Journal on 2017 Macroeconomic Trends and 2018 Predictions | Nigeria

Introduction

It was not surprising for many macroeconomic observers and analysts, to see the Nigerian economy slide into a recession in Q2 of 2016, as the growth and exchange rate stability recorded in the prior decade-and-half, from 2000 to 2014, had been entirely dependent on favorable global commodity cycles (oil prices), rather than on focused economic diversification, industrialization and reforms.

2017, however, was a better year than 2016 for the Nigerian economy as it exited recession, albeit cautiously, with a growth rate of 0.70% in Q2 and 1.40% in Q3. The early but weak recovery was largely aided by improved global oil prices and production volumes, with the oil sector in Nigeria growing by 25.9%, and the non-oil sector still contracting by 0.80% in Q3 of 2017. The lesser performance of the non-oil sector during this period further reiterates the need for the Nigerian government to focus more on non-oil revenue sources through focused and effective economic diversification strategies and action plans.

In this journal, we will be looking at the macroeconomic indices shaping the quality of business and livelihood in Nigeria, the trends in 2017 and our firm's predictions for 2018.

These macroeconomic indices are captured under 9 broad themes as follows:

1. Political Stability
2. State of National Security
3. Economic Stability
4. Federal Government Interventions
5. The National Budget
6. Taxation
7. The Capital Market
8. The Money Market

** The opinions and predictions expressed in this document are strictly made from a personal but professional point of view. Vi-M therefore accepts no responsibility whatsoever over decisions taken by our audience based on the contents of this journal.*

Glossary of Acronyms

Acronym	Meaning
FGN	Federal Government of Nigeria
ERGP	Economic Recovery and Growth Plan
APC	All Progressive Congress
PEBEC	Presidential Enabling Business Environment Council
CBN	Central Bank of Nigeria
NIS	Nigerian Immigration Service
FOREX	Foreign Exchange
IPOB	Indigenous People of Biafra
GDP	Gross Domestic Product
NBS	National Bureau of Statistics
NIPC	Nigerian Investment Promotion Commission
FMITI	Federal Ministry of Industry Trade and Investment
FIRS	Federal Inland Revenue Service
IFRS	International Financial Reporting Standards
IAS	International Accounting Standards
TCC	Tax Clearance Certificate
FX	Foreign Exchange
IDP	Internally Displaced Persons
PSI	Pioneer Status Incentive
FEC	Federal Executive Council
PIGB	Petroleum Industry Governance Bill
PFA	Pension Fund Administrator
PFC	Pension Fund Custodian
VC	Voluntary Contributions
FDI	Foreign Direct Investment
TCC	Tax Clearance Certificate
SME	Small and Medium-sized Enterprises
OECD	Organization for Economic Co-operation and Development
DMO	Debt Management Office
AEI	Automatic Exchange of Information
CbC	Country by Country
CRS	Common Reporting Standards
DTT	Double Taxation Treaty

2017 Macroeconomic Trends

Political Stability

Just as the All Progressive Party (APC) Government was beginning to settle into office and consolidate approaches for tackling the 2016 recession, the beginning of 2017 in Nigeria was politically marred due to the long absence of the President from the country on medical grounds. There were rumors that the President may have passed on, as there was no public update on his health conditions or nature of illness that warranted such long absence from office.

But despite this, the lamentations of a people scorched by the effects of economic decline, hardships, uncertainties and recession seemed to have kept the new governing council on its toes. Slowly but consistently, the members of the governing council, within their different ministries started developing and executing several initiatives, which effects albeit not immediately felt, have begun to put perspective to the political and governance climate in Nigeria.

Some of these initiatives launched in a bid to regain the confidence of the citizenry in the new government included: the Economic Recovery and Growth Plan (ERGP)- 2017 to 2020, which was launched by the Presidency in April 2017 with the aim of restoring the nation's economy to the path of sustainable growth. It was the major policy of the government to tackle the recession.

The second major measure was the 2017 "Budget of Recovery and Growth" which was signed into law in June 2017 by the then Acting President, Vice-President Yemi Osinbajo. The signing of the Budget authorized the release of ₦7.4 trillion from the Consolidated Revenue Fund, of which ₦2.361 trillion was allocated to capital expenditure (inclusive of Statutory Transfers of ₦.434 trillion).

And a third was the Presidential Enabling Business Environment Council (PEBEC) reforms geared towards improving Nigeria's position on the 2017 World Bank's Ease of Doing Business rankings covering 190 economies and based on certain outlined indices.

Other policy initiatives embarked upon by the government ranged from foreign exchange interventions, expansionary monetary policies implemented by the Central Bank of Nigeria (CBN) and intensified drive for economic diversification through Agriculture, industries and taxes.

National Security

Albeit the economic interventions and policy reforms by the government, 2017 was still characterized by threats to security of lives and properties. There has been a recent resurgence of Boko haram attacks on army officers and suicide bombing attacks on soft targets in spite of the continuous reports that the Nigerian army had dismantled the sect. The growing sense of insecurity in the country was also aggravated by the continued sporadic attacks by suspected Fulani Herdsmen on local communities, the mistaken bombing of an Internally Displaced Persons (IDP) camp in the North, the quit-notice given to Igbo people in the North by some northern youths and its subsequent suspension, the clampdown of rising Biafran agitators by the Nigerian Army, the tagging of the IPOB group a terrorist group, the strong agitations for restructuring of Nigeria, the resurfacing threats by the Niger Delta militants etc.

