"Every election is determined by the people who show up."

- Larry J. Sabato

Thankfully, the Presidential elections have come to a peaceful close so we can now begin to focus on the task ahead of our newly elected Government. Cautiously waving off the uncertainty leading up to the elections, we are optimistic that the wind of change will promote more inclusive growth and development for our nation though more slowly than most hope for.

So what are the key economic considerations in this period of transition?

The incoming administration steps in at a time when macro indices are not as favourable as was the case four years ago

- Dwindling fiscal revenues following the global decline in oil prices, possibly settling at <$55 through 2015
- Widening budget deficit
- Declining foreign reserves currently less than $30bn
- Currency devaluation with analyst targeting a reset to N220/$1 in the near term

How and when can this government begin to fulfil its promises?

In the short term, we envisage there will most likely be an expectation gap

- Government may wish to stay true to its welfarist campaign manifesto
- However, there is less capital available to fund spending aspirations - Government revenues have witnessed a one-third contraction from 2014 due to the slump in oil prices
- Fiscal discipline and austerity measures and are necessary given current realities

Will borrowing be the short term panacea?

- This option could necessitate an increase in the nation’s debt levels, which may not be so bad
- Our 12.5% debt to GDP ratio remains one of the lowest in developing countries
- Borrowing would allow for fiscal expansion and drive capital investments
- The incoming president is however known for his more conservative stance

How do all of these impact the business environment?

The business and investment climate remains one of cautious optimism

- Continued lag in pace of business activities in the near term
- Improved investor confidence in capital markets will depend on visibility of government’s direction and currency stability
- There will be a lag between policy formulation or redirection and execution
- We expect to obtain a clearer picture of new developments by Q4 2015

Preparing for impending realities is paramount

In the short term, your business will still have to grapple with several challenges and risks

- The Naira will possibly decline by another 10% following the fall in the nation’s foreign reserves
- Inflation is expected to kick in over the next quarter
- The cost of borrowing is likely to rise
- At best, more efficient tax collection; at worse, concession reversals and tax increases
- Imminent reduction in the total volume of disposable and unearned income in circulation

Staying ahead of the game

Your key decision makers must continue to closely analyse the impact of these changes while focusing on

- Tighter management of cash flows
- Monitoring risk to existing business models
- Developing proactive strategies to adequately position for sustainability
- Consolidating strategic relationships

Regardless of the peculiarities of your business, Alpha African Advisory remains committed to assisting you in wading through the tide*.

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