ELAN

EQUIPMENT LEASING ASSOCIATION OF NIGERIA LTD/GTE

2021 Outlook

A Year of Cautious Optimism

January 2021

2021 OUTLOOK: A YEAR OF CAUTIOUS OPTIMISM

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EXECUTIVE SUMMARY

The year 2020, was a wonder year like no other, the year of the “new normal” when new economy with unfamiliar characteristics was unveiled and economic discourse dominated by the impact of COVID-19 pandemic. Indeed, the pandemic has, with alarming speed, delivered a global economic shock of enormous magnitude - representing the largest economic disruption the world has witnessed in decades, causing a collapse in global activity. People all over the world witnessed profound changes in their lives: economic recession, unemployment, climate change, technology and the automation of jobs, the rise of digital currencies, lower returns on their savings, rising inequality and debts. The World Bank, in its January 2021, Global Economic Prospects Report, stated a 4.3 percent contraction in global GDP in 2020 - the deepest global recession in eight decades.

In response to the disaster, several countries provided large-scale macroeconomic support to alleviate the economic blow, which has contributed to stabilisation in financial markets. central banks in advanced economies cut policy rates and taken other far-reaching steps to provide liquidity and to maintain investors’ confidence. In many Emerging Market and Developing Economies (EMDEs), central banks have also eased monetary policy.

Globally, people are hoping that in 2021, all the failed dreams will come into fruition. It is a year of great expectation, where everything is expected to turn around for good but economic watchers believe that we are far from” Eldorado” particularly with the re-emergence of the pandemic with even greater venom. Their diverse postulations based on the realty of prevailing developments, conclude that 2021, will be a year of cautious optimism.

The World Bank for instance, in its thinking believes that “although a moderate recovery is envisioned in 2021, with global growth reaching 4 percent. Output is not expected to return to its previously expected levels since uncertainty around the outlook remains exceptionally high”. If COVID-19 outbreaks persist longer than expected, restrictions on movement and interactions may have to be maintained or reintroduced, prolonging the disruptions to domestic activity and further setting back confidence. Disruptions to activity would weaken businesses’ ability to remain in operation. Though, vaccines have been discovered, the new wave of the virus, poses a major hiccup even as the World Health Organisation (WHO) has warned that the discovery of vaccines may not necessarily mean an end to the pandemic.

In Nigeria, the blazing tsunami has equally hit very hard. Policy makers continue to face formidable challenges as they seek to contain the devastating health, macroeconomic, and social effects of the pandemic. The nation is weighed heavily with structurally weak economy affected by externally-induced shock as the economy slipped into a recession in the third quarter of 2020, following a GDP contraction of -3.62% and the negative growth of -6.1 percent recorded in the second quarter (Q2), contracting by levels not seen since the 1980s.

No significant changes are expected in the economic conditions in 2021 - weakness in the nation's revenue profile, soaring global debt, inflationary pressures, continued pressure on foreign exchange supply and high unemployment, will persist, as the impact of the pandemic continues to be felt. Though there is glimpse of hope for the year, the performance of the economy, will depend on the commitment of the government to far reaching structural reforms and the development in the global economy such as the lifting of restrictions to stimulate activities and the consequential impact on prices of oil in the international market.

Accelerating the pace of economic recovery requires fiscal and monetary authorities to promote growth-enhancing and confidence-building policies that would encourage private capital to the economy. Essentially, this will involve sustaining and deepening policy reforms and real commitment in implementing these reforms that will boost output and put the nation on a path of macroeconomic stability. It is also essential for government in the recovery of growth plan, to expand its engagement with relevant stakeholders, particularly in the private sector to include more sectors. Government at all levels must seek innovative and proactive ways in achieving its development - oriented initiatives. One of these options is Equipment Leasing – a creative financing alternative, utilised globally to stimulate economic development and growth. The appeal of leasing is underscored in its developmental attributes of enhancing capital formation in the economy, that drives job creation, revenue, better life and economic growth.

The leasing industry was not spared either from the impact of ravaging pandemic. Globally, the leasing industry over the years has always proven to be strong and growing in emerging as well as developed markets through all stages of an economic cycle. In Nigeria, the industry remains an essential contributor to national economic development and continues to demonstrate innovation and flexibility in the face of economic turbulence. The industry maintained its growth trajectory - recording more than a decade of uninterrupted growth. Available statistics show that new business volume grew by 13.5 percent in 2019, rising from outstanding lease volume of N1.68trillion in 2018 to N1.91trillion in 2019. This growth is a testament to the attraction of leasing and its market potential, facilitated by enhanced lease awareness, increasing demand for leasing services - necessitated by the rising cost of assets and stimulation of domestic production; increased investment and participants as well as relative stability in the macroeconomic environment.

In 2020, however the growth trajectory was halted and the industry's resilience was stretched considerably as a result of massive disruption of economic activities. Business process functions across the industry were severely disrupted and Lessors had to cope with a range of new systems priorities and challenges - business continuity risks, sudden changes in volume, real-time decision-making, workforce productivity, security risks etc. The impact of this disruption, macro - economic conditions and other prevailing industry' specific factors, defined the Nigerian leasing industry in 2020.

In 2021, the leasing industry is expected to remain resilient, demonstrating flexibility and innovation in the face of economic challenges. However, developments in the macroeconomy, especially the impact of the scourge of the corona virus, will ultimately shape the outcome in leasing industry. Specific expectations for the year will include: low new business volume at least for Q1 2021 as lessors maintain cautious approach, amidst more business opportunities in the economy; demand shift to more productive and essential assets**;** predominance of short-term funding sources; market focus on Small and medium markets; regulatory impact especially with implementation of the International Financial Reporting Standard (IFRS 16) and the inauguration of the Equipment Leasing Registration Authority.

However, it is imperative for the leasing industry to remain resilient in the face of growing uncertainty to navigate through the storm, stay afloat and take advantage of opportunities as it continues to contribute to economic development. This calls for realignment of strategies and adoption of innovative approach through thorough understanding of the impact of the emerging scenario while maintaining a win-win posture in addressing the challenges.

ELAN as the umbrella body for the leasing industry, will continue to guide and create the platform that would facilitate the attainment of corporate objectives and the diverse interest of stakeholders.

2021 is here. It is year of great expectation, where everything is expected to turn around for good. Suddenly, it has become the year for a magic which was initially expected for 2020, but which disappointed due, obviously, to the public health crises of COVID-19 that practically pressured all economies, including Nigeria's. Globally, people have moved all the 2020 expectations to 2021 but economic watchers believe that we are far from "Eldorado" particularly with the re-emergence of the pandemic with even greater venom. Their diverse postulations based on the realty of prevailing developments, conclude that 2021, will be a year of cautious optimism.

GLOBAL REVIEW OF 2020 AND OUTLOOK FOR 2021

The year 2020, was a wonder year like no other, the year of the "new normal" when new economy with unfamiliar characteristics was unveiled and economic discourse dominated by the impact of COVID-19 pandemic. Indeed, the pandemic has, with alarming speed, delivered a global economic shock of enormous magnitude - representing the largest economic disruption the world has witnessed in decades, causing a collapse in global activity. People all over the world have seen profound changes in their lives: economic recession, unemployment, climate change, technology and the automation of jobs, the rise of digital currencies, lower returns on their savings, rising inequality and debts.

The unprecedented policy support, notwithstanding, per capita incomes in the vast majority of Emerging Market and Developing Economies (EMDEs) shrunk, tipping many millions back into poverty. The pandemic and associated mitigation measures, deeply affected adversely consumption and investment, as well as restricted labor supply and production. The cross-border spillovers disrupted financial and commodity markets, global trade, supply chains, travel, and tourism.

Financial markets were extremely volatile, reflecting exceptionally high uncertainty and the worsening outlook. Flight to safety led to a sharp tightening of global and EMDEs financial conditions. Equity markets around the world plunged, spreads on riskier categories of debt widened considerably, and EMDEs experienced large capital outflows in much of March and April that bottomed out only recently. Commodity prices have declined sharply as a result of falling global demand, with oil particularly affected.

Several countries provided large-scale macroeconomic support to alleviate the economic blow, which has contributed to a stabilisation in financial markets. central banks in advanced economies cut policy rates and taken other far-reaching steps to provide liquidity and to maintain investor confidence. In many EMDEs, central banks have also eased monetary policy.

