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Budget 2019: The Hidden Monsters

January 2019



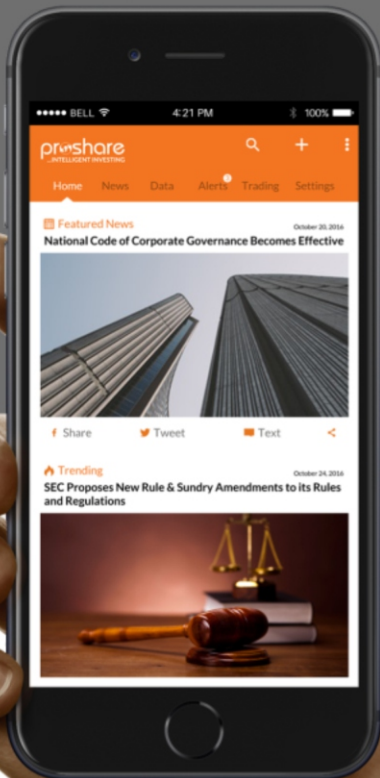
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Budget 2019: The Hidden Monsters

The year 2019 is a watershed year for several countries across Africa as they enter election cycles that could make or mar their future.

In Nigeria the battle for the country's political and economic soul has become vicious with every arm of government easy fodder for political henchmen determined to keep their paymasters, godfathers and Muppets in the business of governance.

Unfortunately this has meant that Nigeria's 2019 Federal Fiscal Plan is more of a concession to tradition rather than a programme of action to building a resilient economy that can sustain a population growth of 2.9% per annum.

“ Nigeria's 2019 Federal Fiscal Plan is more of a concession to tradition rather than a programme of action to building a resilient economy that can sustain a population growth of 2.9% per annum. ”

February 10, 2019

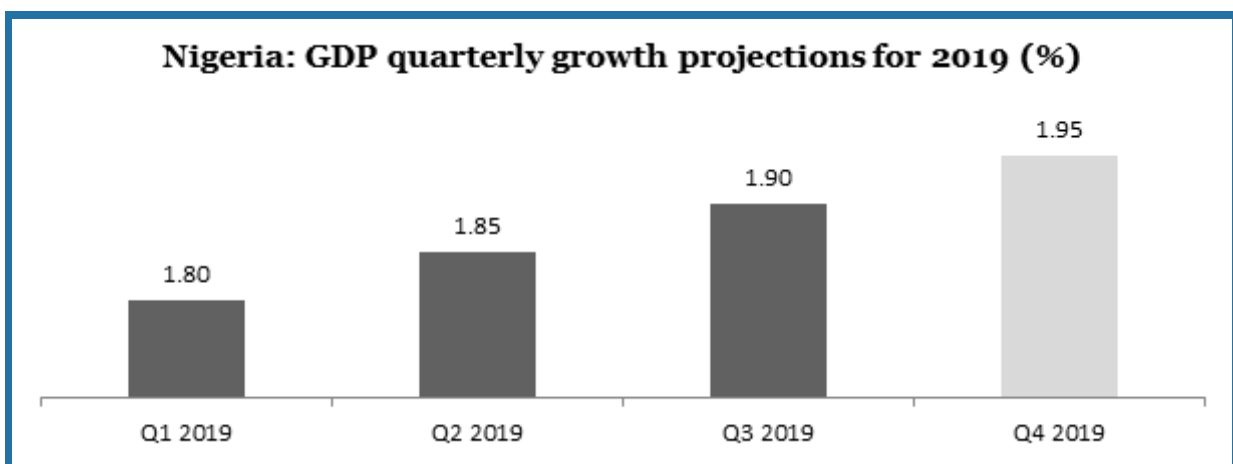


As far as budgets go the Federal Government's Budget 2019 is modest, mild and uninspiring; it has a number of broad flaws:

1. It fails to excite vision, it fails to ignite passion and it simply tries to steady a course that has seen the economy stall to a growth rate of about 2% (max-out); a figure which the latest IMF estimates expect to be the growth index for 2019 (more of the same). Why and where will growth come from? The budget has rested on a cushion of figures rather than a philosophy of progress.

See Addendum/notes to presentation on how an ambitious budget should start off.

Fig 1: Most Problematic Factors for Doing Business



Source: WEF

Thinking outside the box or simply throwing the box away:

2. The late Chief Obafemi Awolowo, one of South Western Nigeria's heroes of modern fiscal management is credited to have succeeded in growing the economy of the South West in the mid 1950's to late 1960's on the basis of promoting a massive surge in human capacity development through free education. The intricate logic of the **Awolowo social investment paradigm** was that of building human capacity which in turn would raise local productivity on the one hand and increase incomes and tax naira to fund more human capacity development on the other.

What most saw as **free education** was actually **citizen productivity paid forward**. It was a radical idea that had sound logic in economics.

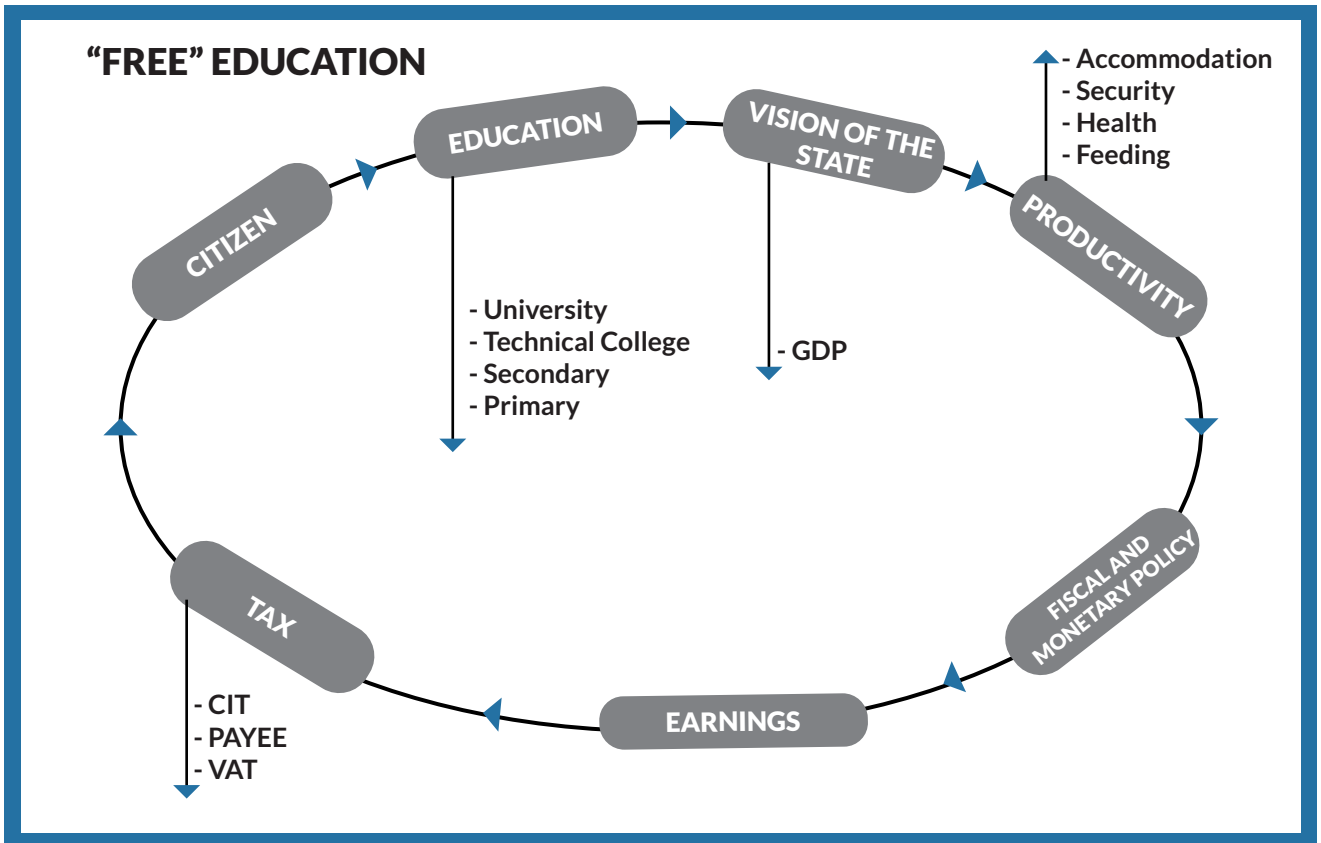


Illustration of “Paying forward on citizens' social contract” using the “Free” Education example captured in Olufemi Awoyemi's *Ogun Standard Education: A Way Forward - Proshare*

