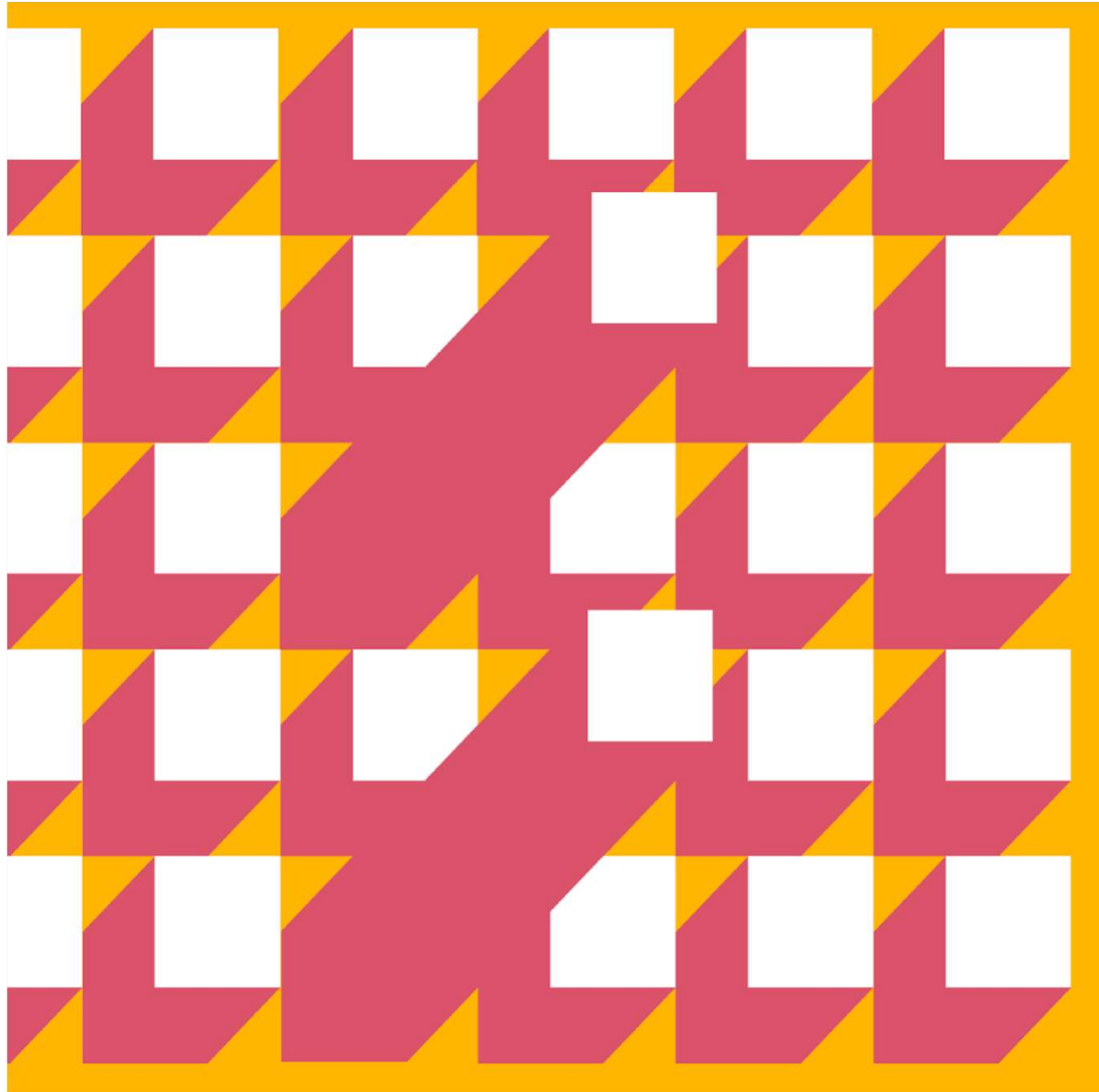


The Nigerian Economy, AfCFTA and Tax Changes

Presentation by **Taiwo Oyedele**
September 2019





Global Economic
Context

1

Regional
Economic Trends

2

Domestic
Economic Trends

3

Overview of
AfCFTA and
Practical
Implications

4

Tax Changes

5

What the people think

Nigeria's Economic Plan is to restore growth, invest in people & build a globally competitive economy. And lift 100m out of poverty in 10yrs. Question is, do you think Nigeria is on track?

14% Yes, Nigeria is on track

77% No, Nigeria is off track

9% I don't know

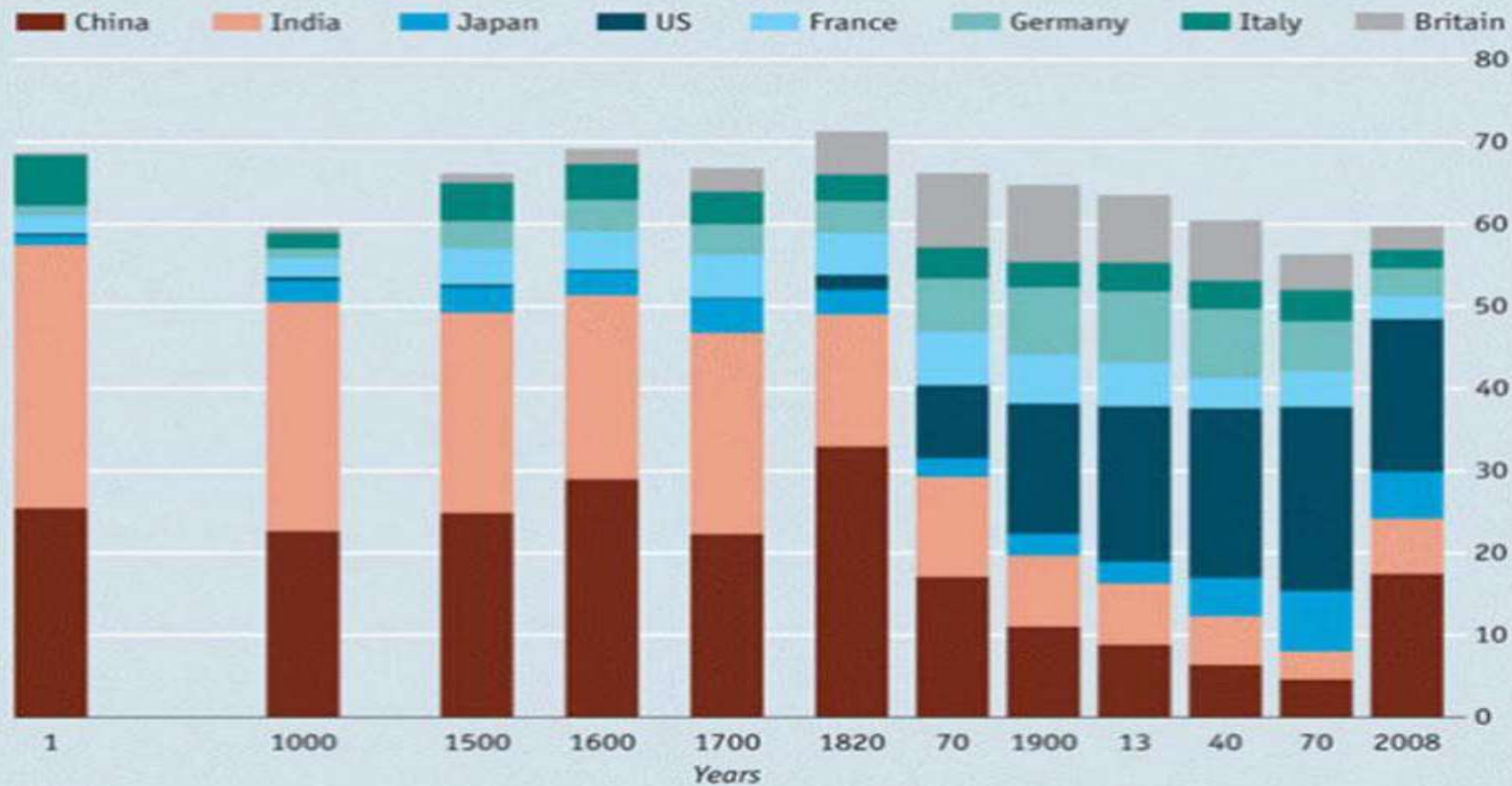
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GLOBAL ECONOMIC CONTEXT