The pandemic has, with alarming speed, delivered a global economic shock of enormous magnitude

In all, the pandemic plunged many countries into recession in 2020, with per capita output contracting significantly. The World Bank, in its January 2021 Global Economic Prospects Report stated that a 4.3 percent contraction in global GDP in 2020 - the deepest global recession in eight decades. Also, that Advanced economies shrunk by 7 percent in 2020, “as widespread social-distancing measures, a sharp tightening of financial conditions, and a collapse in external demand depress activity”. Similarly, EMDE GDP closed at a contracting figure of 2.5 percent, due to the negative spillovers from weakness in major economies, alongside the disruptions associated with their own domestic outbreaks.

The latest report of the Bank, also projects a guarded growth of 4% in 2021 – marking a return to growth after the 2020 recession.

TABLE 1.1 Real GDP[1]
(Percent change from previous year)

	2017	2018	2019e	2020f	2021f	Percentage point differences from January 2020 projections 2020f	2021f
World	**3.3**	**3.0**	**2.4**	**-5.2**	**4.2**	**-7.7**	**1.6**
Advanced economies	**2.5**	**2.1**	**1.6**	**-7.0**	**3.9**	**-8.4**	**2.4**
United States	2.4	2.9	2.3	-6.1	4.0	-7.9	2.3
Euro Area	2.5	1.9	1.2	-9.1	4.5	-10.1	3.2
Japan	2.2	0.3	0.7	-6.1	2.5	-6.8	1.9
Emerging market and developing economies	**4.5**	**4.3**	**3.5**	**-2.5**	**4.6**	**-6.6**	**0.3**
Commodity-exporting EMDEs	2.2	2.1	1.5	-4.8	3.1	-7.4	0.2
Other EMDEs	6.1	5.7	4.8	-1.1	5.5	-6.2	0.3
Other EMDEs excluding China	5.4	4.8	3.2	-3.6	3.6	-7.6	-0.8
East Asia and Pacific	6.5	6.3	5.9	0.5	6.6	-5.2	1.0
China	6.8	6.6	6.1	1.0	6.9	-4.9	1.1
Indonesia	5.1	5.2	5.0	0.0	4.8	-5.1	-0.4
Thailand	4.1	4.2	2.4	-5.0	4.1	-7.7	1.3
Europe and Central Asia	4.1	3.3	2.2	-4.7	3.6	-7.3	0.7
Russia	1.8	2.5	1.3	-6.0	2.7	-7.6	0.9
Turkey	7.5	2.8	0.9	-3.8	5.0	-6.8	1.0
Poland	4.9	5.3	4.1	-4.2	2.8	-7.8	-0.5
Latin America and the Caribbean	1.9	1.7	0.8	-7.2	2.8	-9.0	0.4
Brazil	1.3	1.3	1.1	-8.0	2.2	-10.0	-0.3
Mexico	2.1	2.2	-0.3	-7.5	3.0	-8.7	1.2
Argentina	2.7	-2.5	-2.2	-7.3	2.1	-6.0	0.7
Middle East and North Africa	1.1	0.9	-0.2	-4.2	2.3	-6.6	-0.4
Saudi Arabia	-0.7	2.4	0.3	-3.8	2.5	-5.7	0.3
Iran	3.8	-4.7	-8.2	-5.3	2.1	-5.3	1.1
Egypt[2]	4.2	5.3	5.6	3.0	2.1	-2.8	-3.9
South Asia	6.5	6.5	4.7	-2.7	2.8	-8.2	-3.1
India[3]	7.0	6.1	4.2	-3.2	3.1	-9.0	-3.0
Pakistan[2]	5.2	5.5	1.9	-2.6	-0.2	-5.0	-3.2
Bangladesh[2]	7.3	7.9	8.2	1.6	1.0	-5.6	-6.3
Sub-Saharan Africa	2.6	2.6	2.2	-2.8	3.1	-5.8	0.0
Nigeria	0.8	1.9	2.2	-3.2	1.7	-5.3	-0.4
South Africa	1.4	0.8	0.2	-7.1	2.9	-8.0	1.6
Angola	-0.1	-2.0	-0.9	-4.0	3.1	-5.5	0.7
Memorandum items:							
Real GDP[1]							
High-income countries	2.4	2.2	1.7	-6.8	3.8	-8.3	2.3
Developing countries	4.8	4.4	3.7	-2.4	4.7	-6.7	0.2
Low-income countries	5.4	5.8	5.0	1.0	4.6	-4.4	-0.9
BRICS	5.3	5.3	4.7	-1.7	5.3	-6.6	0.4
World (2010 PPP weights)[4]	3.9	3.6	2.9	-4.1	4.3	-7.3	1.0
World trade volume[5]	5.9	4.0	0.8	-13.4	5.3	-15.3	2.8
Commodity prices[6]							
Oil price	23.3	29.4	-10.2	-47.9	18.8	-42.5	16.9
Non-energy commodity price index	5.5	1.8	-4.2	-5.9	3.0	-6.0	1.3

Source: World Bank.

1. Headline aggregate growth rates are calculated using GDP weights at 2010 prices and market exchange rates.

2. GDP growth rates are on a fiscal year basis. Aggregates that include these countries are calculated using data compiled on a calendar year basis. Pakistan's growth rates are based on GDP at factor cost. The column labeled 2019 refers to FY2018/19.

3. The column labeled 2018 refers to FY2018/19.

4. World growth rates are calculated using purchasing power parity (PPP) weights, which attribute a greater share of global GDP to EMDEs than market exchange rates.

5. World trade volume of goods and non-factor services.

6. Oil price is the simple average of Brent, Dubai, and West Texas Intermediate prices. The non-energy index is the weighted average of 39 commodity prices (7 metals, 5 fertilizers, 27 agricultural commodities). For additional details, please see http://www.worldbank.org/commodities.

Note: PPP = purchasing power parity; e = estimate; f = forecast. World Bank forecasts are frequently updated based on new information. Consequently, projections presented here may differ from those contained in other World Bank documents, even if basic assessments of countries' prospects do not differ at any given date. Country classifications and lists of emerging market and developing economies (EMDEs) are presented in Table 1.2. BRICS include: Brazil, Russia, India, China, and South Africa. Due to lack of reliable data of adequate quality, the World Bank is currently not publishing economic output, income, or growth data for Venezuela, and Venezuela is excluded from cross-country macroeconomic aggregates.

Click here to download data.

Source: World Bank

The latest report of the Bank, also projects a guarded growth of 4% in 2021 – marking a return to growth after the 2020 recession. However, substantial risks remain, and the recovery is expected to be subdued. Output is not expected to return to its previously expected levels, since uncertainty around the outlook remains exceptionally high". If COVID-19 outbreaks persist longer than expected, restrictions on movement and interactions may have to be maintained or reintroduced, prolonging the disruptions to domestic activity and further setting back confidence. Disruptions to activity would weaken businesses' ability to remain in operation. Though, vaccines have been discovered, the new wave of the virus, poses a major hiccup even as the World Health Organisation (WHO) has warned that the discovery of vaccines may not necessarily mean an end to the pandemic.

Experts believe, with the ongoing recessions exerting scarring effects on potential output, pursuing reforms that bolster long-term growth prospects will be essential. On its part, the World Bank stated that in 2021 "the recovery that follows would be markedly sluggish, hampered by severely impaired balance sheets, heightened financial market stress and widespread bankruptcies in EMDEs and global growth would barely begin to recover, increasing to just over 1 percent". Essentially, the variables in the near-term remain highly uncertainty and a continuing rise in infections coupled with a delayed vaccine rollout, could limit global expansion this year to just 1.6 percent.

Policymakers face formidable challenges as they seek to contain the devastating health, macroeconomic and social effects of the pandemic. However, a sharp economic rebound would begin promptly, if pandemic-control measures including the outcome of vaccines are successful and fiscal and monetary policy responses succeed in supporting consumer and investor confidence, leading to a prompt normalisation of financial conditions and the unleashing of pent-up demand. Once pandemic control measures are fully lifted, the World Bank predicts that global growth would rebound markedly in 2021, to 4 percent. Growth in Sub-Saharan Africa was forecast to rebound moderately to 2.7per cent in 2021, while Nigeria's growth was expected to resume at 1.1 per cent.

