



# THE CAPITAL MARKET AS GROWTH ENGINE OF THE ECONOMY



## Opportunities and Strategies to Improve Competitiveness and Attractiveness of the Nigerian Capital Market

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*Tuesday, 12<sup>th</sup> April, 2016*

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**Current Macroeconomic Environment is Challenging**

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**Role of the Capital Market in Boosting Economic Growth**



# Overview of the macroeconomic environment

## Nigeria's economy is facing very challenging times

- Following over a decade of impressive above 7% growth rate, the economy has significantly slowed to only 2.82% in 2015, roughly equalling population growth rate
- The current economic environment is characterized by factors including:
  - Decline in prices of crude oil in global markets
  - Exchange rate instability
  - Inflationary pressures
  - Energy shortages (power and fuel)
  - Exit of foreign investors
  - External headwinds, including slower global growth
  - Security challenges**

Macroeconomic Indicators	
Real GDP growth (est. Q1, 2016)	3.3%
Real GDP per capita growth	0.3%
CPI inflation	11.4%
Fiscal deficit as % GDP (2015)	-3.7
Key interest rate (MPR)	12%
Naira exchange rate/USD	199

Sources: CBN, NBS, IMF

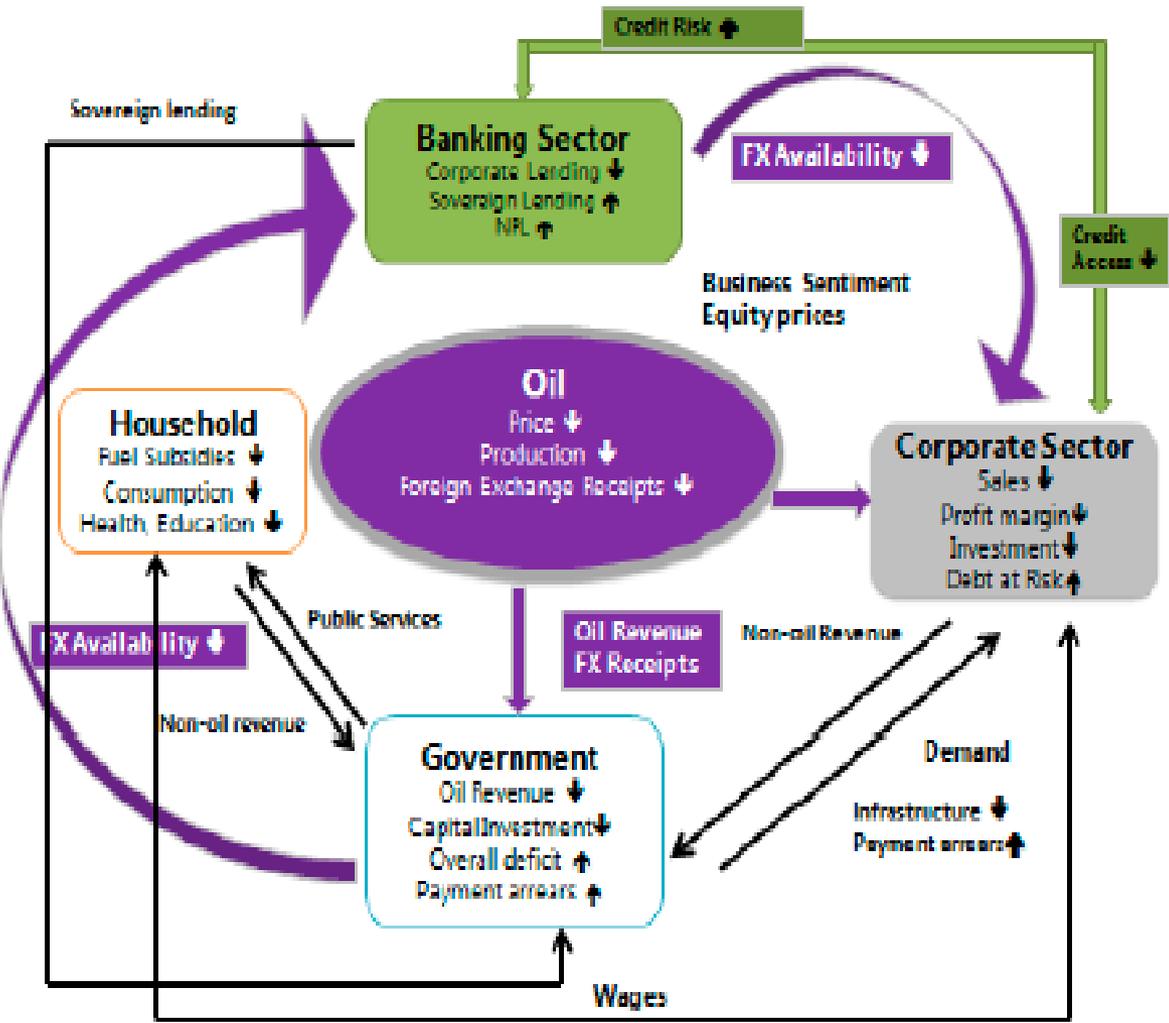
### Annual GDP Growth (%)



