MACROECONOMIC REVIEW AND OUTLOOK FOR NIGERIA

COVID-19 Recession & the Long Road to Economic Recovery

December 2020

CONTENTS

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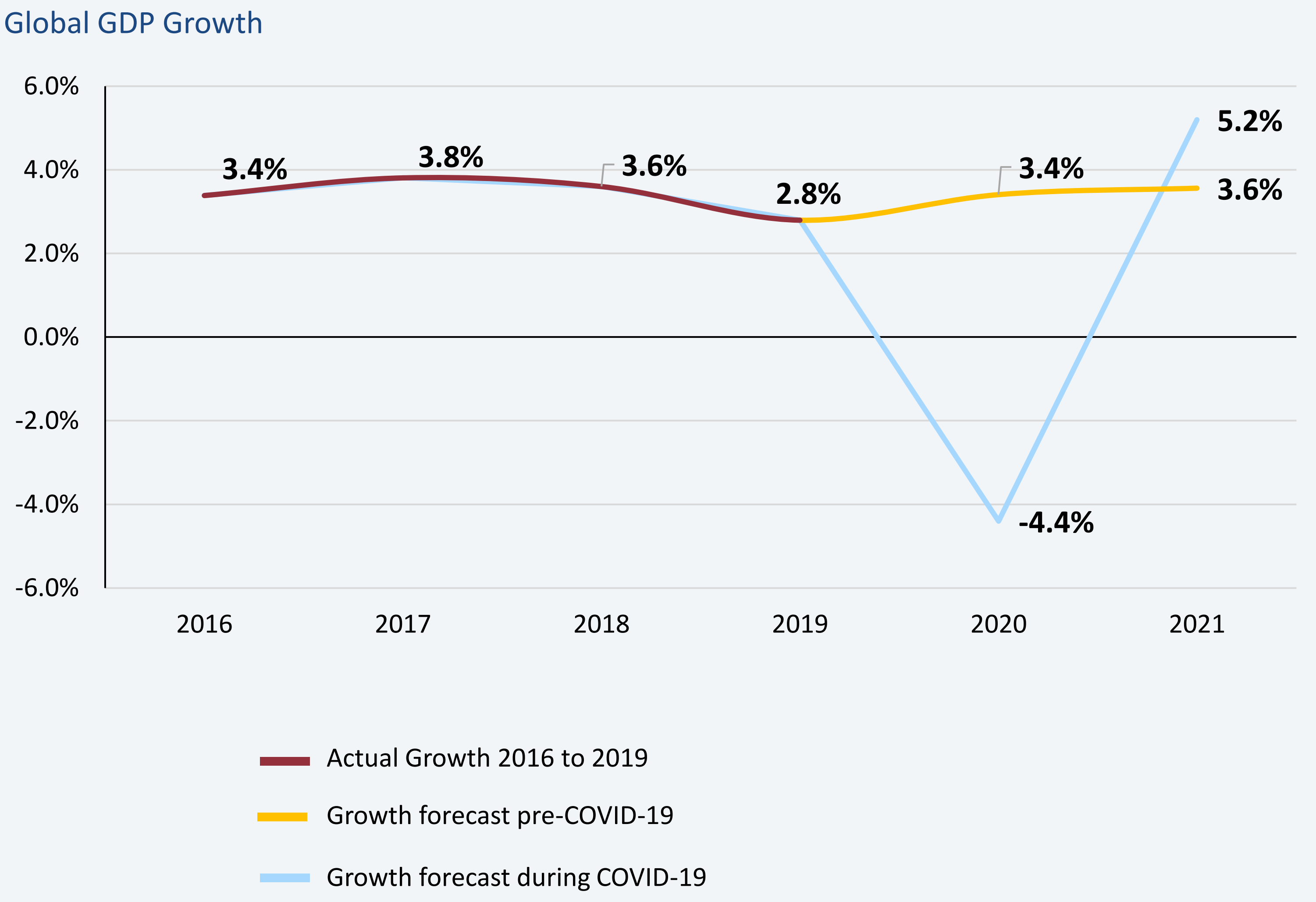
SECTION 01

