

Tales From the Emerging World

## Nigeria's New Dawn?

**MACRO INSIGHT** | EMERGING MARKETS EQUITY TEAM | AUGUST 2023

Nigeria, often described as the “Giant of Africa,” is perhaps the world’s largest country that investors know the least about. We believe that may soon change given demographic trends and a potential uptick in economic growth. On our recent visit we observed both the adverse consequences of policies implemented by the prior administration and the potential opportunities offered by the promise of change as a new president takes control.

Nigeria suffered eight years of economic stagnation under the administration of the previous president, Muhammadu Buhari, a former general who had promised to tackle corruption. According to the World Bank the country ranked among the top 15 fastest-growing economies globally between 2001 and 2014, with an average growth rate of 7%. But the economy careered off the rails during Buhari’s two terms, starting in 2015, with annual real GDP growth averaging a paltry 1.4% during his tenure.

Buhari’s failure to remove fuel subsidies and the implementation of foreign currency controls hobbled the private sector, while a lack of economic growth exacerbated the level of extreme poverty. Today, some 71 million people live below \$1.90 a day, a significant jump from 61 million in 2016. By contrast, most countries have reduced their poverty levels significantly—India saw a decline from 74 million people in poverty to 44 million. During Buhari’s tenure the average Nigerian saw their annual income shrink by nearly one-third, from \$3,222 to \$2,200, one of the steepest declines recorded by any country over that time span, while Kenyans saw their incomes rise by more than 40% (Display 1 - see following page).

Not surprisingly, many Nigerians chose to flee during Buhari’s reign. According to UN data, Africa’s most populous nation witnessed its biggest-ever net migration of people over any eight-year span. “Japa,” a Yoruba term meaning “to run away or escape,” has entered the general lexicon, spawning influential social media accounts providing advice for leaving, and influencing popular Afropop songs.

Then came the election of Bola Tinubu in 2023. Few had high expectations that the political insider could bring about meaningful change despite his success as the governor of Lagos State from 1999 to 2007. Yet, as

AUTHOR

EMERGING MARKETS EQUITY TEAM

Ken Opalo, a political scientist at Georgetown University noted, Tinubu was able to put Lagos on “a gradualist path to prosperity” and improve public services, by persuading an enormous number of people who had shirked paying taxes to start doing so. Reviving the fortunes of Nigeria’s commercial center may yet serve as a template for the country’s future success.

From the start Tinubu appeared to be in a hurry to tackle the policies that had hindered economic growth. During his inaugural address in May, the new president declared that the “Fuel subsidy is gone.” Nigeria, Africa’s largest oil producer, had spent vast sums subsidizing gasoline prices since the 1970s. Scrapping the subsidy, which cost a whopping \$10 billion in 2022, could free up funds for schools and hospitals. But Nigerians, who had grown accustomed to pumping cheap gasoline, saw fuel prices triple overnight.

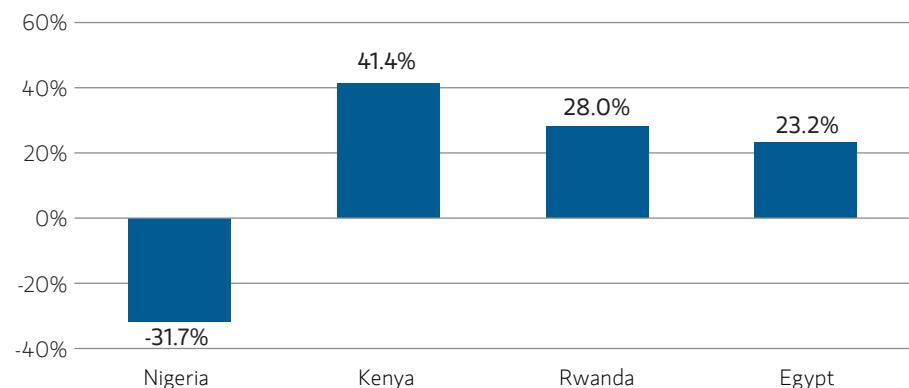
The president next targeted the country’s overvalued and complex currency regime. While the official exchange rate was pegged at Nigerian Naira (NGN) 460 to the U.S. dollar (USD), the unofficial market rate traded at a significantly higher rate of NGN 750. Multiple exchange rates had prevented foreign investors from repatriating money out of Nigeria and deterred most from investing new capital into the country. In June, Tinubu ordered the immediate reunification of the rates, in effect depreciating the currency by 67% (Display 2), and suspended the Central Bank of Nigeria’s governor—widely viewed as the architect of the multiple foreign-exchange rates policy.