A history of world GDP

Percentage of total, 1990 \$ at PPP*

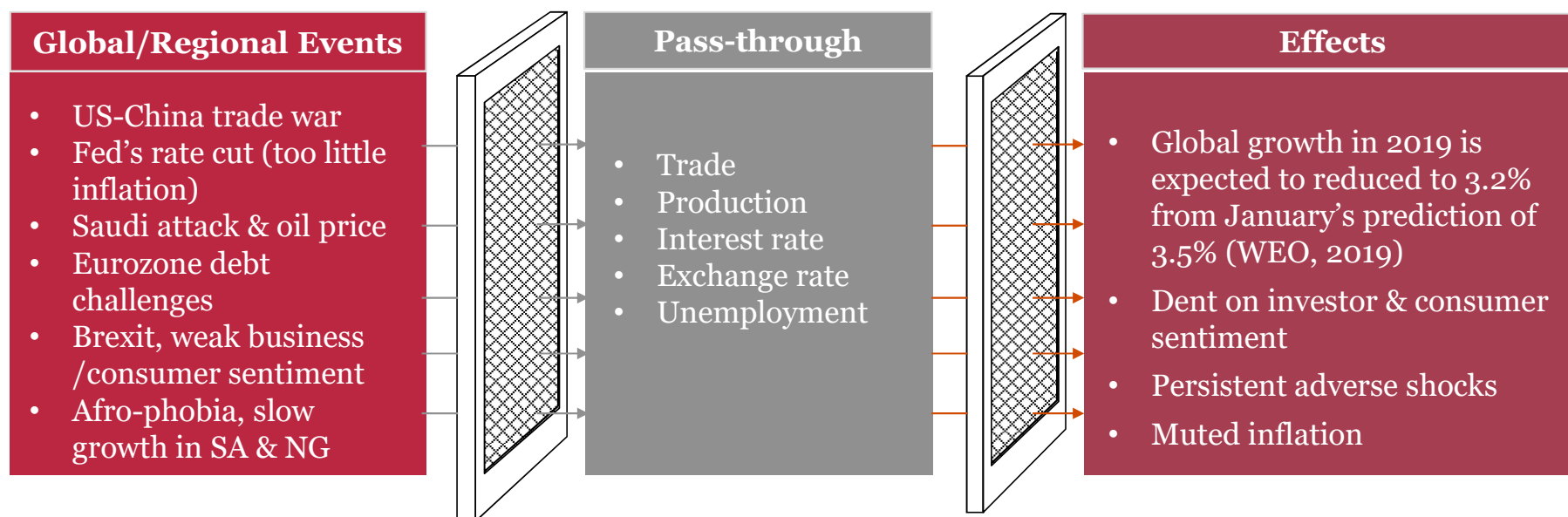


Sources: Angus Maddison, University of Groningen; *The Economist*

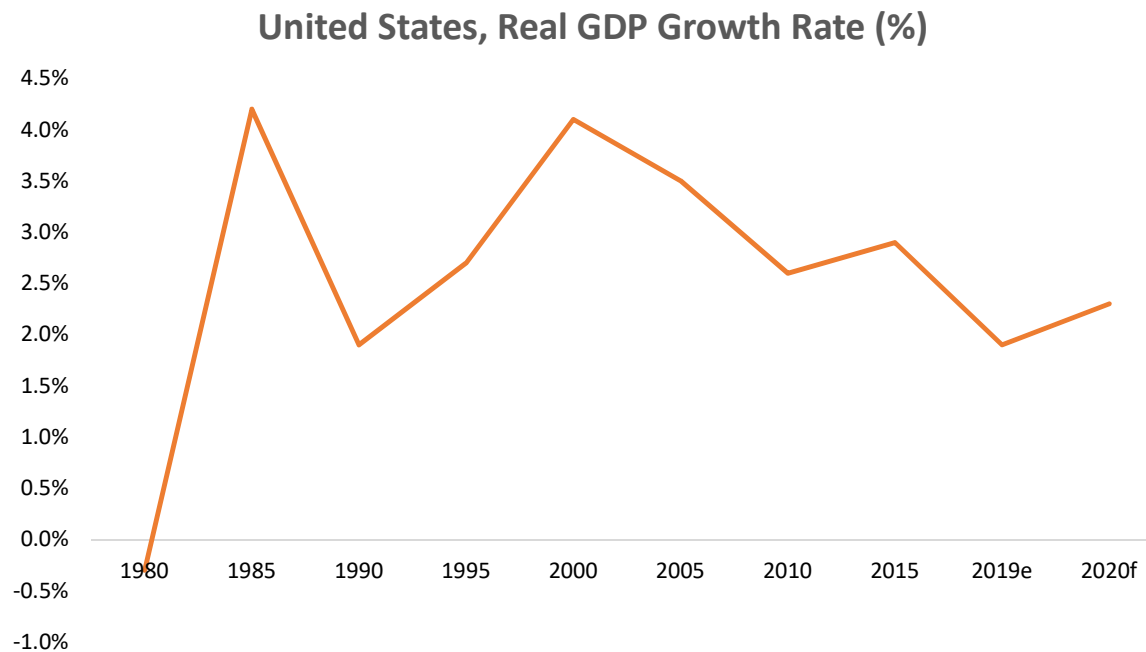
*Purchasing-power parity

Global macroeconomic events

The global economy faces multiple trade and policy challenges. Here are some of the events and their effects.



The US-China trade war and the interest rates, as well as geo-political tensions in the Middle East led to downward revision of the U.S. GDP growth rate...



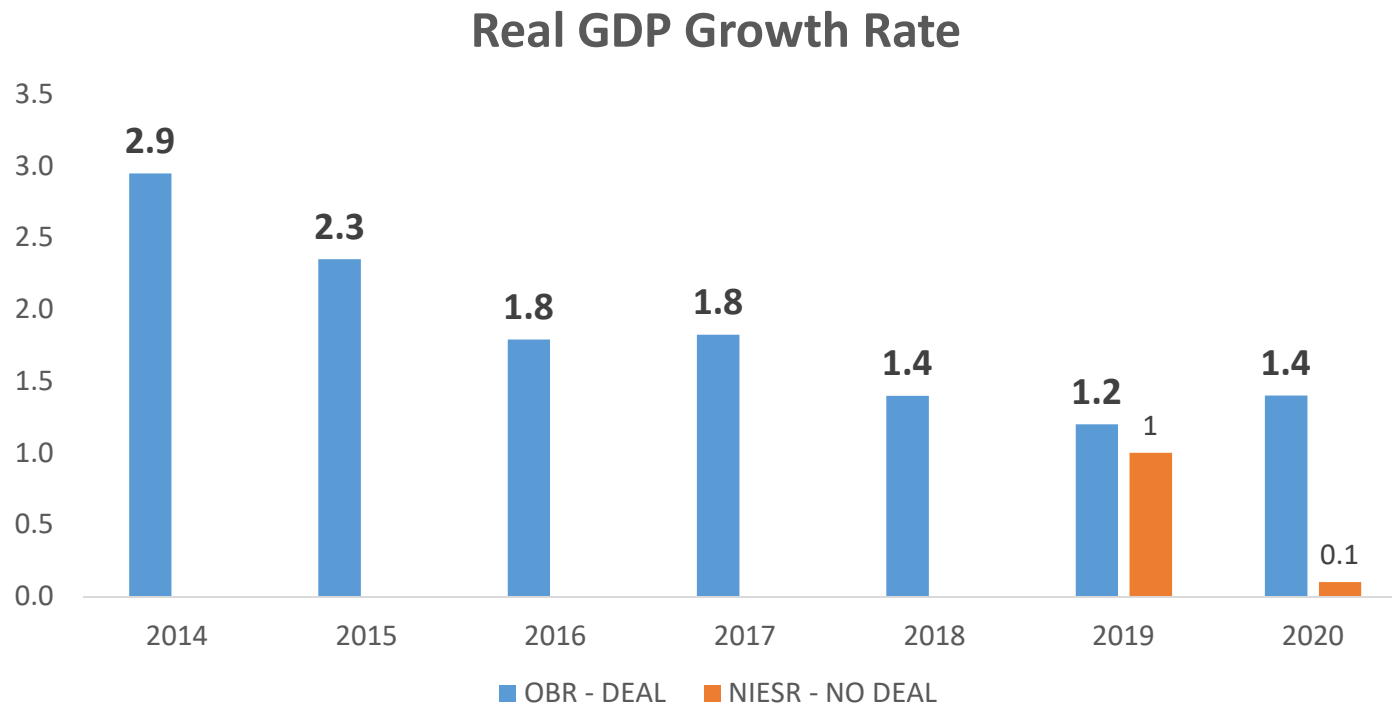
Source: IMF, PwC Analysis

China's economic growth is moderating and is projected to be 6.2 percent by end of 2019...

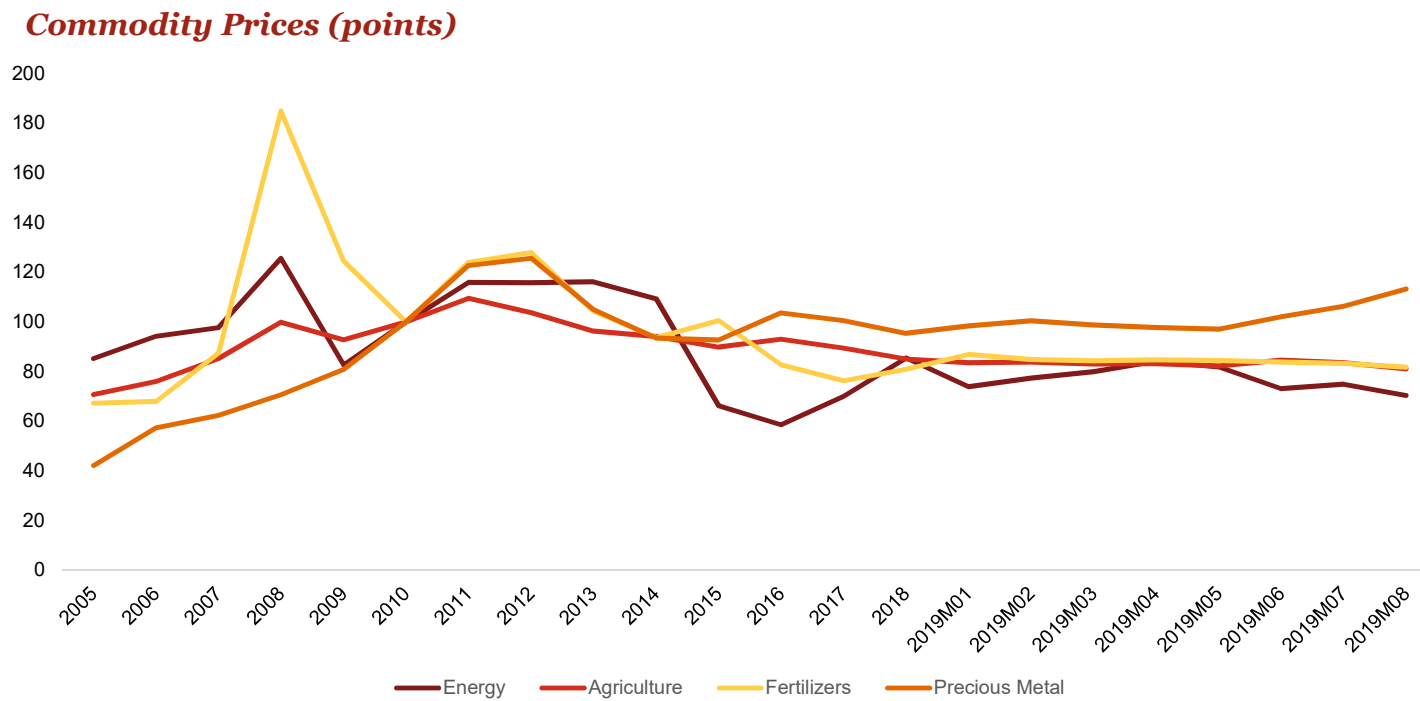


Source: IMF, PwC Analysis

UK economy slowing for the fear of a ‘no-deal’ Brexit



Commodity prices have remained depressed since 2011, owing to weak global demand which hasn't offset rising supply...



2

REGIONAL ECONOMIC TRENDS - Africa



Biggest continents in the world by population

Africa is the fastest growing continent in the world at 2.52%

- Population: **366,600,964**
- Share of world's population: **4.75%**
- Population growth rate: **0.63%**



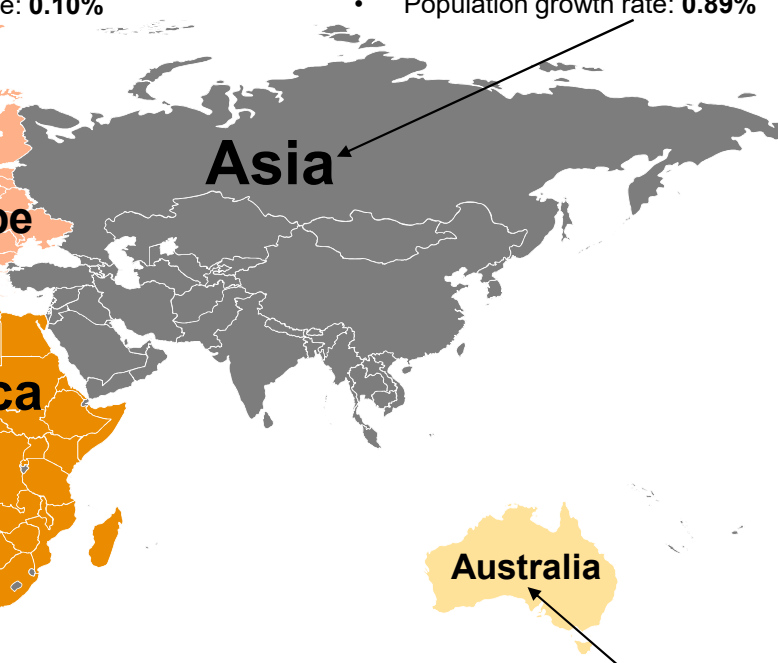
- Population: **427,199,146**
- Share of world's population: **5.54%**
- Population growth rate: **0.85%**

- Population: **747,182,751**
- Share of world's population: **9.69%**
- Population growth rate: **0.10%**



- Population: **1,308,064,195**
- Share of world's population: **16.96%**
- Population growth rate: **2.52%**

