2019 0UTLOOK - UNCERTAINTY AMIDST OPPORTUNITIES

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OPPORTUNITIES

The world economy continues to expand but there are signs that growth has peaked as the US, European and Asian economies slow. Though, the recovery after the great recession will continue for another year and more, the clouds are gathering in the global economy as most mainstream forecasts suggest slow growth in 2019. While it is highly uncertain as to which looming events will hold back global commerce, professional economic soothsayers appear in agreement on one theme for 2019: Growing risks and subsequent uncertainty will significantly slow economic growth over the next few years.

The International Monetary Fund for instance, has cut its global economic growth forecasts for 2018 and 2019. The IMF predicts 3.7 percent global growth in both 2018 and 2019, down from its earlier forecast of 3.9 percent growth for both years when all the numbers are in. The downgrade according to the IMF, reflects a confluence of factors, including the introduction of import tariffs between the United States and China, weaker performances by Eurozone countries, Japan and Britain, and rising interest rates that are pressuring some emerging markets with capital outflows, notably Argentina, Brazil, Turkey South Africa and Nigeria.

The projections of the IMF also indicate that the three major economies of Africa: Nigeria, South Africa and Angola are to witness sluggish growth in 2019 and beyond. While Nigeria will grow from 1.9 percent in 2018 to 2.3 percent in 2019, South Africa and Angola were projected to move from 0.8 to 1.4 and -0.1 to 3.1 percents respectively. The World Bank few days ago released similar forecast putting Nigeria's growth rate at 2.2 percent.

THE NIGERIAN ECONOMY

The Nigerian economy looks fragile, though it has exited recession over a year ago, all macroeconomics performance indicators are still in sluggish recovery.

The country faces significant challenges with respect to revenue generation - revenue performance where fiscal policy execution has been harm strong by weak cash flow. Associated with this, is the mono cultural economic structure where revenue and almost over 70 percent of the economy run on the oil industry. With its linkage to the entire economy in terms of job creation and industrialisation the weaknesses of the economy, are further buttressed.

The outcome for 2019 appears dim with the steady decline in oil price - currently around $54 which is below the bench mark price $60/barrel projected in the budget. Government is however optimistic of a bounce back notwithstanding, the recent softening in international oil prices. This is based on the considered view of most reputable oil industry analysts, that the downward trend in recent months is not necessarily reflective of the outlook for 2019.

The Federal Government is however mindful of the economic situation and has been making considerable efforts to address the issue. One of such measures is the diversification of the economy to non - oil revenue sources which is being pursued as part of the Economic Recovery and Growth Plan (ERG) which underpins government's economic recovery actions. Already, diversification efforts are yielding positive results with significant growth in the non-oil sector (2.32% growth in Q3 2018, up from 2.05% in Q2 2018).

The Government plans for 2019 as captured in the budget proposal of N8.83 trillion, seek to continue the reflationary and consolidation policies of the 2017 and 2018 respectively, which helped put the economy back on the path of growth. The budget reflects many of the reforms and initiatives in the ERGP- the roadmap to economic recovery and a more sustainable growth. According to the government it would focus on the key execution priorities of the ERGP, namely Restoring Macroeconomic Stability; Agriculture and Food Security; Energy Sufficiency (in Power and Petroleum Products); Transportation Infrastructure and Industrialization (focusing on SMEs).

The Government also pledged to continue to create the enabling environment for private sector to increase their investment and contribute significantly to job creation and economic growth. Similarly, it stated that key reforms will be implemented with increased vigour to improve revenue collection and expenditure management. The aim is to take all measures necessary to ensure that rapid growth while maintaining fiscal sustainability.

The Government expectation is optimistic stating that macroeconomic stability has been largely achieved - growth is expected to increase from 0.8% in 2017 to 2.1% in 2018 and 3.01% in 2019 with the continuing implementation of the ERGP. However, the Central Bank of Nigeria (CBN) recently stated that despite the improvement in growth rate in the third quarter of 2018, the economy is still experiencing slowdown and put it on red alert of slipping into another recession over weak economic growth. The CBN also raised concerns about threat to efforts to curb inflation, stabilise exchange rate and build reserves, considering the macroeconomic fundamentals at the period.

Economic experts seem to be in agreement with the CBN and opined that most variables which were in the country's favour last year have reversed. "Oil prices, local interest rates, inflation, stock market indices, political environment and other variables that were positive for most of 2018 are now negative and appear to continue for most of 2019.

Given this scenario, as the New Year begins, economic managers have the arduous task of resolving those issues as well as ensuring the economy not only continues to grow, but also record appreciable and inclusive growth. While 2019 is an unusual year, being an election year, more, but critical efforts would be required by handlers to put the economy on a sure footing with a viewing to avoiding a relapse into recession.

On its part in the financial sector, the Central Bank of Nigeria (CBN) will likely sustain its tight monetary

policy this year with primary aim of achieving exchange rate stability. The bank has been conducting liquidity mop up through treasury bills auctions and this according to experts may lead to intense competition among banks as they compete for deposit which will increase their cost of funds and thinner interest margin as they try to out bid one another with higher deposit rate.