The removal of subsidies is likely to prove painful in the near term, especially as it will likely erode consumer confidence, send inflation higher and hurt consumption. We believe Tinubu’s actions could potentially mark a turning point and

#### DISPLAY 1

#### Nigeria’s Economy Has Been in Reverse Gear Under Buhari

Change in GDP per capita in USD from 2015-2022



Source: Haver Analytics.

deliver medium-term growth which will spur the emergence of a mass consumer market in one of the fastest growing populations in the world.

As incomes rise, the demand for many consumer products typically rises even higher, as goods become affordable, exhibiting an “S-curve” of consumption. To cite one well-known example, when GDP per capita in China rose from \$1,000 to \$4,000, the demand for automobiles rose at an even greater rate, from one million vehicles to over 17 million.

Nigeria currently has a population of 223 million and will add another 38 million to its labor force over the next decade, more than any

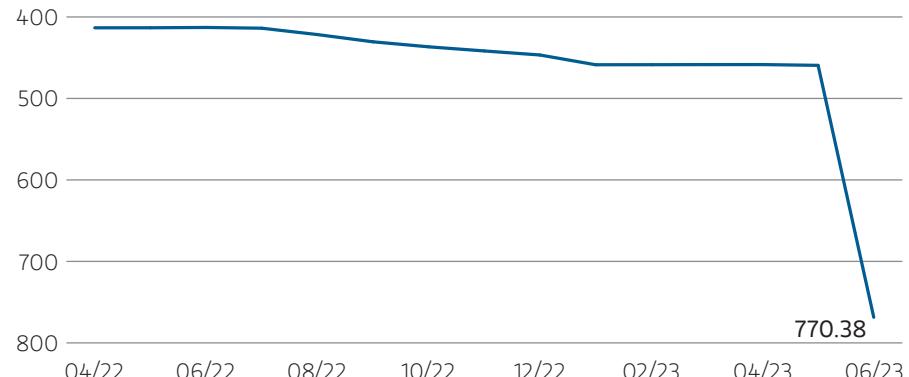
other country other than India. More consumers mean more demand for consumer products, including apparel, branded fast-moving consumer goods and even durables. About half of the population—a staggering 110 million—is 17 or younger. The size of this tech-savvy generation, raised in an era of expanding internet connectivity and smartphones, is likely to fuel strong growth in cellular data consumption.

That should benefit telecom operators who can now enter the mobile-money market in a country where around 55% of the population have no bank accounts. More than 85% of the adult population in Nigeria

#### DISPLAY 2

#### An End of Currency Bands Causes the Biggest Drop in Nigerian Naira (NGN)

NGN/USD, EOP (Inverted)



Source: Haver Analytics, Bloomberg. As of June 2023

have a mobile phone but only 10% have a mobile-money account, much lower than the 75-95% penetration seen in Senegal, Ghana and Kenya. We therefore think mobile banking will be an attractive investment opportunity in the coming years.

Delivering economic development will be key. High investment and rapid industrialization, often viewed as pathways to economic prosperity for emerging economies, have proven difficult for all but a handful of developing countries. Nigeria is probably not going to replicate East Asia's manufacturing success anytime soon, but perhaps it could do more to boost services exports. By some estimates, 125 million Nigerians

speak English which is more than the populations of the UK, Canada and Australia combined. A large pool of English speakers is an asset which underpins successful service export industries including the Philippines Business Process outsourcing (BPO) sector, which generates more than \$35 billion a year in hard currency. We would urge the new administration to focus on investments in educational outcomes and skill development, everything from improving too-low literacy rates, to prioritizing STEM fields. Bridging the gap in outcomes between the North and South of the country will be key, but we can think of no better use for the \$10 billion in annual savings from fuel subsidies.