It is resonating in many quarters however, that many EMDEs are less prepared to weather a global downturn and must simultaneously grapple with a severe public health crisis with heavy human costs. Particularly, vulnerable EMDEs include those that have weak health systems; those that rely heavily on global trade, tourism, and remittances; those that are prone to financial market disruptions; and those that depend on oil and other commodity exports.

In the case of oil exporters like Nigeria, persistently lower world oil prices reinforce the need for economic diversification, subject to market forces. This would increase long-term growth and enhance resilience to external pressure.

Once the immediate health emergency abates, setting the stage for a robust recovery will require policies that deal with the lingering effects of the pandemic. The immediate need is to implement a comprehensive set of policies to alleviate solvency strains, and prevent bankruptcies of firms that will be viable in the longer run without infringing on the integrity of private ownership. Also, implementation of structural reforms, inclusive and environmentally sustainable post-disaster investments, and development of sound fiscal policy frameworks, institutions, and business environments, can help establish a robust and resilient recovery.

THE NIGERIAN ECONOMY IN 2020 AND EXPECTATION IN 2021.

The Nigerian economy which was on the slippery slope of recovery, was not spared by the Covid 19 pandemic, leaving shocks in the system on solutions. For a largely import-dependent economy, the unprecedented fall in price of oil in the international market due to low demand, further exerted pressure on the economy.

The pandemic hit Nigeria in four main areas, making the impact severe. The first is a huge plunge in oil prices, its biggest foreign exchange earner and revenue for the government, with oil exports falling by 43 percent, while fiscal revenues collapsed by as much as 25 percent in 2020. The country also saw huge capital outflows with net portfolio investment projected to shrink by 2.1 percent points of the GDP due to global risk aversion and uncertainty around foreign exchange policies. Diaspora remittances, also a strong source of dollar inflows for the country, have also been affected, falling by about 27 percent, year-on-year to $12.9 billion as at September 2020 from $17.6 billion in corresponding period of 2019, while at the same time the non-oil industry and services sector of the economy have been heavily affected by mobility restrictions, causing both sectors to contract by 4.6 percent and 3.6 percent respectively, as of Q3 2020.

Nigeria continued to witness structurally weak economy affected by externally-induced shocks. Owing to the pandemic, and specifically, fall in oil prices, Nigeria economy slipped into a recession in the third quarter of 2020 following a GDP contraction of -3.62% and the negative growth of -6.1 percent recorded in the second quarter (Q2), contracting by levels not seen since the 1980s. Recessions in Nigeria have mostly been caused by a fall in the price of crude oil and the absence of large fiscal and monetary buffers in a structurally weak economy. With the head winds, the World Bank is predicting the Nigeria economy to contract by -3.2 percent at year end.

Inflation has been on the upward trajectory since August 2019. Recording 14.89 percent with average inflation rate at 12.89% between January and November 2020. Major inflation drivers in 2020, include, structural challenges, closure of land borders, VAT increase and decline in agricultural output, as well as exchange rate depreciation, higher energy costs and high transportation cost.

Exchange rate was highly pressured and volatile in 2020, the Central Bank of Nigeria (CBN) devalued/adjusted the Naira on three occasions to ameliorate the pressure. The adjustments were also steps taken to bridge the gap between official and parallel markets rates. However, on several occasions, these adjustments, coupled with lower foreign exchange inflows extended the gap in both markets. The CBN had in November, in a bid to boost inflow of remittance, through official channels, introduced a new policy that allows recipients to receive funds in USD. As at the end of December 2020, the Dollar to Naira rate in the parallel market stood at N470/US$ from N361/US$ at the beginning of the year. The Naira on the Investors & Exporters (I & E) window closed at N410.25/US$. At the CBN official window, the Naira closed at N379/US$. Increasing demand for US Dollar, lower forex inflows and economic uncertainty, are key factors that have pressured the exchange rate in Nigeria.

Foreign Reserves declined for the most part of 2020 but stabilized at US$35b with External Reserves losing 8.2% of its value from the beginning of the year. Limited forex inflows due to COVID-19 exerted pressure on External Reserves in the year - lower inflows from crude oil intensified in the second quarter when oil price fell significantly. Total capital inflows to the economy dropped to $8.61 billion between January and September 2020 from $14.61 and $20.7 billion received in the corresponding period of 2018 and 2019. Rising demand for foreign currency propelled mainly by rising imports and capital outflows have also influenced reserves movement. However, the inflow of foreign loans and a gradual pick-up of crude oil price have managed to ensure some level of stability of reserves. While the long-term solution in growing External Reserves requires improving non-oil exports significantly, forex policy clarity is important in instilling market confidence in the short term.

Owing to the pandemic, and specifically, fall in oil prices, Nigeria economy slipped into a recession in the third quarter of 2020

Trade Balance worsened following supply chain disruptions. For the fourth consecutive quarter, Nigeria experienced yet another negative trade balance of -N2.4 trillion in 2020 Q3, despite an increase in the value of total as a share of total trade, exports accounted for 36% while imports had a share of 64%. The closure of land borders, increasing demand for imported goods coupled with weakened demand for exports are some factors, that expanded Nigeria's trade deficit in 2020.

Despite the challenges in the crude oil sector in 2020, crude oil still accounted for 81% of total exports, while non-oil exports declined, accounting for 7% of exports in the quarter. It is imperative for Nigeria given the dwindling fortune from oil, to commit more to the diversification drive to improve non-oil exports and investment inflows to earn more foreign exchange.

Increased Debt Profile. In its Q3' 2020 report, the Debt Management Office (DMO) stated that Nigeria's debt stock stood at N32.2 trillion as at September 2020. According to the DMO, Nigeria's debt stock made up of external and domestic debt, for the federal government, state governments and the FCT, grew by 1.24 trillion between June and end of September 2020. The figures show that 37.82% represent external debts while the balance of 62.1 8% is domestic. Already, this is higher than the N3 trillion added to the debt stock in full year 2019. COVID-19 and its associated impact led to lower government revenue, thereby increasing government budget deficits and borrowing. With the increase in fiscal deficit in the proposed 2021 budget, public debt is expected to rise further in the short to medium term.

Nigerian Capital Market rallied to close the year strongly and ranked the best performing in the world in 2020 as investors remained steadfast in their pursuit of higher yields, owing to the dividend payout as well as the capital appreciation opportunities that exist in the market. The market rallied in the fourth quarter of 2020, following the excess liquidity in the fixed income space. The market capitalisation closed the year at N21,057 trillion up from N12.97 trillion market capitalisation it opened the year with, putting about N8.1 trillion in the pocket of investors - the highest profit even received by investors since 2015.

However, foreign participation in the capital market was weakened in the year. In addition to constrained inflow of foreign exchange, there was a surge in foreign outflows. In the first quarter of 2020, the capital market witnessed severe capital flight as foreign investors divested due to drained confidence on the Nigerian economy. Nine months into 2020, total foreign participation stood at N510.25 billion, 65.64% of which was outflows from the stock market. This further pressured the foreign exchange market.

Government, CBN Policies drag yields to historic lows. Although CBN policy direction going into the year pointed towards a moderation in yields, the level of decline in 2020 has been drastic. Whilst government borrowing was expected to remain high due to macro factors and an inability to access concessionary loans, the rates on offer in 2020 were artificially lower than the preceding years. Bonds were sold at an average rate of 9.84% compared with the 14.00% levels of the previous four years. Furthermore, NTB rates fell even more dramatically, with average stop rates of 2.82% compared against a range of between 11% to 16% levels of the last five years.

The economic realities surrounding reduced government revenue and slowing economic activity prompted two 100bps Monetary Policy Rate (MPR) rate cuts during the year. Simultaneously, the CBN and Debt Management Office (DMO) sought to actively lower the cost of borrowing, encourage lending to the real sector and reduce the debt repayment burden, hence the lower borrowing rates observed during the year. Whilst investors initially continued to favour the embattled fixed Income market amid this policy decision, the major decline in real returns from ever-increasing inflation, coupled with the high levels of maturities in H2 drove investors into the equity market.

