Sunday May 28, 2017

THE MID TERM ECONOMY REPORT OF THE BUHARI ADMINISTRATION

1. INTRODUCTION

Centre for Social Justice (CSJ), a Nigerian Knowledge Institution presents the mid-term economy scorecard of the Buhari Administration in its first two years and with two years to end the tenure. This brief report is presented within the context of state obligations under national and international laws and standards, essentially that the government is obligated to ensure an adequate standard of living for its citizens. It is also presented in the light of the need for course correction so that steps can be taken to improve economic performance and thereby improve the standard of living.

2. FUNDAMENTAL AND FRAMEWORK ISSUES

In this section, we discuss some fundamental and framework issues without which economic progress and development will not be possible.

2.1 Tardiness in Governance: The Economic Recovery and Growth Plan which is the economic policy framework of the Administration was only unveiled in the first quarter of 2017, almost two years into the life of the Administration. With just two years left to go, the late formulation and presentation shows that economic governance did not get the necessary attention it deserved from the inception of the Administration. The tardiness also reflected in the undue delay in appointing ministers which took over since 6 months after the President was sworn in; and the raising of Euro Bonds for the implementation of the 2016 federal budget in the first quarter of 2017.

2.2 The Recession: Nigeria's GDP grew and contracted as shown in Table 1 below.

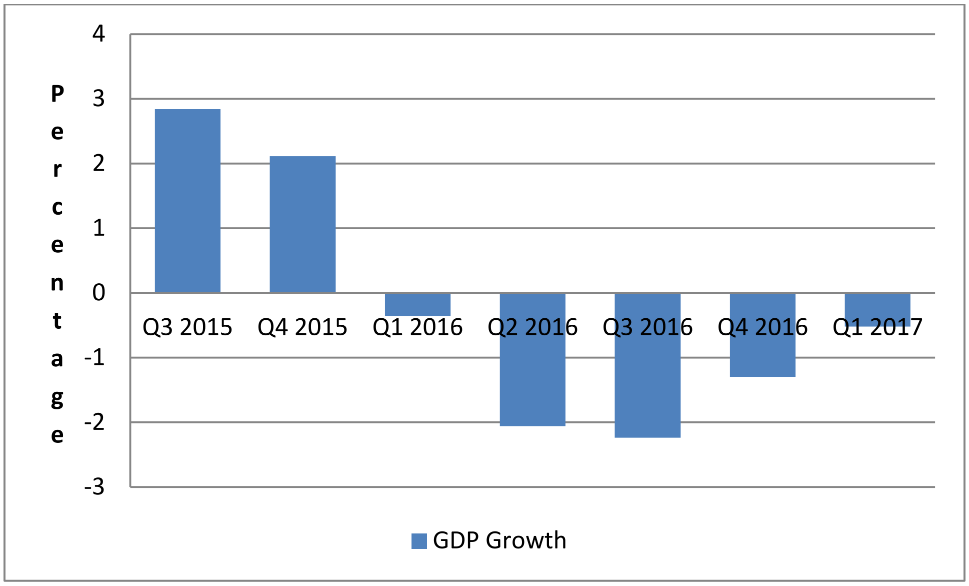
Table 1: Trajectory of Nigeria's GDP since the Buhari Administration

Quarter	Growth %
Q3 2015	2.84
Q4 2015	2.11
Q1 2016	-0.36
Q2 2016	-2.06
Q3 2016	-2.24
Q4 2016	-1.30
Q1 2017	-0.52

Source: NBS GDP Quarterly Reports

This is graphically demonstrated in Chart 1

Chart 1: Trajectory of Nigeria's GDP since the Buhari Administration



Source: NBS GDP Quarterly Reports

The implication is that we have had 5 consecutive quarters of negative GDP growth without concrete plans from the Administration on how to exit the recession. Although the negative growth is slowing, there are still concerns about the growth dynamics in the coming one to two years considering that there are no clear pathways for economic growth to resume.