A notorious kidnap kingpin- Chukwudumeme Onwuamadike aka "Evans" was caught by the Police, in the second half of 2017. Subsequently, other deadly kidnappers had also been caught. Although the current states of the cases against the kidnap kingpins are not certain, news of kidnap activities have gradually declined, compared to the very rampant cases experienced before 2017 and prior the second half of 2017.

Economic Stability

Since the 1st quarter of 2017, according to data from the Central Bank of Nigeria (CBN) and the National Bureau of Statistics (NBS), there has been slow but steady economic recovery. As at the ending of 2017, there was a modest Gross Domestic Product (GDP) growth rate of about 1.4%.

Inflation also reduced to 15.37% from a high of 18.55% as at the beginning of the year, although the prospect of the reducing inflation rate was again stifled by hike in food prices from November 2017. The Christmas holidays were also met with fuel scarcity and increases in transportation cost. Food and commodity prices are however, gradually declining from the upsurge experienced towards the end of last year.

Foreign exchange reserves also experienced increase to $38 billion as at the end of the year (this can be attributed to the increase in oil prices and the Federal Government's foreign debt market activities).

Due to the strong and continuous foreign exchange (Forex) interventions by the Central Bank of Nigeria throughout 2017, foreign exchange rates between the interbank and parallel markets are now converging- from a difference of 62% as at the end of 2016 to 19% as at 2017 ending.

Other key indicators of economic stability and national standard of living include: adequate infrastructure and public utilities, good system of transportation, power/ energy, employment and ease of business/ living. In line with the Federal Government's EGRP of 2017 to 2020, action plans have been outlined, and certain amounts earmarked in the 2018 budget to steadily address the insufficiencies in infrastructure, power, employment and general ease of doing business and living in Nigeria.

Federal Government interventions

On the back of growing agitations against the relatively new government by the citizenry, as the economic hardships heightened, the Federal Government launched several initiatives, which in our opinion, are gradually shaping and strengthening the economy, as follows:

The ERGP- 2017 to 2020:

The Economic Recovery and Growth Plan was launched by the Presidency in April 2017 with the aim of restoring the nation's economy to the path of sustainable growth. It was the major policy of the government to tackle the recession. It seeks to promote self-sustenance by discouraging imports while promoting local production and consumption. In addition, its aim is to create a business-friendly environment, diversify the economy, accelerate growth and make the economy globally competitive.

The broad policy objectives of the ERGP are: restoring growth, investing in our people and building a globally competitive economy. Its top execution priorities include: stabilizing the macroeconomic environment, achieving agriculture and food security, ensuring energy sufficiency in power and petroleum products, improving transportation infrastructure and driving industrialization by focusing on SMEs.

The provisions in the 2018 Budget (Budget of Consolidation) also reflect the key priorities in the ERGP, with a strong emphasis on leveraging private capital for development.

The PEBEC Activities:

The Presidential Enabling Business Environment Council (PEBEC) had as its short-term target, the responsibility to improve Nigeria's rankings in the next World Bank Ease of Doing Business Report in 2017 by at least 20 positions, as Nigeria ranked 169 out of 190 countries reviewed by the World Bank in 2016. To achieve its objective, PEBEC commenced an immediate 60 days national action plan in 2017 on three key priority areas – entry and exit of goods; entry and exit of people; and government transparency and procurement.

The scorecard of PEBEC at the end of the 60 days national action showed an overall result of 70% completion of targeted reforms. Some of the completed reform interventions included: e-platforms for ease of paying taxes and tax administration, revised timeframe for processing new company registration to 24 hours, single registration form for incorporation of business, electronic submission of registration documents, the need for lawyers in order to register new businesses at the Corporate Affairs Commission (CAC) is now optional, reduced number of documents for processing imports/exports, physical examination of goods at the ports now harmonized to ensure only one point of contact between officials and importers, introduction of the new immigration regulations, consolidation of arrival and departure forms, the Nigerian Immigration Service (NIS) now offers 48-hour visa processing and visa on arrival (VOA) services to prospective visitors, improved access to credits, improved website transparency as agencies such as CAC and NIS now have their process and documentation requirements clearly spelt out online, improved airport ambience at the Lagos and Abuja international airports, etc.

These reforms obviously helped to achieve PEBEC's objective as Nigeria gained 24 places in the World Bank's 2018 Doing Business Report which was released in October 2017. Nigeria is now ranked **145th** among **190** economies on the ease of doing business index and among the top 10 improved countries on the index.

The Nigerian Investment Promotion Commission (NIPC) and Federal Ministry of Industries, Trade and Investment (FMITI) activities:

In August 2017, the Federal Government in collaboration with the FMITI and the NIPC, lifted a two to three year administrative suspension earlier placed on the Pioneer Status Incentive (PSI) Scheme, upon the conclusion of critical reforms to the regime. Companies granted PSI enjoy income tax holiday for an initial period of three years extendable for additional two years, subject to meeting the required conditions.