Increase in total gross credit by the banking industry which stood at N19.54 trillion as at 13th November 2020 compared with N19.33 trillion at end - August 2020, an increase of N290.13 billion. When compared with N15.56 trillion at the commencement of the Loan-to-deposit Ratio (LDR) policy in May 2019, total gross credit increased by N3.97 trillion. These loans were granted mainly to manufacturing (N738 billion), General Commerce (N874 billion), Agric and Forestry (N301 billion), Construction (N291 billion), ICT (N231 billion), just to mention a few. However, the Central Bank of Nigeria (CBN), in its Credit Conditions Survey Report for Q4 2020, stated that banks in Q4 2020 recorded more loan defaults in terms of secured loans to households, small businesses and medium sized enterprises. Consequently, banks reduced the number of secured loan approvals to these categories of customers as they tightened their credit scoring criteria. Losses on unsecured loans remained low and expect lower default rates on lending to all sized business in Q1 2021.

Many challenges for the banks - interest Income suffered, default threat etc, as a result of the economic decline caused by the Covid-19 pandemic, declining 7% year-on-year while Non-Interest Income performance was varied due to some banks holding stronger foreign exchange positions than others. Banks took proactive steps to restructure over 40% of industry loans and this effectively stabilised the banking system, as Non-Performing Loans (NPLs) across banks only grew from an average of 5.5% in Q1 (pre-restructure) to 5.6% as of 9M' 2020. Compared with the financial institutions in other developed nations and South-

Africa, Nigeria's banking industry actually continued to grow throughout the pandemic. The migration of services to digital platforms and double devaluation of the local currency provided a boost to bank's Non-Interest Earnings, allowing for the Tier-I banks to report strong year on year growth. Banks also witnessed their operating costs remained fairly low, with some banks, reporting significant declines in Q3 expenses. The pandemic gave some banks the window required to effectively evaluate their costs and make adjustments.

The business community witnessed two major disruptions in year 2020 – Covid-19 pandemic and EndSARS protest. These disruptions according to a report by the KPMG, resulted in an output loss of N11.6 trillion in 2020. In addition to the direct output loss, there have also been significant job losses, income losses, erosion of monetary value, among others. According to the Lagos Chamber of Commerce and Industry (LCCI), MSMEs with active presence in Lagos lost at least N2.7 billion in revenue to the lockdown. "The sharp naira exchange rate depreciation coupled with sustained acceleration in domestic prices escalated the cost of production as well as operating costs for investors in the economy even as revenue was pressured by unfavourable economic conditions", it added. The fiscal and monetary authorities as well as the coalition of private sector players provided several relief measures to cushion the impact of the pandemic on the business community. Business activities rebounded modestly in Q3 - 2020 following the relaxation of various lockdown measures.

LCCI stated further that the major challenges faced by the business community in 2020 include – liquidity crisis in the foreign exchange market, sharp exchange rate depreciation, high energy & production cost, ports congestion, cumbersome and burdensome customs processes, insecurity, inconsistent government policies, regulatory uncertainties, land border closure and Apapa traffic gridlock.

The Federal and State Governments supported by the private sector, have taken several palliative measures to reduce the impact of the pandemic on the people and businesses. The Federal Government for instance, developed the Nigeria Economic Sustainability Plan (NESP) involving a stimulus package of N2.3 trillion in response to the health and economic emergencies. Under the plan, the key projects focusing on mass agriculture, public works and road construction, support for MSMES and digital technology etc, are expected to sustain economic activity, boost production, create jobs and save foreign exchange.

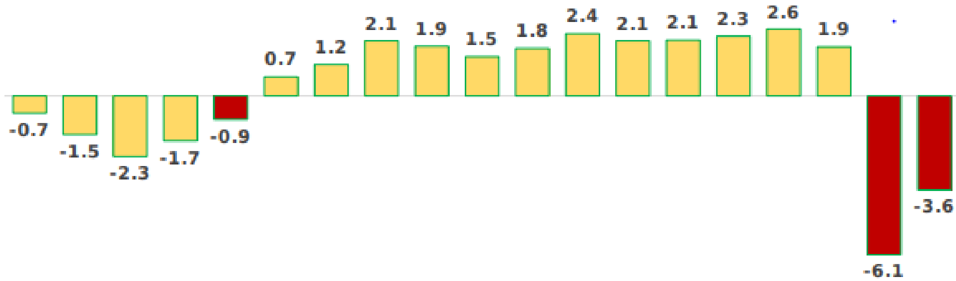
Also, as part of the stimulus package, the Central Bank of Nigeria (CBN), equally announced the intention to provide N1.1 trillion in loans to boost local production and manufacturing across critical sectors; one-year extension of moratorium on principal repayment on CBN intervention facilities; reduction on interest and intervention loans from 9% to 5%. The package also includes N50 billion targeted credit facilities for households and Small and Medium Enterprises (SMEs); N100 billion Healthcare loans to pharmaceutical companies, healthcare practitioners to expand capacity and the temporary and time-limited restructuring of tenor and loan terms for businesses affected by the pandemic.

Heightened insecurity from terrorists and nefarious activities of bandits **in** the North and indeed the entire country led to massive loss of lives and destruction of properties. These activities are major dis-incentives to meaningful development with significant implications for food production, youth unemployment, investment etc.

Increased Unemployment. According to the National Bureau of Statistics (NBS), unemployment rate rose further to 27.1% in Q2 - 2020, from 23.1% in Q3 - 2018 and underemployment rate of 28%. The implication of this is that more than 50% of Nigerian economically active population are either unemployed or underemployed.

Key Economic Indicators

2.0 **GDP Growth Trend (%)**



Source: NBFS

Economic Indicators	**Value**	**As at:**
Money Supply (M3)	N36,587,109.0million	Nov, 2020
Credit to Other Sectors	N29,335,745.6million	Nov, 2020
Year-on-Year All Item Inflation Rate	14.89	Nov, 2020
Average Inter-bank Call Rate	1.00	12/16/2020
Monetary Policy Rate	11.5	12/18/2020
Treasury Bill Rate 91-Day Tenor	0.048	12/16/2020
3-Month Tenor Deposit Rate of Banks	2.9	Nov, 2020
Monthly Average Prime Lending Rate	11.6	Nov, 2020
Spot Price of Nigeria's Reference Crude Oil	US$51.5	12/18/2020

Source: CBN

EXPECTATION IN 2021

No significant changes are expected in the economic conditions in 2021 - weakness in the nation's revenue profile, soaring global debt, inflationary pressures, continued pressure on foreign exchange supply and high unemployment, will persist, as the impact of the pandemic continues to be felt. Though there is glimpse of hope for the year, the performance of the economy, will depend on how committed the government is to far reaching structural reforms including those that will stimulate production and exports of non-oil goods and services as well as address the security challenges**.** Also, another impacting factor is the development in the global economy such as the lifting of restrictions to stimulate activities and the consequential impact on prices of oil in the international market. Already, price of oil is inching up to slightly above $50 due to relaxation of restrictions and resumption of limited economic activities, though prices are not expected to fully recover to pre-Covid era. Many Economic watchers based on these variables, cautiously predict that the economy will grow around 1.1 percent to 1.7 percent in 2021 and expect to exit recession by Q2 2021, though the government predicts this to happen as early as Q1 2021 and projects GDP growth of 3 percent.

Though there is glimpse of hope for the year, the performance of the economy, will depend on how committed the government is to far reaching structural reforms

Essentially, Government focus will continue to be on its economic recovery plans in response to the prevailing challenges For instance, the 2021 budget tagged 'Budget of Economic Recovery & Resilience' is expected to accelerate the pace of Nigeria's economic recovery, promote economic diversification, enhance competitiveness and ensure social inclusion. The appropriation Bill of N13.58 trillion was signed alongside Finance Bill 2020 on the last day of 2020 in line with the promise of Government to return the nation to the January to December budget cycle. The non-debt recurrent expenditure of ₦5.65 trillion, seeks to ensure the continued payment of salaries and overheads in the public sector, while the capital expenditure of N4.12 trillion, indicates new focus of government's intention to complete as many ongoing projects as possible, rather than the commencement of new projects. These level of expenditure, if implemented will stimulate activities in the economy.

Also, the new Finance Act, expected to support the implementation of the 2021 Budget, is equally very instrumental to the drive of recovery. The Act envisages key reforms to specific taxation, customs, excise, fiscal and other laws. It will among other things, adopt appropriate counter-cyclical fiscal policies to respond to the economic and revenue challenges precipitated by the decline in global oil prices while also reforming extant fiscal policies to foster close collaboration with monetary and trade policies. Some of the key provisions in the Act include: 50% reduction in minimum tax rate from 0.5% to 0.25% of gross turnover for financial years ending between 1st January and 31st December 2020; exemption of small companies with less than N25 million turnover from payment of tertiary education tax under the Tertiary Education Trust Fund Enablement Act 2011.

