Stimulating National Savings

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Nigeria has low Gross National Savings when compared with most countries around the world. According to the U.S Central Intelligence Agency (CIA), National Savings Ratio (NSR) in Nigeria was estimated at 13.10% in 2016. This placed Nigeria in the 131st position out of 180 countries that CIA covered. The NSR is the ratio of the Gross National Savings (GNS) to the Gross Domestic Products (GDP).

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The GNS is the difference between the Gross National Disposable Income (GNDI) and the Final Consumption Expenditure (CE). The GNS consists of personal savings, business savings and government savings but excludes foreign savings. The higher the NSR in a country, the higher the savings culture in the economy. A country with a high savings culture would be able to access low cost funds to develop long-term projects. A negative NSR indicates that the economy is spending more income than it earns, therefore drawing down the national wealth.

To stimulate personal savings, the savers must be assured that the real value of their savings will be preserved in the medium to long-run. In addition, there must be safe investments to attract savings ensuring that the returns earned preserve real value for the savers. An environment of high inflation rate discourages savings and promotes current consumption. To stimulate business savings, the business environment must be competitive to enable businesses operate in a profitable manner. As businesses can fund future expansion from business savings (retained earnings), it thus increases their ability to raise future savings. In addition, government and its agencies must be disciplined in creating institutions and structures that will promote government savings. This can happen through careful planning at the central and state levels.

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In the last few years, the operators in the Nigerian financial industry have created a number of products to stimulate personal savings. Some of these products are mutual funds and other wealth management products. The regulatory authorities in the financial market have also strengthened their regulatory and supervisory roles in order to protect savers and investors in the financial market. Indeed the Nigerian financial market is in a safer and stronger position than before to attract savings to investments that provide attractive/higher returns, than the inflation rate.

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The Debt Management Office (DMO), on behalf of the Federal Government recently introduced the Federal Government of Nigeria Savings Bond (FGNSB) as part of the efforts of the FGN to increase the Gross National Savings. With a minimum of N5,000 every month, retail investors in Nigeria through their preferred stockbroking firms, now have the opportunity to invest in a low risk investment that guarantees fixed interest payment. In addition to stimulating national savings, FGNSB provides long-term funding for government. However, the current high unemployment level in the country, coupled with a drop in disposable income and the erosion of the purchasing power of Nigerians, have all contributed to low personal savings. The harsh business environment resulting from weak infrastructure, inadequate foreign exchange and rising cost of production have resulted in increased cost of running business in Nigeria. All these have reduced business profitability and retained earnings.

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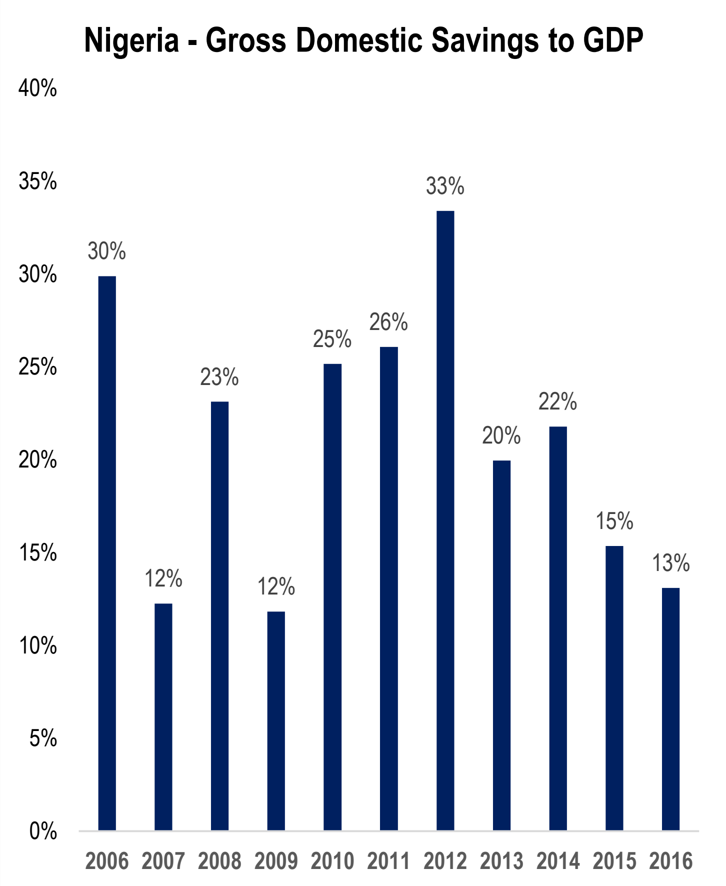
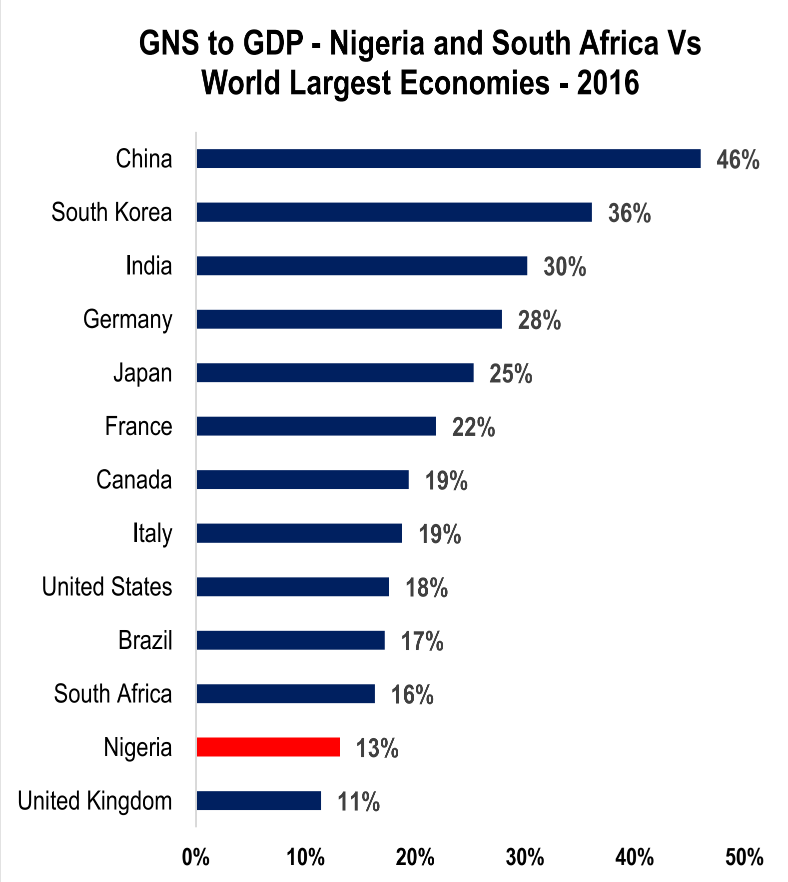
The view remains that government needs to do more to provide enabling business environment to make the Nigerian economy more competitive and better positioned to attract the needed investments necessary for job creation and increase in disposable income. Government can also provide fiscal incentives such as removal of taxes on certain classes of investment schemes that encourage savings. In the long-run, the consensus is that all the stakeholders in the Nigerian economy will benefit if there are adequate savings that can be pooled together to fund long-term projects.



Source: World Bank and CIA



Source: Central Intelligence Agency (CIA)

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