Upon lifting of the administrative ban, twenty-seven (27) industries were added to the list of industries eligible for the PSI, bringing the existing list of 71 pioneer industries and products to 98. The approval of new industries and products for PSI was a positive development and it reiterated government's resolve to actualize the growth plan as articulated in the ERGP.

A new set of application guidelines was also issued and published on the NIPC website, to provide a better insight into the step by step processes involved in a first-time application and application for extension of pioneer period for an additional two years, after the initial 3-year period.

Secondly, also in line with the objectives of the ERGP, as well as the Medium-Term Expenditure Framework and Fiscal Strategy Paper for 2018 to 2020, NIPC, in collaboration with FIRS published the first edition of the Compendium of Investment Incentives in Nigeria (the Compendium) in November 2017, which helped reiterate the Federal Government's commitment to encouraging investments in Nigeria. The Compendium is a compilation of fiscal incentives and sector specific concessions provided for in the Nigerian tax laws and other legal instruments. It seeks to provide a one-stop reference document for investors (or potential investors) in the Nigerian economy seeking to know what fiscal incentives or concessions are or will be available to them.

The Federal Government's N-Power- youth empowerment and job creation initiative:

The N-Power is an initiative of the Social Investment Program of the Federal Government, which goals are to employ and empower young unemployed people between the ages of 18 and 35 years. So far, the N-Power program claims to have employed 200,000 youths and 300,000 volunteers to empower the beneficiaries of the program. This initiative, in our opinion, would help create an inclusive platform for social security and wealth redistribution among the beneficiary Nigerian youths.

The Federal Government's Home Grown School Feeding Program:

In 2017, the Federal Government also widely championed the home grown primary school feeding program, catering for the feeding of children in rural primary schools for free, thereby curbing poverty induced hunger and impediments to effective learning.

These Federal Government's initiatives, in our opinion, are indications of an enlightened and well-meaning government. If these initiatives are sustained, built upon and driven forward under the strict principles of discipline, integrity and resilience, it is our belief that they will greatly shape and strengthen the Nigerian economy in the long run.

The National Budget (2017)

The 2017 Budget, tagged "Budget of Recovery and Growth" was signed into law in June 2017 by the then Acting President, Vice-President Yemi Osinbajo. The signing of the Budget authorized the release of ₦7.4 trillion from the Consolidated Revenue Fund, of which ₦2.361 trillion was allocated to capital expenditure (inclusive of Statutory Transfers of ₦.434 trillion).

Based on precedent, the Nigerian budget has not been the best indicator of economic outcomes due to its high level of unpredictability. The APC government particularly has had a notoriety for incidences of budget padding, prolonged disagreements and back and forth between the executive and judiciary over the items in the budget. The characteristic drama of the APC government over the national budget only just subsided with this current 2018 budget, which is even yet to be signed into law.

Secondly, according to the National Bureau of Statistics, comprehensive data on actual results (for benchmark of the economic results) at the end of each fiscal year is hardly available for collation and publication. Little wonder why the Nigerian budgets are always prepared on a zero basis.

Despite the optimism expressed by analysts and the relevant government agencies in 2017, over the huge capital expenditure outlay and its expected positive impacts on the economy, one can hardly tell if any of the current positive economic trends can be attributed to that expenditure outlay. Many of the capital projects referenced as beneficiaries of the capital expenditure have either not been commenced at all or are only partly completed.

We will discuss the 2018 Budget (Budget of Consolidation) and its implications in details, in our 2018 predictions.

Taxation

The government, as part of its efforts to shift focus from oil revenue, embarked on an aggressive tax campaign in 2017, aimed at improving the nation's very low tax to GDP ratio of 6% - one of the lowest in the world. As the receding state of the economy did not merit an increase in tax rates, the government's focus was mostly on widening the tax net and improving tax administration and tax collection mechanisms, using effective information technology platforms. Highlights of the tax reforms in 2017 include:

New e-Tax Services:

In alignment with the goals of the Presidential Enabling Business Environment Council (PEBEC) to remove bureaucratic constraints to doing business in Nigeria and make the country a progressively easier place to start and grow a business, the Federal Inland Revenue Service (FIRS) introduced six (6) new electronic tax services (e-services) in 2017. The available e-services are: e-Registration, e-Stamp Duty, e-Tax Payment, e-Receipt, e-Filing, and e-TCC; all geared towards the ease of tax administration and payment.

Extensive Nationwide Tax Audit Exercise:

In 2017, FIRS conducted tax audits in collaboration with private professional services firms on a sector-by-sector basis. Over 5,000 tax audits were commenced in 2017 and are expected to be concluded in 2018.