Government re-echoes its focus for the year to continue to deliver on key strategic priorities under "SEA" (Security, Economy and Anti-Corruption) agenda, as stated in the president' broadcast on new year day. Some of the key priority areas include: Re-energising and re-organising the security apparatus and focus on revamping the economy through the National Economic Diversification Agenda that supports the primary goal of national food self-sufficiency; rebuilding of national infrastructure base including rail systems, roads, airports and sea ports; sustaining power sector reforms, interventions to boost job creation and support the entrepreneurial drive of youths as well as sustaining the anti-corruption crusade.

The Monetary and Fiscal Policies are expected to continue their broad-based stimulus support towards full recovery of the real sector to reign in on inflation. This will still involve fiscal measures to reduce unemployment, provide an enabling environment for private sector investment and necessary support to the health sector to cushion the impact of the coronavirus pandemic. In addition, the CBN is expected to sustain its various intervention measures to boost consumer spending and support the recovery.

With the need to drive economic recovery, the Monetary Policy Committee (MPC) will likely cut the benchmark rate in 2021**.** The MPC will also be concerned about the misalignment of interest rates in the fixed income market which could further support rate cut in 2021**.** Also, the introduction of the new CBN Special Bill as an alternative investment vehicle, will absorb a proportion of the liquidity in the system and stabilise the interest rate environment, at least in the short run.

The banking industry performance will be driven by economic factors and CBN policy. The expectation of a slow macro-economic recovery, along with the passing of the new Banks and Other Financial Institutions Act (BOFIA) into law, is also likely to play a key role in the modest growth expected in 2021. Furthermore, with the local currency remaining on fragile footing for another year whilst crude demand remains poor and the apex bank continues to wrestle against free market forces, banks will continue to take a long-term view on the health of the Naira, thus benefitting from any further devaluations as seen in Q3' 2020 and generally during 2020.

Sustained positive outlook for the capital market as investors remain steadfast in their pursuit of higher yields, owing to the dividend payout as well as the capital appreciation opportunities that exist in the market. In addition, lower yields in the Fixed Income space remain a deterrent to interest in the segment; a positive for the equities space, given the inverse relationship between stock prices and bond yields.

The sluggish pace of recovery would continue to subdue consumer demand, though the impact on earnings performance would be disproportionate across sectors. Most MSMEs would struggle to survive under the unfavorable economic conditions, while large corporates would demonstrate resilience. The challenging environment notwithstanding, consumers' confidence is expected to be positive, as consumer spending will remain under pressure.

According to the CBN Consumer Expectations Survey (CES) report for December 2020, the overall buying intention index in the next twelve months stood at 29.9 index points, indicating that most consumers do not intend to buy big-ticket items in the next 12 months. In all, unemployment and erosion of purchasing power, due to inflation, will form additional pressure points. Also, the buying intention indices for consumer durables, motor vehicles and houses, etc. were below 50 points, which shows that respondents have no plans to make these purchases in the next twelve months.

Inflation may continue to be driven by supply side disruptions arising from the COVID-19 pandemic and other legacy factors which include the security challenges in the country; increase in food prices; hike in pump price of petroleum products and electricity tariff. In the circumstance, there is the need to address structural supply side issues putting upward pressure on costs of production and unemployment.

Accelerating credit penetration that deepened credit penetration is expected to continue in 2021, although, there may be increased concentration. The reduction in MPR by 100bps from 12:5% to 11.5% and the development finance Initiative as a policy tool, will enhance credit penetration.

The new petrol pricing regime implemented by the Federal Government is expected to create a more transparent operating model that will encourage investment growth in Nigeria. The Government in this light has stopped the subsidy payment with the aim of ensuring the downstream sector is fully deregulated and drive investment to the sector. This has also freed up resources that will be allocated to other priority areas. Although marketers of petroleum products in Nigeria may have some reservations, this is a step in the right direction as this will produce good results in the long run. The enactment of the Petroleum Industry Bill in 2021 as assured by the National Assembly, will further boost activities in the oil and gas sector.

Implementation of the African Continental Free Trade Area (AfCFTA). The agreement was borne out of the need to boost intra-regional trade in Africa through the removal of tariff on 90% of goods. For Nigeria, AfCFTA serves as an avenue for local industries to penetrate new markets and establish strong cross-border supply chains with other African countries. According to the LCCI, "the benefits and costs of the trade agreement will not be evenly distributed among participating countries. Only countries with open, friendly, and enabling business environment stand to benefit from the agreement, and this underscores the need for Nigeria to strategically position itself for significant trade gain." The AfCFTA poses new competitiveness risk for Nigeria firms, especially for those in the real sector of the economy, the Chamber added.

The emerging digital economy is expected to witness growth in 2021, as Nigeria boasts of an industry driven by increased investment resulting in capital to drive growth. According to KPMG, "total funding in Nigerian startups in 2018 was up to $178 Million. Entry of new players, 15 startups raised more than $1million in the fintech segment. Tech start-ups have begun to attract funding from venture capital firms; however, foreign investors provide over 80% of this funding".

Accelerating the pace of economic recovery requires fiscal and monetary authorities to promote growth-enhancing and confidence-building policies that would encourage private capital to the economy. Essentially, this will involve sustaining and deepening policy reforms and real commitment in implementing these reforms that will boost output and put the nation on a path of macroeconomic stability.

Government should expand its engagement with relevant stakeholders, particularly in the private sector to include more sectors, to hasten the recovery of growth. This engagement would involve collaboration towards job creation, especially among the youth and provision of credit facilities to stimulate business and productive activities. Government at all levels must seek innovative and proactive ways in achieving its development - oriented initiatives. One of these options is Equipment Leasing.

Equipment Leasing is the creative financing alternative utilised globally to stimulate economic development and growth. The appeal of leasing is underscored in its developmental attributes of enhancing capital formation in the economy that drives job creation, revenue, better life and economic growth. Lease does this by allowing easy and convenient access to much needed productive assets. In today's reality, the developmental attributes of leasing can be brought to bear on efforts to stimulate the economy and get it out of the woods. For instance, leasing can facilitate the actualisation of key project initiatives of the Nigeria Economic Sustainability Plan (NESP), other intervention programmes and the overall economic agenda of Government. No doubt, equipment leasing is very significant in achieving financial inclusion and inclusive growth. The overall essence of leasing is to enhance the planning, improvement and development of any economy by building and supporting productive ventures.

We therefore encourage Government at all levels to utilise leasing in driving their developmental agenda. This will involve effective engagement with stakeholders to develop and implement plan that will bring the necessary integral support in order to deepen leasing penetration and contribution to economic activities in Nigeria.

The overall essence of leasing is to enhance the planning, improvement and development of any economy

We therefore encourage Government at all levels to utilise leasing in driving their developmental agenda.

Developing the leasing sector as a means of delivering access to finance, increases the range of financial products in the market place and provides a route for accessing finance to businesses that would otherwise not have it, thus promoting domestic production, economic growth, and job creation by introducing new products and/or industry players.

THE LEASING LANDSCAPE IN 2020 AND OUTLOOK FOR 2021.

Globally, the leasing industry over the years has always proven to be strong and growing in emerging as well as developed markets through all stages of an economic cycle, contributing effectively to capital formation in the economy. Leasing continues to deepen its penetration in the equipment finance market, delivering multiplicity of benefits to customers and meeting the world's equipment needs. An estimated total annual lease volume of $1.5 trillion is generated, accounting for 20% of total investment in equipment, contributing about 1.5% to GDP. Highlights contained in the Global Leasing Report by White Clark Group (published in *world Leasing Year Book 2020)*, show that the global leasing industry has grown by 131% in the past nine years - a remarkable achievement for Asia, North America and Europe in particular given the struggles of the economic recession of the early 2010's.

When compared to the overall performance in most economies, equipment and software investment growth fared better than overall gross domestic product (GDP) growth in 2020

This development was expected to continue in the global space in 2020 and the years ahead, with the industry withstanding the adverse impacts of tax and regulatory changes and slow economy. However, the effects of these adverse variables which were more visible in the mature markets, were exacerbated by the pandemic that continues to affect business volume and operations. These head winds that took hold in 2020, dragged business confidence and investment to lowest ebb ever, affecting new business volume. When compared to the overall performance in most economies, equipment and software investment growth fared better than overall gross domestic product (GDP) growth in 2020, as businesses invested to adapt to the COVID-19 pandemic, and growth should remain well into positive territory in 2021. For instance, in the United States of America, annual equipment and software investment growth of 7.8% is forecast for 2021 as against annual GDP growth forecast of 4.7%, according to the *2021 Equipment Leasing & Finance U.S. Economic Outlook by the Equipment Leasing & Finance Foundation*.