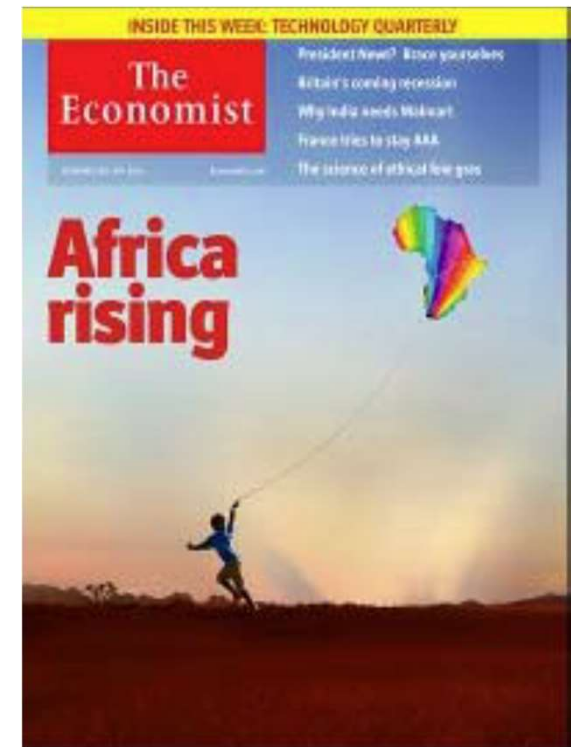
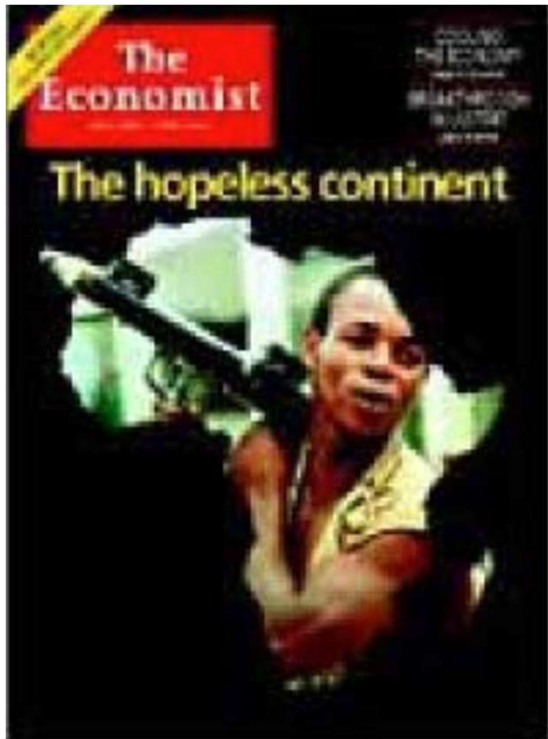
- Population: **4,601,371,198**
- Share of world's population: **59.65%**
- Population growth rate: **0.89%**



- Population: **42,128,035**
- Share of world's population: **0.55%**
- Population growth rate: **1.34%**

Source: World Population Review (2019)

Is Africa rising or still a hopeless continent ...?

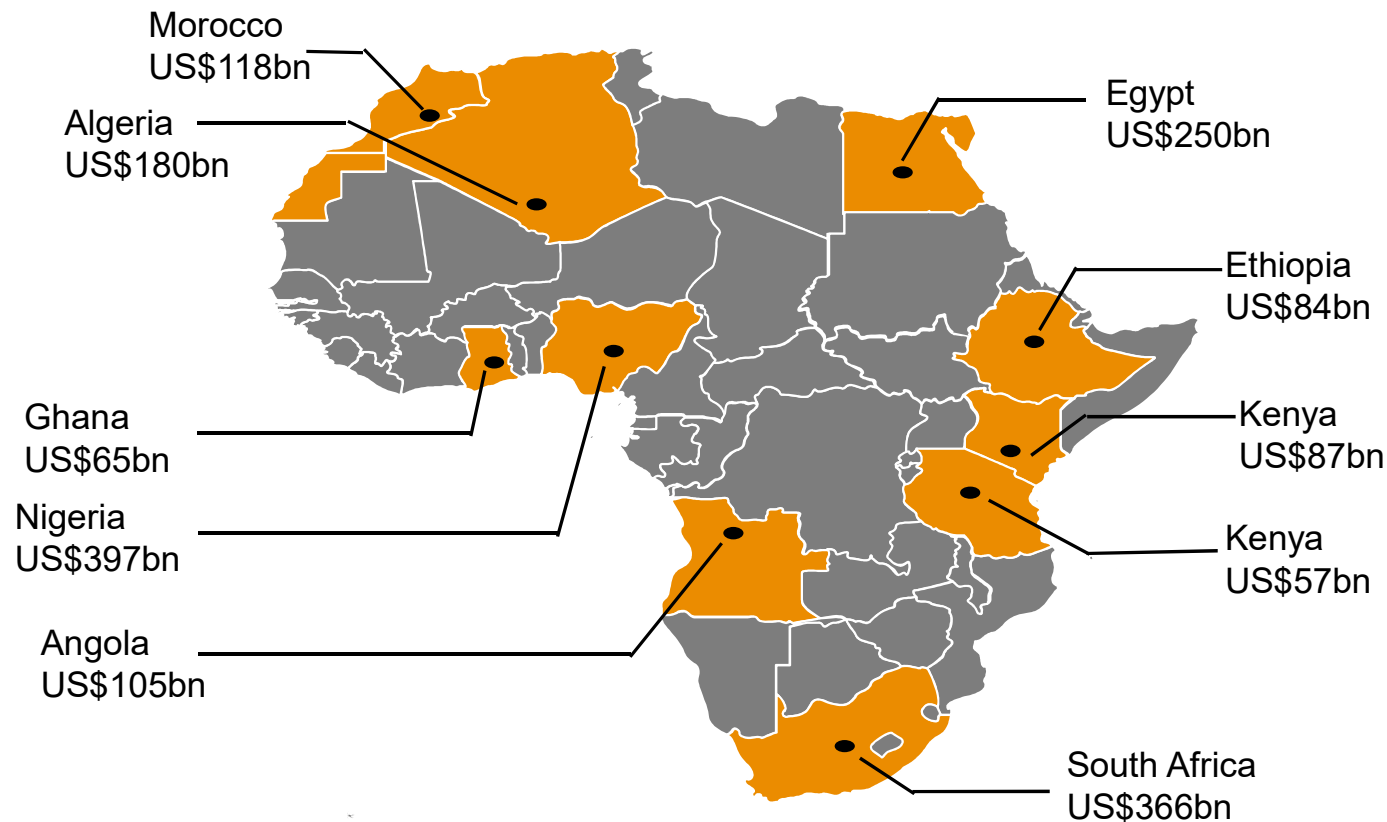


World Map: Resized by Population



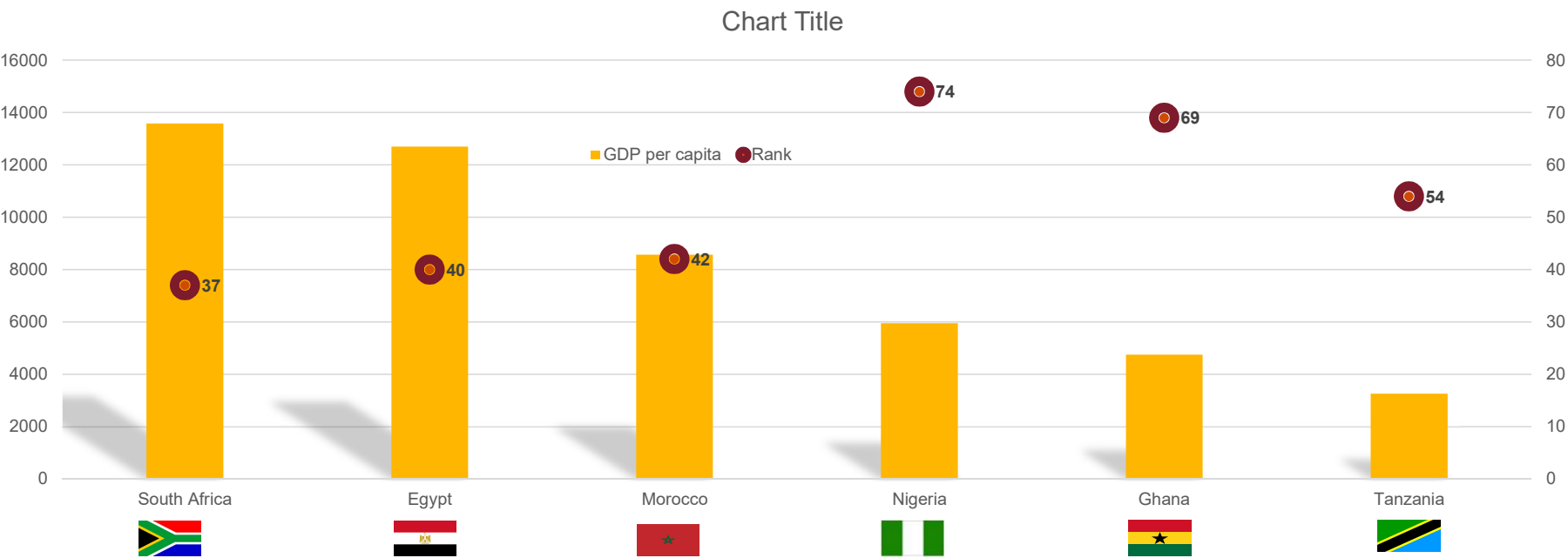
Biggest economies in Africa by GDP

Nigeria is the biggest economy in Africa by GDP but not in the top 10 by GDP per capita



Source: World Bank

Nigeria's GDP per capita ranks the lowest amongst peers...



Source: U.S. News and World Report, PwC analysis

So Nigeria is a poor country even by African standard



Nigeria

- An oil producing country but not an oil rich country
- At 2.3m bbl/day, \$60 per/bbl, per capita is N210 assuming \$0 cost of production and 100% ownership
- By comparison US (with circa 11.5m bbl/day) is N660 and Saudi Arabia (with circa 10.5m bbl/day) about N5,650
- Poverty threshold is circa N580 per day
















Real GDP Growth is expected to expand in Sub-Saharan Africa, marginally above population growth rate of 2.7%

Region	2016	2017	2018	2019
Sub-Saharan Africa	1.4	2.8	3.4	3.7
Oil Exporting Countries	-1.5	0.5	2.0	2.1
Oil Importing Countries	3.5	4.4	4.3	4.7
EAC	5.4	5.2	5.8	6.2
ECOWAS	0.4	2.6	3.3	3.4

TABLE 1: REAL GDP GROWTH

Growth rates of West African Countries

- Nigeria's economic growth lags its population growth rate*

Countries		Growth Rate	Population growth rate
Cote d'Ivoire		7.4%	2.58%
Burkina Faso		7.0%	2.89%
Senegal		7.0%	2.79%
Ghana		6.2%	2.19%
Benin		6.0%	2.75%
Guinea		5.9%	2.88%
Gambia		5.4%	2.97%
Guinea Bissau		5.3%	2.49%
Niger		5.2%	3.87%
Mali		5.0%	3.04%
Togo		4.7%	2.45%
Mauritania		3.5%	2.78%
Sierra Leone		3.5%	2.13%
Liberia		3.2%	2.46%
Nigeria		1.9%	2.60%