Revisions of the National Tax Policy, Tax Laws & Regulations:

Early 2017, the Federal Government approved the revised National Tax Policy document which contains measures designed to: address multiplicity of taxes and multiplicity of Revenue agencies, reduce income tax rates and compliance burden for Micro, Small and Medium Enterprises, improve Nigeria's ranking on the global ease of paying taxes index from the current position of 181 out of 189 economies to top 50 by the year 2020, encourage diversification, expand the country's tax base and improve Tax to GDP ratio.

Revisions to other tax laws, practices and Regulations in 2017 include:

- The Federal Executive Council (FEC), during its meeting on 1 February 2017, finalized plans to increase the rate of VAT on some luxury items- subject to the approval of the National Assembly. This increase was neither concluded nor finalized in 2017.

- As part of measures to sanction tax defaulters and enhance voluntary/ timely compliance to taxes, the Federal Government, announced that it would from July 1, 2017, impose additional 5 per cent interest charge above the monetary policy rate of 14% (making a total of 19%) on all firms that fail to pay their taxes as and when due in 2017.

- The Lagos State Internal Revenue Service (the largest Internal Revenue generating and industrialized State in Nigeria), also in 2017, reviewed many of the grey areas of the Personal Income Tax Act to shed more light on the applicability of these provisions of the law to the incomes of individual taxpayers residing in Lagos State. There were 11 Public Notices in all issued by the LIRS in this regard. Their summaries can be found on our blog via this link: https://www.vi-m.com/strategy-is-nothing-without-execution/summary-lirs-new-reporting-filing-obligations-consequent-2017-public-notices/.

- In May 2017, the Senate passed the Petroleum Industry Governance Bill (PIGB), the first of four of such, to replace the Petroleum Industry Bill. The Bill, which still needs to be passed by the House of Representatives and assented to by the President before it becomes law, seeks to establish a framework for the creation of commercially-oriented and profit-driven petroleum entities, to ensure value addition and internationalization of the petroleum industry, through the creation of efficient and effective governing institutions with clear and separate roles for the petroleum industry.

- The National Pension Commission (PENCOM) issued a Circular in November 2017 to all Pension Fund Administrators (PFAs) and Pension Fund Custodians (PFCs) communicating new guidelines on withdrawals from voluntary pension contributions (VC). This was issued in response to the high trend of requests for withdrawals from VCs, usually shortly after contribution, which resulted in personal income tax leakages and faulted the purpose of the contributions.

Voluntary Assets and Income Declaration Scheme (VAIDS):

The scheme which commenced on 1 July, 2017, to be run for a period of nine months was formally launched on 29 June, 2017 by the then Acting President, Prof. Yemi Osinbajo. VAIDS is an initiative designed to encourage voluntary disclosure of previously undisclosed assets and income for the purpose of payment of all outstanding tax liabilities. It is being implemented by the FIRS in collaboration with the 36 States and FCT Internal Revenue Service.

Very importantly, the Scheme offered a waiver of interest and penalty on outstanding tax liabilities for all who declared voluntarily on or before 31 December 2017, and a waiver of penalty for all who would declare voluntarily on or before 31 March 2018. It also offers an agreed installment payment plan of up to 3 years, plus confidentiality and protection from tax audits for all who declare and remain fully compliant afterwards.

The scheme is expected to help expand Nigeria's tax base and improve the low tax to Gross Domestic Product (GDP) ratio from the current 6% to between 12% to 15% in the first instance, and so far ₦17 billion in Federal taxes has been generated as a result.

Tax Thursday and Sensitization Campaigns:

Every Thursday starting from 29th June, 2017 and for one year afterwards, was been declared "Tax Thursday" for tax campaigns and sensitization programs across the country.

Multilateral/Bilateral Taxation Agreements signed in 2017:

Nigeria became the 71st country to sign the OECD's Multilateral Convention to Implement Tax Treaty Related Measures to Prevent Base Erosion and Profit Shifting ("Multilateral Instrument" or "MLI") on 17 August 2017. The MLI is a legal instrument, designed to prevent BEPS through the modification or override of certain provisions in existing bilateral double tax avoidance treaties between signatory countries. It implements agreed minimum standards to counter treaty abuse and to improve dispute resolution mechanisms while providing flexibility to accommodate specific reservations and exercise of options by signatory countries on 'Covered' Agreements.

On the same day, Nigeria also signed the Common Reporting Standard Multilateral Competent Authority Agreement (CSR MCAA) as the 94th signatory country. The CRS MCAA was designed to implement the automatic exchange of Multinational Entities (MNEs)' financial account information in line with OECD's common reporting standards, and to deliver this automatic exchange by 2018 between 101 countries.

Nigeria also signed a double taxation treaty (DTT) with the government of Singapore in August. The DTT is aimed at eliminating or providing relief for double taxation on income of companies and individuals that are resident in either country. However, the treaty is yet to be ratified by the National Assembly and thus remains inactive in Nigeria until ratified. Similar treaties awaiting ratification are DTAs with Republic of Korea, Mauritius, Qatar, Sweden and United Arab Emirates. The treaty with Spain was signed into force on 26 January 2018 by President Buhari.

Nigeria also signed other International Agreements which provide for the Automatic Exchange of Information (AEI), with a number of nations such as Switzerland, Panama, the Bahamas and other tax havens. Additionally, banking information will easily be shared across countries due to newly implemented Common Reporting Standards (CRS).