Sources: NBS, World Bank

-  *The general sense of uncertainty in the economy is a major concern for government*
-  *President Buhari himself had to convene an important retreat on the Nigerian economy*
-  *The economic crisis is worsened by Nigeria's twin challenges of massive infrastructure deficit and growing unemployment*
-  *Businesses are forced to confront both infrastructure deficit and difficult access to capital*
-  *Government is focusing on diversification of the economy*

# The Macro Impact of the Fall in Oil Prices...



✧ The decline in oil prices, beginning from Q3 2014 has defined the entire macroeconomic landscape in Nigeria

✧ Oil used to contribute up to 75% of government revenue, this decline has impacted capital investments negatively while pushing overall budget deficit higher

✧ Similarly, availability of foreign exchange has reduced as less FX comes in, both the banking sector and the corporate sector are feeling this impact

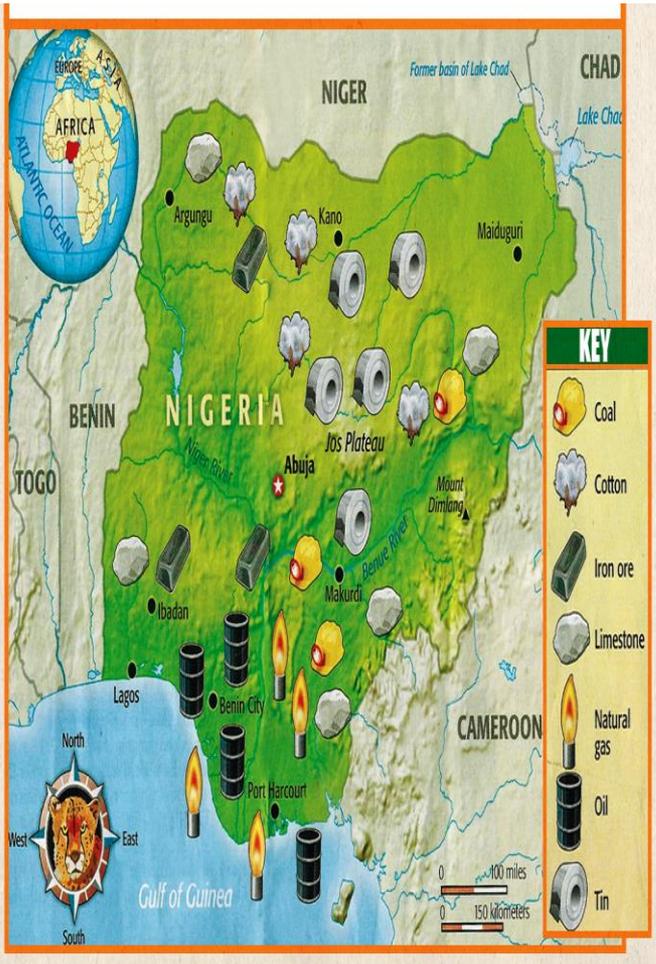
✧ As a result, bank lending to the corporate sector has declined while non-performing loans are up, credit risk overall is up for most sectors