Source: AfDB, World population review

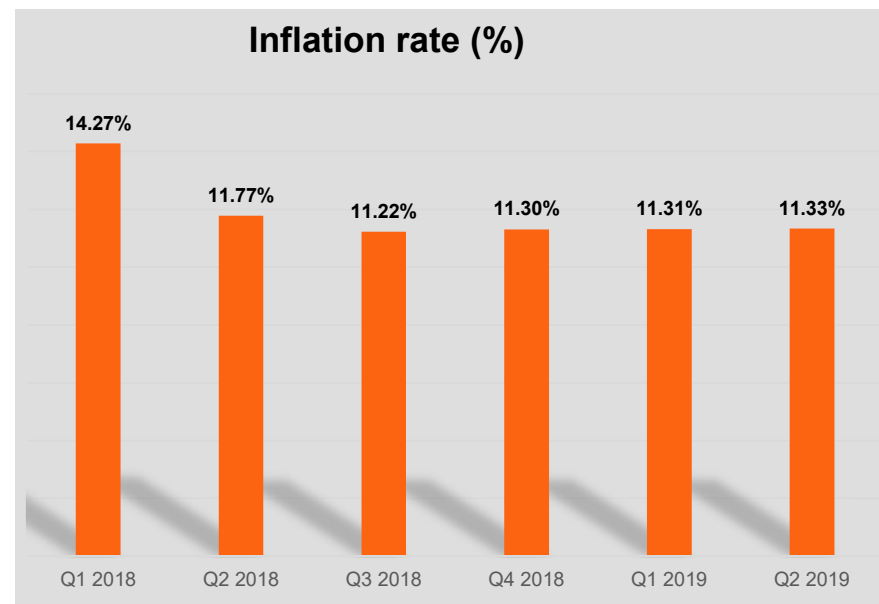
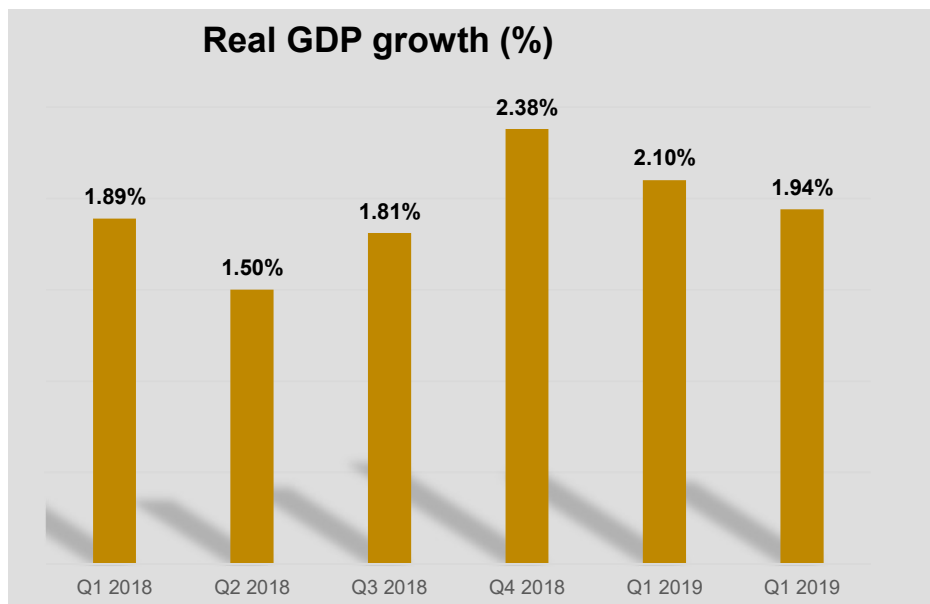
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DOMESTIC ECONOMIC TRENDS



Domestic economy trends

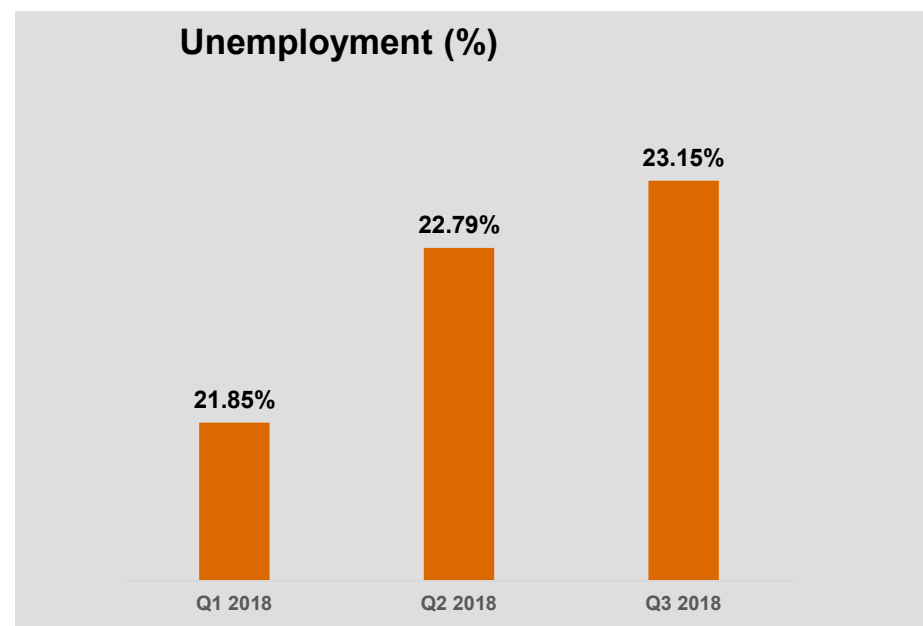
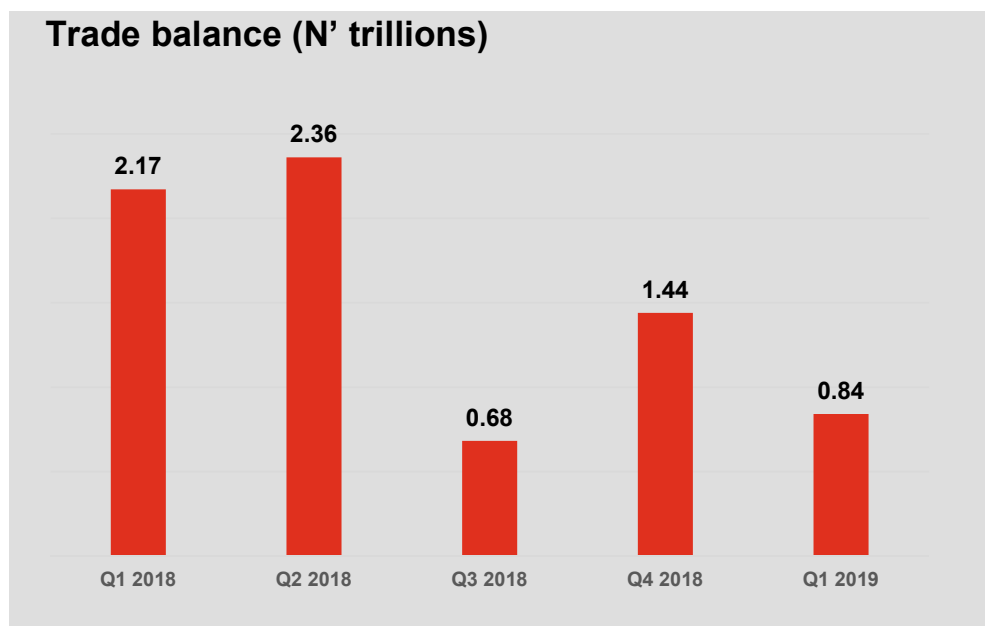
Real GDP continues to grow but at a slow rate while inflation has been fairly stable at 11%-12%.



Sources: NBS, CBN, PwC Analysis

Domestic economy trends (cont'd)

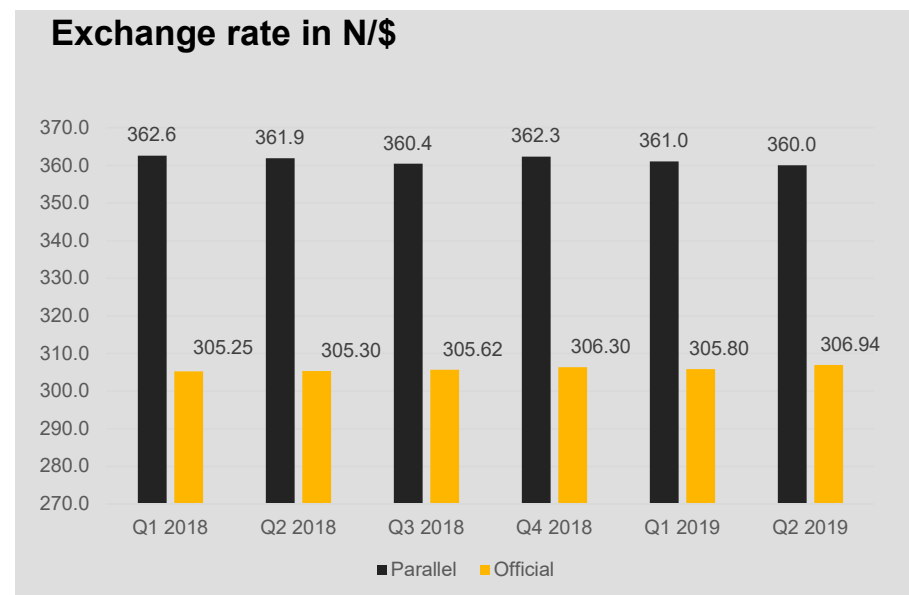
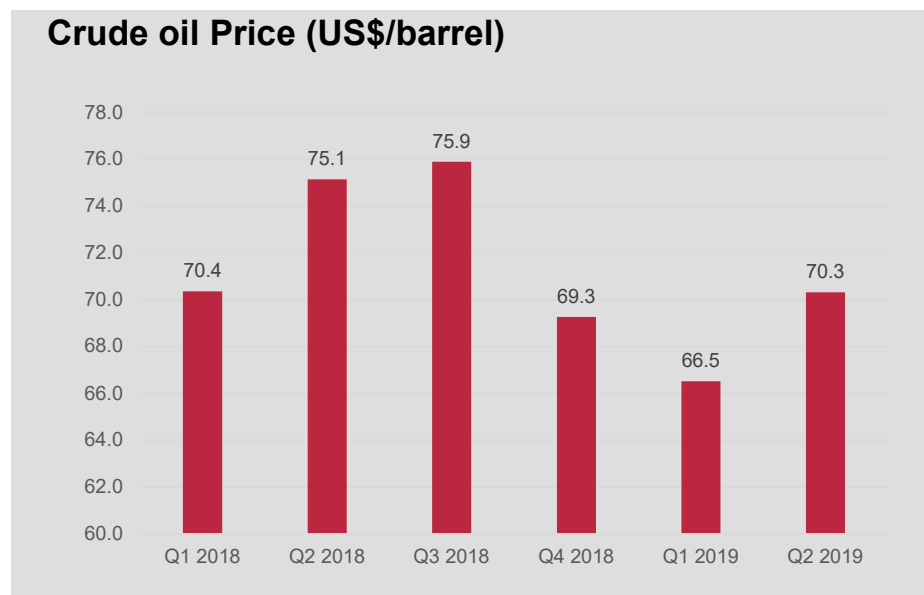
Balance of trade surplus persisted in 2018 but unemployment remains a challenge in Nigeria.



Sources: NBS, CBN, PwC Analysis

Domestic economy trends (cont'd)

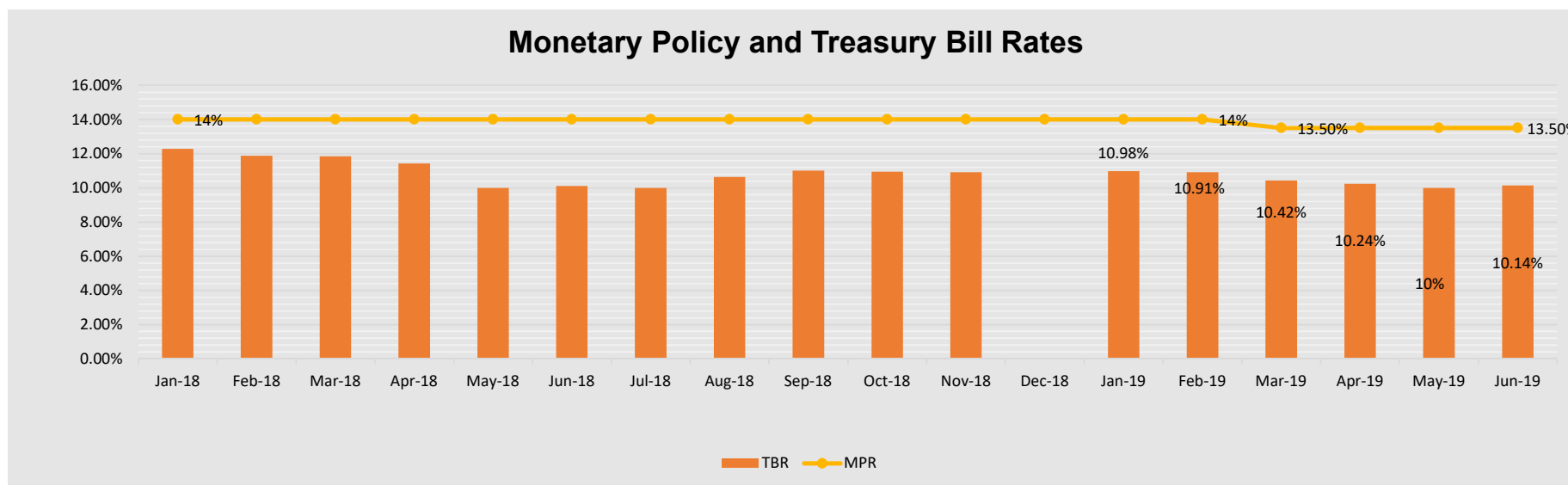
Average oil price YTD is within budget while exchange rate has been fairly stable due to FX interventions by the CBN.



