Macroeconomic Update: New Government Policy Direction Rouse Investors' Sentiments

All corners and faces look blazing green as Nigeria marks a significant milestone on May 29th 2023, when Bola Tinubu, the winner of the 2023 presidential elections, was sworn in as the 16th President of the Federal Republic of Nigeria. This momentous occasion comes after a spirited campaign and a highly contested presidential race and was significant because it took place in the midst of a number of challenges facing Nigeria, including the Boko Haram insurgency and insecurity menace, the COVID-19 pandemic, currency crunch amid a multiple exchange rate regime and slow economic growth.

With the formal inauguration completed, the newly sworn-in president must now swing his focus towards governance responsibilities and the challenges along the line. A look at the President's inaugural address covered a wide range of topics including the economy, security, infrastructure, monetary policy and foreign policy. In this economic note, we highlight some talking points from the speech and the implications on the economy and markets considering the current burning issues that are of national dialogue.

Economy:

The Tinubu administration has a higher GDP growth target while it strives to bring significantly, to the barest minimum, the level of unemployment through the creation of 1 million new jobs in the digital economy. Steps to achieving this include:

- Budgetary reforms to stimulate growth without engendering inflation, promote domestic manufacturing and lessen Nigeria's import dependency through full-range fiscal measures.
- Also, encourages power generation, transmission and distribution across states from local sources and ensures its accessibility and affordability.
- Review the multiple taxations and various anti-investment inhibitions to enable investors and foreign businesses to repatriate their hard-earned dividends and profits home.

Security:

- Security shall be the top priority under the administration, and to effectively tackle this menace, Tinubu plans to reform both the nation's security doctrine and its architecture.
- Invest more in security personnel (an increase in number) and also provide better training, equipment, pay and firepower.

Monetary Policy & FX Unification:

Based on the fact that the currency swap initiative under the past administration was too harshly applied by the CBN given the number of unbanked Nigerians, the administration plans to treat both currencies as legal tender after due review of the policies. The Central Bank must work towards a unified exchange rate to direct funds away from arbitrage into meaningful investment in the plant, equipment and jobs that power the real economy. Interest rates need to be reduced to increase investment and consumer purchasing in ways that sustain the economy at a higher level.

Job Creation:

The president said his government shall work with the National Assembly to fashion an omnibus Jobs and Prosperity bill. This bill will give it the policy space to embark on labour-intensive infrastructural improvements, encourage light industry and provide improved social services for the poor, elderly and vulnerable.

Infrastructure:

On this front, the new administration highlighted that the national network of roads, rail, and ports would get priority.

Fuel Subsidy:

According to the President, 'fuel subsidy is gone', with the 2023 provision terminating in June. He noted that subsidy savings would be redirected to public infrastructure, education, health care, and job creation.

Agriculture:

- Rural incomes shall be secured by commodity exchange boards guaranteeing minimal prices for certain crops and animal products. A nationwide programme for storage and other facilities to reduce spoilage and waste will be undertaken.
- Agricultural hubs will be created throughout the nation to increase production and engage in value-added processing. The livestock sector will be introduced to the best modern practices and steps taken to minimize the perennial conflict over land and water resources in this sector. Through these actions, food shall be made more abundant yet less costly. Farmers shall earn more while the average Nigerian pays less.

Our Thoughts:

- The inaugural speech by the president sounds positive on the surface as we opine that it will improve both local and foreign investors' sentiments in the short run. But it is no doubt that the expected policy plan and framework look progressive with strategies aimed at strengthening the real sector. However, this is hinged on the current government's drive to the executive to the letters, the roadmap to tackle the burgeoning political and socio-economic impasse.
- The commitment by the new administration to ensure that international investors and multinationals can repatriate profits and dividends to their home country is a pointer to a more coherent foreign exchange policy in the country. To this, there could be a scope to reprice the local currency at the various FX windows especially the I&E window as the apex bank finds ground for the expected convergence or unification of the exchange rates.
- We also note that some of the policy announcements, such as the thrust for lower interest rates to boost investments and the curbing of inflation, are at alteration to the immediate removal of subsidies (at least in the short term).
- Additionally, the removal of gasoline subsidies has various implications such as the looming inflationary impact on the economy, increase (more than double) in the pump price to between N478 and N600 per litre across various states, the shortage of the product in the short-term and potential strike action by labour union in the country. This may likely be seen as we anticipation stiff opposition to this route by FG in the absence of the implementation of a plan to provide a cushion for the majority of Nigerians living below the poverty line. Larger chunk of the likely impact may be felt in the short term.
- Meanwhile, we believe that the need for economic diversification positions as a necessary condition to grow considerably at a greater pace of at least 5% - 6% (as against the current 2.2%), supported by plans to increase budgetary allocation to education, which could back human capital development and labour productivity.