It is this type of bold and unconventional thinking that is absent in the 2019 budget, as it is in previous budgets and social intervention programmes built into the fiscal frameworks (and open to political distortions from all sides even as the intent remains genuine – and since when did intentions trump consequential impact or/and optics?). A large increase in educational spending would expand the earning capacity of Nigerians in productive areas such as:

- | | |
|--------------------|-----------------------|
| 📍 Artisanhip | 📍 Engineering |
| 📍 Entrepreneurship | 📍 Law |
| 📍 Science | 📍 Architecture |
| 📍 Industry | 📍 Medicine/Pharmacy |
| 📍 Teaching | 📍 Farming/Agriculture |

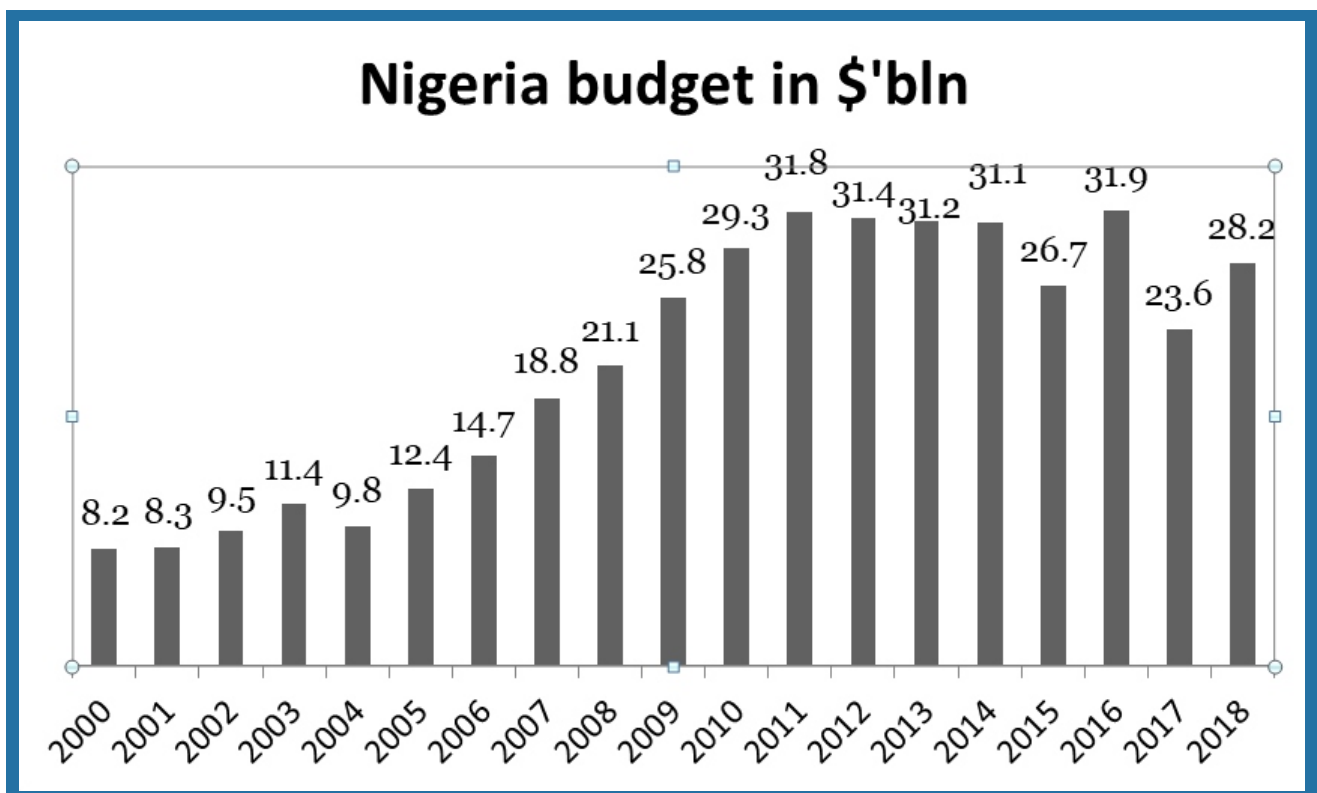
Educational spending would pay its way by raising Nigerian workers to higher levels of income which would eventually be taxed at higher marginal rates. Entrepreneurs with better skills and larger visions will generate higher revenues that would produce more tax earnings for government by way of higher CIT and PIT.

The paltry 7% of revenue projected for the education sector in the 2019 budget clearly reveals the lack of radical reasoning amongst economic managers. Ghana, Nigeria's neighbor spends about 23% of its budget on education, thereby explaining why rich Nigerians spend about a \$1billion annually training their children in that country.

- Budget 2019 does not in any creative way address the challenges of rising unemployment. Nigeria's unemployment figure in Q3 2018 was estimated at 23.1%. The economy has grown the absolute number of unemployed people by 15 million in the last three years, meaning that an average of 5 million new jobs need to be created annually to keep unemployment rate at its present level. To do this the economy must grow by between 5 and 6% per annum or slightly lower than India's recent 7% growth rate in 2018 (Nigeria's recent growth rate was 1.9% in Q3 2018).

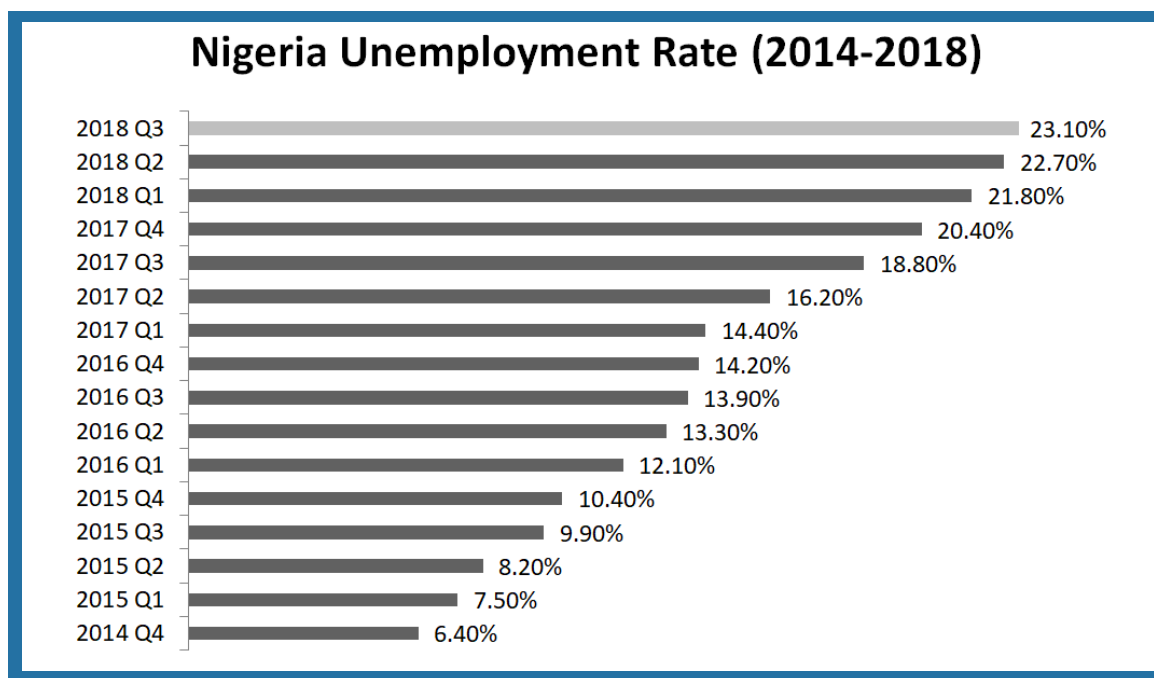
Tope Fasua, the 47 year old presidential candidate of the Abundant Nigeria Renewal Party (ANRP) in the forthcoming February 2019 elections argued in a well thought out piece (see below) that the 2019 budget should have shown stronger character by growing to at least N15trn or \$4.92bln. He insists that a country with the unemployment levels shown by Nigeria ought to be thinking big, fast and smart. There are critics who have a contrary view but when we realize that the local currency slumped against the US dollar from N160/\$ in 2014 to N305/\$ in 2017, the real size of Nigerian budgets in dollar terms has actually been declining, despite nominal naira increases (until the 2019 budget which fell from N9.3trn in 2018 to N8.7tn in 2019, Nigerian budgets have risen annually in absolute size).

