragile recovery after five consecutive quarters of contractions with a marginal growth of 0.55% in the second quarter of 2017, and 1.4% in the third quarter.

Improvement in crude oil price and oil output, better liquidity in the forex market are major drivers of this positive outlook.

Beyond the GDP numbers, we have to contend with the challenges of unemployment which was at 18.8 % in the third quarter of 2017, translating to 16 million unemployed people.

The significance of this is that we must focus more on growth that is job creating and inclusive. This will come from better backward integration, better patronage of made in Nigeria products; and the general prosperity of businesses, especially the SMEs.

Foreign Exchange Market

Exchange rate volatility reduced over the last two quarters of 2017. Businesses witnessed improved liquidity and stability in forex market. Confidence is gradually returning to the market and we hope that this would be sustained in 2018. Stable global oil prices and local production levels of crude oil remain the two key critical factors needed to sustain this scenario.

Inflation

Headline inflation rate trended down from 18.72 in January to 15.37 in December 2017, from 15.9% in November. Core inflation dropped marginally from 12.20% in November to 12.10% in December 2017. However, food inflation remained high at 19.42%. Meanwhile, the impact of the exchange rate depreciation on prices may have moderated, food production and transportation costs remain big issues. This is partly the consequence of the security challenges which affected many farming communities across the country.

Interest Rate

Access to and cost of fund remain a big issue for many domestic investors. With commercial bank lending rate at between 20-35%, depending on the borrower and other factors, it is difficult successfully access fund by the private sector especially the SMEs. We note the efforts of government through CBN and Bank of Industry (BOI) to extend intervention funds to operators.

However, the range of beneficiaries and economic wide impact remain very low.

Foreign Reserve

Foreign reserve recovered significantly from a low of $23 billion in October 2016 to $40.4 billion, the highest since 2014. This is significant because it would impact positively on investors sentiments, ensure stability of the exchange rate, and guarantee liquidity in the forex market. This condition would stimulate more foreign and domestic investment.

CAPITAL MARKET

The Nigerian Stock Exchange (NSE) posted impressive performance in 2017. For instance, year to date, the index returned about 40% and market capitalization reached a peak of N13.2 trillion. This performance is largely the outcome of recovery in key macroeconomic indicators and a boost to investor confidence during the year. For instance, equities became the preferred asset class for portfolio investors in Q3-2017. According to the National Bureau of Statistics (NBS) Q3-2017 report, $4.1 billion was imported into the country out of which $2.1 billion was directed to portfolio investments.

The trend is largely the outcome of recovery in key macroeconomic variables and a boost in investor sentiments. These were driven by the implementation of policy reforms such as the creation of the Investors and Exporters window and increased dollar liquidity. Also, the headline inflation has maintained a downward trend. Evidently, the improved economic performance played a significant role in the boom of capital market in 2017.

It is expected that economic growth will be stronger in 2018 and this is expected to impact positively in the stock market.

RECURRING FUEL CRISIS

The recent fuel crisis once again underscores the need to urgently review the current policy framework for the petroleum downstream segment of the oil and gas industry. The key issue is the pricing policy. The consequences of the current policy regime include the following:

- Disincentive to private investment in the downstream sector, especially in refineries and fuel importation, resulting from the pricing policy.
- Recurring and protracted fuel scarcity
- Considerable loss of man-hours as a result of long fuel queues and associated traffic issues on the highways.
- Transparency issues in the petroleum products supply chain.
- Humongous financial commitment to subsidy payment, even at a time of high infrastructure deficit.
- Proliferation of black market for PMS where the product sells at very exorbitant prices.
- Smuggling of petroleum products across the borders
- Huge pressure on the foreign exchange market resulting from massive importation of petroleum products.

We have concerns over the reluctance of government to liberalize the sector and open it up to private sector participation. The concentration of petroleum products supply in the NNPC remains a major cause for concern. The arrangement is an inherent entrenchment of state monopoly in the NNPC to the detriment of private investors.

The midstream and Downstream petroleum sector currently suffers from regulatory regime which is negatively impacting growth, investment and job creation in the sector.

The current model of managing the downstream petroleum sector is not sustainable. It is at variance with the present administration's vision to diversify the economy and create jobs. It perpetuates the phenomenon of rent economy and detrimental to economic competition. The truth is that the citizens are the ultimate beneficiaries of a competitive market environment.

The weak compliance with the regulated price of PMS in parts of the country is largely a symptom of much deeper problems and distortions in the petroleum products supply chain. The Department of Petroleum Resources [DPR] has been spending valuable time and energy fighting the symptoms of a problem, rather than addressing the fundamentals.

Way Forward:

The PIB needs to be speedily considered and passed. This will give effect to the much-needed reforms in the oil and gas sector.

- The government needs to urgently liberalize the downstream petroleum sector for unfettered private sector participation and investment, subject of course to an appropriate regulatory framework. There should be a level playing field for all operators, including the NNPC. This would put an end to the perennial problem of fuel scarcity in the country and the hardships suffered by citizens to fuel scarcity. This would also attract more investment, generate more jobs and reduce the pressure on the country's foreign reserves.