Sources: NBS, CBN, PwC Analysis

Monetary policy trend in Nigeria...

- CBN reduced the monetary policy rate from 14% to 13.5% in March 2019 over global growth concerns and to encourage lending to the real sector of the economy
- Treasury bill rate has maintained a downtrend since January 2019 following high demand for treasury bills and the need to encourage investment in equities



Source: CBN

Note that in December 2018, xxxxxx

Monetary policy trend in Nigeria (cont'd.)

The CBN continues to actively use monetary policies to influence the economy

CBN's policy thrust

- A medium term strategy by the CBN to achieve single digit inflation rate, positive interest rate, improved access to loan for important sectors, financial inclusion and FX management.

FX restriction for milk/food importation

- Addition of milk (and other food items) to the list of restricted items eligible for import. While this policy aims to boost domestic production of milk, it will create inflation for consumables

Minimum loan-to-deposit ratio requirement

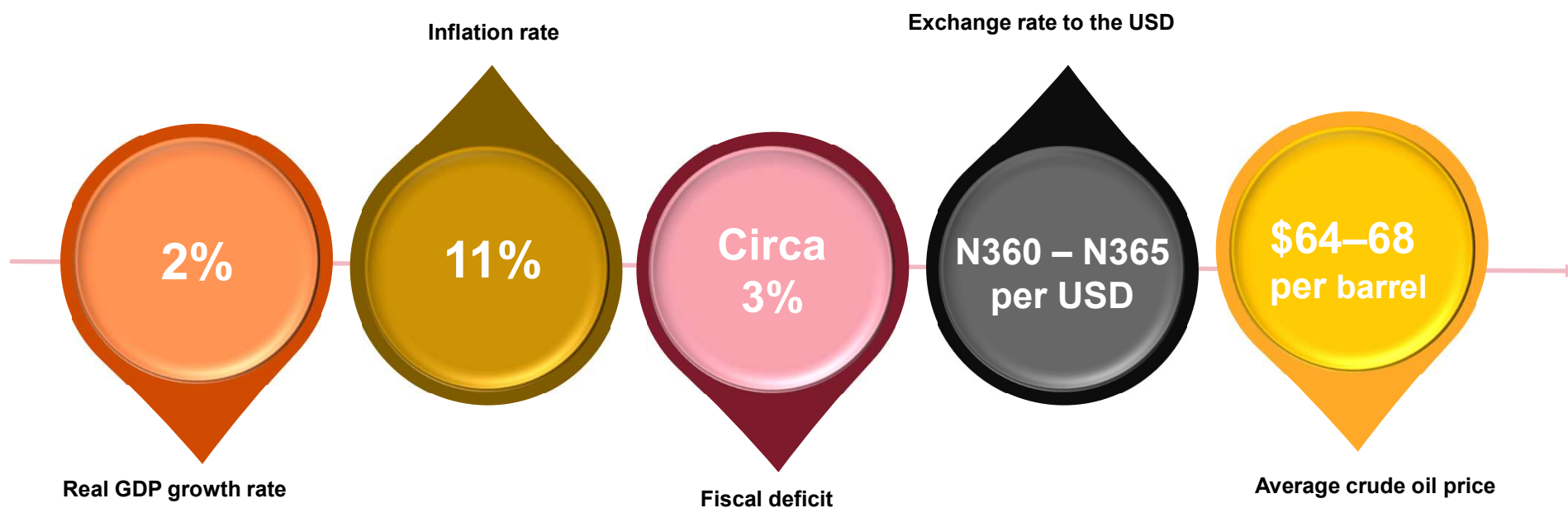
- A minimum loan to deposit ratio of 60% was specified for commercial banks by September 2020 to enable them provide more loans to the real sector

Cashless policy

- Charges for deposits / withdrawals above N500k (individuals) and N3m (corporate) wef 18 September 2019 in Lagos, Abuja, Ogun, Abia, Anambra, Rivers & Kano. Nationwide implementation by 31 March 2020

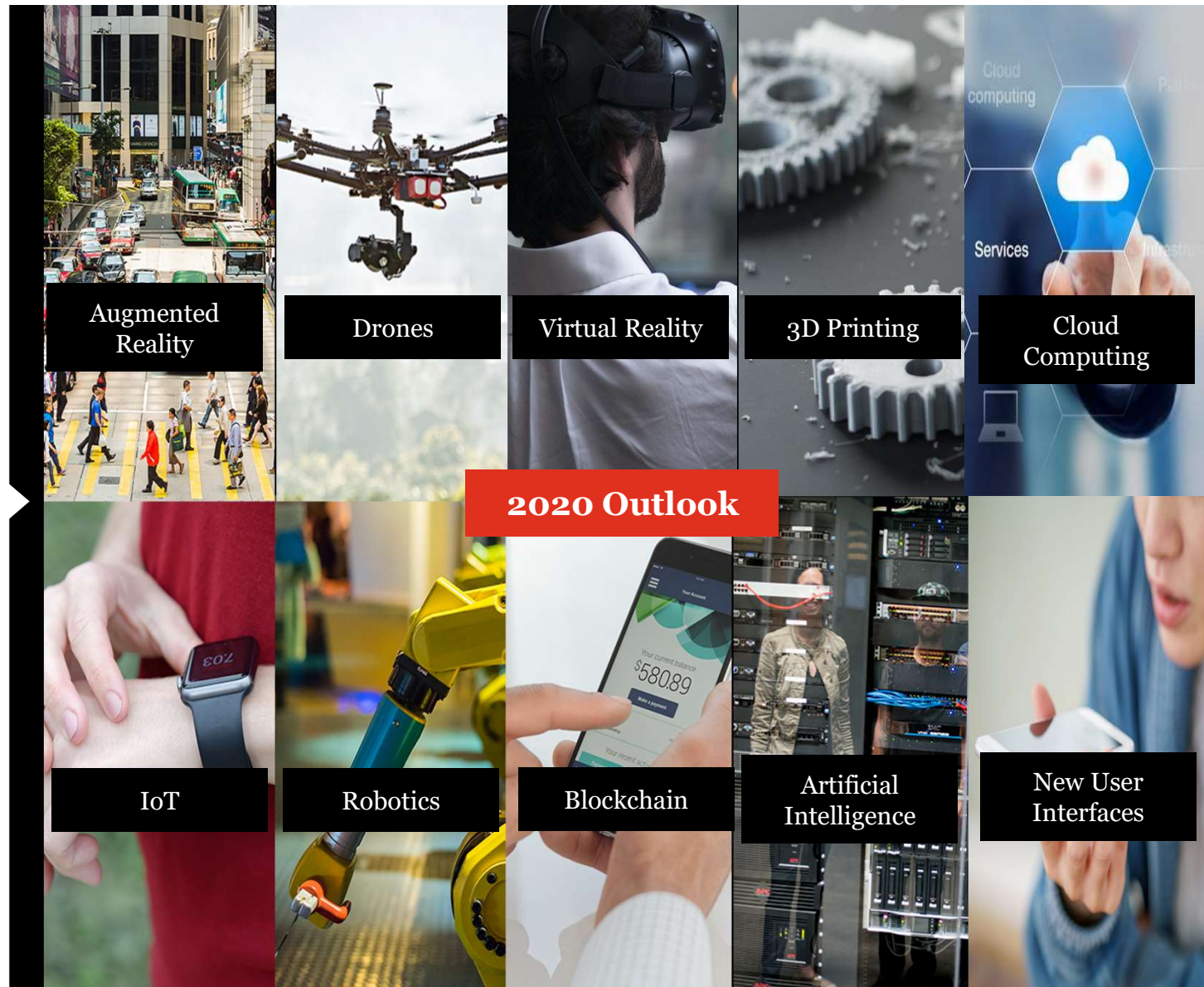
Domestic economic (half-year) outlook – December 2019

The economy should be stable barring any shocks in oil price or production



PwC's
“Essential 10 for 2020”
technologies that will
drive innovation and
digital transformation

<https://youtu.be/NQoX1z6rOy4>



Will Nigeria play an active role in the 4th Industrial Revolution?



4 billion people globally are now online, about 12% of the online population are in Africa.



Nigeria's mobile phone penetration rate is at 84% with over 172 million mobile phone subscribers. Around 40 million of these are smartphone users and this number is expected to hit 140 million by 2025



In 2018, Nigerian tech startups raised over US\$170 million in funding

4

OVERVIEW OF AfCFTA AND PRACTICAL IMPLICATIONS



Facts about African economy

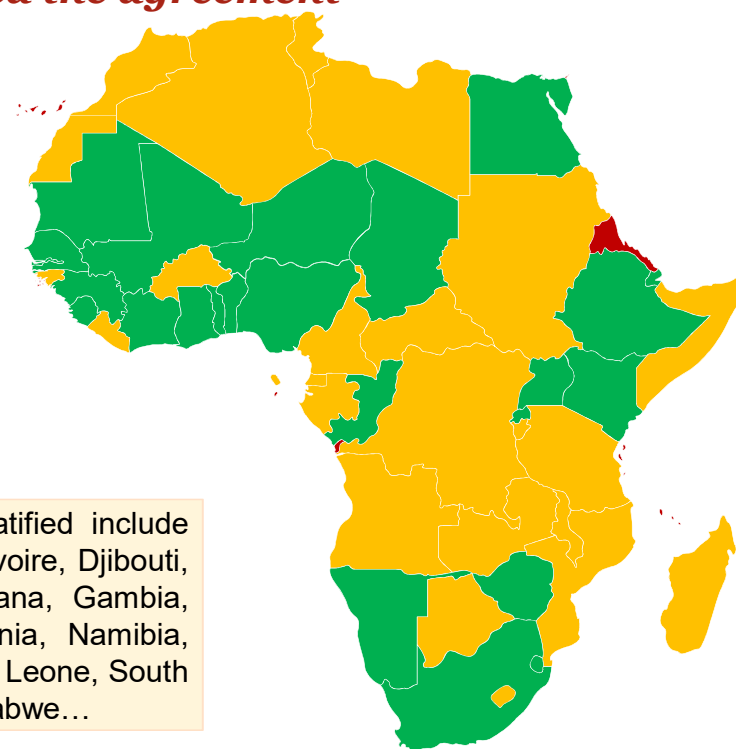
- GDP grew by **3.5%** in 2018 (forecasts for 2019 and 2020 at **4.0%** and **4.1%**)
- **US\$2.5trillion** market size
- Population **1.2billion**, estimated growth rate at **2.85% per annum**
- Services account for **60%** of GDP (World; 30%)
- **AfCFTA** is the largest regional integration since the establishment of WTO in 1994, in terms of the number of countries.