Chart 2: Nigeria Budget 2000-2018 in \$'bln



Source: National Bureau of Statistics (NBS)

Chart 3: Nigeria's Unemployment rate 2014-2018



Source: National Bureau of Statistics (NBS)

4. Budget 2019 relies heavily on an oil output of 2.3million barrels per day. In a world of excess crude supply; falling demand in major Asian markets of China and India; and with America exporting oil at an unprecedented level of over 10 million barrels per day, the budgets projection of output at 2.3million barrels per day is extremely optimistic.

The Organization of Petroleum Exporting Countries (OPEC) in which Nigeria is a member, has already agreed a cut back of daily oil supplies by 1.6mln barrels per day (by December 2018 cut backs had reached 750,000 barrels per day with Saudi Arabia accounting for half this amount).

Nigeria and Libya that were previously exempted from cut backs have now been included in the basket of nations that would need to reduce supplies to stabilize international prices.

5. Following from the previous observations, Budget 2019's projection of an average oil price of \$60 per barrel reveals a curious statement and contradiction about Nigeria's revenue expectations – On the one hand, it reflects a dependence while on the other it suggest a recognition that to diversify, we need oil money. Therein lies the dilemma and the exposure of the Nigerian economy to vagaries off its trade balances versus it current accounts balances/position.

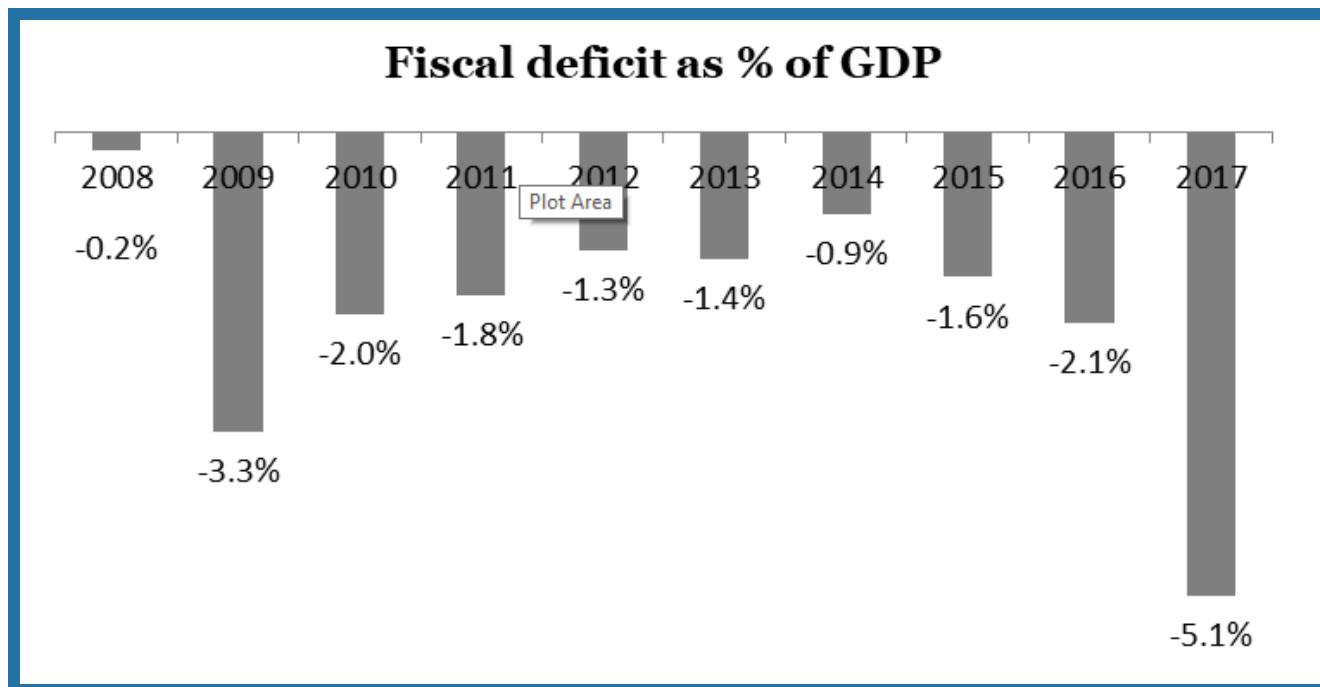
The economy will continue to be subject to shocks based on its inability to attract inflows even in an era of global liquidity glut because it has a low current account balance. I will address this later.

The soft global economy is likely to continue right through H1 2019. Admittedly oil price is about \$62.70 at the beginning of the week which started on Monday, 21 January, 2019

but that has been the outcome of recent sharp cut backs in supply, weak global demand may still see prices drop below the \$60 per barrel budget threshold.

6. The Fiscal deficit built into the 2019 budget will hurt growth and private sector expansion. Over the last four years the deficit as a proportion of GDP has risen and led to higher domestic interest rates chased by larger Treasury bill (T-bill) issues and slower GDP growth. The slower growth in GDP has shown up in the worsening unemployment statistics.

Chart 4: Nigeria's fiscal deficit as % of GDP ratio 2008-2017



Source: Central Bank of Nigeria (CBN)



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The FGN 2019 Budget - ASSUMPTIONS



The FGN 2019 Budget - ASSUMPTIONS

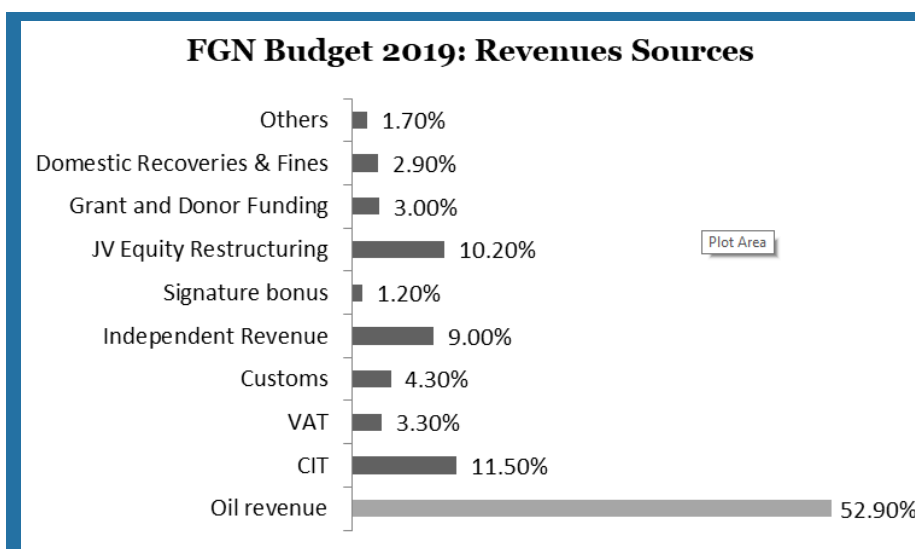


The 2019 FGN budget starts off with the following key takeaways:

1. It assumes a fairly stable world economy and a predictable international oil market with average market oil prices above \$60 per barrel. Both assumptions are doubtful. Rising economic nationalism across the globe, especially in America, Europe and Asia, indicate that the global economy will struggle for growth in 2019. The World Bank has revised down its 2019 growth projections from 3.0% to 2.9%. This equally suggests that the budget growth projection of 3.5% for the local economy is a leap of faith rather than logic.
2. The budget expects revenue of N6.97trn with 52.9% coming from oil revenues, 11.5% from Company Income Tax (CIT), 3.3% from Value Added Tax (VAT) and 10.2% from Joint Venture (JV) Equity Restructuring. Customs is expected to stump up 4.3% of revenue in 2019; while Signature Bonuses on oil contracts will slip in an additional 1.2%, Domestic Recoveries and Fines 2.9%, Donors and Grants 3% and other Independent Revenue sources will bring in 9%.

The Revenue breakdown clearly shows Nigeria's heavy dependence on the oil sector which is ongoing gradual but visible transition. The rise in electric mobility (cars and trains) and alternative 'clean' energy sources (wind and solar) suggest that in the medium to long term demand for crude oil will decline and so will oil prices. This could have harmful effects on the Nigerian economy if urgent measures are not taken to fashion a forward framework that reduces oil dependency.

Chart 5: FGN Budget by Revenue Sources



Source: Federal Government of Nigeria (FGN) Budget 2019

An Overview of the Revenue Framework

FISCAL ITEMS		2018 Budget (As Passed)	2019 Proposal	Variance	
Budget Oil Production Volume		2.30	2.30	0.00	
Projected Budget Benchmark Price (US \$ per barrel)		51.0	60	9.00	
Average Exchange Rate (N/US \$)		305.0	305.0	-	
		N' Billion	N' Billion	N' Billion	%
AMOUNT AVAILABLE FOR FGN BUDGET		7,165.87	6,966.99	(198.88)	-3%
a	Share of Oil Revenue	2998.86	3688.28	689.42	23%
b	Share of Dividend (NLNG)	31.25	39.89	8.64	28%
c	Share of Minerals & Mining	1.17	1.29	0.12	10%
d	Share of Non-Oil	1384.93	1385.54	0.61	0%
	Share of CIT	794.69	799.52	4.83	1%
	Share of VAT	207.51	229.3333	21.83	11%
	Share of Customs	324.86	302.55	(22.31)	-7%
	Share of Federation Acct. Levies	57.87	54.13	(3.74)	-6%
e	Independent Revenue	847.95	624.58	(233.37)	-26%
f	FGN's Share of Actual Bal. in Special Accounts	0	6.97	6.97	
g	FGN's Balance in Special Levies Accounts	27.21	12.91	(14.30)	-53%
h	FGN's Unspent Bal. of previous Fiscal Year	250.00	0	(250.00)	-100%
	FGN's Share of Tax Amnesty Income (VAIDS)	87.84	0	(87.84)	-100%
q	FGN's Share of Signature Bonus	114.30	84.23	(30.07)	-26%
l	Domestic Recoveries + Assets + Fines	374.00	203.38	(170.62)	-46%
l	Other FGN Recoveries	138.44	0.00	(138.44)	-100%
n	JV Ownership Restructuring	710.00	710.00		0%
n	Grants and Donor Funding	199.92	209.92	10.00	5%

An Overview of the Expenditure Framework

FISCAL ITEMS	2018 Budget (As Passed)	2019 Proposal	Variance	
	N'Billion	N'Billion		
TOTAL FCN BUDGET (Excluding 9 GOEs Budget & Project-tied Loans)	9,120.33	8,826.64	(293.7)	-3.22%
TOTAL FGN BUDGET (Excluding 9 GOEs Budget & Project-tied Loans)	9,120.33	10,338.01	1218	13.35%
STATUTORY TRANSFER	530.42	492.361	(38)	-7.18%
DEBT SERVICE	2,013.34	2144.01	130	6.46%
SINKING FUND	190.00	120.001	(70)	-36.84%
RECURRENT (NON-DEBT)	3516.00	4,718.04	1,202	34.17%
SPECIAL INTERVENTIONS (Recurrent)	350.00	350.00	-	0.0%
CAPITAL EXPENDITURE (Exclusive of Transfer)	2,873.40	2,863.60	(9.8)	-0.34%
FISCAL DEFICIT (Excluding GOEs Budget and Project-tied Loans)	1,954.46	1,859.65	95	-4.85%
TOTAL FISCAL DEFICIT	1,954.46	2,415.66	(461)	23.60%
GDP	113,088.88	139,811.51	26,723	23.63%
DEFICIT GDP	(1.73%)	(1.33%)	0.40%	-23.04%
CAPITAL EXPENDITURE AS % OF NON-DEBT EXPENDITURE	45%	49%		
CAPITAL EXPENDITURE (inclusive of Transfers, but exclusive of GOEs Capital and Project-tied Loans) as % of FGN Expenditure		26%		
RECURRENT EXPENDITURE AS % OF TOTAL FGN EXPENDITURE	66%	70%		
DEBT SERVICE TO REVENUE RATIO	28%	31%		
DEFICIT AS % OF FGN REVENUE	27%	27%		

Highlights

- 2019 FGN spending (exclusive of GOEs/BT Loans) is projected to be N8.83 trillion, less than FY2018 approved budget by 3.22%
- Recurrent (non-debt) spending expected to rise by 34.17%, from N3.52 trillion in FY2018 to N4.72 trillion (reflecting increases in salaries & pension including provisions for implementation of a new minimum wage)
- Capital Expenditure (Inclusive of transfer, GOEs Capital & Project-tied loans) as % of FGN Expenditure is 30%
- A 2.14 trillion, debt service is 24.24 of planned spending
- Provision to retire maturing bond to local contractors decreased by 36.84% from N190 billion in FY2018 to N120 billion

Source: FGN Budget Office, Federal Ministry of Budget and Planning

- Budget 2019 expenditure estimate is put at N8.826trn representing a -3.2% decline from the 2018 FGN budget estimate of N9.120trn.

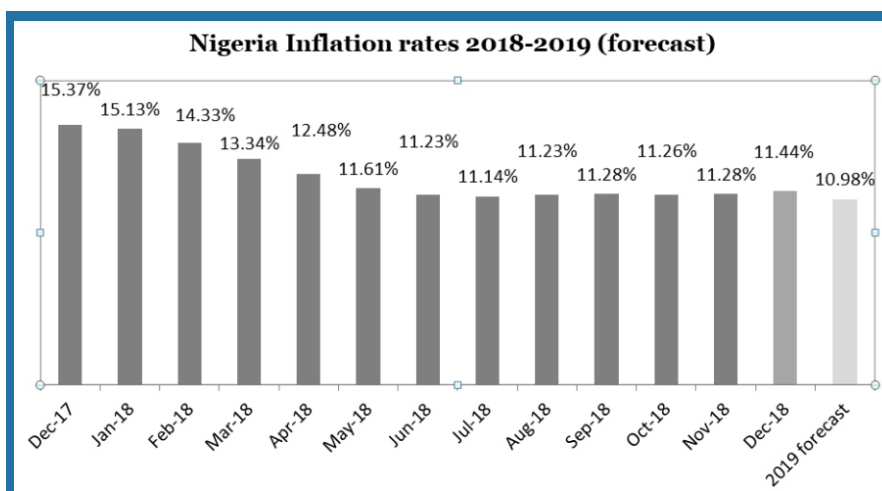
This would represent a validation of the performance outcomes and a clear indication of the FGN's decision to adopt fiscal correction and prudence in the management of its finances, or is it an acknowledgment of something less sanguine.