- The role of the NNPC needs to be clearly defined. It should not be an operator and still have regulatory powers. A model that would allow for a level playing field for all operators including the NNPC should be adopted.
- The roles of the DPR and the PPPRA need to be better defined. There are instances of overlapping and duplication of activities and responsibilities. This poses a problem for investors in the sector.
- The refineries should be operated as commercial business entities. The NLNG model [which allows for private sector management] should be adopted for the refineries. The management should be private sector led. This would improve efficiency and reduce the burden of the refineries on the nations' treasury.
- The pipelines should the concessioned for a more efficient management and reduction of road haulage for fuel.

IMPACT OF APAPA TRAFFIC GRIDLOCK

If there is anything that symbolizes a dysfunctional system, it is the Apapa gridlock. What we are witnessing is a symptom of much deeper shortcomings in the polity. If the refineries were working, the trucks will not be converging in Lagos to lift imported petroleum products. If the pipelines were in good state, the bulk of the products would be transported seamlessly to the various depots in the country. If the rail system had not collapsed, most of the products would have been transported by rail at even cheaper cost. If the government had not entangled itself in the complex web of petroleum subsidy, the supply side issues would have been substantially resolved through private sector investment in refineries. Fixing the problem therefore requires an integrated approach. There is need to address the infrastructure issues in respect of the parlous state of the access roads; rail and pipeline linkages to the ports. Policy issues in the oil and gas sector should be addressed as well to reduce fuel importation.

POWER SITUATION

The power situation continues to pose challenges to business operators. There are complaints across all sectors about high energy costs especially high expenditure on diesel and petrol for large and small businesses respectively. Many businesses spend as much as 15-25% of their total operating cost on alternative power sources.

However, we acknowledge the efforts by government to improve liquidity in the power supply chain, the drastic reduction in the debt owed to gas suppliers and the Generating companies, and the enhancement of carrying capacity of the transmission grid. We are also aware that the Minister of power is considering alternative models to fix the problem at the distribution end.

We appeal to government to review the pricing policy of the gas companies which prescribes payment in dollars for the gas used by industries. We believe this is not consistent with the objective of promoting industrialization, economic diversification, and job creation of the current administration. Most manufacturers are producing for the domestic market; it is therefore inappropriate to compel them to pay for gas in dollars.

REFORMING THE BUDGET PROCESS

We are concerned about recurring cycle of delays in the passage of federal government budget.

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. It is pertinent to define the limits of the constitutional powers of the Executive and the Legislature on matters of the budget. A proper interpretation of section 80 of the constitution is imperative to put to rest the recurring dispute over the powers of the national assembly to adjust the budget figures or add new projects.

There should also 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 through better budget implementation.
- It reduces uncertainty about the budgetary process.

- It enhances the cash flow in the economy and trickle-down effects of government spending.

SECURITY OF LIVES AND PROPERTIES

The growing insecurity in parts of the country is becoming increasingly worrisome. It has grave implications for businesses and investors. Incidence of criminality, such as terrorist activities of Boko Haram in the North East, Herdsmen killings and destruction of farms, kidnaping, armed robbery, cult related violence, religious and ethnic conflicts are prevalent across the country. This has the following implications for businesses and the economy:

- Food security issues and high food inflation.
- Shortage of local raw materials for agro-allied businesses
- Negative effects on investors' confidence.
- Adverse global perception issues for the country
- Rising Operational Costs: security costs (i.e., provision of private security, escorts, Convoy operations, and protection facilities /equipment) of businesses in some sectors such as oil & gas increased by 12% over the last four years.

We implore the Federal Government to prioritise safety of lives and properties and provide adequate security across the country, review its security strategy.

CONSTITUTION OF BOARDS OF MDAS

The disagreement between the Presidency and Senate over the confirmation of nominees for the heads of some government institutions and members of special committees and boards is beginning to take its toll on the economy.

For instance, the Central Bank of Nigeria (CBN), suspended its first Monetary Policy Committee (MPC) meeting in 2018 scheduled for 22 – 23rd January due to the bank's inability to form a quorum as a result of non-confirmation of the newly appointed MPC members by the Senate. The MPC has the mandate to review economic and financial conditions in the economy; determine appropriate stance of policy in the short to medium term; review regularly, the CBN monetary policy framework and adopt changes when necessary. The failure of MPC to meet as schedule has adverse implications for stakeholders in the financial sector and the economy in general.

We call on the Presidency and the Senate to speedily resolve their differences in the interest of recovery and growth of our economy.

POLITICAL TRANSITION PROCESS

The country is gradually building up for another general elections scheduled to hold in first quarter of 2019. This is another defining period in our democratic history.

We note that the political transition and electoral process in the country has far reaching implications for the economy. It is important to guide against the tendencies that distract state institutions from governance. This is because political and social stability are critical factors that drives investors' confidence.

On our part, we will sensitise the business community and other stakeholders in the private sector to register and participate in the electioneering process. Thus, we will work to see a more inclusive democratic process through an intensive mobilisation of the business community. We believe that the increased participation would enhance the political transition process.

We commend the INEC, law enforcement agents, the judiciary, and political parties for the credibility of the elections recently organised in Ondo and Anambra States. We hope that this performance would be sustained as we approach the general elections next year. The quality of the electoral process and the conduct of the major players in the political space are critical to earn the confidence of the citizens and the stakeholders in the electoral process.

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.

MR BABTUNDE PAUL RUWASE, FCA

PRESIDENT,

LAGOS CHAMBER OF COMMERCE AND INDUSTRY

24TH JANUARY 2018