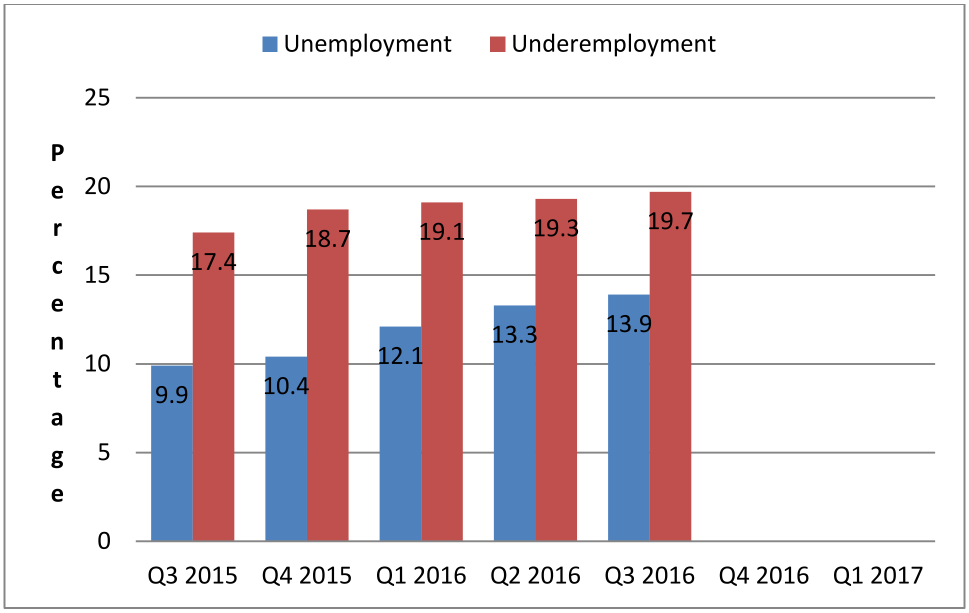
2.3 Unemployment/Underemployment Rate: Table 2 and Chart 2 show the unemployment and underemployment rate since the Buhari Administration took power.

Table 2: Rate of Unemployment and Underemployment Since the Buhari Administration

Quarter	Unemployment Rate (%)	Underemployment Rate (%)
Q3 2015	9.9	17.4
Q4 2015	10.4	18.7
Q1 2016	12.1	19.1
Q2 2016	13.3	19.3
Q3 2016	13.9	19.7
Q4 2016	-	-
Q1 2017	-	-

Source: NBS Unemployment/Underemployment Report Q_3 2016

Data for Q_4 2016 & Q_1 2017 are unavailable



This implies that both unemployment and under-employment has been on the rise since the inception of the Administration.

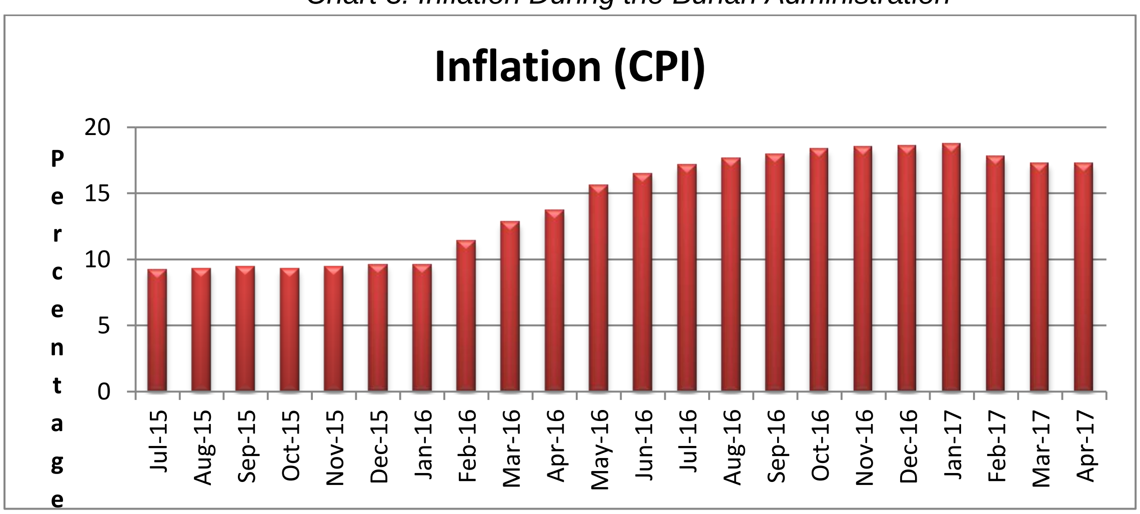
2.3 Consumer Price Index (Inflation): Table 3 and Chart 3 show the movement of the Consumer Price Index since the Buhari Administration.