The Nigerian leasing industry remains an essential contributor to national economic development and continues to demonstrate innovation and flexibility in the face of economic turbulence

North America, Europe and Asia, continued to hold sway in the global industry accounting for more 95% of world volume. Africa represents less than 1% of global volume with the leasing market in much of sub-Sahara equipment is still evolving. The continent leasing volume in 2017, stood at $41bn, according to the International Finance Corporation (IFC), with the market potential estimated at $83bn. These figures have increased since then given the level of activities in the leasing industry and the economy. The top five countries (South Africa, Nigeria, Egypt, Morocco, Algeria) with the greatest leasing potential, contribute to more than three quarters of the lease volume.

Table 1: Volume and growth by region (2017–18)

Rank by volume	Region	Annual volume (US$bn)	Growth 2017–18 (%)	Percentage of world market volume 2017	Percentage of world market volume 2018	Change in market share 2017–18
1	N America	460.11	3.2	34.8	35.8	1.0
2	Europe	427.03	–0.3	33.4	33.2	–0.2
3	Asia	350.65	–1.0	27.6	27.2	–0.4
4	Aus/NZ	28.51	–9.5	2.5	2.2	–0.2
5	S America	14.55	–14.5	1.3	1.1	–0.2
6	Africa	6.16	9.0	0.4	0.5	0.0
	Total	**1,287.01**				

Source: White Clarke Group Leasing Report

Source: World Leasing Yearbook 2020

Table 3: Leasing volume by region (2002–18)

US$bn	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Europe	164.1	196.1	236.5	239.6	272.0	401.2	336.7	220.4	233.0	302.7	314.0	333.6	327.8	322.8	346.3	428.3	427.2
N. America	216.0	223.9	240.7	236.7	241.1	237.9	226.1	190.8	213.3	292.5	336.4	335.1	368.4	407.8	416.8	445.9	460.1
Asia	68.7	74.1	78.2	74.0	81.7	84.6	99.2	103.8	105.6	153.4	180.2	177.3	195.0	223.0	289.9	354.4	350.7
S. America	3.3	4.0	7.5	13.9	19.2	41.4	54.2	30.2	25.4	27.5	13.2	18.0	10.7	13.8	12.9	17.0	14.6
Australia/NZ	5.8	7.6	8.1	8.2	8.6	4.1	6.9	5.7	10.8	12.0	16.1	12.5	35.6	31.2	28.4	31.5	28.5
Africa	3.7	5.6	8.1	9.6	11.1	11.2	9.6	6.5	6.4	8.6	8.2	7.5	6.8	6.7	5.4	5.7	6.2
Annual totals	**461.6**	**511.3**	**579.1**	**582.0**	**633.7**	**780.4**	**732.8**	**557.3**	**594.5**	**796.7**	**868.0**	**884.0**	**944.3**	**1,005.3**	**1,099.8**	**1,282.7**	**1,287.0**

Sources: London Financial Group, White Clarke Group Global Leasing Report

Source: World Leasing Yearbook 2020

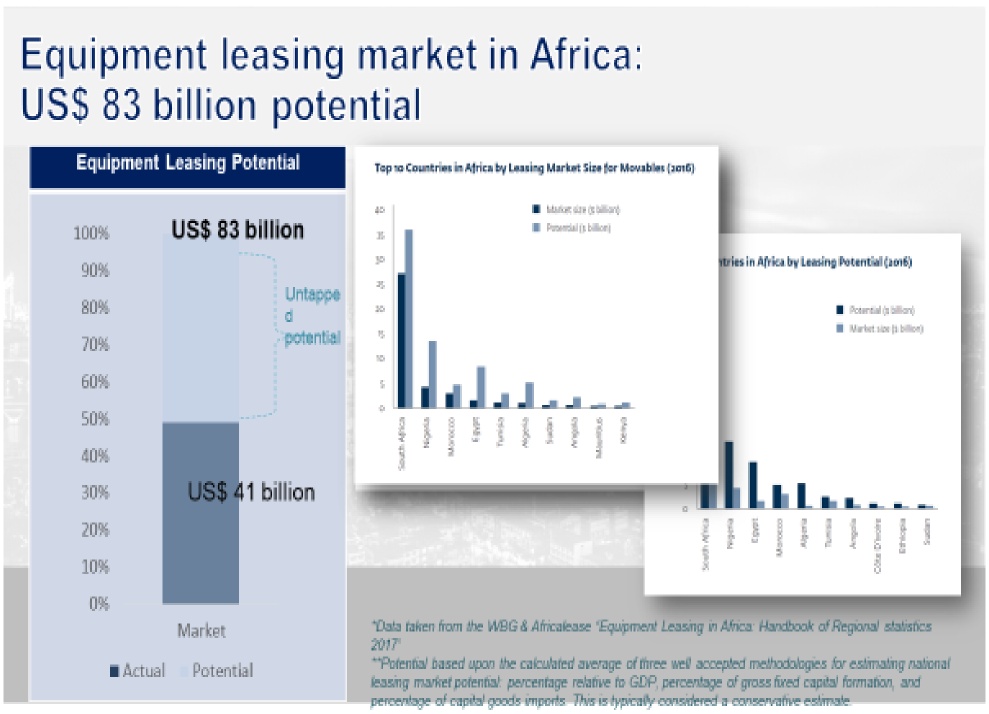
The prospects of widely-distributed vaccines in 2021 should provide a boost to the global economy, particularly in transportation-focused industries and leasing. The business environment for equipment finance firms is expected to be more favorable in 2021, though performance will be highly sector-dependent.

Table 4: A comparison of the rate of equipment leasing market penetration (%)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
US	31.7	31.0	31.1	31.1	29.9	26.9	27.7	26.0	16.4	17.1	17.1	21.0	22.0	22.0	22.0	22.0	21.5	21.6	21.5
Japan	8.3	8.8	8.9	8.8	8.8	8.6	8.4	7.5	6.9	6.5	6.0	5.9	6.2	6.2	5.4	5.7	5.7	5.3	5.2
Germany	14.8	13.5	9.8	21.7	15.7	18.6	23.6	15.5	16.2	13.9	14.3	14.7	5.8	16.6	16.4	16.7	17.0	17.2	15.9
Korea	2.4	1.6	3.9	4.4	5.6	7.7	9.4	n/a	10.5	4.4	4.8	8.7	8.5	8.1	9.8	9.4	9.1	8.9	9.0
UK	13.8	14.4	15.3	14.2	9.4	14.5	12.7	11.6	20.6	17.6	18.5	19.8	23.8	31.0	28.6	31.1	33.7	32.4	32.9
France	9.2	13.7	12.9	15.4	9.0	11.7	11.0	12.0	12.2	3.1	10.5	11.1	12.8	12.5	13.1	14.2	15.3	16.1	16.9
Italy	12.3	10.4	8.6	7.6	11.4	15.1	15.2	11.4	16.9	10.0	13.1	12.3	10.0	9.4	11.7	13.0	14.1	15.2	16.1
Brazil	11.4	7.6	3.6	3.8	7.7	13.5	16.9	19.0	23.8	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Canada	22.5	22.0	20.2	22.0	23.3	23.9	22.0	22.0	19.6	14.0	15.1	20.8	20.8	32.0	31.0	32.0	32.0	38.0	39.0
Australia	20.0	20.0	20.0	20.0	20.0	20.0	18.0	14.2	10.0	10.0	12.0	27.5	27.5	40.0	40.0	40.0	40.0	40.0	40.0
Sweden	12.9	9.2	13.0	11.6	12.7	11.8	11.8	14.3	19.4	17.5	19.2	18.2	24.6	24.4	22.7	22.9	26.0	27.1	22.4

Sources:
(1) Australian Equipment Lessors Association (total leasing as a percentage of private capital investment)
(2) US Dept. of Commerce, Economics & Statistics Administration, Bureau of Economic Analysis and Equipment Leasing Association of America (equipment leasing as a percentage of business investment in equipment)
(3) Japan Leasing Association (equipment leasing as a percentage of private capital investment)
(4) Leaseurope Annual Reports
(5) Statistics Canada & Equipment Lessors Association of Canada (lessor purchases as a percentage of total equipment acquisitions in Canada)
(6) Korea Leasing Association
(7) Brazilian Association of Leasing Companies
(8) London Financial Group
(9) White Clarke Group Global Leasing Report

Source: World Leasing Yearbook 2020



Source: IFC

THE NIGERIAN LEASING INDUSTRY

The Nigerian leasing industry remains an essential contributor to national economic development and continues to demonstrate innovation and flexibility in the face of economic turbulence. The industry maintained its growth trajectory - recording more than a decade of uninterrupted growth. Available statistics show that new business volume grew by 13.5 percent in 2019, rising from outstanding lease volume of N1.68 trillion in 2018 to N1.91 trillion in 2019. This growth is a testament to the attraction of leasing and its market potential, facilitated by enhanced lease awareness, increasing demand for leasing services - necessitated by the rising cost of assets and stimulation of domestic production; increased investment and participants as well as relative stability in the macroeconomic environment.