Africa Continental Free Trade Agreement

52 African countries have signed on to the AfCFTA Agreement, and 27 of these (including Nigeria, Cote d'Ivoire, Egypt, Ethiopia, Ghana, Kenya, Rwanda and South Africa) have ratified the agreement

- Ratified
- Signed
- Not Signed

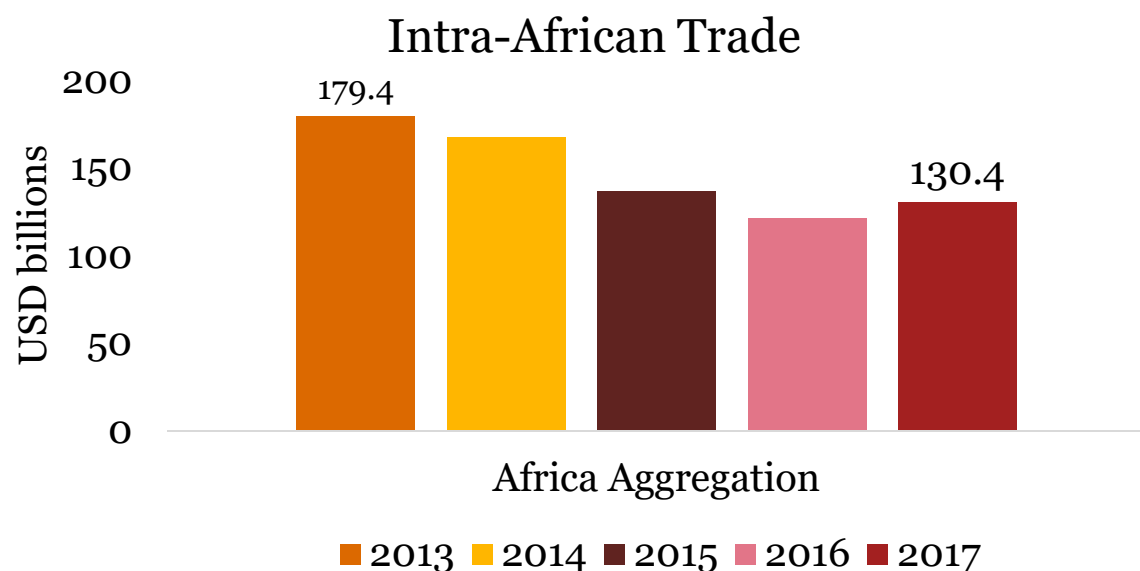
The 27 countries that have ratified include Nigeria, Chad, Congo, Côte d'Ivoire, Djibouti, Egypt, Eswatini, Ethiopia, Ghana, Gambia, Guinea, Kenya, Mali, Mauritania, Namibia, Niger, Rwanda, Senegal, Sierra Leone, South Africa, Togo, Uganda and Zimbabwe...





Intra-African trade has been on the decline in the last 5 years...

The AfCFTA is a continent-wide free trade area, which seeks to expand intra-African trade through better harmonization and coordination of trade liberalization and facilitation across Africa



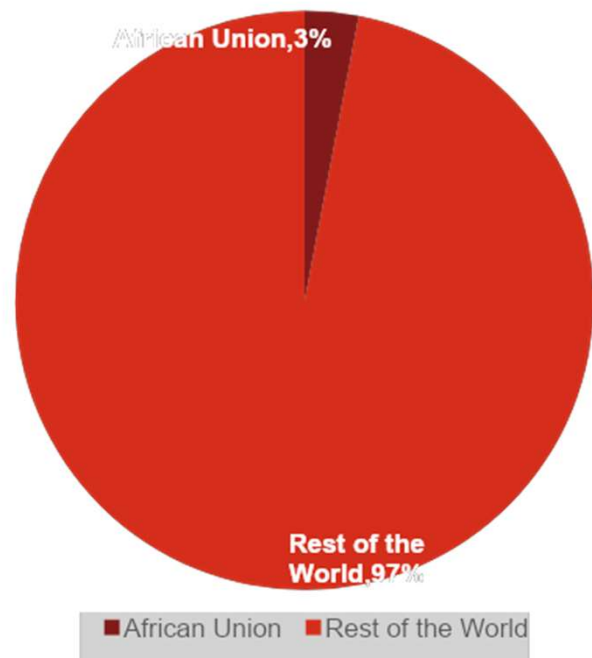
Source: African Union, Tralac, ITC, IMF PwC Analysis

Areas of Cooperation

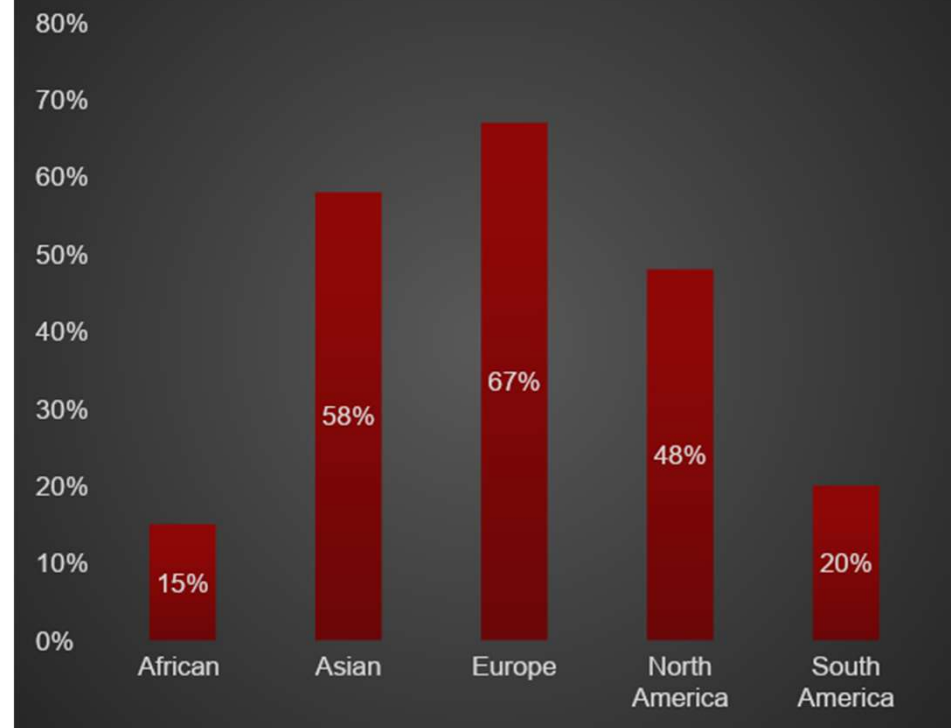
1. trade policy;
2. trade facilitation;
3. productive capacity;
4. trade related infrastructure;
5. trade finance;
6. trade information; and
7. factor market integration.

Comparative analysis of Intra-continental trade

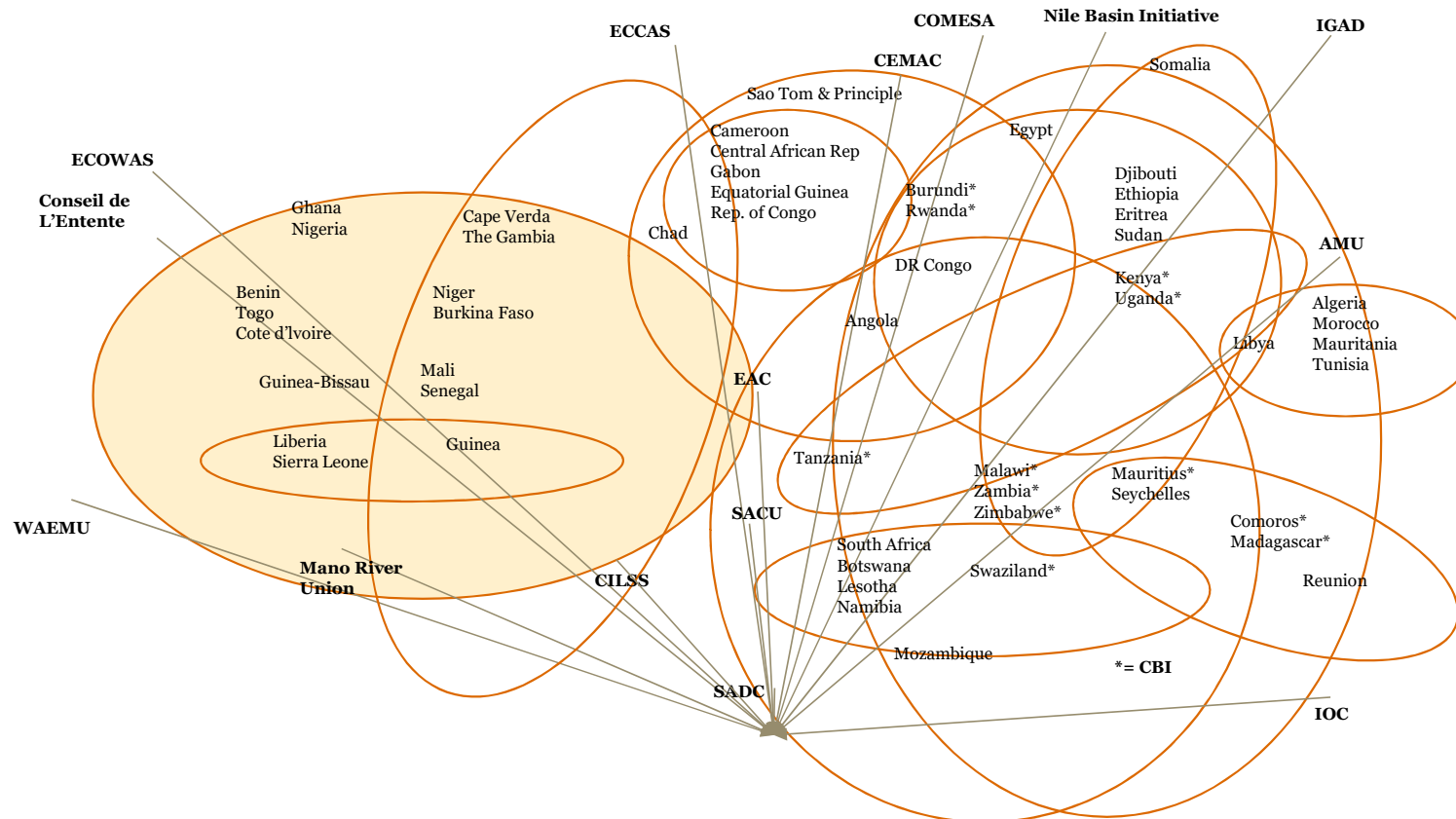
Global Trade (2017)



Intra Continental Trade



Customs and trading blocks in Africa



Note: AMU: Arab Maghreb Union; CBI: Cross Border Initiative; CEMAC: Economic and Monetary Community of Central Africa; CILSS: Permanent Interstate Committee on Drought Control in the Sahel; COMESA: Common Market for Eastern and Southern Africa; EAC: East African Cooperation; ECOWAS: Economic Community of Western African States; IGAD: Inter-Governmental Authority on Development; IOC: Indian Ocean Commission; SACU: Southern African Customs Union; SADC: Southern African Development Community; WAEMU: West African Economic and Monetary Union.