The **cut back in the nominal size of the 2019 FGN budget** is more an indication of the government running scared of its own fiscal shadow rather than the alternative of taking a bold step towards fiscal restructuring and strategic expansion.

The government has been spooked by the following recent macroeconomic numbers:

- 📌 A debt service to revenue ratio (DSRR) that is 67% of expected 2019 revenue;
- 📌 Inflation rate that is currently 11.44% at the end of 2018;
- 📌 International oil price that is at \$62.70bpd or temporarily above the budget benchmark price of \$60bpd;
- 📌 A fiscal debt estimate of over N2trn in 2019; and
- 📌 Rising domestic interest rates as treasury bill issuance in 2018 crowded out private sector borrowing.

Chart 6: Nigeria Inflation Rates 2018-2019 (Forecast)



Source: National Bureau of Statistics (NBS), Proshare Research

The government's decision to shrink the budget may simply comply with **Blore's law** that in a situation of alternatively tough choices, governments typically adopt the silliest.

In a situation of massive unemployment and slow-moving growth; contraction is not the best option.

We have said consistently that Nigeria's dependence on oil is not the problem; the problem is what it does with the money (indeed, for Nigeria to properly diversify its revenue base, it needs to use its oil money as an advantage).

Likewise, Nigeria's borrowing is not a problem if properly applied to productivity inducing projects and growth enabling interventions, not for palliatives and maintaining the status quo; and that is true only in a situation where the amounts borrowed are designed to grow capital assets that increase GDP growth.

Higher tax revenues from more people being employed and more incomes accruing to business will incrementally reduce the debt burden. But **how do you grow tax revenues off low income yielding citizens and entities?** Better put how do you grow tax revenues from a collectors mindset rather than a tax administration approach that rewards productivity as a sustainability anchor for steady non-oil revenues?

Table 1: FGN 2019 Budget assumptions

S/N	Description	FGN Budget 2019 Assumptions... not likey
1	GDP growth rate (%)	3.01%
2	Oil Production (mbpd)	N2.3mln
3	Oil Price (US \$)	\$60bpd
4	Inflation rate (%)	9.98%
5	Exchange rate (N/\$)	N305/\$
6	Nominal Revenue (N)	N8.826trn
7	Nominal consumption (N)	N119.28trn
8	Nominal GDP (N)	N139.65trn

Source: FGN 2019 Budget figures

If the country is to reduce unemployment and spark the fire of growth it must be prepared to take bold steps. It may need to do even the unconventional.

For example, in times of slow growth; economists would typically not prescribe raising taxes, but since Nigeria currently has the lowest Value Added Tax rate (VAT) in West Africa at 5%, the government could be bold to increase VAT by at least 200 basis points pushing the rate up 2%. Once this is done it should concentrate the additional revenue in infrastructural developments that helps to drop the cost of doing business and citizen transactions to create headroom for consumption which would spur business growth.

This, over a period of 36 months, could reduce the cost of distribution of goods and services, thereby resulting in massive savings in logistics costs which could turn up as major improvements in corporate bottom lines and additional tax income; successfully closing the revenue-expenditure gap.

It's all about productivity enhancement and not hand-outs to the most vulnerable in the society the way it is done. You protect the most vulnerable by establishing public safety nets such as unemployment benefits, health services, state subsidized housing etc – all of

which has to be paid for from the increase in productivity (translating to tax revenues), plugging of leakages through system/process improvements and adjusting the fiscal regime of taxes of tariffs to spur growth in the short term which will be clawed back to attain near equilibrium (illusory to get an optimum) as progress is attained.

4. The expenditure composition of the budget follows a historical cutting of the annual pie with recurrent expenditure on staff salaries and emoluments taking the largest slice (72% of recurrent expenditure in 2019). The recurrent challenge could get worse in the course of the year as the government prepares to pay a minimum wage of N30, 000 in 2019 as against the previous minimum of N18, 000, or an increase of 67%. T

The government has set aside about N160bln for this, but the adjustments might be far higher than expected. While the government worries about recurrent spending its primary concern should be on improving fiscal efficiency. This means its needs to look for areas of fiscal cost savings by reducing waste in government service (*options are available from experts on this*).

While at this, and given that Nigeria's tax revenue as a proportion of GDP is still amongst the lowest in the world; we would have to accept a decision by the FGN to hike low-base tax rates such as VAT, luxury imports and other non-essential consumption items whilst cutting tax rates on corporate and personal incomes to expand the number of people that pay tax. The VAIDS scheme is a step in the right direction save for the forgive and reset button missing.

H1 2016



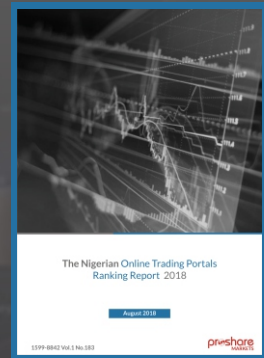
H2 2016



2017



2018



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Budget 2019: Structural Challenges and Cyclical Pains



Budget 2019: Structural Challenges and Cyclical Pains



The 2019 FGN fiscal plan needs to be reviewed within the context of cyclical and structural deficit. Determining which set of policies need to be introduced to improve the pace of economic growth would rely heavily on certain fiscal assumptions concerning whether the budget deficit in the year is majorly structural or cyclical.

The US example:

The unfolding scenario is a throwback to 1960 when President Dwight Eisenhower of the United States refused to cut tax rates because he wanted to leave office with a reputation of balancing the federal budget.

The consequence was that Richard Nixon, his then Vice-President (and later President) lost the election to President John F. Kennedy who came into power on the mantra, **'let's get America moving again'** (O Yes, the Atiku team in Nigeria, 59 years after, seems to have latched onto the language, if not the spirit, of the slogan, as did Trump in 2016 till date).

The 2019 budget expects a deficit of N2.4trn (although something closer to N2.8trn would appear more likely), and the debt service figure would be around 67% of 2019 revenue (one of Nigeria's largest deficits in recent decades).

The total national debt outstanding is a huge N24trn.

If we assume the following:

1. Budget deficit of N2.4trn (\$7.868bln)
2. Marginal Tax rate of 30%
3. GDP of \$375.77bln (2017)
4. Natural rate of unemployment of 9% (the lowest rate of unemployment that would not spark inflation).
5. **Okun's law will therefore hold**; meaning that for every 1% reduction in unemployment over and above the natural rate (which here we assume to be 9%) GDP grows by 2%. In economics, Okun's law is an empirically observed relationship between unemployment and losses in a country's production. The "gap version" states that for every 1% increase in the unemployment rate, a country's GDP will be roughly an additional 2% lower than its potential GDP.

The arithmetic suggests an expansion of GDP of 28% (since unemployment rate is 23.1%). This means GDP would rise to \$462.19bln from \$375.77bln, an increase of \$86.42bln.

The increase in tax revenues would be \$26bln, which is 3 times the budget deficit, meaning most

of the deficit is cyclical rather than structural and can therefore be addressed with fiscal and monetary measures...yet this has failed to work – perhaps because of the lack of synchronization between monetary and fiscal policies.

Why? We wish we knew.

In other words, fiscal and monetary policies must be crafted in such a way as to expand output and reduce the amount of the red ink on the FGN's fiscal ledger.

A major part of the budgetary challenge of the government is ***the failure of policies to convert revenues into growth-inducing investment***. The challenge with the fiscal authorities is that they have, over a period of four years, tried too hard to create a pseudo-welfare state that lacks proper structure or direction; backed with a funding structure that could make it sustainable.