Table 3: Consumer Price Index of the Buhari Administration

Month	**Jul-15**	**Aug-15**	**Sep-15**	**Oct-15**	**Nov-15**	**Dec-15**	**Jan-16**	**Feb-16**	**Mar-16**	**Apr-16**	**May-16**
CPI (%)	9.2	9.3	9.4	9.3	9.4	9.6	9.6	11.4	12.8	13.7	15.6
Month	**Jun-16**	**Jul-16**	**Aug-16**	**Sep-16**	**Oct-16**	**Nov-16**	**Dec-16**	**Jan-17**	**Feb-17**	**Mar-17**	**Apr-17**
CPI (%)	16.5	17.1	17.6	17.9	18.33	18.48	18.55	18.72	17.78	17.26	17.24

Source: NBS, CPI and Inflation Reports

Chart 3: Inflation During the Buhari Administration



The Table and Chart show clearly the movement from single digit inflation to the top echelons before the 20% mark. Clearly, this is not evidence of progress but one of retrogression.

2.4 The Energy Sector: Not a single megawatt of electricity has been added to the grid since the Administration assumed office. The promise to fix electricity within six months of assuming office has been turned into a mirage. Electricity Distribution Companies are not paying for the power supplied to them and thereby disrupting the entire Nigerian Electricity Industry Revenue Collection Value Chain. Power consumers have been subjected to extortion and have been forced to pay more for darkness after the tariff increase.

The combination of the power, works and housing sectors into one Ministry is a great challenge that would task the energies of even the gods and when we remember that a mere mortal and human has been placed in charge of these three key sectors, we are compelled to shudder and question the wisdom of the decision. The three sectors should be split and each sector given to a competent core professional to manage as the Minister.

2.5 The Housing Sector: The mobilizational and turn around energy of the sector has been neglected considering its premier position as one the greatest stock of wealth in every developed and industrialized nation. The premier position of housing as the first sector to raise a Fund – the neglected National Housing Fund seems to have either been forgotten or ignored by the Administration. Ideas about tapping the double digit funds of the private sector for housing development will not go a long way in the face of obvious challenges of affordability that will attend to such housing development and in the face of dwindling resources of the private sector to be dedicated to the long term and strategic housing sector.

2.6 Capital Importation: This has continued to decline over the two years leading to the lowest point in the First Quarter of 2017. The National Bureau of Statistics in the Capital Importation Report (Quarter 1 2017) stated as follows:

> *The total value of capital imported into Nigeria in the first quarter of 2017 was estimated to be $908.27 million. Although this was an increase of 27.75% relative to the same quarter of 2016, it was nevertheless 41.36% smaller than the value of capital imported in the previous quarter, and was the second lowest value recorded since 2007.*

The right enabling environment to encourage organisations and individuals to bring in their capital into the country has not been established and something drastic needs to be done to engage the confidence of both local and foreign investors.

2.7 Dissonance Between Fiscal and Monetary Policy: Monetary Policy and fiscal policy have been uncoordinated and have not reflected the coherence needed to get

Nigeria out of economic recession. This got to a stage where the Minister of Finance and the Central Bank Governor openly attacked each other and the CBN called for a retreat to harmonize monetary, fiscal and trade policy. But this is coming at a time when there is an Economic Management Team chaired by the Vice President. It is therefore not surprising that Nigeria is facing grave economic challenges. The FGN needs to reconcile the tight monetary policy regime with the need to spend our way out of recession.