✧ Across the economy the level of demand has reduced and households are bracing for higher inflation

Culled from the IMF 2015 Article IV Consultation Report for Nigeria

# Despite the challenges .... Nigeria remains very attractive

*In spite of the current economic challenges, Nigeria continues to have the most compelling investment case of any major frontier market*



**1** *Still the largest economy in Africa*

**179** *Most populous black nation on earth with 179 million people*

**34** *34 valuable solid minerals*

**84** *84 million hectares of arable land*

**6<sup>th</sup>** *6<sup>th</sup> largest exporter of oil*

**8<sup>th</sup>** *World's 8<sup>th</sup> largest gas reserve*

**18**

*Young demographic with median age of 18.6 years*

**3.5**

*Rapid urbanization rate of 3.5% p.a.*



*Investors with a long-term view know that Nigeria's potential remains among the most attractive anywhere*



*As government policy becomes clearer and active investment in infrastructure commences the economy will rebound*

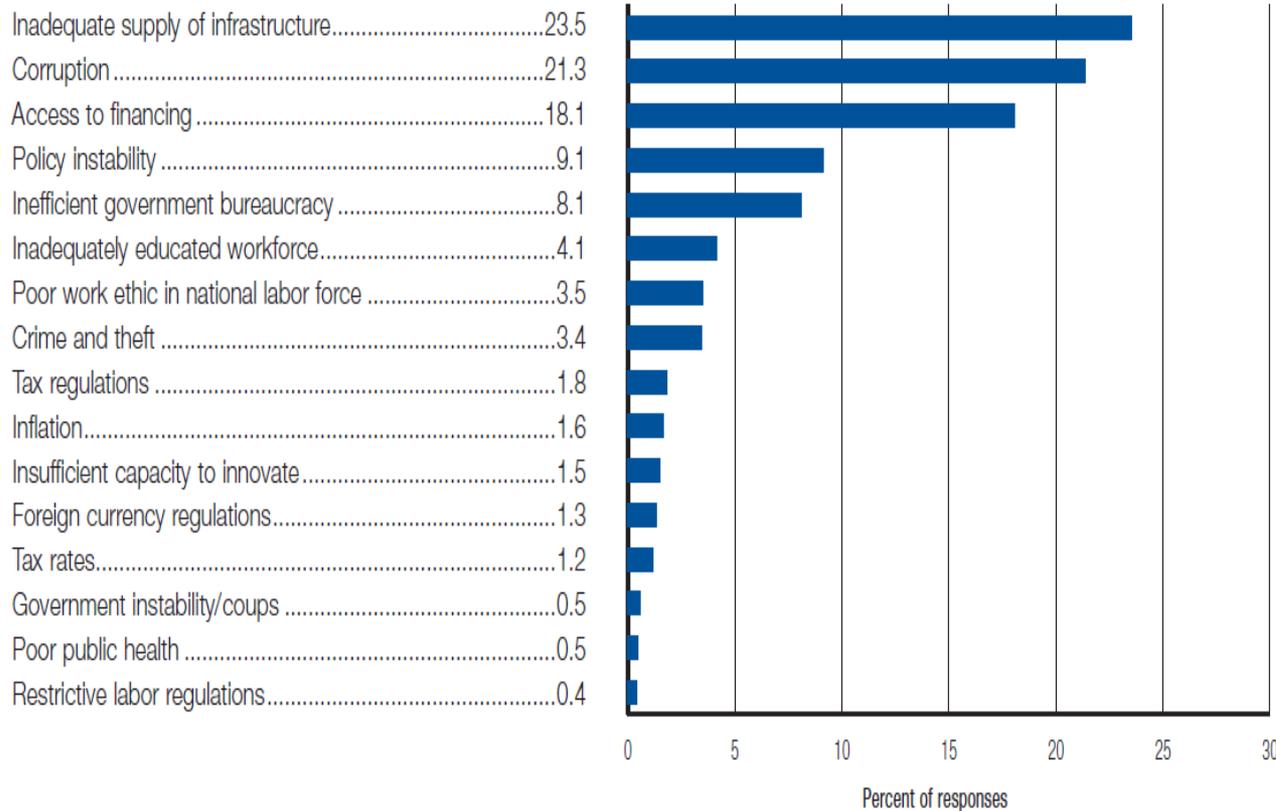


*The World Bank predicts growth to get back to above 5% within next year and beyond*

