

Fidelity Pension
Managers Limited

Sailing Through the Covid-19 Pandemic

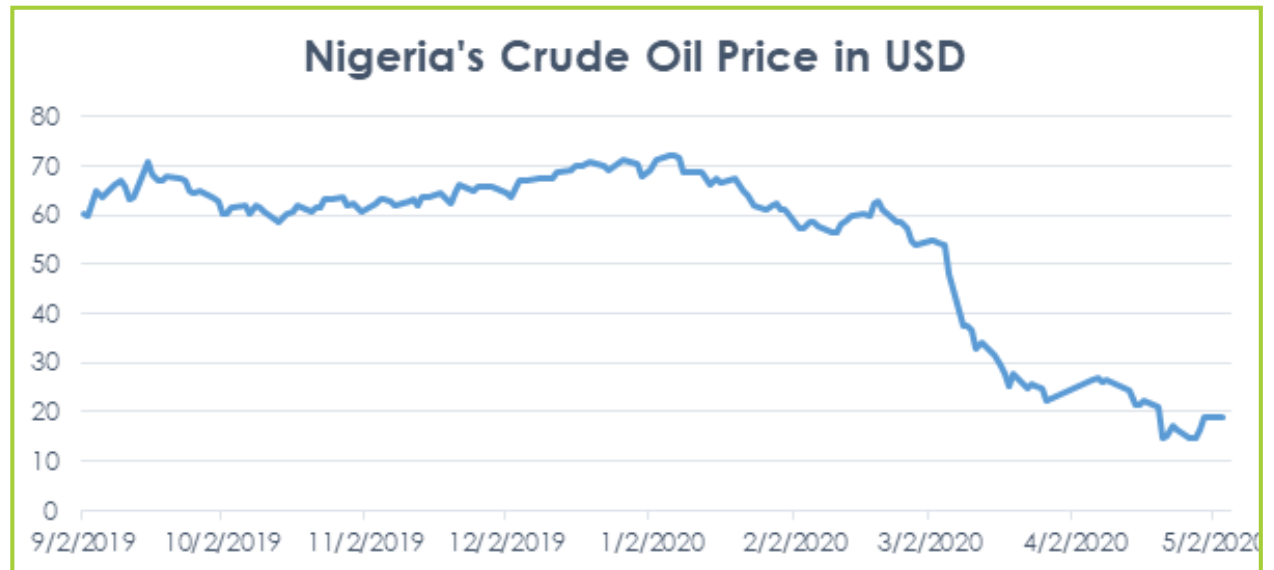
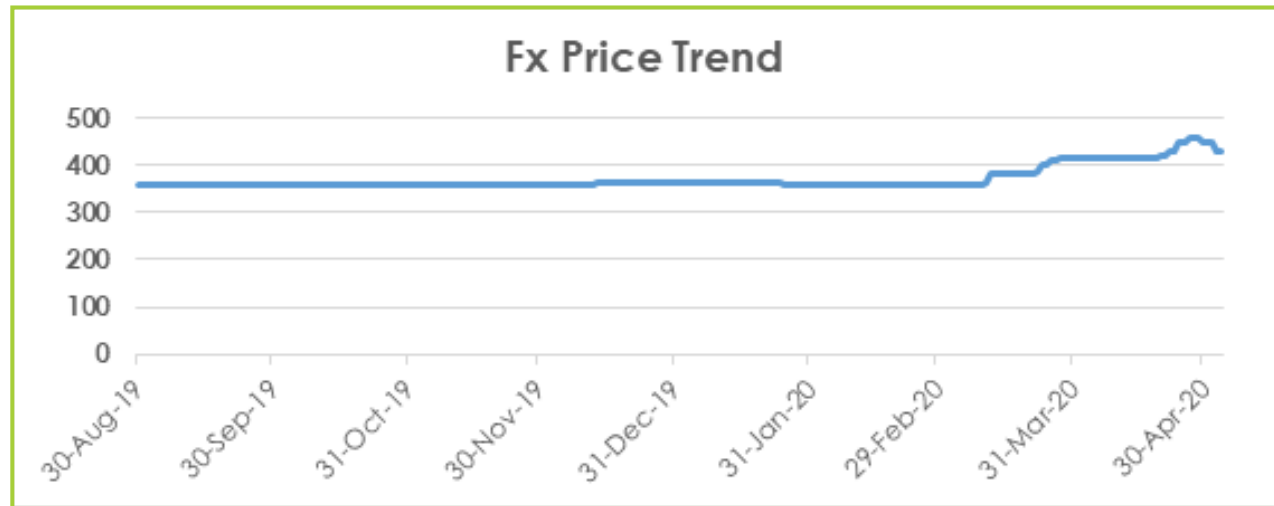
Summary
May 2020 Edition



