

Nigeria's Risk Outlook 2020

The Nigerian economy measured by GDP is forecast to grow by 2.5 per cent in 2020, according to the International Monetary Fund (IMF). This growth is increasingly undermined by prolonged security challenge and infrastructural deficits, making the country unattractive for long term investments.

The growth outlook is stable according to the World Bank, but population growth is projected to continue to surpass economic growth. Implementation of the 2019 Finance Act will increase revenue accruing to government at all levels and enhance the ease of doing business in the country, but could depress private consumption this year. However, Nigeria is vulnerable to volatility in oil prices, with considerable impact on Nigeria's foreign exchange reserves, government revenue and financial flows. Indeed, any significant volatility in crude oil prices could have adverse multiplier effects on the GDP growth.

The CBN will continue to promote price, monetary, exchange rate and financial system stability this year. Inflation targeting and reducing the pressure on the exchange rate of the Naira will likely top monetary agenda in 2020. The apex monetary authority will also target improved employment and growth through development finance interventions in line with the apex bank's five-year policy thrust released last year.

Security Risks:

Heightened security situation in the country may continue to weaken investors' confidence in the Nigerian economy, and the prospects of a higher foreign investment inflows into the country in 2020. Possible security threats include crime and terrorism, disputes over resources, corruption, organised crime and illicit trade.

Oil-Price Shocks:

The Nigerian economy is vulnerable to oil price shocks as the oil and gas sector accounts for more than 75 per cent of government revenue, especially from the foreign exchange earnings. Thus, any significant volatility in crude oil prices could have adverse multiplier effects on the GDP growth. With looming global glut and the impact of coronavirus, oil prices could drop below FGN 2020 budget benchmark of \$57 per barrel this, all other things being equal.

Cybercrime:

Nigeria's cybercrime rate reached a tipping point last year with the Federal Bureau of Investigation (FBI) bust of 77 Nigerian online scammers. Phishing emails or fraudulent electronic mails remains the dominant means of tricking employees to divulge sensitive information.

Regulatory Risk:

Regulatory risk is one of the biggest challenges facing the ease of doing business in the country. Albeit Nigeria has made significant progress on the ease of doing business as it now ranks 131 on the World Bank's Doing Business 2020 index; the country's regulatory environment is largely driven by discretion and abrupt policy changes and uncertainty.

Climate-related Risk:

Nigeria's climate is rapidly changing and is characterized by variable rainfall, rise in sea level, flooding, drought and desertification, among others. Rainfall variation is forecasted to continue to rise in 2020.

1. Security Risk

Security remains the biggest risk facing Nigeria's growth outlook in 2020. High unemployment rate along with extreme poverty level is increasingly impacting negatively on productivity growth; a vital dynamic necessary for job creation and reduction of both income inequalities and elevated security situation across the country.

Indeed, the heightened security situation in the country may continue to affect investors' confidence in the Nigerian economy, weakening the prospects of higher foreign investment inflows into the country. Anticipated weak Investment inflows from institutional and portfolio investors this year may further increase the pressure on the nation's foreign exchange reserves and the value of the naira against a basket of major currencies in 2020.

Although the Central Bank of Nigeria has continued to maintain a tight monetary policy stance to attract portfolio investors and shore up foreign exchange reserves, the relatively bearish outlook of the equities market indices in 2019 indicates weakening investor confidence in equity in preference for coupon rate on treasury bills and FGN bonds this year.

With relatively fragile economic growth at 2.28 per cent as at Q3 2019 and rapidly increasing labour force underpinned by a population growth rate of 2.6 per cent per annum, Nigeria will need bold reforms and new economic model based on productivity growth to create new opportunities, according to the World Bank.

Tackling the high unemployment rate in the country estimated at 23 per cent in Q1 2018 will be key to unlocking the productive potential of the labour force this year. This will require a bold and integrated policy reforms to boost economic productivity. Nigeria could harness digital technologies to diversify the economy and create millions of jobs for the country's growing youthful population. Achieving a more conducive business environment will require a declaration of a state of emergency on security by the federal government.

2. Oil-Price Shocks

The Nigerian economy is vulnerable to oil price shocks as the oil and gas sector accounts for more than 75 per cent of government revenue, especially from the foreign exchange earnings. The Nigerian oil and gas sector expanded by 6.49 per cent, year-on-year, in real terms in Q3 2019 driven by relatively stable oil prices in the international commodity markets and improved oil production at 2.04 mbpd in the third quarter of 2019.