Fig. 4: Distribution of Lease Volume by Sector 2019

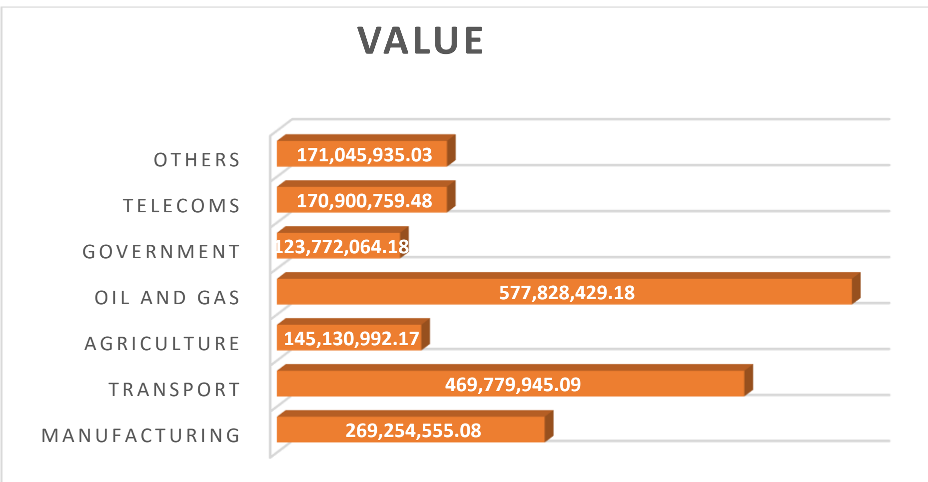
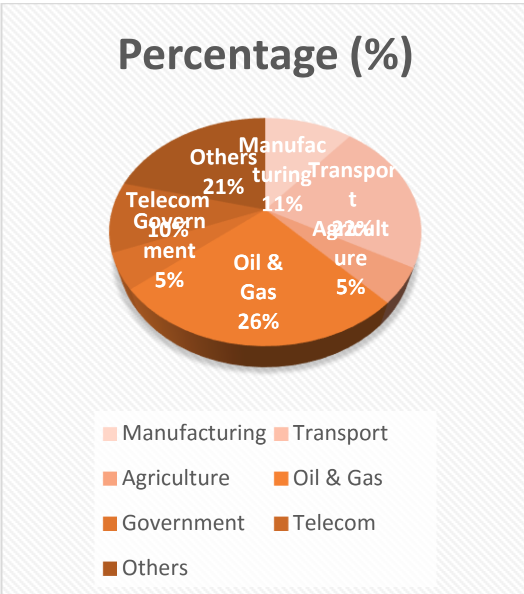
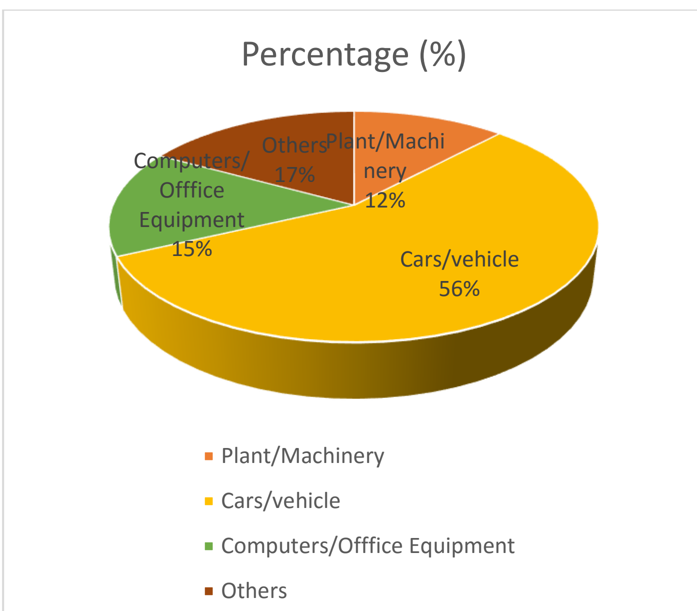
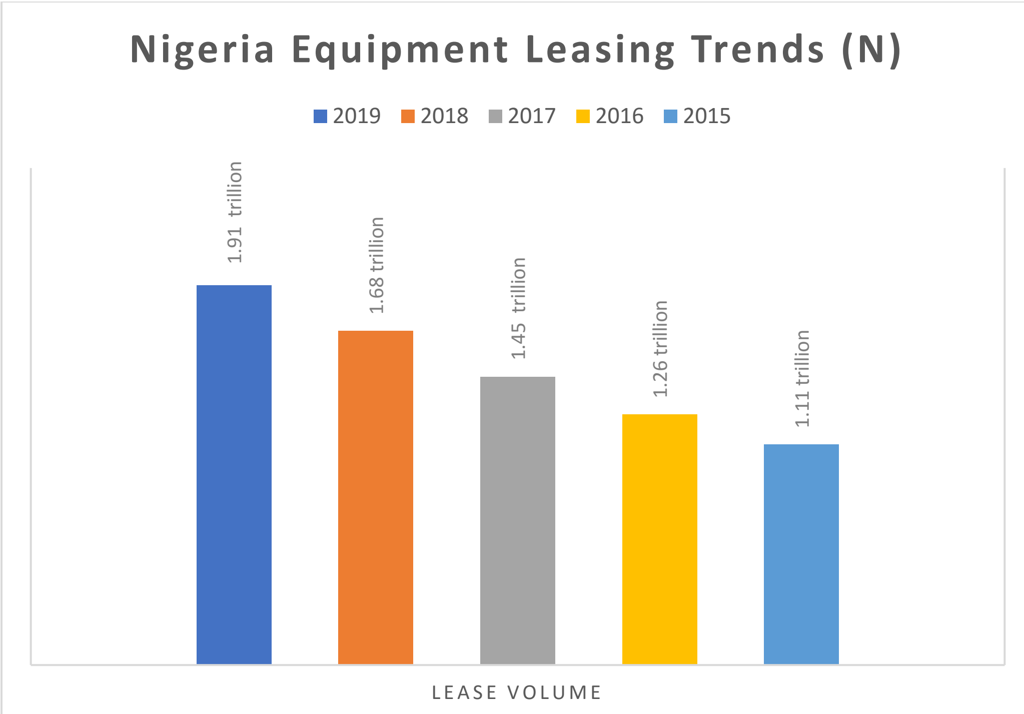


Fig. 5: Distribution of Lease Volume by Sector



Source: Equipment Leasing Association of Nigeria





Source: ELAN Research

The impact of this disruption, macro-economic conditions and other prevailing industry' specific factors, defined the leasing industry in 2020.

The growth trajectory of the Nigerian leasing industry was expected to continue in 2020 and was set in that path before it was hit by the tsunami of the ravaging corona virus in the first quarter of the year. The industry's resilience was stretched considerably as a result of massive disruption of economic activities. The impact of this disruption, macro-economic conditions and other prevailing industry' specific factors, defined the leasing industry in 2020.

Default in rental payment and other commitments; arising from the instability of cashflow of customers due to slow business activities. This caused severe liquidity challenge and credit losses in the industry and in some cases repossession and litigation with associated costs.