We have seen this continue with a patchwork of federal government social intervention schemes such as the:

1. Conditional Cash Transfer programme
2. Tradermoni (with caveats)
3. School feeding programme
4. N-Power

Other schemes designed to place public money in the hands of individuals for different purposes....without a way of ensuring a contribution at a later date to pay for future interventions.





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Obsevation/**Thoughts:**





1. Fiscal dynamics and investment outlook 2019:

The government is boxed into a corner. With high debt service ratio in excess of 60% of government annual revenues, the government will either need to cut back recurrent expenditure (an unlikely outcome with minimum wage calculations of N160 billion already being considered for 2019) or reduce capital spending. The likely victim will be capital spending.

If international oil prices average below the budget benchmark of \$60 per barrel it will mean that fiscal revenues in 2019 will fall short of the amount required to meet targeted fiscal obligations and keep the Naira stable in foreign exchange markets. The likely response is that government will reduce capital spending and cover gaps in recurrent spending by issuing local Treasury bills (T-bills) with all the crowding out effect in full flow.

The foreign Eurobond option is becoming increasingly less attractive as foreign interest rates rise and Nigeria's credit rating in international markets fall on the back of highly volatile oil prices (oil prices as at Monday 14th January was \$59.91 per barrel falling back from \$61 per barrel the previous week as news of China's fall in export earnings filtered into financial markets).

Uncertainty over Nigeria's foreign earnings in 2019 will adversely affect its ability to borrow abroad and therefore will put increasing pressure on the domestic money market and raise local interest rates, this in turn will **"crowd out"** private sector investment and slow down GDP growth for the year from an estimated +1.9% in 2018 to 2.1% in 2019 (if oil prices stay up, and we optimistic it should).

The projected +2.1% growth is well below the 2019 budget projection of +3% and below the population growth rate (an otherwise positive now a major albatross on government finances).

Tight pressure on capital spending and higher recurrent obligations will likely lead to lower private sector investment spending in the year, compounded by foreign direct investment cooling off as interest rates rise in Europe and America.

2. Tightening U.S.A. Monetary Policy and Investments in Nigeria:

With monetary policy rate in the United States rising as a result of inflationary fears as unemployment in the US drops to historically low levels, the consequence for economies such as Nigeria is a reverse outflow of Direct Foreign Investment (DFI) and Foreign Portfolio Investment (FPI) as portfolio managers run for safety at higher returns in an increasingly uncertain global economy.

Nigeria's credit rating with International Credit Agencies such as Moody's, Standards & Poors and Fitch is currently below investment grade (Nigeria's recent rate is the equivalent of Moody's B2 across Agencies).

This means that international investors would require significantly higher premiums to be convinced about staying locked in Nigerian assets either for the long or short haul; the reduced appetite for investment in Nigeria will likely scale down the country's GDP growth outlook for 2019.

3. Implications for Asset Classes:

The rise in interest rate in the course of the year will continue the pattern we witnessed in 2018 where asset class distribution tilted towards the money market and bond markets which showed superior yields.

Equity market yields are likely to remain depressed. This means that a typical aggressive portfolio would have 50% of assets in money market instruments, 30% in T-bills and 20% in Equity instruments. This would provide a superior return to an all-equity portfolio or/and all-fixed income asset portfolio.

This explains why the best yielding mutual funds in 2018 were money market funds. Across all fund managers money market funds gave investors superior Net Asset Values (NAV). A similar trend is guaranteed to repeat itself in 2019.

4. Portfolio Advice in 2019 and Post-Election Projections

Investors should stay as **close** as possible to the money market while sticking a **foot** in fixed income and a **toe** in the equity market.

Equities will be challenged by fiscal and monetary policy within the year regardless of who emerges President after the general elections.

If **Atiku** wins, there may be a temporary 'Atikulated' bonus based on knee-jerk euphoria by those who see the opposition PDP Presidential candidate as a more business-friendly personality, but this emotional outburst expressed as a sudden market-wide price increase will be short-lived as reality kicks-in and price corrections are made. If President **Buhari** wins and is reelected; the capital market would not expect any policy surprises and existing trends will persist as investors snore in indifference.

5. Portfolio Advice in 2019 and Post-Election Projections

If we improve the quality and content of our educational system and make it functional and more dispersed we could improve the marginal output of each citizen, making him or her more competitive in national and global market spaces, thereby creating opportunities for these individuals to be more meaningfully integrated into a shifting global economy. Applying the Awolowo paradigm of improving labour quality would increase tax revenues, lower the dependency ratio by way of reducing the number of children per family, and open the economy up to greater overall productivity.

Population demographics rather than big budget data is the bull in the China shop. The demographic of Nigeria is somewhat **dangerously simple**. Several analysts hail the potential size of Nigeria's retail market, especially the markets for FMCGs, banking and communication services, but these figures hide a minefield of trouble, viz: **Nigeria's active labour force is between the age of 18 and 65 years.**

Between **the ages of 18 and 35 years the country has about 60% of its population**, outside this range most of the 40% balance are dependents. They are either infants or still in school or they are senior citizens and have little left to offer the formal job market.

This demographic would normally be considered as constructive as a young workforce should generate a longer term pension pool to finance development and the needs of a manageable dependent population.

The problem, as it appears when analyzing “Nigeria” is that this younger demographic is either majorly unemployed or underemployed creating a stream of marginally productive individuals who constitute **43%** of the potential labour force.

The underemployed (those working for less than 8 hours a day in fringe jobs and largely in the informal sector with little nexus to the tax bucket) constituted 20.1% of the work force in Q3 2018 according to NBS statistics.

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Table 2 Labour Force Statistics Q3 2018

LABOUR FORCE STATISTICS, 2018 Q3		
	LABOUR FORCE POPULATION (employment age and decided to work)	Total Number Employed (Full+Part time/Underemployed)
All Groups	90,470,592	69,542,944
Educational Group	90,470,592	69,542,944
Never Attended	26,916,045	21,061,638
Below primary	408,902	320,851
Primary	15,788,588	12,705,051
Secondary	32,812,555	25,238,340
Post Secondary	14,544,501	10,217,063
...NCE/OND/NURSING	8,095,988	5,361,996
...BA/BSc/Bed/HND	5,915,586	4,423,221
...MSC/MA/MAdm	460,781	369,532
...Doctorate	72,146	62,314
Age group	90,470,592	69,542,944
15-24	19,316,411	12,258,246
25-34	24,913,008	18,825,465
Youth (15-34)	44,229,419	31,083,711
35-44	21,506,599	18,044,420
45-54	15,534,290	12,968,370
55-64	9,200,284	7,446,443
Gender	90,470,592	69,542,944
Male	49,776,409	39,655,608
Female	40,694,182	29,887,336
Place of Residence	90,470,592	69,542,944
Urban	26,477,356	20,867,902
Rural	63,993,235	48,675,041

Source: National Bureau of Statistics

The improvement in the knowledge and skills of individuals would normally be expected to raise earning power and by extension, contribute significantly to national output and tax revenues.

Rather than **throw money at the problem of penury**, the more strategically sensible alternative would be to empower citizens through skill acquisition to create value and add to overall productivity.

The country should be a beehive of learning in a wide variety of areas from agricultural production and processing to information technology to metallurgy and industrial fabrication and processing.

The problem is not how much money government puts into people's pockets but how much learning they have to turn skills into cash.