# Capital markets are critical for addressing Nigeria's challenges and expanding opportunity...

*There is a growing realization that vibrant capital markets are urgently needed to tackle Nigeria's challenges and catalyze socioeconomic development*

## The most problematic factors for doing business



*The latest World Economic Forum Global Competitiveness Index measured the most problematic factors for doing business in Nigeria with infrastructure deficit topping the list. Access to finance is the third*



*The capital market is uniquely placed to address both challenges to unleash economic growth and job creation in the country*

Sources: WEF

# Capital markets are critical for addressing Nigeria's challenges and expanding opportunity...

## *Capital markets do more than providing access to finance*



✧ *Capital markets are not just important for raising funds for infrastructure and business expansion, they also*

✧ *engender good corporate governance and accountability*

✧ *promote transparency*

✧ *enable wealth creation and distribution*

✧ *foster inclusiveness*

✧ *democratize access to prosperity*

✧ *champion meritocracy*

✧ *The Nigerian capital market is being repositioned to do more for Nigerians, providing government with the funds to fix infrastructure and businesses to create more jobs*

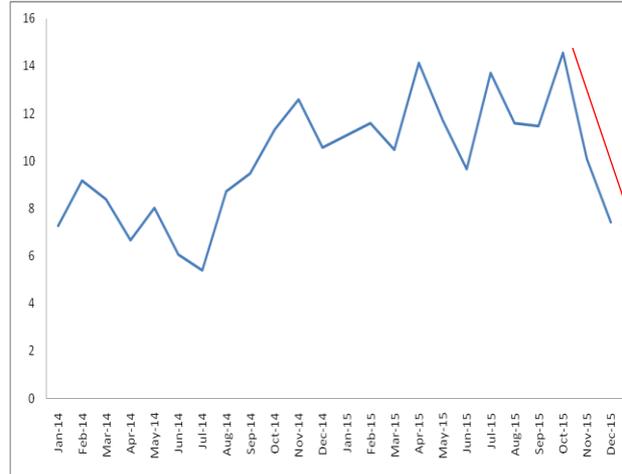
# Current State of the Nigerian Capital Market

*While maintaining its sound fundamentals, the Nigerian capital market is currently reflecting the sentiment in the broader economy*

The NSE ASI since 2014



The FMDQ 2014/2015 Turnover



Sources: NSE, FMDQ and Bloomberg

## Major Factors Impacting Performance

- The oil price shock*
- The declining foreign reserves*
- Foreign exchange volatility*
- The delisting of FGN bonds from major emerging market indices by JP Morgan and Barclay's*
- Exit of foreign portfolio investors, etc*

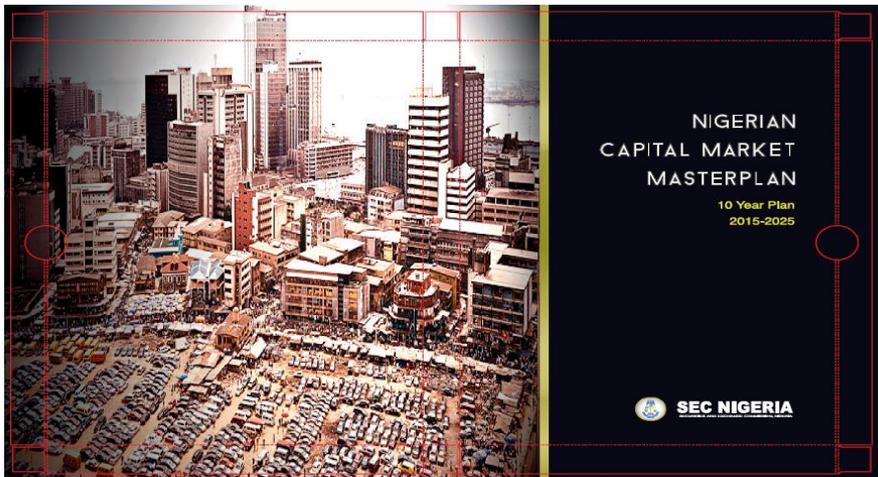
*Within the context of the current economic environment, both the fixed income and equities segments of the capital market have witnessed dips in activity*