Performance of the Global Economy

COVID-19 leads the global economy into a contraction

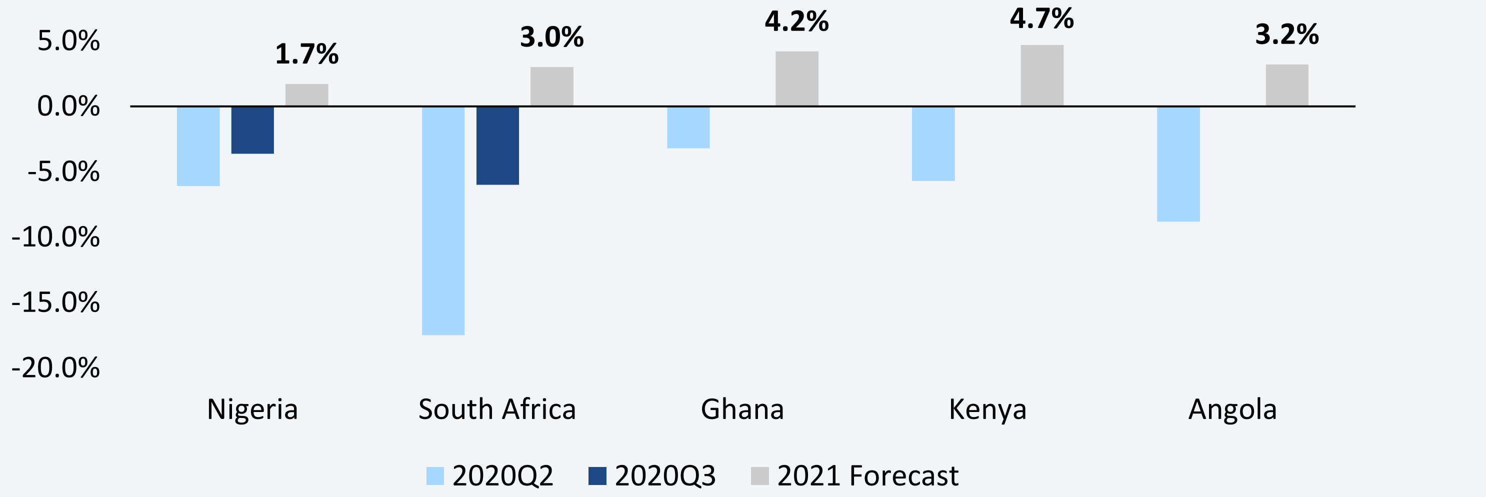


- **Global GDP is expected to dip by 4.4% in 2020 due to the impact of COVID-19.**
- **The economy will however recover in 2021 as countries relax lockdown and social distancing policies.**
- **The discovery of vaccine for the virus, coupled with improved consumer demand will speed up recovery in 2021.**
- **Among the large economies, China is expected to lead recovery with an expansion of 8.2% in 2021. According to the IMF, China's exports recovered due to earlier restart of activities and a strong pickup in external demand for medical equipment.**
- **The US economy will expand by 3.1% while the economy of Sub Saharan Africa will expand by the same figure in 2021.**

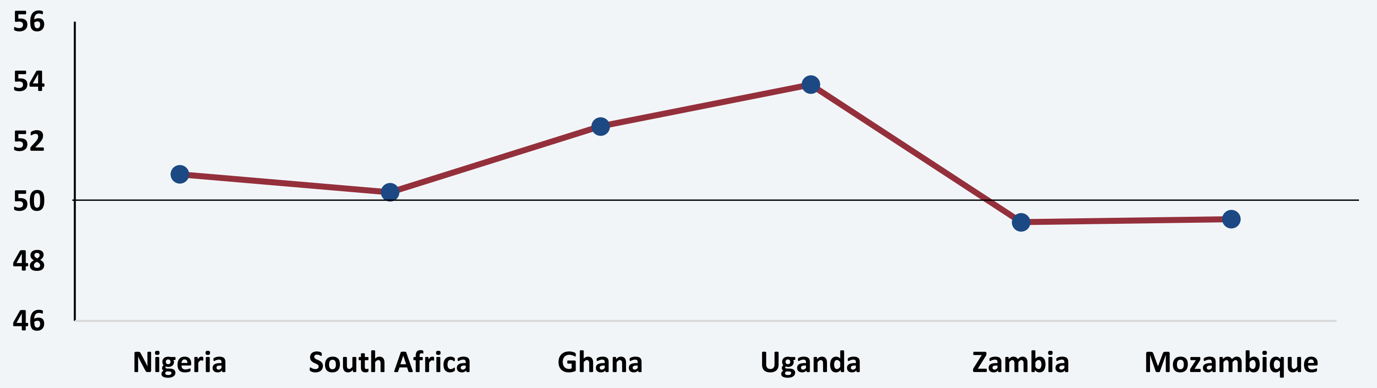
Data Source: IMF

Many Sub Saharan African Countries will recover in 2021

GDP Growth for select African countries



Composite PMI for select African countries (Nov 2020)