Lastly, Nigeria signed up for the establishment of the Beneficial Ownership Register at the Anti-Corruption Summit in London. This is expected to provide access to true owners of properties in the UK and other participating countries.

The Capital Market

External Debt Profile:

In February 2017, the federal government successfully issued US$1 billion 2032 notes and recorded an additional US$500 million a month later. It raised another US$300 million through Diaspora Bond issuance in June 2017 and then issued US$3 billion dual-tranche notes comprising of 10 and 30-year Eurobonds of US$1.5 billion each. In December 2017, the Debt Management Office (DMO) offered for subscription a ₦ 10.69 billion Sovereign Green bond. This effectively brought total funds raised to over US$4.8 billion in a single financial year. Whilst debt to GDP is low at 16.2% (in June 2017) relative to Sub-Saharan African average of over 40%, debt to revenue stands at over 62% in the same period. The Debt Management Office (DMO) revealed that Nigeria spends 34% of its revenue on debt servicing while acknowledging concerns about the country's rising debt profile and the need to bring this ratio to much lower levels.

FDI Flows:

According to the Foreign Direct Investment (FDI) Intelligence, Nigeria's share of FDI flows declined by 43% in 2016. But according to Q3 2017 report released by the NBS, capital inflows into Nigeria increased to US$4.15 billion which represents a 127.5% increase from US$1.82 billion in Q3 2016. This increase could be attributed to improvement in FX policy and the attractive yields in fixed income securities and equities.

The Money Market

The Central Bank of Nigeria (CBN) also contributed to the rebound of the economy to growth territory by implementing policies that saw the exchange rate in the interbank window and the parallel market converge. It established a special foreign exchange window for investors, exporters, and end users with the objective of boosting liquidity in the FX market and ensuring timely execution and settlement of eligible transactions. It also continued to implement tight monetary policies as the Monetary Policy Rate (MPR) remained stable at 14%.

The CBN, on 20 February 2017, in apparent response to the scarcity of foreign exchange in the country, released some amendments to the current forex policy providing direct additional funding to banks to meet the needs of Nigerians for Personal and Business Travel, Medical needs, and School fees, effective immediately. CBN also mandated such retail transactions to be settled at a rate not exceeding 20 percent above the interbank market rate.

On 10 April 2017, the CBN, in its effort to ensure access to foreign exchange by Nigerian businesses, opened a foreign exchange window specially for Small and Medium Enterprises (SMEs). To provide not more than $20,000 to each enterprise in every quarter, to help SMEs import eligible finished and semi-finished items, necessitated by its findings that many of the SMEs were being crowded out of the forex space by large firms.

In June 2016, the CBN announced its intention to automate the process of issuance of Certificate of Capital Importation (CCI) for improved efficiency in the banking industry. With effect from 11 September 2017, the apex bank directed that all active CCIs be migrated to the electronic CCI (eCCI) portal as physical CCIs was to be phased out. This complete phasing out of physical CCIs was targeted towards enhancing transparency and efficient processing of foreign investment flows into the country.

2018 Macroeconomic Predictions

One major limitation of the economic predictions in Nigeria is the lack of consistent and credible data or information, also the uncertainty around the credence of the methods adopted by the research statisticians producing such public statistics. Given the very wide gap between the publicly displayed information and the harsh economic realities of the ordinary citizens and businesses in the economy, so many people no longer bother believing the publicized rosy stories.

We will however analyze the information we have, and based on adequate measure of professional skepticism, make the most reasonable predictions for 2018.

Political Stability

This year will conclude the 4th year of President Buhari's presidential term in office according to the Nigerian Constitution, and elections are to hold again in 2019. Indications from the ruling party is that the incumbent will run for a second term in office, but seeing that some of his previous proponents are gradually and publicly withdrawing alignment (based on information available in the media), it is expected that the coming elections would equally be as tough as that of 2015.

There also appears to be a recent trend by the Federal Ministries, Departments and Agencies announcing their achievements so far in office through any available public media, particularly through the social media and at private sector events. It is hoped that the heightening competition will bring out the best and not the worst of the political opponents. There is also the slight possibility that the government's focus may shift from the economic reforms it has sought to implement so far, to political campaigns as the elections draw closer and in the current year.

Further, there are interest groups clamoring for the Restructuring of the country, which entails divesting many of the powers, privileges and economic resources currently being controlled by the Federal Government, (with the exception of national security) to the States or Regions, as may be nationally agreed. The proclamations made so far by President Buhari's administration indicate that such restructuring will not be allowed or tolerated.

National Security

So far under the present administration, we have had a number of security related threats and killer herdsmen attacks in many local communities, amounting to gruesome loss of lives and properties. Up until yesterday, 7 February 2018, when the Nigerian Army announced the planned deployment of troops to Benue, Taraba, Niger, Nasarawa, Kogi and Kaduna States to go after killer herdsmen and the militia behind the killings, in an operation tagged "Operation Cat Race", there has not been any publicly available information indicating the intention of the present administration to tackle such violence decisively.