*In the last 3 months of 2015 alone, transaction volumes on the FMDQ OTC platform (which reflects the state of the fixed income market) declined by about 50% from N14.54 trillion in October 2015 to N7.43 trillion by the end of that year. This drop in liquidity has continued into the early parts of 2016*

*The stock market has also endured similar declines. Major NSE indices lost 17% in 2015 while transaction volumes fell by over 40% within the year. 2016 ytd performance is currently at -11%, an improvement from the steep declines in the early parts of the year*

# The Nigerian Capital Market Master Plan: 2015 – 2025

*The 10-year Master Plan represents our strategic blueprint to boost both the attractiveness and competitiveness of the domestic capital market*



⊗ *Developed with participation from the entire market, the Master Plan aims to make Nigeria one of the biggest, most liquid, broadest, most diversified and most sophisticated emerging markets by 2025*

⊗ *We aim to develop a highly competitive market boasting of a favorable operating environment that engenders best practice, innovation and efficiency*

✓ **Size:** *The market must grow to be a multiple of the country's GDP*

✓ **Relevance:** *The capital market must be nationally and internationally recognized*

✓ **Robustness:** *Efficiency, liquidity, depth of product offering, etc must improve significantly*

✓ **Growth:** *Even after attaining the envisioned scale, the market must keep growing*

✓ **Regulatory Framework:** *The regulatory framework must continually be facilitative and conform to international best standards*

⊗ *Significant parts of the Master Plan articulates plans for Non-Interest Capital Market and Capital Market Literacy*



# The Master Plan Implementation so far... First Year (2015)

## Implementation Governance Structure

- High-level Council (the CAMMIC) inaugurated to champion advocacy for the Master Plan
- A dedicated project management team within SEC, meeting regularly with the Director General

## Mainstreaming the Master Plan

- Ownership of the Master Plan at the highest levels (the Presidency, the National Assembly and the Judiciary)
- To be adopted as part of the broader national economic development strategy

## Major Master Plan Initiatives Completed in 2015

1 Corporate Governance Scorecard

2 National Investor Protection Fund

3 Dematerialization

4 E-Dividend

5 Direct Cash Settlement

6 Recapitalization

7 Robust Public Enlightenment

8 Strengthening the SEC's Capacity

 *Our implementation approach is to identify initiatives within the Master Plan at the beginning of the year and to focus on faithfully implementing them*

 *In 2015, being the first implementation year, we selected low-hanging fruits which we are delighted to have fully implemented*

 *A lot of these initiatives had been identified for decades without any meaningful progress in their implementation*

 *Thanks to the Master Plan, there is a renewed focus on ensuring such initiatives are prioritized and religiously implemented*

## Major Master Plan Initiatives for 2016

1 Attracting More Listings



*Similarly, in 2016 we shall focus on key areas of the Master Plan , especially prioritizing initiatives that will deepen the market while boosting its attractiveness and competitiveness*

2 Establishing a National Savings Strategy



*We will focus on getting major companies in strategic sectors of the economy to get listed on any of the SEC-licensed platforms*

3 Deepening the Non-Interest Products Segment



*A National savings strategy document will be developed to improve our savings culture and accelerate the development of a domestic investor base*

4 Building Industry-wide ICT Infrastructure



*The technology infrastructure across the market will be given prime attention to increase market efficiency*

5 Capital Market Literacy

6 Reduction of Transaction Costs



*Our cost structure will be reviewed to make the market more competitive*

7 A Framework for Derivatives



*Product innovation will be prioritized, especially derivatives that can help economic agents manage their risk*

# Towards Double Digit Economic Growth

*Government plans to address impediments to growth and massively invest in infrastructure while pursuing diversification of the economy*

Focusing on economic diversification with **Agriculture** and **Solid Minerals** as major growth drivers

Improving the business environment and investing heavily in infrastructure

Leveraging the capital market to expand access to capital to boost job creation and inclusive growth