NB: PMI above 50 point represents economic expansion

- **The economy of SSA is expected to expand by 3.1% in 2021 after a contraction of -3% in 2020.**
- **This suggests a V-shaped recovery as the impact of COVID-19 wanes out.**
- **Many African countries have been reopening their economies due to the high social and economic costs of lockdowns and restrictions.**
- **Some downside risks to recovery include the strength of health systems, the path of COVID-19 and availability of financing.**
- **According to the IMF, more urgent than ever, many African economies will need to implement transformative domestic reforms to promote resilience including revenue mobilization, digitalization, and fostering better transparency and governance.**

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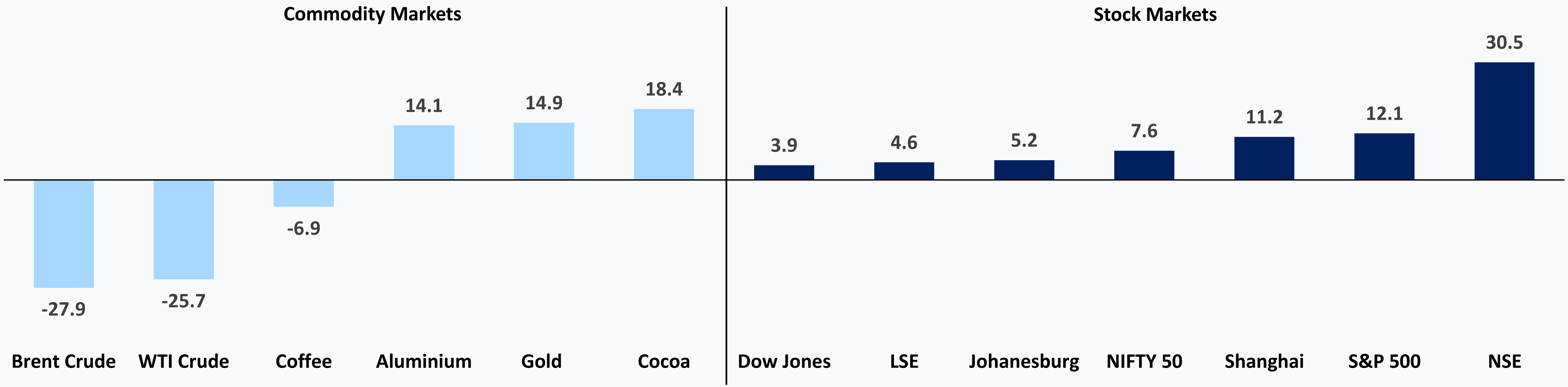
Data Source: IMF & Trading Economics

Global Markets: COVID-19 influences market performance in 2020

Performance Across International Markets (% Change in Daily Quotations) Jan. – Nov. 2020



COVID-19 and its associated impacts have been the major driver of market performance across the world. The pandemic resulted in a:

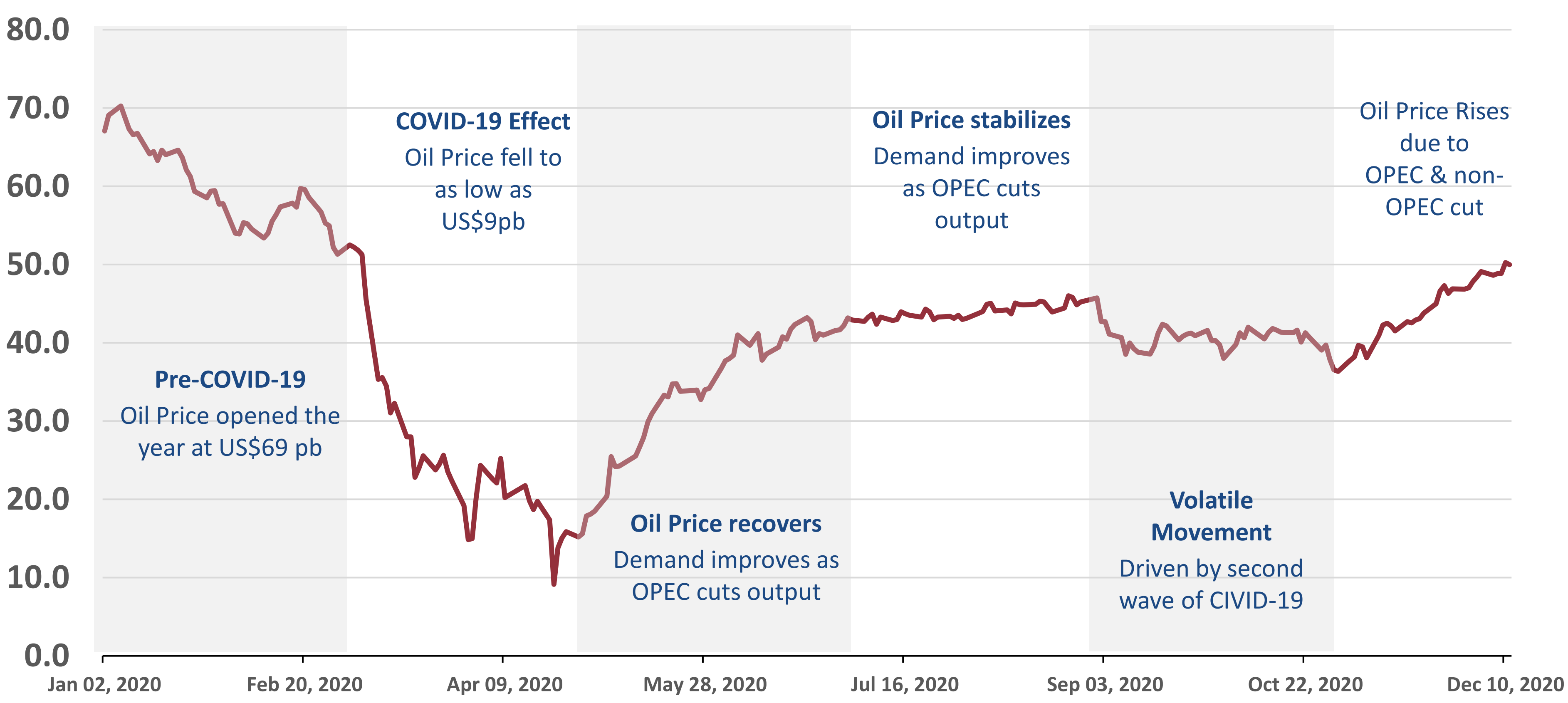
- fall in oil prices and in the value of the US dollar (US$).
- persistent decline in yields across countries following the universal implementation of loose monetary policy by Central Banks.
- boom in liquidity following global rate cuts.

Data Source: investing.com

- In the commodity market, the precious metal market flourished on average, gaining 14.1% and 14.9% on Gold and Aluminum prices (Jan.-Nov. 2020).
- Sentiment in the cash crop market was mixed as the price of Cocoa gained by 18.4% while that of Coffee decreased by 6.9% (Jan.-Nov. 2020).
- In the capital market, all the stock markets we tracked gained in 2020 (Jan.-Nov. 2020) despite being hit by the COVID-19.
- Among the tracked stock markets, the Nigerian Stock Exchange recorded the highest gain in 2020 with year to date (Jan.-Nov. 2020) of 30.5%.

