



# AN ECONOMIC CONTRACTION

What does this mean for  
Nigerian Businesses?

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# Macroeconomic Update

## - November 2020

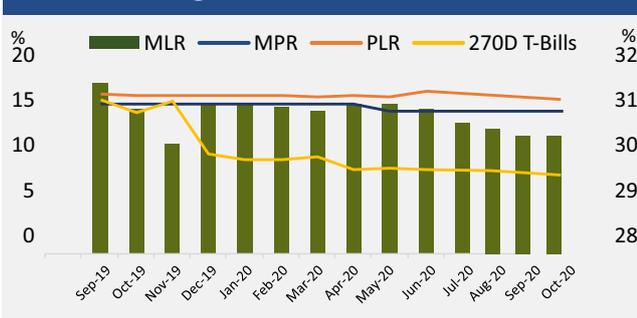
- Globally, 1.19 million people have died from the COVID-19 pandemic amongst the 46.37 million confirmed cases recorded by the World Health Organization (WHO) as at the end of October 2020. 33.48 million people have recovered while 11.69 million people are currently battling to recover from the virus. Nigeria currently has 3,028 active cases with 1,146 confirmed deaths. 58,790 people out of 62,964 (93.37%) confirmed cases have recovered from the virus.

- President Muhammadu Buhari presented the 2021 budget, titled "Budget of Economic Recovery and Resilience" on the 8th of October 2020, to the National Assembly. The 2021 budget has a deficit of about N5.20tn, which is c. 3.64% of GDP. The capital expenditure of N3.85tn reflects an increase of c. 43%

relative to 2020, and about 29% of total 2021 budget expenditure. The President specified that there will be focus on completing ongoing projects across different sectors.

- President Buhari believes that the fuel price hike would help free up resources used for subsidy payments to cater to other critical sectors of the economy, while the electricity tariff hike is meant to address the liquidity challenges in the power sector. The Federal Government and labour union have agreed to use proceeds from Value Added Tax (VAT) to temporarily provide a tariff relief package of about ₦10.20 per kilowatt-hour for certain categories of electricity consumers for the next three months and free distribution of about six million prepaid metres to consumers.

### Lending and Investment Rates



- The Monetary Policy Rate (MPR) stayed unchanged at 11.5% after a 100bps reduction in September 2020. The rate reduction creates a window for access to cheaper finance for businesses recovering from the pangs of the pandemic.

- The asymmetric corridor around the MPR was also adjusted to +100 and -700.

- The 270-Day Treasury Bills (T-Bills) rate sustained its downward trend, dropping further to 0.65% in October from 1.96% in September

### Crude Oil Price

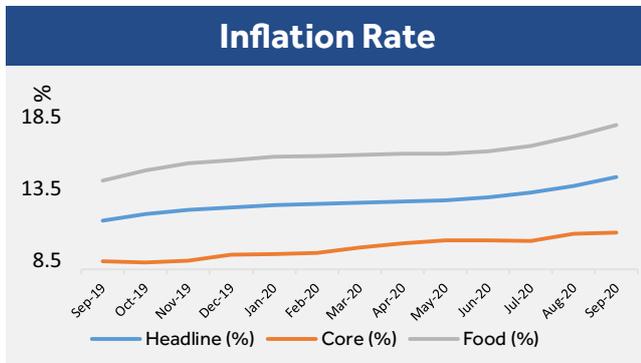


- Oil prices averaged \$39.94 per barrel in October 2020, recording a 39.62% year-to-date loss.

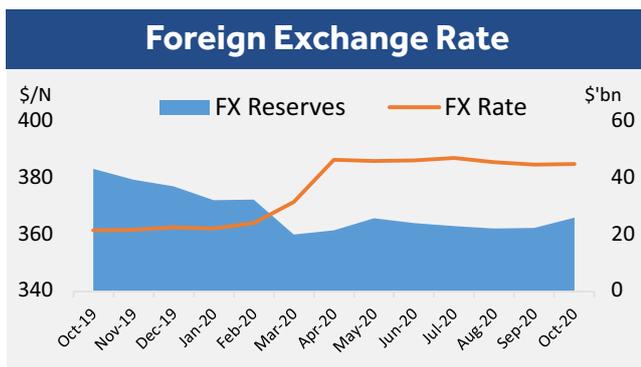
- Oil prices are beginning to look southwards after an uptick in the middle of the year. This reflects lower demand due to the possibility of a second wave of the COVID-19 pandemic. Lower prices would impact the government's revenue.