*The current administration has acknowledged an urgent need to address challenges of infrastructure deficit, poor access to finance and unemployment*



*Government has therefore outlined plans to:*

❖ *Increase borrowing to fund more active investment in critical infrastructure*

❖ *Pursue economic diversification by focusing on key sectors to serve as growth drivers especially:*

➤ *Agriculture*

➤ *Solid Minerals*



*Both sectors are capable of creating significant numbers of jobs*

# What the Capital Market can do to Support Government's Ambition .... the Role of SEC



## Regulation Mandate

✓ Responsive Rule Making: making rules that support product innovation related to infrastructure funding such as rules on:

- ✓ Infrastructure funds
- ✓ REITs
- ✓ Securitization
- ✓ Sukuk

✓ Strong investor Protection and Monitoring

- ✓ Pre/Post offer inspections, etc

## Market Development Mandate

✓ Outreaches to State governments about the potential of leveraging the capital market to fund infrastructure

- ✓ Regional roundtable events on Non-Interest Products

✓ Partnership and cooperation with other Federal government agencies

- ✓ Supporting the DMO with technical expertise in issuance of first Sovereign Sukuk
- ✓ Contributing to discussions around the proposed Infrastructure Fund by the Ministry of Finance

*In addition to the very robust regulatory framework the SEC is working to develop in Nigeria, we are actively involved in strengthening aspects of the market that can impact infrastructure funding*

❖ *Deepening capacity of SEC staff in new products like securitization, REITs and Sukuk*

❖ *Supporting product innovation in the industry*

*The 10-year capital market master plan identifies the need for the capital market to play a more prominent role in financing government initiatives and we engaging fiscal authorities to actualize this ambition*

# What the Capital Market can do to Support Government's Ambition .... the Role of the NSE

## Attract Listing from Critical Sectors

- ✓ Craft special listing rules targeting companies in sectors like:
  - ✓ Agriculture
  - ✓ Solid Minerals
  - ✓ Power and Utilities
- ✓ Strengthen ASeM to admit many more SMEs
  - ✓ Nurture companies in critical sectors to support government's diversification drive

## Champion Product Innovation

- ✓ Leverage technology to boost product innovation
  - ✓ Infrastructure project IPOs
  - ✓ Asset spin-offs
- ✓ Boost Nigeria's competitiveness

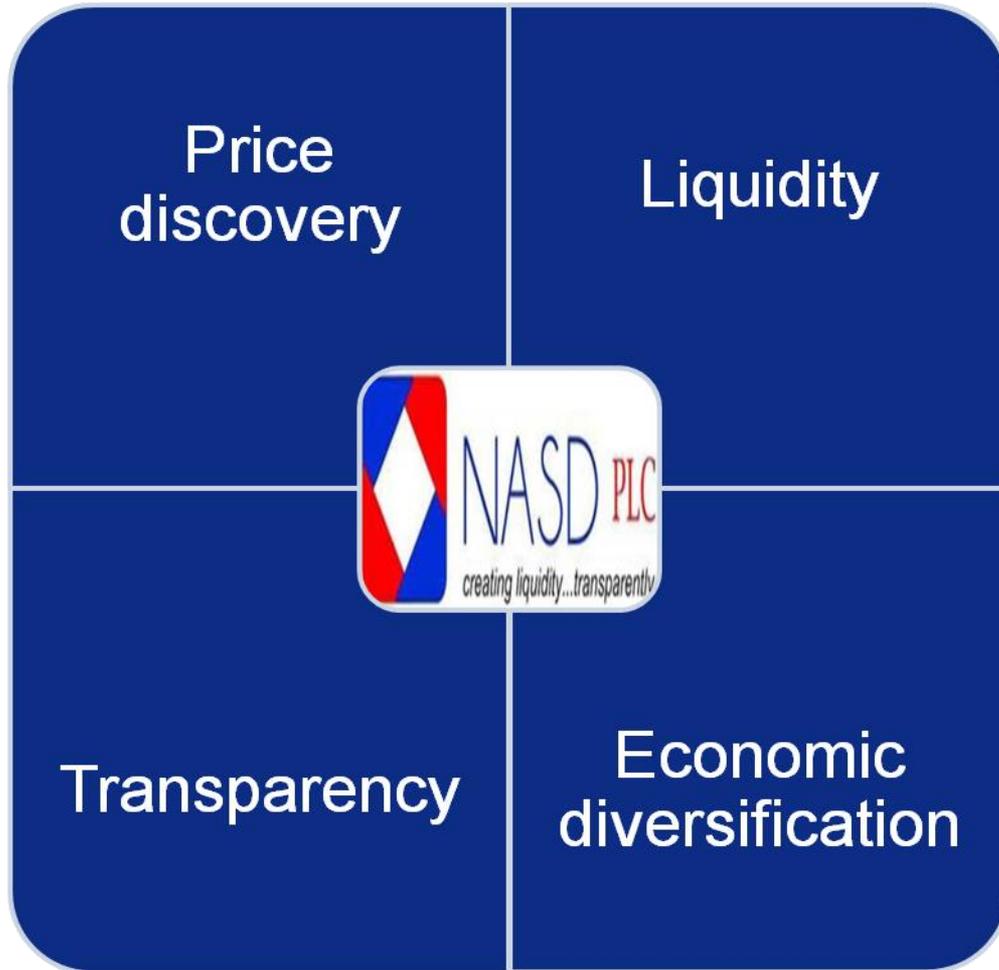
## Listing Rules for New Company Admission