We tend to agree with Nandan Nilekani, co-founder of Infosys, when he said, "People who travel to emerging markets like India or Nigeria often see only the problem of a billion hungry mouths. What they miss are the billion minds, and the potential of those minds." The new administration's challenge is to devise sound policies to unleash the potential of Nigeria's human capital, perhaps its greatest asset. The reforms are a positive step but more needs to be done to ensure momentum is not lost. Tinubu and his team of technocrats have a unique opportunity to free up the economy and attract foreign investors looking for sustained growth.

## Risk Considerations

There is no assurance that a portfolio will achieve its investment objective. Portfolios are subject to market risk, which is the possibility that the market values of securities owned by a portfolio will decline and that the value of portfolio shares may therefore be less than what you paid for them. Market values can change daily due to economic and other events (natural disasters, health crises, terrorism, conflicts, social unrest, etc.) that affect markets, countries, companies or governments. It is difficult to predict the timing, duration and potential adverse effects (portfolio liquidity, etc.) of events. In general, equities securities' values also fluctuate in response to activities specific to a company. Investments in foreign markets entail special risks such as currency, political, economic, market and liquidity risks. The risks of investing in emerging market countries are greater than the risks generally associated with investments in foreign developed countries. Real estate investments are subject to risks similar to those associated with the direct ownership of real estate and they are sensitive to such factors as management skills and changes in tax laws.

**A separately managed account may not be appropriate for all investors. Separate accounts managed according to the Strategy include a number of securities and will not necessarily track the performance of any index. Please consider the investment objectives, risks and fees of the Strategy carefully before investing. A minimum asset level is required.**

**For important information about the investment managers, please refer to Form ADV Part 2.**

The views and opinions and/or analysis expressed are those of the author or the investment team as of the date of preparation of this material and are subject to change at any time without notice due to market or economic conditions and may not necessarily come to pass. Furthermore, the views will not be updated or otherwise revised to reflect information that subsequently becomes available or circumstances existing, or changes occurring, after the date of publication. The views expressed do not reflect the opinions of all investment personnel at Morgan Stanley Investment Management (MSIM) and its subsidiaries and affiliates (collectively "the Firm"), and may not be reflected in all the strategies and products that the Firm offers.

Forecasts and/or estimates provided herein are subject to change and may not actually come to pass. Information regarding expected market returns and market outlooks is based on the research, analysis and opinions of the authors or the investment team. These conclusions are speculative in nature, may not come to pass and are not intended to predict the future performance of any specific strategy or product the Firm offers. Future results may differ significantly depending on factors such as changes in securities or financial markets or general economic conditions.

This material has been prepared on the basis of publicly available information, internally developed data and other third-party sources believed to be reliable. However, no assurances are provided regarding the reliability of such information and the Firm has not sought to independently verify information taken from public and third-party sources.

This material is a general communication, which is not impartial and all information provided has been prepared solely for informational and educational purposes and does not constitute an offer or a recommendation to buy or sell any particular security or to adopt any specific investment strategy. The information herein has not been based on a consideration of any individual investor circumstances and is not investment advice, nor should it be construed in any way as tax, accounting, legal or regulatory advice. To that end, investors should seek independent legal and financial advice, including advice as to tax consequences, before making any investment decision.

Charts and graphs provided herein are for illustrative purposes only. **Past performance is no guarantee of future results.**

The Firm has not authorised financial intermediaries to use and to distribute this material, unless such use and distribution is made in accordance with applicable law and regulation. Additionally, financial intermediaries are required to satisfy themselves that the information in this material is appropriate for any person to whom they provide this material in view of that person's circumstances and purpose. The Firm shall not be liable for, and accepts no liability for, the use or misuse of this material by any such financial intermediary.

This material may be translated into other languages. Where such a translation is made this English version remains definitive. If there are any discrepancies between the English version and any version of this material in another language, the English version shall prevail.

The whole or any part of this material may not be directly or indirectly reproduced, copied, modified, used to create a derivative work, performed, displayed, published, posted, licensed, framed, distributed or transmitted or any of its contents disclosed to third parties without the Firm's express written consent. This material may not be linked to unless such hyperlink is for personal and non-commercial use. All information contained herein is proprietary and is protected under copyright and other applicable law.