Oil Price: COVID-19 resulted in disruptions in the crude oil market

Europe Brent Spot Price FOB (US Dollars Per Barrel)



Data Source: OPEC

- **The outbreak of COVID-19 significantly reduced the demand for crude oil due to lockdowns and movement restrictions.**
- **Oil price began trending upwards in May following a relatively higher demand.**
- **Year to date (Dec 11), crude oil price has averaged US$41.5 per barrel.**
- **Crude oil price has fallen by 25% ytd.**
- **Production cuts by OPEC and non-OPEC countries as well as improved demand resulted in upward price movement in November and December.**

Oil producers agreed to further cut production in January 2021

Voluntary Production Level in 1,000 barrels per day (January 2021)

	Reference Production	Voluntary Adjustment	Voluntary Production Level
Saudi Arabia	11,000	-1,881	9,119
UAE	3,168	-542	2,626
Kuwait	2,809	-480	2,329
Nigeria	1,829	-313	1,516
Angola	1,528	-261	1,267
Algeria	1,057	-181	876
Congo	325	-56	269
Gabon	187	-32	155
Eq. Guinea	127	-22	105
Iraq	4,653	-796	3,857
Total OPEC-10	**26,683**	**-4,564**	**22,119**
Total participating Non-OPEC	**17,170**	**-2,636**	**14,534**
Total OPEC-10 + Non-OPEC	**43,853**	**-7,200**	**36,653**

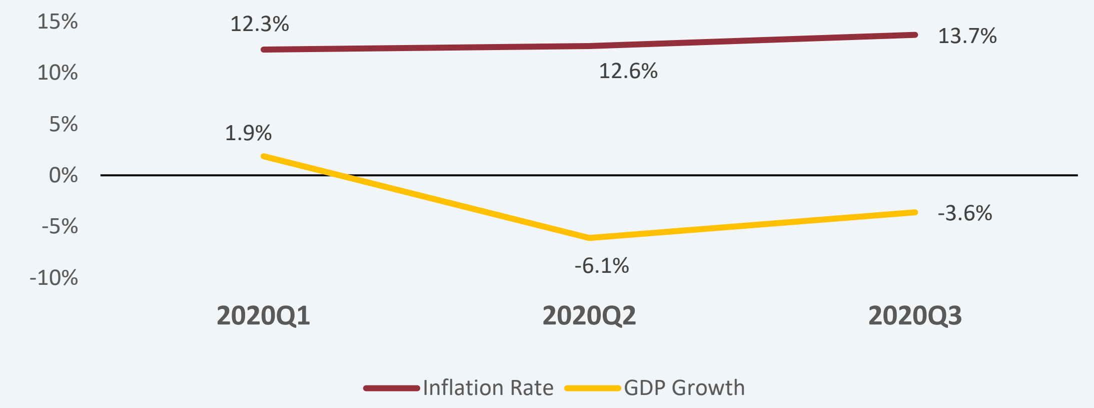
- **Given the need to ensure a stable crude oil price, oil producers agreed in December to cut production for January 2021.**
- **The voluntary cuts in production was led by Saudi Arabia and Russia.**
- **Overall, producers agreed to cut back 7.2 million b/d.**
- **OPEC-10 had the highest share of 4.56 million b/d. Non-OPEC participating countries agreed to cut 2.64 million b/d.**
- **Nigeria is expected to produce 1.52 million b/d after a voluntary adjustment of -313,000 b/d.**
- **These cuts are expected to bring some stability to oil price in January 2021.**

Data Source: Organization of Petroleum Exporting Countries (OPEC) and Energy Intel