**THE Nigerian  
STOCK EXCHANGE**  
RC: 2321



# What the Capital Market can do to Support Government's Ambition .... the Role of the NASD



*The NASD was set up as an OTC platform capable of:*

- *Boosting price discovery for unlisted securities*
- *Increasing liquidity of unquoted instruments in the capital market*

*The SEC has mandated trading in the securities of unlisted public companies on SEC-registered platforms only. This will be enforced so that:*

- *the platform can boost transparency across the economy by attracting thousands of companies from all sectors thereby supporting government's tax compliance drive*

# What the Capital Market can do to Support Government's Ambition .... the Role of the FMDQ



## Product Development

*The FMDQ can play a critical role in boosting product innovation within the financial markets*

*✓ Products that can prove critical for infrastructure include:*

- ✓ Infrastructure bonds*
- ✓ Derivatives (for managing project risks)*
- ✓ Asset-backed securities*
- ✓ Sukuk*

## Liquid Secondary Markets

*The liquidity of secondary markets is important for increasing primary issues.*

*The FMDQ can promote more issuances from Corporates and Sub-Nationals by focusing on deepening the market*

## Dynamic Fixed Income Market

*The FMDQ was set up to revolutionize the Nigerian fixed income market in all facets.*

# What the Capital Market can do to Support Government's Ambition .... the Role of the Commodities Exchanges



*Nigeria now has two commodities exchanges (NCX and AFEX) currently setting up warehouses and developing warehouse receipt systems*

- ✓ *The two exchanges are expected to play a critical role in government's plan to revolutionize agriculture and make Nigeria not only self-sufficient in food production but become a major commodities export hub*
- ✓ *As part of Master Plan implementation we are looking at laws and regulations to mandate trading of some of Nigeria's crude oil and solid minerals on domestic commodities exchanges*



# Conclusion



- ✧ *Nigeria is too attractive for any discerning investor to ignore*
- ✧ *Opportunities abound across the different sectors of the economy*
- ✧ *The capital market is poised to play a leading role in expanding access to these opportunities and supporting national economic development*
- ✧ *We are implementing the 10-year capital market master plan to reposition the market so it can live up to this expectation*



- ✧ *To achieve our goals, we require partnerships such as this one with the London Stock Exchange*
- ✧ *There are many areas of support and collaboration we can explore to strengthening the ties between our two markets*
- ✧ *My personal commitment to this gathering is that the SEC will not relent in its implementation drive until our market eventually emerges as one of the most competitive, attractive and modern emerging market*

# Thank you!

**Mr. Mounir Gwarzo,  
Director General  
Securities & Exchange Commission**

*Tuesday, 12<sup>th</sup> April, 2016*