... and there is too much focus and reliance on natural resources (less on value addition and exportable services)



Stages of integration



Five Potential Levels of Regional Integration

Level of Integration	Free Trade Area	Customs Union	Common Market	Economic and (sometimes) Monetary Union	Political Union
Members agree to eliminate tariffs and non-tariff trade barriers with each other but maintain their own trade barriers with non-member countries. Examples: NAFTA, EFTA, ASEAN, Australia and New Zealand Closer Economic Relations Agreement (CER)					
Common external tariffs Example: MERCOSUR					
Free movement of products, labor, and capital Example: Pre-1992 European Economic Community					
Unified monetary and fiscal policy by a central authority Example: The European Union today exhibits common trade, agricultural, and monetary policies					
Perfect unification of all policies by a common organization; submersion of all separate national institutions Example: Remains an ideal; yet to be achieved					

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Nigeria's external trade performance (2018)

~US\$125 billion

Export

US\$67.70billion

Products

54.2%

Service

45.8%

Import

US\$57.7billion

Products

91.7%

Service

8.3%

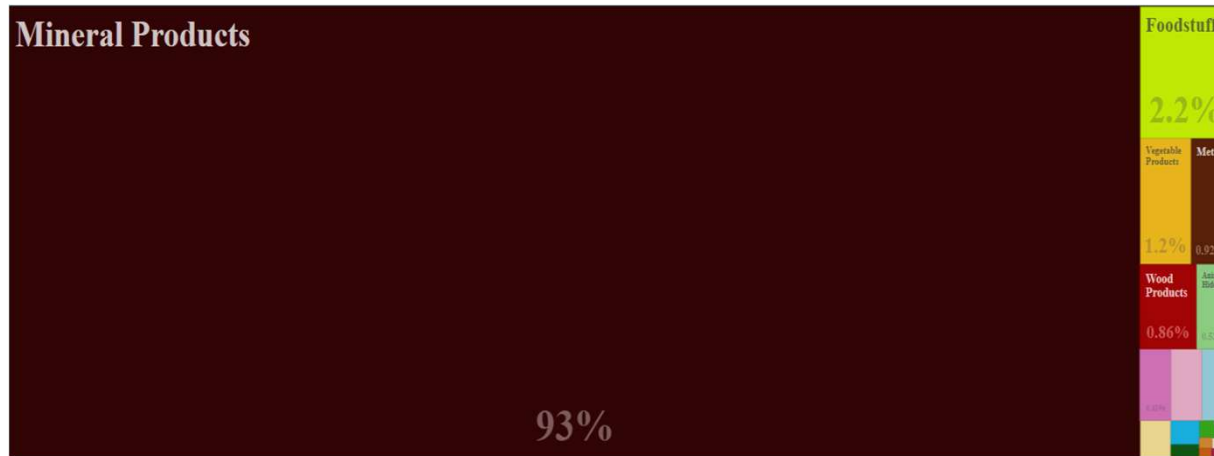
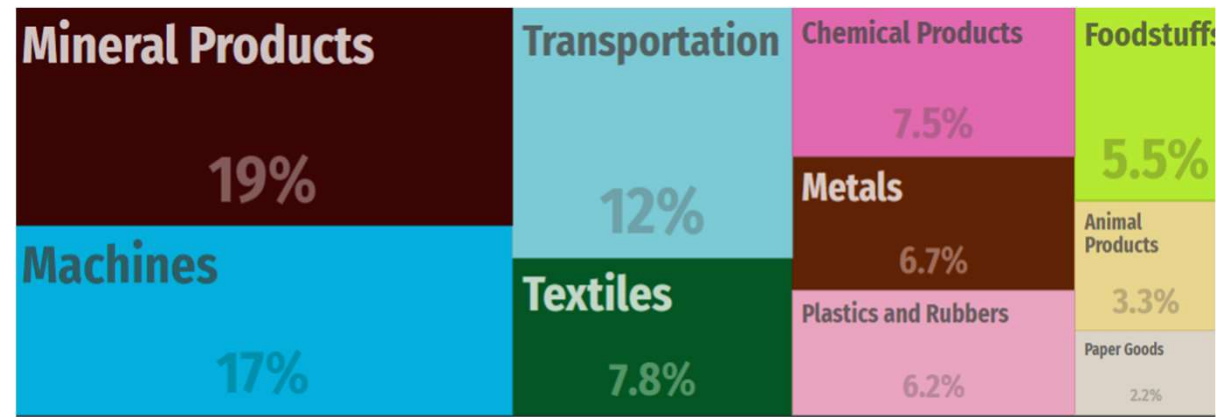
Africa

... 7% of total traded value at US\$8.3billion

...**Import** and **export** value at US\$1.3billion and US\$7.0billion, representing **15.7%** and **84.3%** total trade with African countries

This is NIGERIA!

Imports



Exports

Key Provisions of AfCFTA

The African Continental Free Trade Area (AfCFTA) is expected to cover all 55 countries of over 1.2 billion people and a gross domestic product (GDP) in excess of USD 2.5 trillion. The scope of the Agreement covers trade in goods, services, investment, intellectual property rights and competition policy.

Article XXIV of the General Agreement on Tariffs and Trade (GATT) defines a free-trade area as an agreement among a group of two or more customs territories in which the duties and other restrictive regulations of commerce are eliminated on substantially all the trade between the constituent territories in products originating in such territories.

Following the deposit of the instrument of ratification by Sierra Leone and the Saharawi Republic on 29 April 2019, the Treaty came into effect on 30 May 2019. This is in line with Article 23 of the Agreement which stipulates that the Agreement will enter into force 30 days after the deposit of the twenty second (22nd) instrument of ratification.

As at the commencement of the Treaty, 52 countries have signed the agreement while 2 countries – Republic of Benin, and Nigeria recently signed leaving only Eritrea yet to sign.

Key Provisions of AfCFTA

Trade in goods

The Treaty provides that a State Party (a member state that has ratified or acceded to the AfCFTA) shall accord to products imported from other State Parties treatment no less favourable than that accorded to like domestic products of national origin, after the imported products have been cleared by customs.

Trade in services

With respect to trade in services, Article 20 requires each State Party to accord to services and service suppliers of any other State Party treatment no less favourable than that accorded to its own like services and service suppliers. Also a State Party shall not maintain or adopt limitations on the total value of service transactions, or quotas on the total number of natural persons that may be employed or measures which restrict or require specific types of legal entity. The Treaty recognises the significant contribution of air transport services and, in particular, the Single African Air Transport Market.

Trade in Goods

Review and withdrawal

A State Party may withdraw from the Agreement after 5 years from the date of entry into force and the withdrawal shall be effective 2 years after receipt of notification or such later date as may be specified in the notification. The Agreement is subject to review every 5 years.

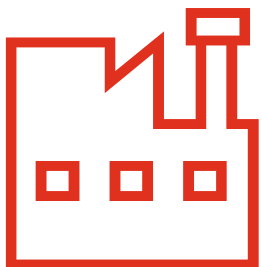
With respect to trade in services, a State Party may modify or withdraw at any time after 3 years have elapsed from the date on which that commitment entered into force.

Objectives and benefits

- boost intra-African trade through progressive elimination of tariffs and non-tariff barriers to trade in goods
- liberalisation of trade in services.
- cooperation on investment, intellectual property rights and competition policy.
- Progressively, a deeper integration is expected in form of a single common market, and economic and monetary union,
- a single African Central Bank and a single African Currency.
- In addition, there will be free movement of people and rights of residence and establishment.

Expected benefits include

- scale, efficiency and significant welfare gains to the people, employment expansion, and
- intra-African trade growth in the long-run.
- The highest positive impact is expected in Agriculture and food as well as industrial goods.
- resolve the challenges of multiple and overlapping REC memberships.
- Nigeria may be relatively disadvantaged in the area of trade in goods due to its poor infrastructure and high cost of production, the country can leverage on services to accelerate economic and social development in areas such as professional services and Intellectual Properties such as those produced out of Nollywood which are already quite popular within Africa.



Implications for Nigeria's businesses and economy

1

Access to over 1.2billion people

2

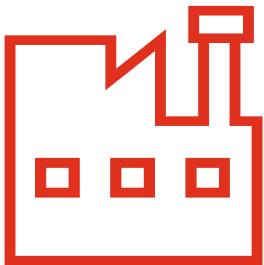
Opportunity to enhance earnings and market value

3

Enhance economies of scale for Nigeria's manufacturing and services sectors

4

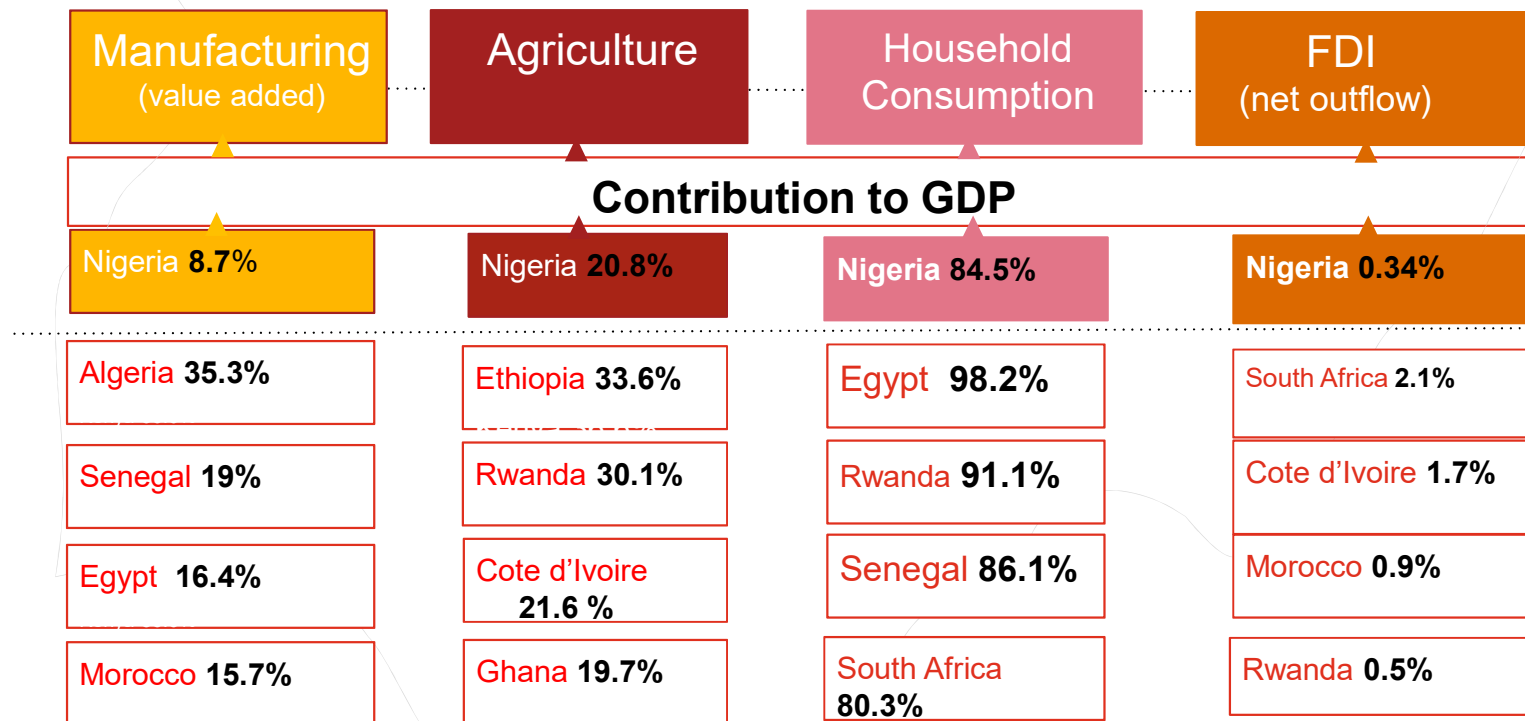
AfCFTA presents a market opportunity of \$493.6bn comprising \$461.6bn market expansion and \$31.7bn import substitution opportunity



Comparative analysis: Nigeria's competitiveness vs. selected economies in Africa

4 major competitive areas – selected indicators (2018)

Largest and fastest growing economies



Source: World Bank, PwC analysis



Implications for Consumers/Households

1

Faster than expected growth in manufacturing output to the larger market will boost employment and wages and in turn, purchasing power

2

Interregional competition among firms for market share will lead to improvement in the quality of products and services