Drop in new business origination, owing to the fear of portfolio risks and low demand. Lessors were focused primarily with the task of managing exiting portfolio and cautious in venturing into new transactions due to uncertainty. Also, the disruption of business activities following the lockdown led to sharp fall in demand for leasing. Though, they were pockets of transactions that were consummated mainly in transport and logistics, the overall picture, is that the industry witnessed a dip in lease volume with a decline of about 70 to 80 percent in new business origination in 2020.

New business and operational approach in response to "the new normal" in compliance to the non-pharmaceutical requirement to combat the spread of the pandemic, like in other businesses, the leasing industry adopted measures such as working from home and dealing with external relations such as customers, through online and other non-physical modes of engagement. This has improved cost profile associated with physical engagement such as office administration - electricity, fueling and transport etc and better time management. At the same time, it might affect staff productivity if not well monitored.

Emergence of opportunities for the leasing industry **as** demand shift to more productive and essential assets. Some of these areas are Information and Telecommunications (ICT), Healthcare, Food Industry, Waste Management, Transport and Logistics etc.

Increased cost of assets and operations resulting from the "adjustment" of the Naira. The depreciation of the Naira in the Foreign Exchange market and the scarcity of the US Dollar, caused prices of goods and services to rise. This affected the capacity of leasing companies to finance new transactions where the opportunities were available to do so and equally maintained service-oriented leases. The increasing cost continued to limit the acquisition of assets through outright purchase by consumers and present opportunity for leasing as alternative means of acquisition.

The Nigerian Leasing Landscape in 2021

- ***New business volume will remain low***
- ***Maintenance of objective and strategic approach***
- ***Demand shift to more productive and essential assets***
- ***The Low interest regime,*** **expected to continue in 2021,**
- ***Predominance of short- term funding sources***
- ***Market focus on Small and medium markets***
- ***Continued movement towards new products development and maturity in the long run***
- ***Slow turnover of equipment will continue*** **due to high cost of acquiring asset**
- ***More business opportunities in economy***
- ***The dwindling appetite from banks for direct leasing investment***
- ***Further regulatory impact is expected*** **especially with implementation of the International Financial Reporting Standard (IFRS 16).**
- ***Low competition amidst increasing number of new entrants in the market***

EXPECTATION FOR 2021

In 2021, the leasing industry is expected to remain resilient, demonstrating flexibility and innovation in the face of economic challenges. However, developments in the macroeconomy, especially the impact of the scourge of the corona virus, will ultimately shape the outcome in leasing industry.

developments in the macroeconomy, especially the impact of the scourge of the corona virus, will ultimately shape the outcome in leasing industry.

New business volume will remain low at least for Q1 2021 as lessors take a caution approach to creating new deals.

Maintenance of objective and strategic approach *by* lessors to withstand shocks**,** ensuring business survival and continuity. This involves effective cost control mechanism, improving processes and customer relations.

Demand shift to more productive and essential assets as non-essential commodities will be less sought after.

The Low interest regime**,** expected to continue in 2021, will reduce the cost of borrowing in the leasing industry**.** However, the gains may be subsumed by inflationary pressure which may keep the cost of leasing high.

Predominance of short-term funding sources will continue to constrain the depth of leasing in the market place as most leases are confined within the 12-48 months to avoid mis-match. The floating of long bonds and access to CBN intervention funds, could provide succour to the funding challenges of the industry.

Market focus on Small and medium markets due to inadequate funds and expertise. This market segment presents greater risk and returns to lessors.

Continued movement towards new products development and maturity in the long run, as the leasing industry remains evolving, growing from the simple finance lease phase, through creative finance lease to operating lease in line with market dictates.

Slow turnover of equipment will continue due to high cost of acquiring asset. This will also deepen the demand for fairly used assets especially vehicles by customers.

More business opportunities in economy. Rebuilding the economy requires enormous capital and the growing cost of assets generally, presents immense opportunity for leasing as an alternative option. Asides the emergence of opportunities in health care, ICT, logistics etc as a fallout of the pandemic, the Federal government’s intervention programmes and investment in priority areas - infrastructure, power, food security, works and housing, job creation etc, for the year to drive economic recovery, provide ample business prospects for the leasing industry. The various States like Lagos are equally embarking on investment on infrastructure and youth empowerment schemes as contained in their budget, which lessors can key into. The Implementation of the African Continental Free Trade Area (AfCFTA) which started on the 1st of January 2021, is another area of interest for the industry.

The dwindling appetite from banks for direct leasing investment due mainly to inadequate fiscal incentives and motivations amidst competing products, is expected to continue**.** Banks are also, expected to step back from smaller-ticket deals and focus on core markets, which may provide an opportunity for independents to increase market share.

Further regulatory impact is expected especially with implementation of the International Financial Reporting Standard (IFRS 16). The IFRS 16 has been in operation since 2019, the implications will continue to manifest especially on transaction dynamics with respect to operating leases. Also, the formal inauguration of the Equipment Leasing Registration Authority expected to take place during the year, will give full effect to the intent and purport of the Equipment Leasing Act. Similarly, the industry will be affected to some extent by the various monetary and fiscal policies of government such as those contained in Finance Act 2020.

Low competition amidst increasing number of new entrants in the market while the leasing industry continues to attract new investors, who want to benefit from the market opportunities, the number of active players estimated at 350 organisations, is still not sufficient compared to the market potential, to increase the level of competition in the industry, which is necessary to drive more volume and enhanced value add in terms of better services and solution.

KEY FACTORS TO DRIVE SUCCESS

It is imperative for the leasing industry to remain resilient in the face of growing uncertainty to navigate through the storm, stay afloat and take advantage of opportunities as it continues to contribute to economic development. The realignment of strategies and adoption of innovative approach is required in this regard. This will involve thorough understanding of the impact of the emerging scenario while maintaining a win - win posture in addressing the challenges.

Specifically, it would require lease practitioners and the industry to:

Build strategic alliance within and outside the industry to enhance capacity: The individualistic approach in the industry is limiting. Lessors for example, can pool resources together under a syndicated lease arrangement to scale up and enhance participation in some of the major opportunities and mitigate associated

The realignment of strategies and adoption of innovative approach is required

risks. This arrangement can also be used to engage government, financiers, development partners and other stakeholders to sell leasing and the preparedness of the industry to contribute more to the attainment of development-oriented initiatives. Presenting as a group, will enhance better access to incentives including intervention funds and other support schemes.

Make risk management part of strategic planning and rethink global strategies to be more resilient. This will involve monitoring in-house vulnerabilities - assessing financial and operational risks. By making risk management part of the strategic planning, lessors can routinely simulate how interrupting events as well as other variables could disrupt their businesses and use those insights to design their operations and resource distribution.

Constructive engagement with market and relevant stakeholders. Clear, transparent and timely communications are necessary to secure support from customers, employees, suppliers, creditors, investors and regulatory authorities at this critical time. It is particularly imperative, that lessors constantly engage with their customers, understand their challenges and reassuring them of having them in mind during whatever times. This will endear the customers to them and sustain the business relationship.

Strengthen internal capacity to improve processes and performance. This can be done by constant staff development through capacity building programmes and ensuring adequate working infrastructure including right technology. Leveraging for instance on technology, can greatly improve processes in various areas of operation, including customers onboarding, risk assessment and lease structuring as well as asset management functions and financials. Essentially, to reinvent processes, technology must be seen as a core factor in the business framework.

Maintaining or improving portfolio quality while keeping the balance: This requires understanding of the market dynamics, market intelligence, development of product and niche market as well as competitive pricing, and adapting to market shifts, to grow portfolio within acceptable risk appetite.

Funding ability for sustainability and viability. "Money is the raw material for leasing" and the ability to attract adequate and cheaper funds, will determine the extent of participation in the leasing industry.

Controlled back-office costs. Financial discipline and adopting cost saving mechanism to achieve a low back office cost, will enhance profitability.

Adopting appropriate strategies. The lessor must not base his assumptions on things that he cannot control especially at this prevailing uncertainty in the environment.

Enhance advocacy, engaging with Government and other relevant stakeholders to create more visibility for the industry, promote the ideal of leasing, pursue favourable operating environment and exploit business opportunities.

ELAN as the umbrella body for the leasing industry, will continue to guide and create the platform that would facilitate the attainment of corporate objectives and the diverse interest of stakeholders.

ELAN RESEARCH 2021