This 'Operation Cat Race' is billed to commence on 15 February 2018 and end on 31 March 2018. The Nigerian Army will also work with the Department of States Services (DSS), the police, the Nigerian Immigration Service (NIS), the Nigerian Security and Civil Defense Corps (NSCDC) and other security institutions on the 'operation'.

We hope that through this operation and going forward, the Nigerian government will finally live up to the expectations of the citizens on this crucial national matter of security of lives and properties.

Economic Stability

With the recent and gradual improvements in economic indices such as GDP growth, inflation rate, foreign exchange reserves, convergence of the foreign exchange market, improved Purchasing Managers' Index (PMI), 42.3% increase in Nigerian Stock Exchange (NSE) All Share Index (ASI) in 2017, improved capital flows, improved ease of doing business ranking by 24 places to 145th position, and the 3-year ERGP, one could confidently say that the Nigerian economy is on its way to rebound. Economic activities are also expected to further pick up once politicians start spending on campaigns towards the 2019 elections and the applicable multiplier effects.

Certain factors however, may mitigate against the prospects of full economic rebound. These include: lingering fuel scarcity in many parts of the country and agitations of the oil marketers for petrol pump price increase which may continue to hike the prices of non-oil related consumptions and commodities, giving rise to inflation; actions of the killer herdsmen, which may lead to scarcity of food and surge in food prices; the coming elections, which may warrant politicians pumping in excess money into the economy and thereby hiking inflation.

Also, in December 2017, the Central Bank of Nigeria (CBN) weakened the exchange rate marginally to ₦ 307/USD as against the ₦ 305/ USD in the official spot market. We do not know whether the intention of the CBN is to weaken the naira in order to achieve convergence of the interbank rate with that of the parallel market. But the depreciation of the naira can lead to other non-favorable outcomes such as increases in the prices of fuel, food and commodities. This will in turn put pressures on the decreasing (as a result of the economic downturn) incomes of the basic Nigerian households or consumers.

At the meeting of the Bankers' Committee in Lagos yesterday 7 February 2018 though, the CBN placed a ban on banks (with severe consequences on default) from selling dollars above N360/$ or charging any commissions on such sales to the public, on invisibles such as Business Travel Allowance (BTA), medicals and school fees, among others. According to the Bankers' Committee, this move will serve as palliative for Nigerians who have been buffeted by the harsh economy.

The Federal Government's ERGP, if sustained and implemented, will also help keep the economy focused towards complete stabilization. One cannot however tell how much the coming elections may either strengthen or shift the focus of the governing council from pursuing the ERGP strategies.

Federal Government Interventions

The implementation of the Economic Recovery and Growth Plan (ERGP)- 2017 to 2020 is expected to continue in 2018, albeit the focus of political office holders may be shifted away towards running for second term in office. The top execution priorities of the ERGP include: stabilizing the macroeconomic environment, achieving agriculture and food security, ensuring energy sufficiency in power and petroleum products, improving transportation infrastructure and driving industrialization by focusing on SMEs.

Other government's social investment program and ease of doing business strategies are expected to continue and improve in 2018, all things being equal.

NIPC's strategy for 2018 include: improving the image of Nigeria as an investment location; championing investment climate reforms; Proactive investment promotion & facilitation in priority sectors with large scale job creation potential; Providing quality aftercare services to investors with expansion potential and supporting States to become more effective promoters of domestic and foreign investments.

Although the NIPC's public goals of attracting more investment into Nigeria appear noble and commendable, the Commission would do well to strengthen the administrative bottlenecks and excessive bureaucracy that is currently associated with obtaining the investment incentives.

The 2018 Budget

The Federal Government released the Medium-Term Expenditure Framework (MTEF) and Fiscal Strategy Paper (FSP) for 2018 to 2020 fiscal years and subsequently presented the 2018 Budget to a joint session of the National Assembly in November 2017. The Budget, tagged "Budget of Consolidation," is aimed at ensuring growth and stability as Nigeria recovers from a period of economic recession. The MTEF/ FSP document highlights government's plans to achieve its defined objectives which include a

7% GDP growth by 2020, in alignment with goals set out in the ERGP.

The 2018 Budget, projects a total revenue of ₦6.609 trillion; total expenditure of ₦ 8.612 trillion (fiscal deficit of ₦ 2.005 trillion) and is based on a projected ₦ 305/ USD exchange rate; crude oil production of 2.3 million barrels per day; and crude oil price of $ 47 per barrel (adjusted from $45 by the National Assembly).

2018 Budget Revenue Sources and Predictions:

As has been the practice, the major source of the projected revenues in the 2018 budget is crude oil production and sale. The recent increase in oil prices reflect the declining global oil inventory levels attributable to high compliance rate to the Organization of Petroleum Exporting Countries (OPEC) oil cut deal and Venezuela's decrease in oil exports. However, some industry experts have argued that the uncertainty regarding the duration of the oil cut deal coupled with the forecasted increased supply response by shale producers would increase global oil inventory and eventually, contribute to a decline in oil prices. We do not expect that any such decline will happen in 2018. The Honorable Minister for Finance, Kemi Adeosun, also expressed certainty in one of her recent tweets that regardless of the oil prices, the Federal Government has comfortably 'balanced' its budget provisions on $45 per barrel.