2.8 National Mobilization: In periods of grave national economic crisis, every nation needs a leader who unites and mobilizes all the latent and potent energies of the people around the national cause of getting out of the recession on the premise that everyone will work and everyone is made to understand that he will be part of sharing the benefits of a rejuvenated economy. A situation where the leadership works on a “we and them” policy and where some parts of Nigeria are treated as expendable people will not augur well for national economic rejuvenation. The attempt to procure loans for railways that excludes the South East corridor of Nigeria, being a corridor that has the highest rate of mobility and possible passenger traffic cannot be justified in economic philosophy, logic, reasoning and good conscience. Appointments to manage key national economic positions that are made of the basis of primordial sentiments rather than ability and competence will rather dig the hole deeper instead of getting us out of recession.

Agricultural productivity will not reach the desired level when herdsmen are allowed to run riot, kill, maim, destroy crops and livelihoods of settled farers and the Administration looks the other way. For the agriculture economy to grow, there must be equality before the law and equal protection of the law.

3. FISCAL POLICY

3.1 Presentation and Approval of the Budget: The FGN’s budgets of 2016 and 2017 prepared by the administration were presented very late in the year; the first on the 22nd of December 2015 whilst the second came on the 15th of December 2016. The 2016 budget did not get presidential assent until early May 2016 whilst we still await presidential assent for the 2017 FGN budget in the last days of May 2017. Again, this is contrary to the full gamut of the Fiscal Responsibility Act; budgets are not enacted for the mere fun of it, but to provide clear directions and guides for the government, private sector and civil society on the way to move the economic performance to the highest level needed for economic growth and development.

3.2 Reporting On Budget Implementation: Contrary to the clear provisions of the Fiscal Responsibility Act[1], which requires that Budget Implementation Reports (BIR) be produced, published and disseminated within one month from the end of each quarter, the administration has published only two BIRs for the whole of the 2016 financial year. None has been published for 2017. The implication is that FGN is in default of its

[1] See section 30 of the Fiscal Responsibility Act, (FRA).

obligations for four quarters now. This also calls up the issue of capital budget implementation. Available reports on the website of the Budget Office of the Federation do not present a cause to cheer. The fact that the Minister of Finance claims some superlative performance of the 2016 capital budget without details is clearly a good case of the need for reforms in the area of improved fiscal transparency.

3.3 Transparency of Statutory Transfers: The Administration was elected on a promise of increased transparency and accountability. However, the details of all statutory transfers are still secret two years into the life of the Administration. The only one that has just been opened is the vote of the National Assembly and the opening was a product of increased civil society agitation for the legislature to be more transparent. Nothing has been done by the Administration to open up the votes of Independent National Electoral Commission, Public Complaints Commission, National Human Rights Commission, National Judicial Council and Nigeria Delta Development Commission. The Administration is called upon to note that the secretive nature of these votes is not only illegal but also unconstitutional.

3.4 Executive Orders: We welcome the Executive Orders issued by the Acting President, Professor Yemi Osibanjo (SAN) on the Promotion of Transparency and Efficiency in the Business Environment; on the Budgeting Process; and Support for Local Content for Public Procurement by the Federal Government. We note that:

- The promotion of Transparency and Efficiency in Business Environment compliments the Freedom of Information Act and related laws and policies.
- Local Content Executive Order seeks to amplify the provisions of the Public Procurement Act 2007 on domestic preferences.
- The Budget Executive Order seeks to implement the true spirit of constitutional provisions on the budgeting process and the intendments of the Fiscal Responsibility Act 2007.

3.5 Debts and Debt Repayment: According to the Debt Management Office (DMO), the Administration met Nigeria's debts at N12.118 trillion at the end of June 2015, but today, the debt has risen to N17.360 trillion as at December 2016 which excludes the Eurobond and all other debts incurred since the end of the year. And we are still borrowing and planning to borrow more. In the 2015 Federal Budget, the provision for debt service was a total of N953.620 billion comprising of N894.6billion for domestic debt service and N59.01billion for foreign debt service. This is in contradistinction to the 2017 figures of N1.663 trillion made up of N1.488 trillion in domestic debt service and N175.882 billion in foreign debt service. This is not a sustainable way to run an economy particularly with the lack of clear mobilization of public support in the projects on which these loans will be spent upon.