Sailing through Covid-19 Pandemic

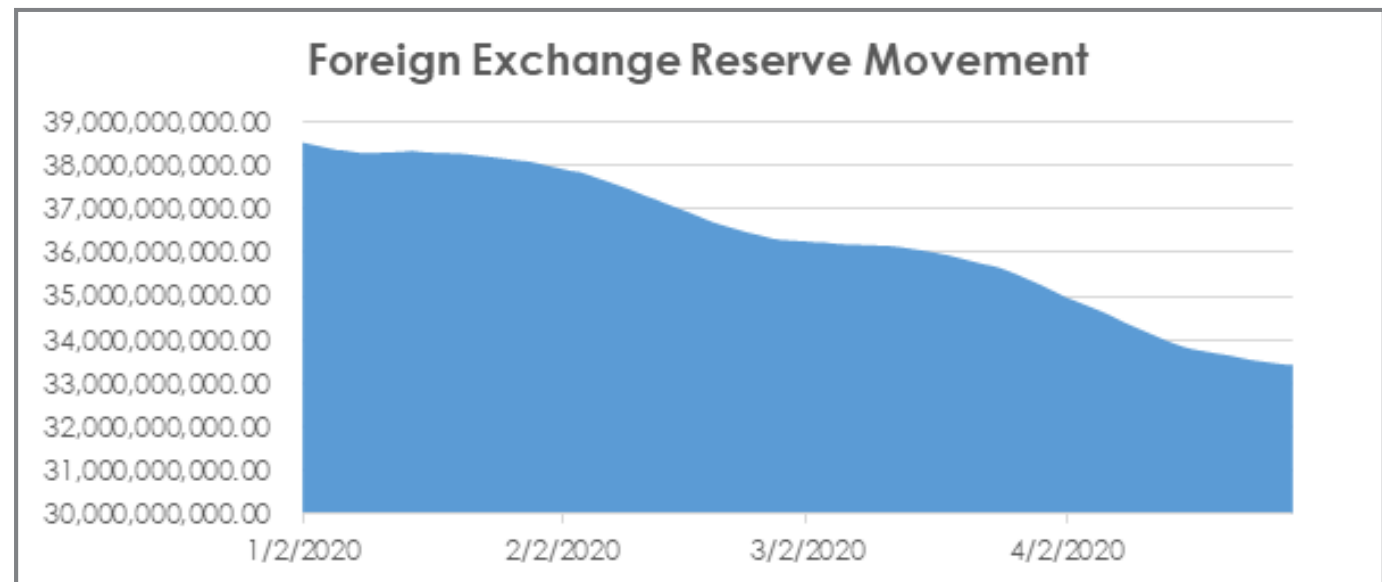
In our previous newsletter, we shared our thoughts on the possibility of increasing economic impetus despite weak macroeconomic fundamentals. These macroeconomic fundamentals have continued to grow weaker in the past weeks. At present, the COVID-19 pandemic is causing thunderstorms and turbulence to businesses in Nigeria. Quite recently, the CBN conducted a functional devaluation of the Naira by officially adjusting the dollar exchange rate from N306 to N360 for a dollar. The price of crude per barrel has also fallen and consistently maintained a level below the 2020 budget assumption (\$57/b) by at least 50%. All these indicators portend choppy waters ahead for the Nigerian Economy to sail through. The turbulence from this stormy weather may present repercussions that will cascade throughout the economy, affecting businesses and individuals. In spite of it all, there are certain pre-emptive actions which individuals and businesses can take to provide a cushion to the reverberating effects of these realities.