Other concerns about achieving the revenue targets from oil include pipeline vandalism, lack of adequate infrastructure to enhance oil production to expected production levels, and poor governance structure in the industry. The Federal Government is thus expected to put strong measures in place to resolve the agitations of the oil pipeline vandals and curb the vandalism, ensure quick passages/ signing of the Petroleum Industry Governance Bills and continuously work to improve the oil sector infrastructure.

There are no much concerns around the revenue projections from non-oil sources, particularly taxation, in the 2018 budget, given the major tax reforms, amnesty and drive carried out last year and which the tax authorities may hope to build on in 2018.

2018 Budget Expenditure Outlay and Predictions:

26% of the planned spending in the 2018 budget is expected to go into debt servicing. This growing debt service allocations plus Nigeria's rising debt profile should be a big source of concern for the economy, unless there are strict measures put in place to ensure that the proceeds from the borrowings are actually spent on sustainable infrastructure and industries related initiatives. This will ensure that in no distant time, borrowings and spending on debt servicing will be balanced out by growing internally generated revenues from a more diversified and strengthened economy.

30% of the planned spending in the 2018 budget is also expected to go into Capital items, in line with the execution strategies of the ERGP 2017 to 2020. According to the National Budget Office, allocations have also been made towards the strengthening certain sectors of the economy as follows:

- ₦101.58 billion for agriculture and food safety; particularly encouraging agribusiness and agropreneurs;
- ₦34.51 billion for ensuring energy sufficiency and power sector reforms;
- ₦465. 60 billion for improving transportation infrastructure;
- ₦46.39 billion for special economic zone projects;
- ₦ 19.28 billion export expansion grant (EEG), in form of tax credits to support export (both targeted towards driving industrialization with focus on small businesses);
- ₦400 billion for the Federal Government's social intervention programs; and
- ₦100 billion for a new social housing program requiring a ₦1 trillion fund.

Taxation:

According to the Federal Inland Revenue Service (FIRS), its major goals for 2018 is to achieve its revenue collection targets, with particular focus on Value Added tax (VAT); to conclude audits of at least 5,000 companies initiated in 2017; and to continue to sensitize taxpayers on the use of the e-tax solutions launched in 2017.

The National Tax Policy implementation committee (set up in 2017) on Friday, 2 February 2018, presented the national tax policy implementation strategy document to the Honorable Minister of Finance. The New National Tax Policy is expected to address the following:

- Straighten the tax system challenges and bottlenecks;
- Enhance the ease of paying taxes;
- Improve tax to GDP ratio;
- Establish a VAT threshold for SMEs;
- Address the fragmented taxpayer database;
- Address the weak structure for exchange of tax information; and
- Ensure accountability to taxes by both incumbent and incoming governments.

Other tax strategies for 2018 include reviews of the VAT Act (to impose stiffer penalties on defaulters); and the Stamp Duty Act (to impose stamp duty on all forms of Agreement).

Early this year, Nigeria also signed into law, the Income Tax (Country-by-Country Reporting) Regulations 2018, giving effect to the third requirement of the OECD's Multilateral Competent Authority Agreement (MCAA) for the automatic exchange of Country by Country (CBC) Reports. That is, the necessary legislation to require Reporting Entities within signatory jurisdictions to file the CbC Reports.

The signing of the Income Tax (Country-by-Country Reporting) Regulations 2018, further communicates government's resilience to clampdown on tax evasion and avoidance practices of multinationals who shift profits to tax haven jurisdictions.

The Capital Market

The Debt Management Office (DMO) revealed that Nigeria spends 34% of its revenue on debt servicing while acknowledging concerns about the country's rising debt profile and the need to bring this ratio to much lower levels. A portion of these funds have been earmarked for refinancing existing domestic debt (which accounts for around 80% of total debt) to shift towards lower priced FX external debt. We expect the government to work towards reducing its borrowing cost and also utilize these borrowings (net of debt servicing) to fund infrastructural investments to stimulate and reposition the economy.

FDI inflow into the country is expected to increase, with the actions of the Federal Mistry of Industries Trade and Investment through the NIPC, the improved ease of doing business ranking and the convergence of the foreign exchange rates.

The Money Market

In view of the proposed utilization of the proceeds of the US$3 billion dual-tranche Eurobond split between funding the 2017 budget capital projects and refinancing some short term domestic debt, it is expected that the yields on fixed income securities would decline marginally. However, we also expect that the monetary authorities would have to discover an equilibrium interest rate that will on the one hand, attract portfolio investors and on the other hand, encourage lending as a change might alter the inflow of foreign exchange, destabilize exchange rates and increase inflation.

Other 2018 Economic Outcomes

New International Financial Reporting Standards (IFRS) Obligations for Companies, Effective 1 January 2018

IFRS 15 – Revenue from contracts with customers

The way companies will report revenues in their financial statements will change from this year, with the change affecting the 2017 comparative figures in the 2018 financial statements.