---

## DISTRIBUTION

**This material is only intended for and will only be distributed to persons resident in jurisdictions where such distribution or availability would not be contrary to local laws or regulations.**

**MSIM, the asset management division of Morgan Stanley (NYSE: MS), and its affiliates have arrangements in place to market each other's products and services. Each MSIM affiliate is regulated as appropriate in the jurisdiction it operates. MSIM's affiliates are: Eaton Vance Management (International) Limited, Eaton Vance Advisers International Ltd, Calvert Research and Management, Eaton Vance Management, Parametric Portfolio Associates LLC, and Atlanta Capital Management LLC.**

This material has been issued by any one or more of the following entities:

### EMEA

This material is for Professional Clients/Accredited Investors only.

In the EU, MSIM and Eaton Vance materials are issued by MSIM Fund Management (Ireland) Limited ("FMIL"). FMIL is regulated by the Central Bank of Ireland and is incorporated in Ireland as a private company limited by shares with company registration number 616661 and has its registered address at 24-26 City Quay, Dublin 2, D02 NY19, Ireland.

Outside the EU, MSIM materials are issued by Morgan Stanley Investment Management Limited (MSIM Ltd) is authorised and regulated by the Financial Conduct Authority. Registered in England. Registered No. 1981121. Registered Office: 25 Cabot Square, Canary Wharf, London E14 4QA.

In Switzerland, MSIM materials are issued by Morgan Stanley & Co. International plc, London (Zurich Branch) Authorised and regulated by the Eidgenössische Finanzmarktaufsicht ("FINMA"). Registered Office: Beethovenstrasse 33, 8002 Zurich, Switzerland.

Outside the US and EU, Eaton Vance materials are issued by Eaton Vance Management (International) Limited ("EVMI") 125 Old Broad Street, London, EC2N 1AR, UK, which is authorised and regulated in the United Kingdom by the Financial Conduct Authority.

**Italy:** MSIM FMIL (Milan Branch), (Sede Secondaria di Milano) Palazzo Serbelloni Corso Venezia, 16 20121 Milano, Italy. **The Netherlands:** MSIM FMIL (Amsterdam Branch), Rembrandt Tower, 11th Floor Amstelplein 11096HA, Netherlands. **France:** MSIM FMIL (Paris Branch), 61 rue de Monceau 75008 Paris, France. **Spain:** MSIM FMIL (Madrid Branch), Calle Serrano 55, 28006, Madrid, Spain. **Germany:** MSIM FMIL Frankfurt Branch, Große Gallusstraße 18, 60312 Frankfurt am Main, Germany (Gattung: Zweigniederlassung (FDI) gem. § 53b KWG). **Denmark:** MSIM FMIL (Copenhagen Branch), Gorrisen Federspiel, Axel Towers, Axeltorv2, 1609 Copenhagen V, Denmark.

### MIDDLE EAST

**Dubai:** MSIM Ltd (Representative Office, Unit Precinct 3-7th Floor-Unit 701 and 702, Level 7, Gate Precinct Building 3, Dubai International Financial Centre, Dubai, 506501, United Arab Emirates. Telephone: +97 (0)14 709 7158).

This document is distributed in the Dubai International Financial Centre by Morgan Stanley Investment Management Limited (Representative Office), an entity regulated by the Dubai Financial Services Authority ("DFSA"). It is intended for use by professional clients and market counterparties only. This document is not intended for distribution to retail clients, and retail clients should not act upon the information contained in this document.

This document relates to a financial product which is not subject to any form of regulation or approval by the DFSA. The DFSA has no responsibility for reviewing or verifying any documents in connection with this financial product. Accordingly, the DFSA has not approved this document or any other associated documents nor taken any steps to verify the information set out in this document, and has no responsibility for it. The financial product to which this document relates may be illiquid and/

or subject to restrictions on its resale or transfer. Prospective purchasers should conduct their own due diligence on the financial product. If you do not understand the contents of this document, you should consult an authorised financial adviser.