Coming from 8 quarters of price stability, exchange rate price movements in the preceding weeks have shown divergence in the stated value of the Naira from N360/\$1 in December 2019 to about N450/ \$1 in May 2020. This represents a devaluation of about 25% in less than 25 weeks. As an economy dependent on oil exports for revenue, and on imports for consumption derived from trade with foreign countries, especially with China, it becomes likely that the economic recovery will be snail-like in velocity.



In March 2020,

The Central Bank of Nigeria adjusted the official dollar exchange rate from N307/\$1 to N360/\$1 indicating a 15% increase in the cost of the US Dollar. Likewise, parallel market rates were set at a maximum of N380/\$1. Concurrently, Nigeria's foreign reserves have fallen to \$33.4billion from \$38.5billion at the beginning of the year, due in part to the drop in the price of Brent Crude and the COVID-19 outbreak.



Analysts, money managers and economists have speculated that the Naira may be further devalued by an estimated 10-20% by 2021. If these speculations are true, Nigerians will face an increase in the prices of common goods and services as an experience of the drop in the value of the currency.



In a bid to mitigate the economic impacts of the pandemic, the Federal Government of Nigeria approached the International Monetary Fund (IMF) for a Rapid Financing Instrument (RFI) of USD3.4bn. The RFI is an emergency funding instrument that provides loans that are repayable in 3 to 5 years and carries an annual interest rate of up to 1%. This was needed to cover for the short fall in dollar receipts from oil sales to a global economy ravaged by pandemic storms. The benefit of this loan is that it offers a 3-year moratorium to the Nigerian Government on interest payments, a condition which is favourable to the country at present. The loan will temporarily improve the country's ability to meet its FX demands for some months. It will also support the Federal government's budget execution by providing currency support across the economy. However, the respite will be short lived if global oil prices remain weak, which is why Nigeria is seeking an extra \$3.5 billion in concessionary funding from World Bank and AFDB. It is important to note that this will increase the nation's debt burden, but a 3-year moratorium on interest payments is favourable. With efficient allocation, it will be a step in the right direction to prevent a complete collapse of the economy.

How the Sails should be Set

The first thing people should do in these uncertain times is to guard current savings and be prudent. As is commonly said, Cash is King. Spend only on essentials like food, water and electricity. Minimize impulse and unnecessary purchases. If possible, track and plan your spending to ensure more discipline.

Next, you should consider setting up an emergency fund. An emergency fund provides protection against unplanned expenses and unexpected events. It will ensure you are not caught off-guard and unable to act in any situation. There are a number of financial products available which can serve the purpose of building an emergency fund. You can look at pension products such as Additional Voluntary Contributions (AVC) to help build this fund and also provide an augmentation towards retirement. You should speak to a financial professional or your financial advisor to discuss the options available to you and which suit your unique situation.

Organizations can employ management-level thinking to acknowledge deficiencies or gaps in a rigid business model and embrace flexibility. The current “work-from-home” situation can be utilized to minimize the down sides highlighted above.

In addition, businesses should consider repositioning their offerings. Currently, tastes and consumer preferences have changed. Priorities that once favoured your business offerings may have altered. Do some research, understand where your customers are, and reposition to serve the new needs in the market. The key is to adapt.

Despite the uncertainties of the Nigerian economy, there are several ways individuals and businesses can take preventive measures to mitigate against the harsh realities. Take the time to understand the current situation by seeking professional advice. Many good resources are abound especially in this period to provide this service. Above all, have a healthy and positive mind-set. We will all get through this together. See you on the other side.



We are available to answer all your questions and help you start a simple savings plan today.

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