4. MONETARY POLICY

4.1 Value of the Naira: The Administration met the value of the Naira at less than N200=1USD. But today, the Naira has been so devalued that at some point, it was almost N500=N1USD. But it has recovered to about N380=1USD. The poor and archaic management of the value of the Naira by the Central Bank of Nigeria through multiple exchange rates, control and ban of certain items and making them ineligible to be funded from the official foreign exchange window has created a distortion in the system. At some point in time, CBN stated that it has more than enough foreign exchange to meet local demands for foreign exchange and asked banks not to collect foreign currencies into domiciliary accounts. Thereafter, it summersaulted and it was clear that the CBN was grandstanding and political consideration has taken over pure technical monetary policy issues. This sent very worrying signals to investors and persons who had foreign currency. Yes, the low price of oil in the international market was a factor, but the policy summersault and lack of coherence in the management of monetary policy led to the free fall of the naira.

4.2 Interest Rate: The soaring interest rate of over 20% per annum is not the way to stimulate economic recovery and growth. This places economic agents in Nigeria at a disadvantage in terms of cost of production and service delivery thereby making them uncompetitive. To the extent that we need to reduce inflation and rein in other macroeconomic fundamentals to stabilize our economy, a middle approach should be found to ensure access to credit at single digit rates. The argument that double digit inflation rate cannot support single digit interest rates falls in the face of single digit interest rates paid by banks to depositors. If that argument held water, then CBN should regulate the spread between deposit and lending rates. A situation where depositors are paid interests less than the inflation rate whilst those seeking loans are compelled to pay over 20% per annum is a recipe for the type of economic disaster we presently witness.

5. CONCLUSION

The economy has not been managed in the most efficient and reasonable manner to enable the FGN to fulfill its obligation of improving the standard of living of Nigerians. Majority of Nigerians are now living below the poverty line and life has become so miserable and intolerable for the majority. Thus, FGN needs to take concrete and targeted steps towards rejuvenating the economy and inclusively ensuring that all hands are on deck for this national assignment.

6. RECOMMENDATIONS

- Rejig the key personnel of the Administration; place round pegs in round holes. Also appoint all remaining board and policy positions in all parastatals for a full complement of staff and needed competencies to run the government.

- Fully implement the Executive Orders rolled out by the Acting President.
- Release the full details of all statutory transfers.
- Harmonise fiscal and monetary policy positions and reinforce the Economic Management Team to fulfill its true purpose.
- Rethink the privatization of the power sector so as to bring in competent and capable investors with financial capacity, especially at the DISCOs so as to bring in new resources to turn around the sector. This is imperative for the improvement of capacity utilization in industries, beefing up manufacturing and general economic turnaround of the country
- Submit a comprehensive borrowing plan with details, cost benefit analysis and details to the National Assembly - who are enjoined to review same and approve of it based on sustainability, equity and national interest.
- Split the Ministry of Power, Works and Housing into three distinct ministries and appoint transformational professionals with core competencies to run the Ministries.
- Repackage the National Housing fund as the best option and cheap source of funds for housing finance and ensure that the major qualification for benefitting from the Fund is being a contributor to the Fund.
- Give a sense of belonging through requisite appointments and include the South East corridor in the National Railway Expansion Plan.
- Law enforcement should be made to ensure the protection of settled farmers and the criminal elements among herdsmen should be brought to justice.
- Immediately start the preparation of the 2018 federal budget and ensure that it gets to the National Assembly on or before the first week of September this Year.
- Prepare and disseminate all pending Budget Implementation Reports within one quarter from the date of this mid term review.
- For equity, to improve access to credit and cut down the cost of borrowing, reduce the spread between deposit and borrowing rates to no more than 500 basis points corridor.
- Provide direction and incentives for local investors to put money into key sector of energy, low cost housing, steel, transport, etc.

- Instead of the fixation on import substitution which is a basic minimum, align economic policies towards export led growth. Exports will help improve the value of the Naira and reposition the fiscal and external accounts.