- Oil production dropped to 1.46 million barrel per day (mbpd) in September 2020 from 1.48mbpd in the previous month.

## Macroeconomic Update - November 2020 (cont'd)



- Inflation rate maintained its upward trend reaching 13.71% in September 2020 from 13.22% in the previous month.
- The increase was worsened by forex depreciation, continued border closures and the lingering effects of Coronavirus-induced supply disruptions.
- Y-O-Y prices rose mostly for food items reaching 16.66% with core inflation also rising to 10.58% in September.
- Rising inflation rate continues to erode the purchasing power of consumers.



- External reserves settled at \$36.69 billion as at the end of October 2020, relative to \$41.08 billion posted a year ago.
- This decline reflects lower oil revenue, capital flight, increasing demand for the dollar amongst others.
- However, the external reserves while lower than figures seen in 2019 can cover more than 3 months import cover.
- The NAFEX rate weakened by ₦0.15, depreciating to ₦385.95 in October 2020 from ₦385.8 posted in the previous month.

## The Nigerian Economy in Recent Times

### Overview

The World Bank projects that Nigeria's real economic growth for 2020 will hit -3.0%, attributed to the ravaging effect of the COVID-19 pandemic. Two consecutive quarters of negative growth constitutes a recession. The Nigerian economy grew at -6.1% in Q2 2020 revealing the intense impact of the pandemic as the economy went on full lock down to curb the spread of the virus with global oil prices plummeting due to demand destruction. Nigeria gradually eased the lockdown in Q3, but it took a while before people could adjust to the new normal, thus slowing recovery. It is expected that the economy will post another negative figure, maybe lower, in Q3 and Q4 2020.

The International Monetary Fund (IMF) in its October 2020 report titled "A Long and Difficult Ascent", also projects that the Nigerian economy will contract at -4.3% at the end of 2020. However, the IMF warned that the #EndSARS protest that occurred in October 2020 could take a toll on its economic projection for the country.

According to the Lagos Chamber of Commerce and Industry (LCCI), Nigeria lost approximately N700 billion in twelve (12) days during the #EndSARS protest, this loss excludes the vandalization of properties by hoodlums who hijacked the peaceful protest across the country which became rampant after the Lekki Toll Gate incident. The

## The Nigerian Economy in Recent Times (cont'd)

IMF considers Lagos, where the protest was intense, as a key contributor to the overall economic activities in Nigeria.

The recession projected by the end of 2020 could be the worst recession in four (4) decades. This looming recession, coming after the 2016 recession, is fuelled by dwindling oil prices which has strained both the external reserves and fiscal revenue, rising inflation rate which erodes real income, currency depreciation, weakened manufacturing activities and rising unemployment worsened by lay-offs triggered by the pandemic amongst others. While real GDP growth remains volatile, population growth continues to hover around 3%.

Although the GDP growth's rebound to the positive space is expected in 2021, the possibility of a second wave of the pandemic and failure to get a cure soonest, could dampen growth projections especially for economies that are yet to find ways to manage and live with the virus.

## Key Implication for Nigerian Businesses



### Slow sales and declining profit:

Whilst businesses in Nigeria were trying to grapple with the harmful impact of the COVID-19 pandemic, they were faced with the vandalization of properties by hoodlums in October. The curfews placed in different states and the fear of violence would also slow down sales and thus affect business profit.



### Burglary and theft:

Poor economic conditions cause people to live in squalor, which increases the threat of economic vices. The looting that happened to businesses across the country would also impact negatively on the economy. Businesses without insurance would struggle to get back on their feet especially those businesses that are highly leveraged.



### Increase in the cost of raw materials:

Rising prices, currency depreciation amongst others continue to put price pressure on raw materials for manufacturing companies. This keeps the price of finished goods looking northwards.



### Delayed business expansion:

Funds that are required to expand operations or buy new machineries would be unavailable due to a slowdown in revenue.



### Inability to repay loans:

Volatile macroeconomic environment coupled with poor sales could erode the credit worthiness of a business. Failure to meet credit obligation as and when due could lead to foreclosure of the business.



### Inflationary pressure:

Food prices in recent months have almost doubled, worsened by the activities of the hoodlums and the restriction of movement to manage the security situation. Price increment erodes consumers' real income which have a ripple effect on the business sales.