6. Monetary Sector Interventions:

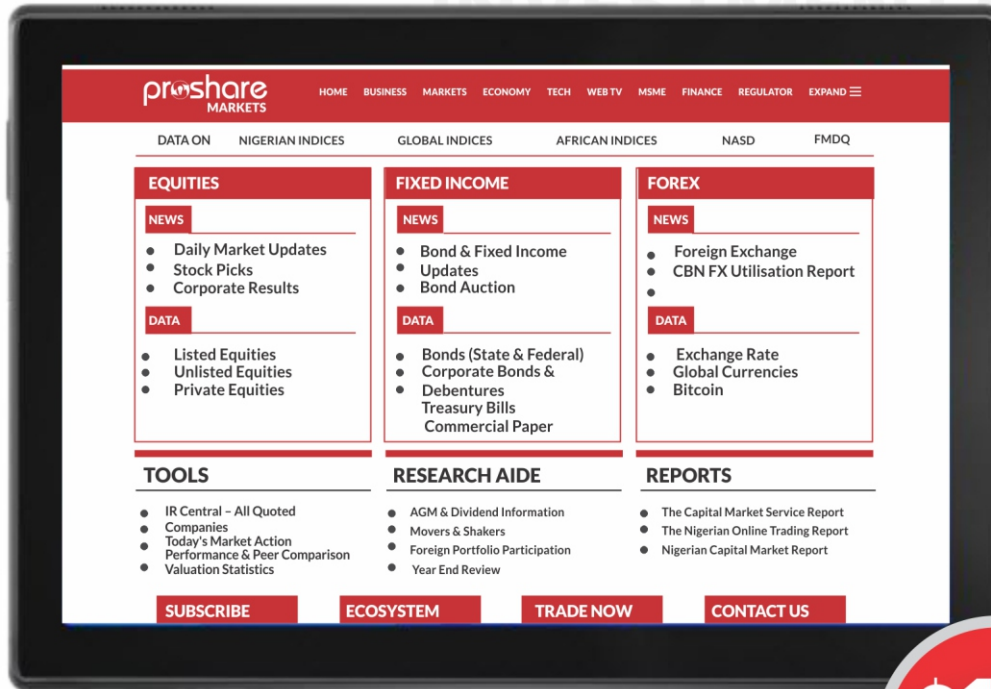
The central bank's various **interventions are a usurpation of the functions of fiscal authorities**. The agricultural intervention programmes should be spearheaded by the Ministry of Agriculture through deposit money banks (DMB's) and specialized agricultural development institutions. But even here, taking public money to finance entrepreneurship in this manner suggests projects are delivered at subsidized interest rates which poses the problem of adverse selection, a situation where funds are deployed to where they yield sub-optimal returns. Recent flood problems in the North Central has seen the CBN offer to extend further credit to farmers and restructure previous loans over a period of 4 to 5 years, the opportunity cost of this use of money is the more secured returns on investment that could have been achieved funding manufacturing or technology-based industries. The fact that the money is public funds raises the issue of economic equity and distortion in resource allocation.

Yet, we are pragmatic enough to recognize the need for some intervention. Where it comes from and how remains the challenge.

7. Fiscal Sector Interventions:

Fiscal policy needs to receive monetary support. We need to spend our way to growth with massive investment in human capital development and ICT. The 2019 budget does not address this concern and so is likely to walk with as bad a limp as the 2018 budget, leaving citizens with little if any improvement in their social and economic wellbeing.

Choosing between growth over inflation and the other issues of the trilemma will be better addressed by economists and experts. There are options canvassed but for the sake of this seminar, let me stop here.



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Conclusion



Nigeria's 2019 budget fails to rise to the requirements of bravery, vision and determination.

To excel in anything one must be prepared to outwork everybody. Success is not the simple-minded belief in prayers and the optimistic conjecture of data-crunchers but the dogged commitment to a clear vision laced with hard work and cemented by unrelenting execution.

The Christian Bible talks about finding a vision and making it clear and then writing it on tablets. It also talks about work and prayer (mind the order, it is quite deliberate).

If budget 2019 is to have any meaning to the lives of Nigerians it has to find a bigger aspiration and a stronger set of work hands, otherwise all the statistical noise will be nothing more than sound and fury signifying nothing.

If there was any lasting message that should not be lost in this report; it would be one based on evidence; and about the need for us to start paying attention to sub-national economic analysis rather than a ritualistic focus on the “federal” budget which does little for economic and social development and much less for sovereign growth.

Development starts at the local government level and beyond the cliché; data evidence proves this to be true as I have shown above. This is one apolitical way we can collectively raise the ante and refocus the larger debate about restructuring the federation in a non-partisan manner; towards our founding fathers goal of true federalism.

That said, we firmly believe that it is possible for Nigeria to achieve aggregate greatness; and this will happen when we focus on the unit of economic growth – the household, creating a nexus between the citizen and the state (managed by a critical mass of competent hands).

The process has started and though unclear, it will work out in the end because of people here today willing to tolerate uncommon truths, engage, learn, relearn and act.

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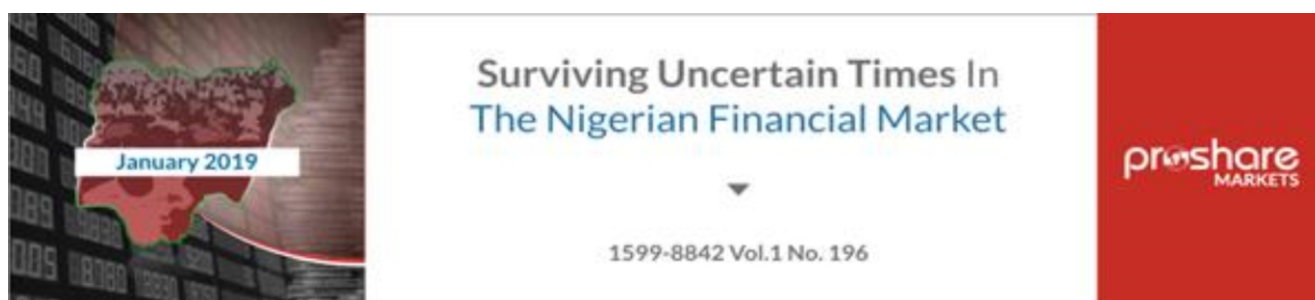


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Creation Date:

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Head, Research

Managing Editor



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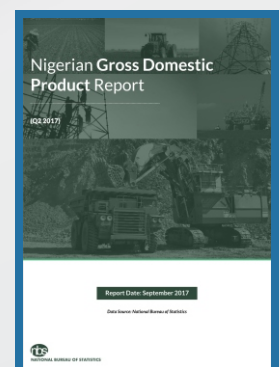
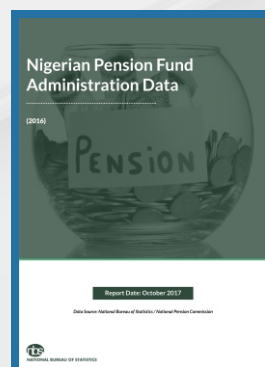
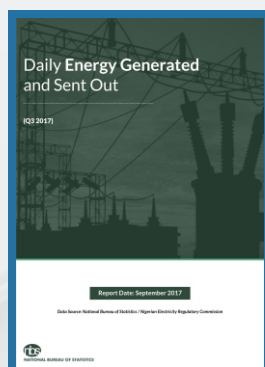
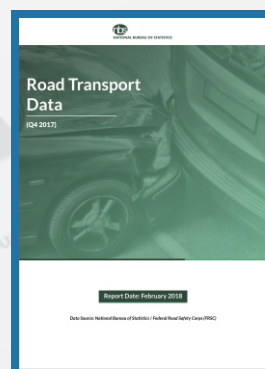
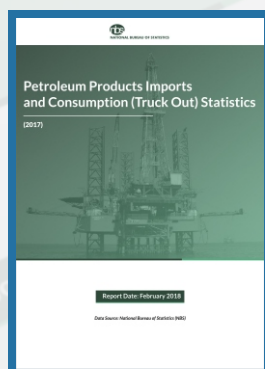
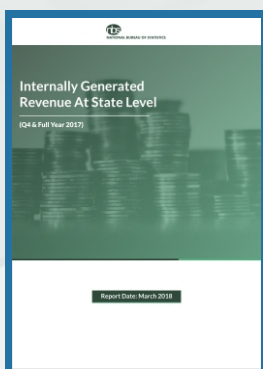
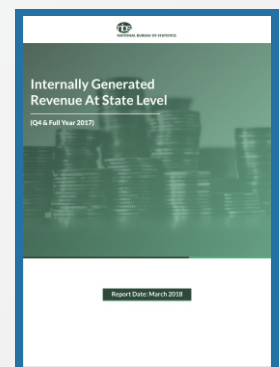
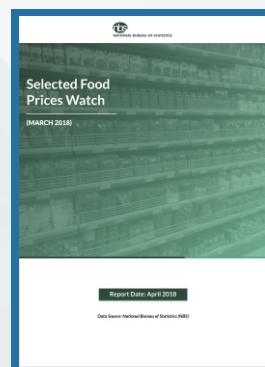
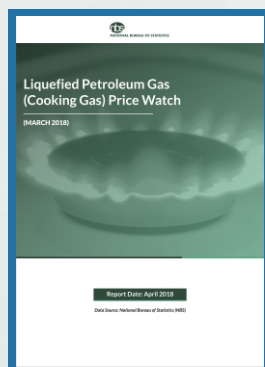
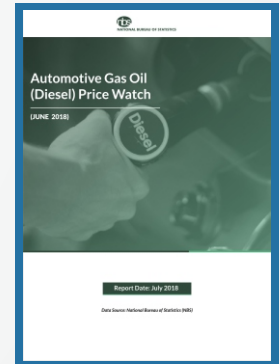
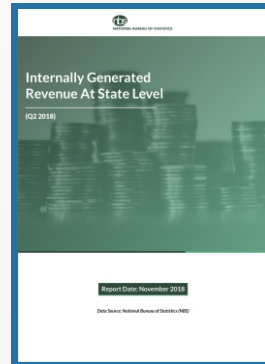
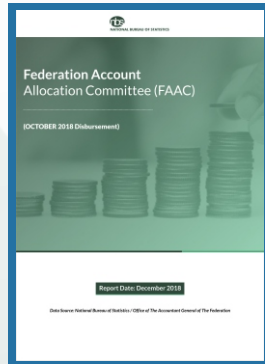
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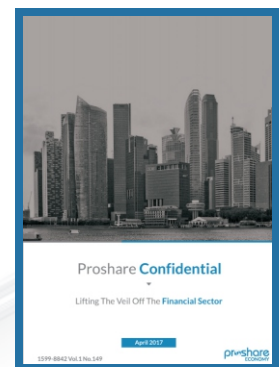
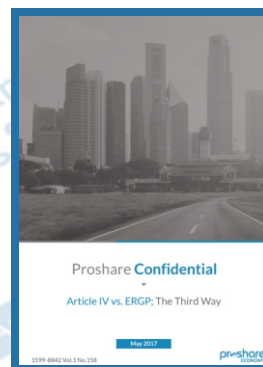
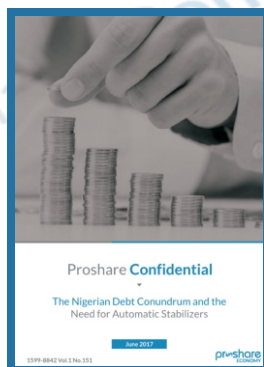
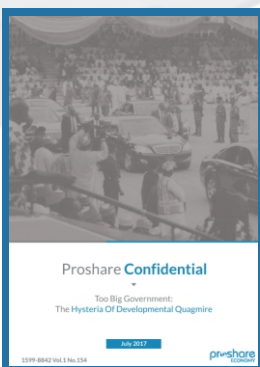
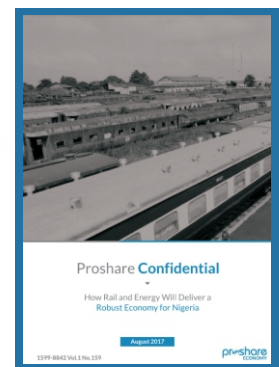
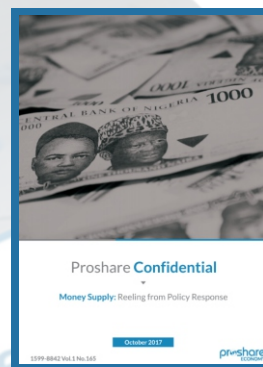
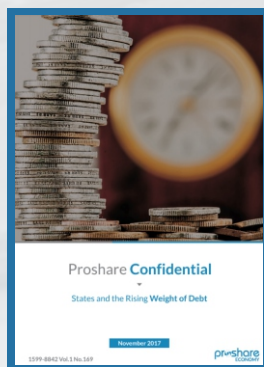
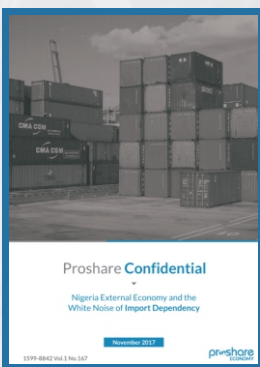
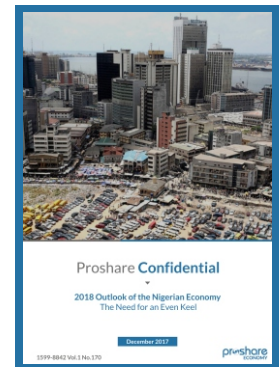
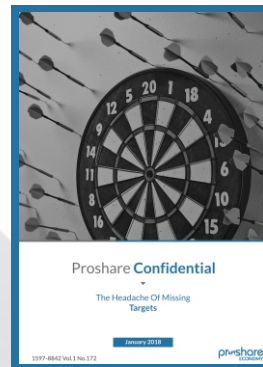
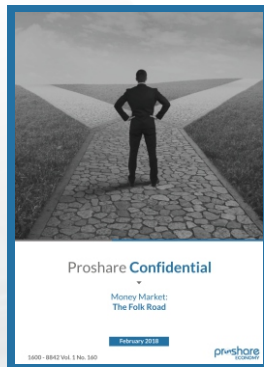
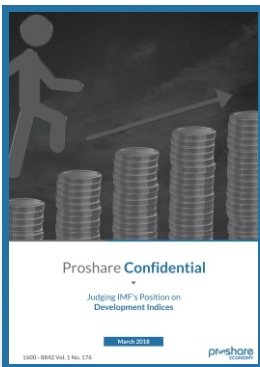
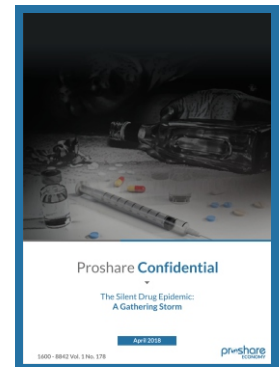
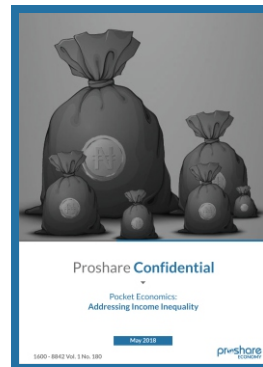
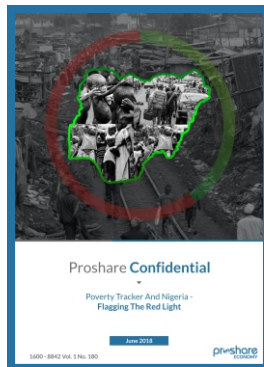
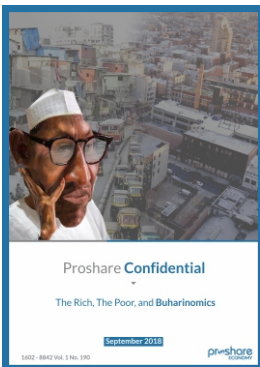
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