There are certainly clouds on the horizon. The headwinds, such as the upcoming elections, declining oil prices, the timing of the enactment of the Appropriation Bill - containing the budget, alongside slowing global growth and stock market downturns around the world, are critical to how 2019 finally unfolds.

THE LEASING INDUSTRY

The leasing industry does not operate in vacuum and will no doubt be affected by developments in the macroeconomic environment. The impact however, is a double edged sword - it is an established fact that leasing thrives whether the economy is booming or not.

Indeed, equipment leasing has gained significant global recognition as a creative financing alternative, generating new business volume of over $1trillion annually. The appeal of leasing lies in the fact that it delivers a multiplicity of benefits to those who choose to lease. It helps all types and sizes of businesses to conveniently acquire the much needed equipment to conduct their business operations and make profit.

The Nigerian leasing industry over the years has maintained growth. The impactful visibility of leasing is increasing, contributing to capital formation in the economy and creating wealth. In 2017, outstanding lease volume was estimated at N1.44trillion, up from N1.26 trillion in 2016, representing a growth rate of 14.5 percent and its being projected to sustain positive growth in 2018 when all the figures are in. Assets worth over N8.98 trillion have been financed in the past fifteen years and the outlook for the industry remains optimistic.

This optimism, is predicated on the fact that there is still wide financing gaps in all sectors of economy and the increasing relevance of leasing to capital formation with the challenge of access to finance especially to MSMEs and the expected Government's commitment to the various initiatives aimed at consolidating growth and development in the economy.

Essentially, the attributes of leasing which centre on easy and convenient access to capital equipment, fit into the government's economic plan and this presents enormous opportunities for the Nigerian Leasing Industry. These opportunities cut cross the key priority areas in the ERG, agriculture, transport infrastructure, industrialisation with focus on SMEs and energy. Also, opportunities abound in health care delivery, a sector that is yearning for modern equipment of a wide range of assets in its value chain, with market potential of over US$5 billion. It is important for the leasing to develop appropriate strategy to tap into these opportunities.

The leasing industry is still expected to continue to contribute to economic developments through access to finance, increase in the domestic capital base, and development of secondary markets as well as additional product offering and innovation. However the industry is expected to be impacted by some elements such as:

- **Rising cost of assets** as a result of the devaluation of the Naira. This means more funds

are now required to finance leases, thus limiting the capacity of lessors to do more transactions.
- **Increased demand** for leasing essentially due to rising cost of assets
- **High cost of funds** due to increasing interest rate and tight liquidity situation especially in banks, the major source of funds for the leasing industry.
- **Low appetite for foreign funds** due to the volatility of exchange rate and this further compounds the challenges of funding, restricting the industry to domestic sources.
- **Increasing default rate** due to inability to pay rentals as many businesses and individuals struggle to survive under the tough economic environment.
- **Deeper penetration in SMEs segment & financing of general equipment,** perhaps due to capacity of players to venture into big ticket segment and specialised sector.

The implementation of the International Financial Reporting Standard on leasing (IFRS 16) and the expected Inauguration of the Equipment Leasing Registration Authority (ELRA) are two major events, industry watchers are keeping tap on that are likely to shape the industry.

The IFRS 16 came into effect on the 1st of January 2019. The standard eliminates off balance sheet financing - a major attraction in operating lease. While the lessors' accounting remains largely unchanged from IAS17, it is expected that the leasing business will be affected by changes in needs and behavior of customers which will impact the business model, lease product and key lease decisions. The elimination of off balance sheet financing and the increased administrative burden for leases might reduce the attractiveness of leasing.

While it is too early to assess the impact of the IFRS 16, it is certain that the industry will be witnessing a shift to service contract and the ingenuity of lessors to meet the lessees' demand.

The setting up of the Equipment Leasing Registration Authority in line with the Equipment Leasing Act 2015 which was enacted as part of the support framework for the leasing industry, will no doubt stimulate more activities in the industry. The Act brings together relevant stakeholders under a public private partnership arrangement with the Ministry of Finance empowered as the supervisory ministry for the leasing industry. The Registration Authority is expected to give effects to the intent and purport of the Act, to achieve its developmental objectives.

It is therefore imperative for the Minister of Finance to formally inaugurate the body, so that the industry can start enjoying the full benefits of the Act. Already, both local and foreign investors are waiting in the wings to take advantage of the Act to invest in the leasing industry.

In all, while the economic atmosphere appears uncertain with the corresponding effects on the leasing industry, it is important that the leasing industry reposition and adopt appropriate strategy that would put it on the right pedestal to cash in on the numerous opportunities and protect itself from expected shocks. To achieve this, the industry needs to engage all stake holders including investors and government to provide the required integral support. It is vital for instance, to enhance the visibility and spread the essence of leasing in government's quarters and among the investing public.

Also, practitioners must strengthen their capacity in terms of enhanced corporate governance, deeper understanding of the dynamics of leasing and the peculiarities of targeted markets to protect themselves, attract more patronage and critical support.