## Survival Strategies for Nigerian Businesses

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- The Lagos State and some well-meaning individuals have made funds available to businesses that were affected by the activities of the hoodlums that sprung out of the #EndSARS protest. Businesses can leverage these to get back on their feet.
- Companies are encouraged to have regular discussions/engagements with their Relationship Managers and Financial Advisors to advise on the best financial strategy for their businesses.
- Companies can also engage in strategic alliance or partnerships. This would promote access to new markets, product expansion and diversification. Potential opportunities available in the Economic Sustainability Plans could be leveraged.
- More than ever, businesses should consider utilizing digital channels for their operations. It provides a wider reach to the target audience.
- Companies should ensure that their businesses are insured against loss. Companies that have been insured against loss can get pay-out from their insurance company.
- Businesses should continually swap their fixed cost for variable costs where necessary to remain competitive.

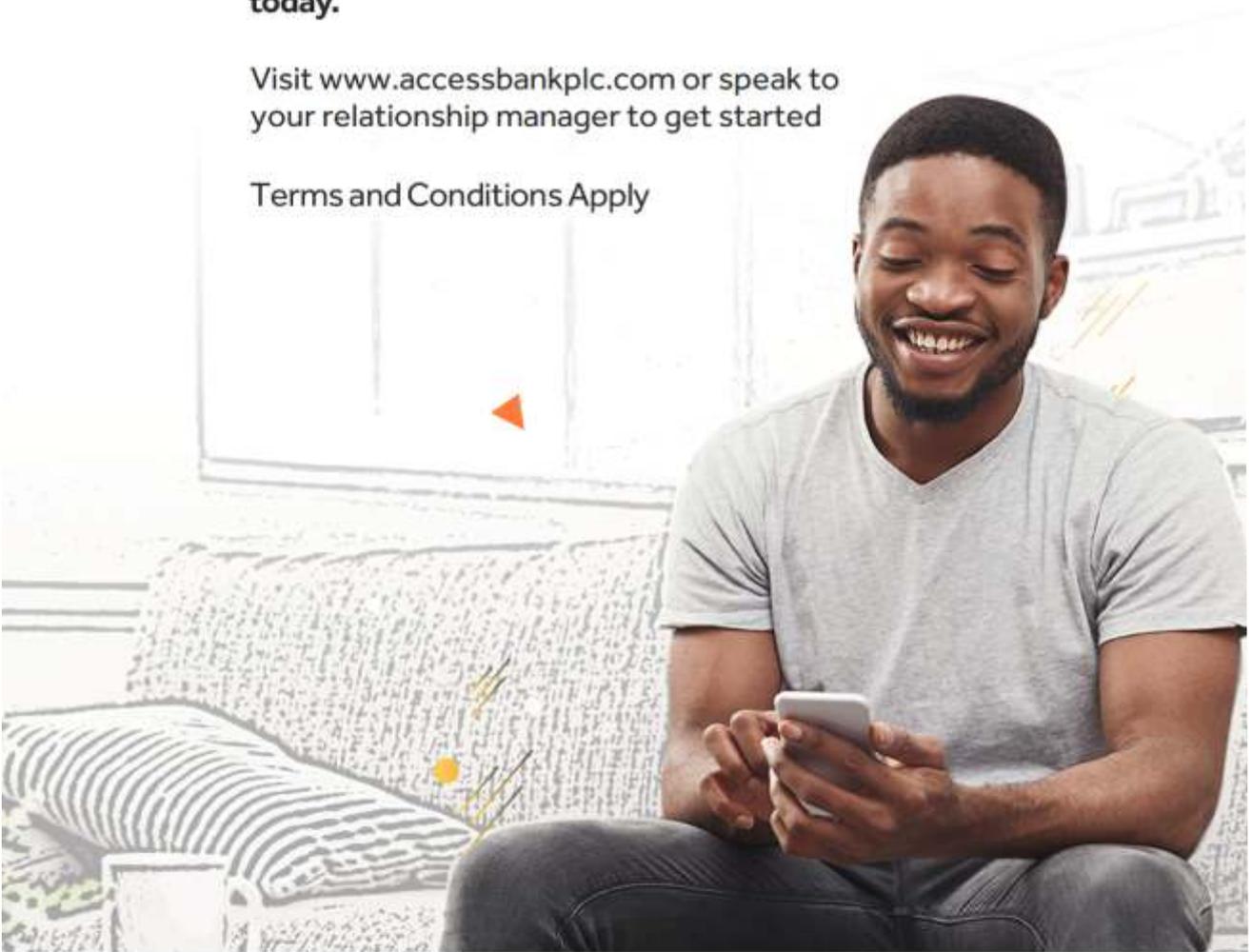
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