### US

**NOT FDIC INSURED. OFFER NO BANK GUARANTEE. MAY LOSE VALUE. NOT INSURED BY ANY FEDERAL GOVERNMENT AGENCY. NOT A DEPOSIT.**

### LATIN AMERICA (BRAZIL, CHILE, COLOMBIA, MEXICO, PERU, AND URUGUAY)

This material is for use with an institutional investor or a qualified investor only. All information contained herein is confidential and is for the exclusive use and review of the intended addressee, and may not be passed on to any third party. This material is provided for informational purposes only and does not constitute a public offering, solicitation or recommendation to buy or sell for any product, service, security and/or strategy. A decision to invest should only be made after reading the strategy documentation and conducting in-depth and independent due diligence.

### ASIA PACIFIC

**Hong Kong:** This material is disseminated by Morgan Stanley Asia Limited for use in Hong Kong and shall only be made available to "professional investors" as defined under the Securities and Futures Ordinance of Hong Kong (Cap 571). The contents of this material have not been reviewed nor approved by any regulatory authority including the Securities and Futures Commission in Hong Kong. Accordingly, save where an exemption is available under the relevant law, this material shall not be issued, circulated, distributed, directed at, or made available to, the public in Hong Kong. **Singapore:** This material is disseminated by Morgan Stanley Investment Management Company and should not be considered to be the subject of an invitation for subscription or purchase, whether directly or indirectly, to the public or any member of the public in Singapore other than (i) to an institutional investor under section 304 of the Securities and Futures Act, Chapter 289 of Singapore ("SFA"); (ii) to a "relevant person" (which includes an accredited investor) pursuant to section 305 of the SFA, and such distribution is in accordance with the conditions specified in section 305 of the SFA; or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA. This publication has not been reviewed by the Monetary Authority of Singapore.

**Australia:** This material is provided by Morgan Stanley Investment Management (Australia) Pty Ltd ABN 22122040037, AFSL No. 314182 and its affiliates and does not constitute an offer of interests. Morgan Stanley Investment Management (Australia) Pty Limited arranges for MSIM affiliates to provide financial services to Australian wholesale clients. Interests will only be offered in circumstances under which no disclosure is required under the Corporations Act 2001 (Cth) (the "Corporations Act"). Any offer of interests will not purport to be an offer of interests in circumstances under which disclosure is required under the Corporations Act and will only be made to persons who qualify as a "wholesale client" (as defined in the Corporations Act). This material will not be lodged with the Australian Securities and Investments Commission.

### JAPAN

For professional investors, this material is circulated or distributed for informational purposes only. For those who are not professional investors, this material is provided in relation to Morgan Stanley Investment Management (Japan) Co., Ltd. ("MSIMJ")'s business with respect to discretionary investment management agreements ("IMA") and investment advisory agreements ("IAA"). This is not for the purpose of a recommendation or solicitation of transactions or offers any particular financial instruments. Under an IMA, with respect to management of assets of a client, the client prescribes basic management policies in advance and commissions MSIMJ to make all investment decisions based on an analysis of the value, etc. of the

securities, and MSIMJ accepts such commission. The client shall delegate to MSIMJ the authorities necessary for making investment. MSIMJ exercises the delegated authorities based on investment decisions of MSIMJ, and the client shall not make individual instructions. All investment profits and losses belong to the clients; principal is not guaranteed. Please consider the investment objectives and nature of risks before investing. As an investment advisory fee for an IAA or an IMA, the amount of assets subject to the contract multiplied by a certain rate (the upper limit is 2.20% per annum (including tax)) shall be incurred in proportion to the contract period. For some strategies, a contingency fee may be incurred in addition to the fee mentioned above.

Indirect charges also may be incurred, such as brokerage commissions for incorporated securities. Since these charges and expenses are different depending on a contract and other factors, MSIMJ cannot present the rates, upper limits, etc. in advance. All clients should read the Documents Provided Prior to the Conclusion of a Contract carefully before executing an agreement. This material is disseminated in Japan by MSIMJ, Registered No. 410 (Director of Kanto Local Finance Bureau (Financial Instruments Firms)), Membership: the Japan Securities Dealers Association, The Investment Trusts Association, Japan, the Japan Investment Advisers Association and the Type II Financial Instruments Firms Association.