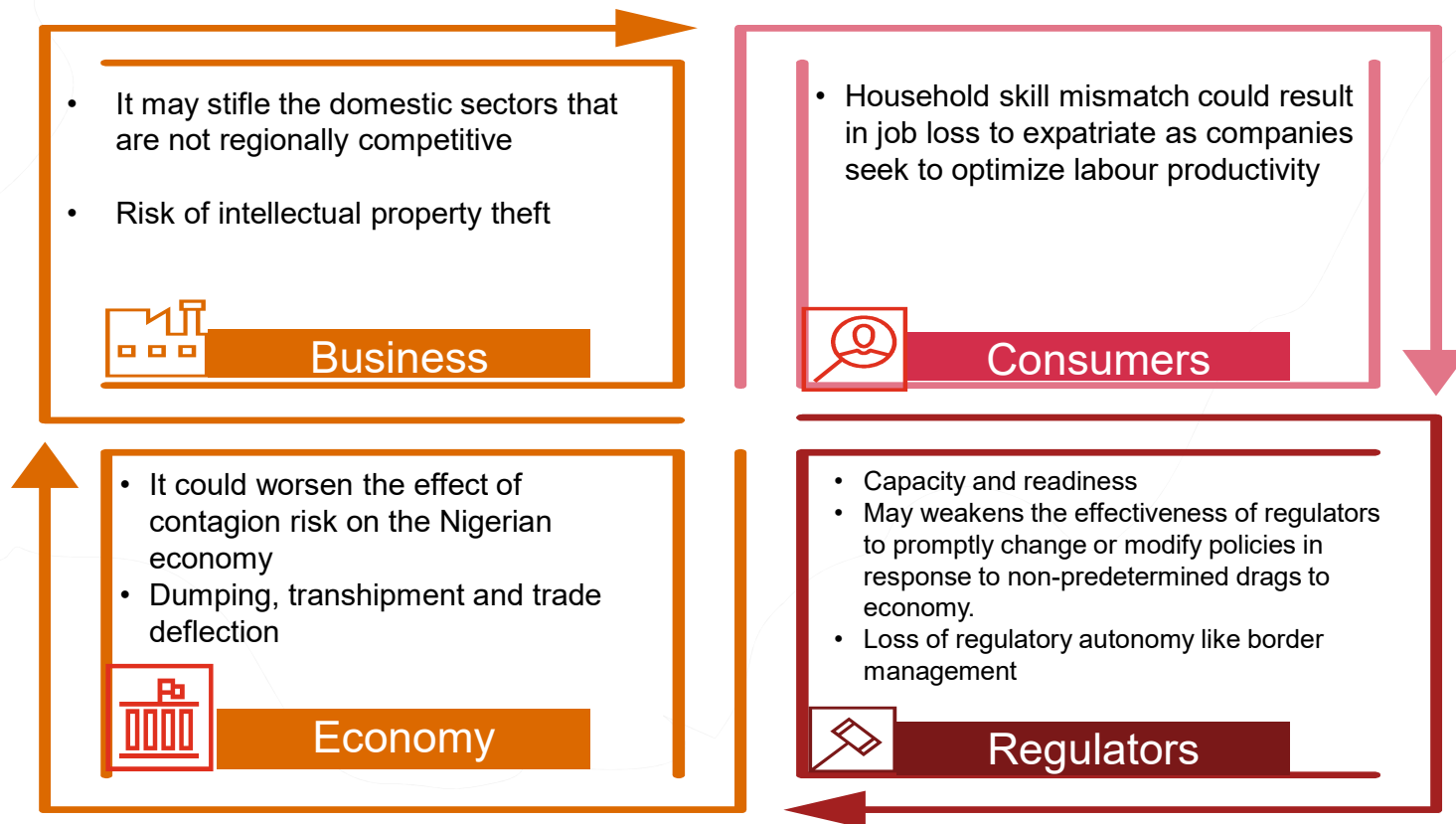
3

Regional trade across Africa will also lead to price-competitiveness for goods and services which could benefit the final consumer in terms of cheaper products

Possible Challenges

- Impact on current company rules regarding minimum capital, directorship and shareholding in many African countries.
- It will also have effect on capital control exchange regulation and local content rules.
- There is the need to harmonise existing rules such as the rules of origin which differ between various RECs on the continent.
- Plastics are not allowed in some African countries so this has to be considered in the packaging of goods destined for export to other countries.
- Some stakeholders have raised concerns about the risk of **transshipment** and **dumping** of goods which may hurt domestic businesses especially infant industries. However, the AfCFTA Treaty already has provisions to address these concerns.

There are also underlying risks that need to be addressed...





Lessons from ASEAN

In 1967, ten southern Asian countries (**Indonesia, Malaysia, Philippines, Singapore, Thailand, Brunei Darussalam, Vietnam, Lao PDR, Myanmar and Cambodia**) established the **ASEAN** (Association of southeast Asian Nation)

Vision

To create a single market that allows free mobility of factors, investment and products

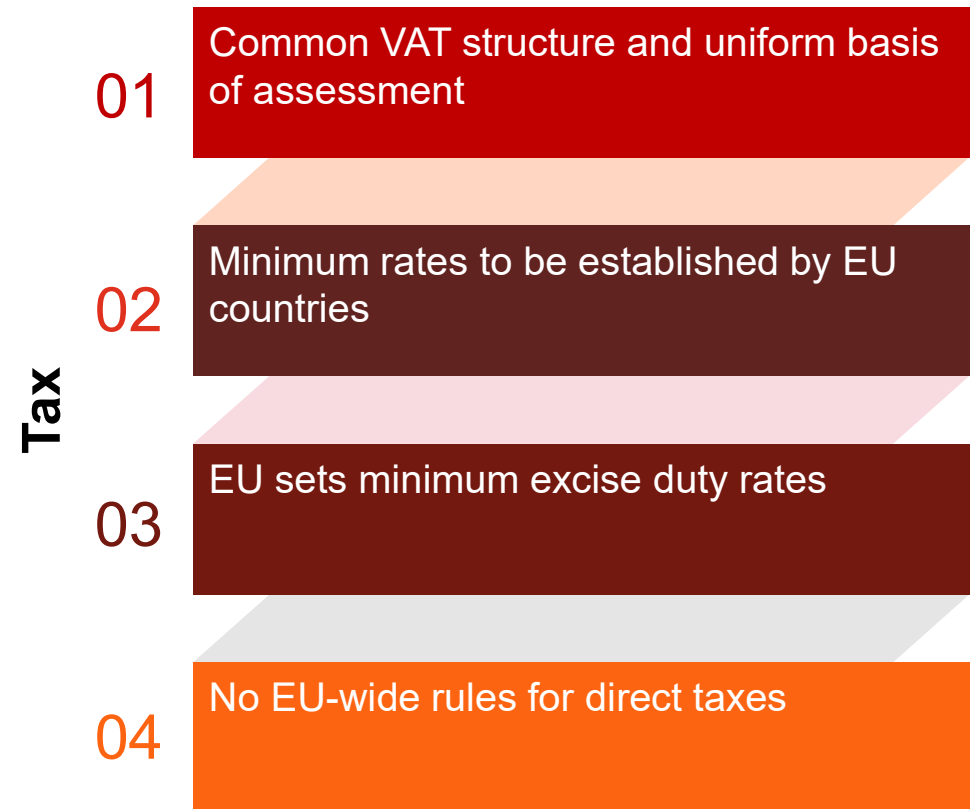
Approach

Made standardize products to meet regional needs by setting industries close to the markets

Outcomes

- 50 years after the treaty, the region became the 6th largest economy and 3rd largest labour force globally.
- 4th investment destination in the world
- FDI rose by 11.6% to US\$137 billion in 2017. Of the total, 19.4% from within ASEAN, EU(18.4%), Japan(9.6%) and China(8.2%)
- Economy grew by fourfold between 1999 and 2018, from US\$577billion to US\$3trillion.
- Trade partners include China(17.1%), EU(10.1%), and US(9.1%, and 22.9% within ASEAN
- Second largest economy in Asia after China

... And the European Union (EU) - 28 Member States

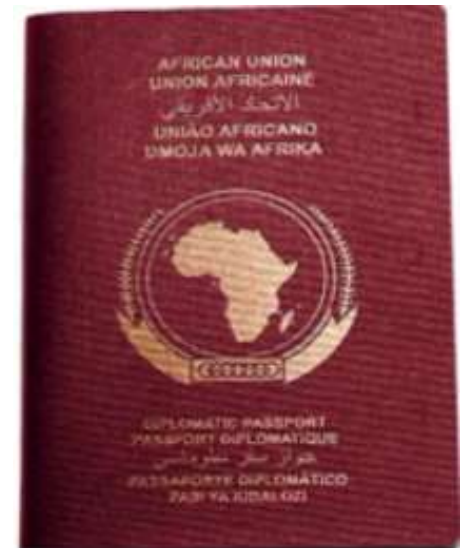


To make a headway, Africa must truly integrate!



“I was invited by the president of Angola to come and see him, and I had to go. When I went there, I had to be given visa on African Union passport. It is not about fees, when you say African Union passport, you should be able to go everywhere, free of charge.”

- Aliko Dangote

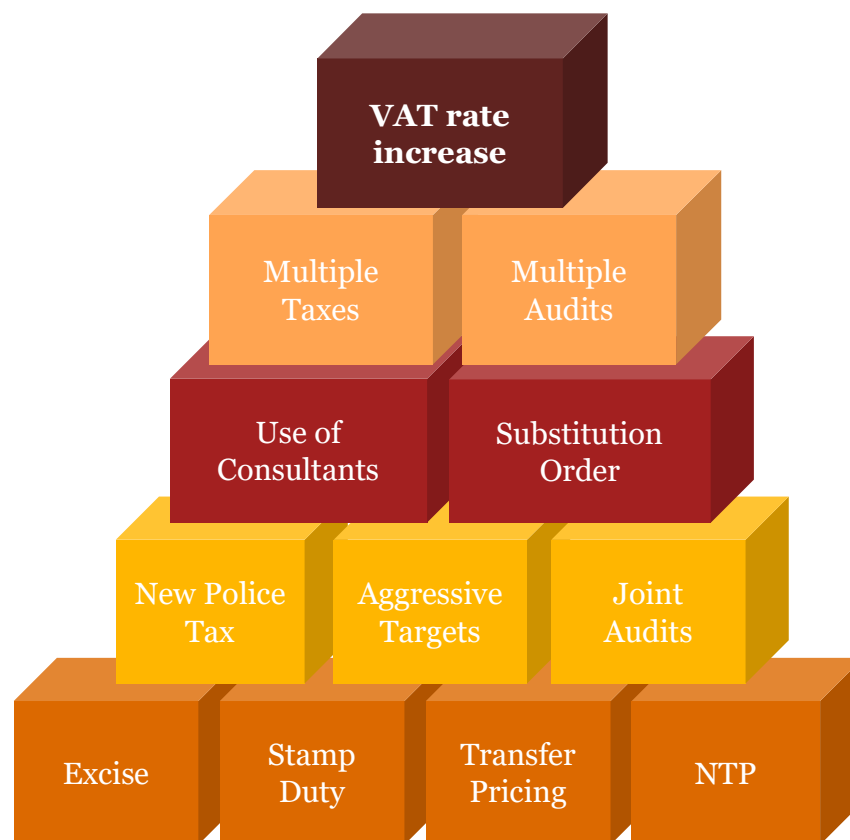


5

TAX CHANGES

We live in taxing times ...

Agencies	2018 Revenue N'Billion	2017 Revenue N'Billion
FIRS (incl NCS VAT)	5,320	4,020
Customs	1,200	1,037
SIRS (36) & FCT	936	931
LGs (est.)	281	279
Total Tax Revenue	7,737	6,267
GDP	127,763	113,712
Tax to GDP ratio	6.1%	5.5%



Closing thought

“Africa is not poor, it is just poorly managed”

Ellen Johnson Sirleaf
Former Liberian President



Thank you

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