Any significant volatility in crude oil prices could have adverse multiplier effects on GDP growth. This was evident in 2016 when a slump in the prices of crude oil below \$40 per barrel led the country to its first recession in a quarter of a century.

Stable crude oil prices are expected in 2020 on the back of a more positive outlook for the global oil market as IEA forecasts an average of \$60 per barrel for 2020. However, the outbreak of Coronavirus in China could cause a downward review of the oil price forecast.

With looming global oil glut, crude oil prices could drop below FGN 2020 budget oil price benchmark of \$57 per barrel, all other things being equal. A continued decline in oil prices could slow growth and tighten fiscal space, and impair efforts towards infrastructural development. Already, Brent crude fell nearly 12 per cent in January 2020, a development that may likely increase the pressure on the nation's foreign exchange reserves and in various segments of the foreign exchange market.

Nigeria's GDP growth is projected to pick up to 2.3 per cent in 2019 and 2.5 per cent in 2020. Given the fragile growth outlook of the country in 2020 and low diversification of the economy away from oil, there is a risk of possible devaluation of the naira against the greenback this year. In the short term, the Central Bank of Nigeria may continue to maintain a tight monetary policy stance to attract foreign portfolio investment and support reserves.

3. Cybercrime

Nigeria's cybercrime rate reached a tipping point last year with the Federal Bureau of Investigation (FBI) bust of 77 Nigerian online scammers. According to the FBI, the global crackdown on cybercrime resulted in the arrest of 281 people globally, mostly in Nigeria and the United States.

Phishing emails or fraudulent electronic mails remains the dominant means of tricking employees to divulge sensitive information. Some of the dynamics of Nigerian cybercrime include identity theft, hacking, cyber harassment, spamming and Automated Teller Machine spoofing. Others include romance cons, foreign money exchange and business scam emails.

In 2019, the Economic and Financial Crimes Commission (EFCC) also arrested more than 167 "Yahoo Boys", recovering a huge sum of money. Cheap internet data and growing youth unemployment in the country are some of the factors driving the high rate of cybercrimes.

The UN defines cybercrime as any illegal behaviour directed by means of electronic operations that targets the security of computer system and data processed by them; and any illegal behaviour committed by means of or in relation to a computer system or network.

As organisations implement strategic plans for 2020, they should be more proactive and agile in preventing inherent cybercrimes in the deployment of digital technologies such as the rapid adoption of cloud services and data analytics. Continuous employee training, advanced web-security and antivirus solutions are necessary in the fight against cybercrime.

4. Regulatory Risks

Regulatory risk is one of the biggest challenges facing the ease of doing business in the country. Albeit Nigeria has made significant progress on the ease of doing business as it now ranks 131 on the World Bank's Doing Business 2020 index; the country's regulatory environment is largely driven by discretion and abrupt policy changes and uncertainty. Reducing regulatory discretion is therefore key to lifting constraints on market entry, promoting competition and enhancing incentives to boost productivity

In October 2019, the Central Bank of Nigeria (CBN) reviewed upward the Loan to Deposit Ratio target from 60 to 65 per cent intended to increase the growth of the credit to the real sector of the economy. The development will progressively lead to a gradual switch in the composition of DMB assets from investments in government securities to growth in credit portfolio, with potential unintended impact on credit, inflation, reserves, and exchange rate stability, according to the World Bank.

Inflation is expected to remain high in 2020 around 12 percent due to import-substitution policies and border closures, which are could increase the prices of food items. Also, the amended AMCON 2019 Act is yet to be gazette amid lack of transparency of its implementation. Swift and efficient implementation of the AMCON's debt recovery will be top of the agenda in 2020. The debt, which currently stands at N5 trillion is projected to rise to N6.6 trillion in 2024. Policy and regulatory risks could increase the country risk and weaken investors' confidence in the economy.

5. Climate Related Risk

Nigeria's climate is rapidly changing and is characterized by variable rainfall, rise in sea level, flooding, drought and desertification, among others. Rainfall variation is forecasted to continue to rise in 2020.

According to the Institute of development Studies, the intensity of the rainfall in 2019 produced large runoffs and flooding in cities across the country, with significant impact on the business environment. An extreme climate change can potentially dampen agricultural productivity and the income of small-holder farmers.

Without adequate mitigation and adaptation measures, climate change could considerable impact the contribution of agricultural and service sectors to GDP growth outlook this year. Recognizing the effects and adverse impact of climate change on Nigeria, it is necessary for the country to adopt holistic climate actions in partnership with local and international organizations for a sustainable development.