



## Leveraging pensions to grow the Nigerian economy

Countries that can successfully invest their pension savings in their own economies create a virtuous cycle where national savings provide secure retirements for individuals and help increase the value of businesses. As these businesses invest pension savings in new endeavours that grow the economy, they effectively recycle pension savings into expanded employment, broader inclusion and greater GDP, improving general prosperity for all.

In short, leveraging domestic pension savings for economic growth is a key pillar of economic stability in all successful economies.

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For instance, in South Africa, the pension fund industry manages around \$500 billion. They invest this money in about 40% of the businesses listed on the Johannesburg Stock Exchange. This effectively deploys the country's retirement savings to build, expand, invest and grow the economy.

The benefits are fourfold.

Firstly, using citizens' savings for domestic growth gives businesses access to local investment capital. This means they don't have to rely heavily on expensive foreign funds or debts from other countries.

Secondly, with more local investment available, businesses can expand and invest more, leading to growth. These investments also pay dividends, which means the money people put into pension funds grows, making their retirements better.

Thirdly, businesses with more capital can grow faster and create more jobs. This also leads to more taxes for the government and more skills and services for everyone. This cycle helps the economy become stronger and attract global investors and businesses.

Finally, pension funds can invest over longer periods compared with other funding sources such as banks. As such, using retirement savings can

help drive investment in critical infrastructure sectors with long term payback periods such as energy, transport and telecommunications.

In Nigeria, pension assets under management is currently over US\$20 billion, nearly half of the US\$45 billion market capitalisation of the entire NGX Exchange. Compared to the country's budget of around US\$28 billion in 2023, just like in South Africa, Nigeria's pension funds can significantly help the economy grow and develop.

At the moment however, most of Nigerian pension fund assets are held in government securities, as well as other classes of securities such as Sukuk investments. Only a small percentage, about 6.7%, is in Nigerian equities, representing little over N1 trillion. This means that right now in Nigeria, pensions own just 3.1% of the equity listed on the NGX Exchange.

At the same time, the Nigerian government has a huge debt problem plus a huge infrastructure deficit. It is estimated that Nigeria needs to invest at least US\$100 billion annually over the next decade to meet its infrastructure aspirations. This is clearly a stretch in the context of an annual government budget in the region of US\$30 billion. In short, the Nigerian government simply does not have the capacity to bridge the infrastructure gap, especially with public revenue constrained and debt capacity almost maxed out.

Fortunately, recent policy reforms are helping. The single action of removing fuel subsidies materially improved government finances as this was budgeted to cost N4 trillion in 2022. Also liberalising foreign exchange markets immediately released more foreign exchange into the local market. These bold policy initiatives are likely to be backed up with measures to remove red tape and simplify corporate taxes.

This also sets the stage for private sector investment in vital infrastructure projects.

Even though Nigeria is still struggling to manage money from the government and private sources, Coronation senses that the wind has changed. Big changes, like ending fuel subsidies and opening up foreign exchange, show the government's willingness to move towards a more market based economy with very limited interference. This means there's a special chance for pension and managed funds to help with the country's long-term money needs.

In response, Coronation Asset Management has asset classes that can tap into Nigeria's huge pension fund with the dual objective of financing long term infrastructure projects and creating an alternative investment opportunity for investors seeking stable returns over a longer investment time horizons.

By developing the investment structures to realise these opportunities, Coronation is helping Nigeria grow by using private sector investment for long-term needs.



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