Companies will now report revenues in a different way and revenue reporting patterns will change. The revenue reporting pattern is expected to better reflect the substance of the transaction as contained in the contracts. The objective of the revenue standard IFRS 15, is to provide a single, comprehensive revenue recognition model for all contracts with customers to improve comparability within industries, across industries, and across capital markets.

This new revenue recognition and disclosures requirement of IFRS 15 will lead to more work for accountants and auditors, and so the cost of issuing financial statements is expected to increase marginally. IFRS 15 will also impact on reported profits and tax (particularly for prior year and transitional entries), therefore adequate transition disclosures/ documentations need to be kept for the review of tax officials in the event of any tax queries/ audits.

IFRS 15 was issued in May 2014 and applies mandatorily to annual reporting periods beginning on or after 1 January, 2018. To recognize revenue under IFRS 15, an entity applies the following five steps:

- identify the contract(s) with a customer.
- identify the performance obligations in the contract. Performance obligations are promises in a contract to transfer to a customer goods or services that are distinct.
- determine the transaction price. The transaction price is the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer. If the consideration promised in a contract includes a variable amount, an entity must estimate the amount of consideration to which it expects to be entitled in exchange for transferring the promised goods or services to a customer.
- allocate the transaction price to each performance obligation on the basis of the relative stand-alone selling prices of each distinct good or service promised in the contract.

- recognize revenue when a performance obligation is satisfied by transferring a promised good or service to a customer (which is when the customer obtains control of that good or service). A performance obligation may be satisfied at a point in time (typically for promises to transfer goods to a customer) or over time (typically for promises to transfer services to a customer). For a performance obligation satisfied over time, an entity would select an appropriate measure of progress to determine how much revenue should be recognized as the performance obligation is satisfied.

IFRS 9 – Financial Instruments

IFRS 9 replaces IAS 39, Financial Instruments – Recognition and Measurement. It is meant to respond to criticisms that IAS 39 is too complex, inconsistent with the way entities manage their businesses and risks and defers the recognition of credit losses on loans and receivables until too late in the credit cycle.

Under IAS 39, the standard provides that there must be an objective evidence of impairment before provisions are taken. IFRS 9, on the other hand, is slightly more stringent because companies carrying financial assets or financial liabilities in their books (banks and other financial institutions mostly affected) will have to recognize not only credit losses that have occurred but also losses that might occur in future. In other words, these companies would be required to make provisions for expected credit losses over the next 12 months and where credit risks are deemed to have increased significantly, they would have to record the lifetime expected credit loss. The major implication of IFRS 9 is that more provisions will be taken by companies carrying portfolios of financial assets.

In view of the transitional entries to be taken in January 2018 in line with the provisions of IFRS 9, it is excepted that most banks and financial institutions would have taken proactive steps to ascertain the potential effects of IFRS 9 and also identify measures to mitigate the potential shocks on their books.

IFRS 9 is effective for annual periods beginning on or after 1 January 2018 with early application permitted. The Standard specifies how an entity should classify and measure financial assets, financial liabilities, and some contracts to buy or sell non-financial items.

Conclusion

As much as a review of the macroeconomic indices help businesses understand the economic trends that may have impacted or will impact their businesses, in one way or the other, each business is also expected to recognize and articulate the peculiar trends around its business activities and operational model that may shape its business environment for the coming year and beyond. Examples of these peculiar situations include the simplicity or otherwise of the operational model, impact of technological advancements on the business, employment and talent retention issues, customer needs versus products/ services offered and the level of customer satisfaction provided, funding procurement and management options versus business expansion needs, etc.

As the economy is expected to look up in 2018, businesses are encouraged to reshape their operational models in order to tap into and take maximum advantage of the macroeconomic indices discussed.

© 2018 Vi-M Professional Solutions

Vi-M Professional Solutions (Vi-M) (www.vi-m.com) is a professional services firm registered in Nigeria. We provide tax, audit and advisory services. We are the first professional services firm in Nigeria to be engaged by the Federal Inland Revenue Service (FIRS) to write and publish tax technical articles in a national newspaper for the education of taxpayers. We produced the first Tax Laws App (Tax Law Book), and the first Value Added Tax (VAT), Withholding Tax (WHT) and Pay-As-You-Earn (PAYE) tax calculator software (www.vi-mtaxassist.com) in Nigeria. We also recently launched our jobs/ recruitment website – www.vi-mtalentassist.com, to make recruitment painless for both talents and employers.

Our mission is to take the burden off the minds of the business executives and to provide a soft sail through the ever changing fiscal terrain of the growing Nigerian economy: from business positioning strategies to end to end back office finance, talent management and business process improvement, to the perfect tax effective structure for your line of business. Our team of innovative minds would stop at nothing to develop that bespoke service or product which would resolve your particular needs and help to create and sustain that conducive, stress free environment necessary for running effective businesses.

Read more about Vi-M on www.vi-m.com.

To contact us, please send an email to clients@vi-m.com with a copy to vchigozie-nmonwu@vi-m.com or mnmonwu@vi-m.com.