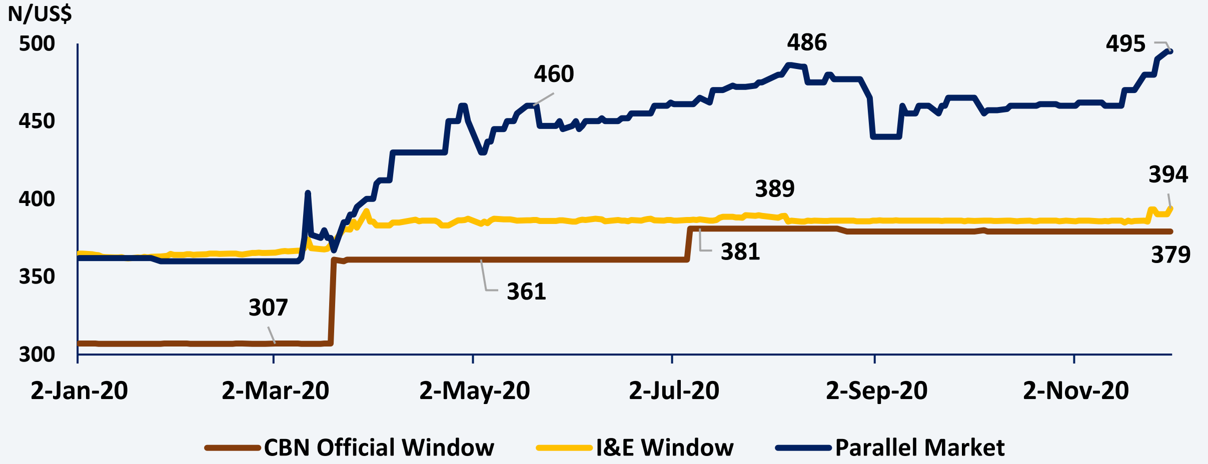
Nigeria's Macroeconomic Environment

Four Charts that explain the Nigerian Economy in 2020

Stagflation: GDP contracted as prices rose consistently

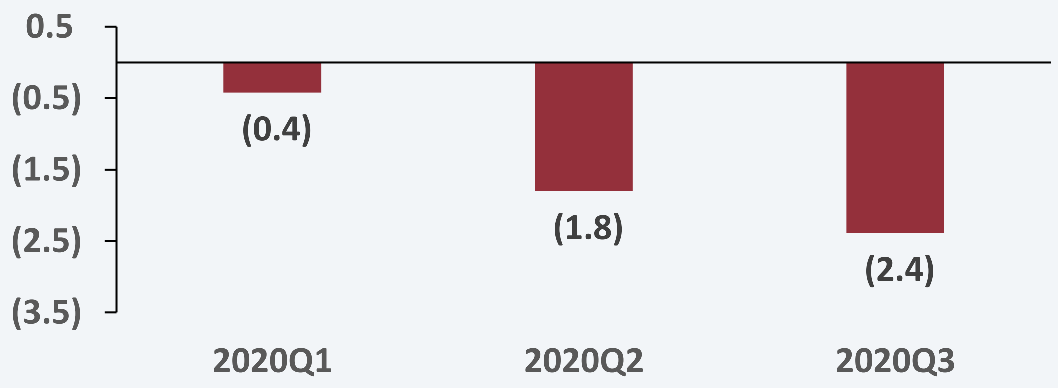


Foreign exchange pressure resulted in exchange rate depreciation/adjustments

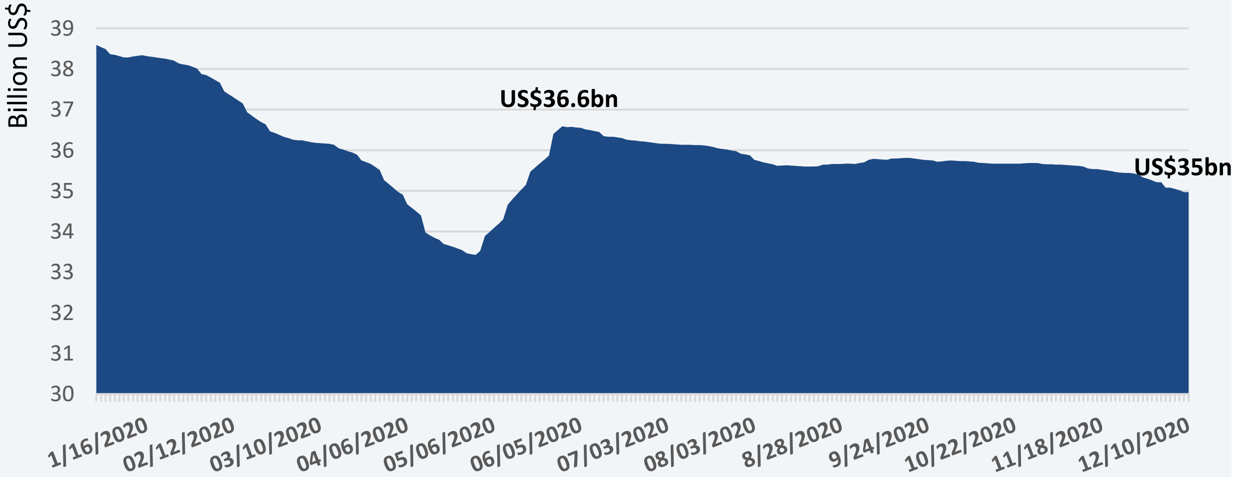


Trade deficit worsened due to high demand for imports and lower exports

Trade deficit in Trillion Naira

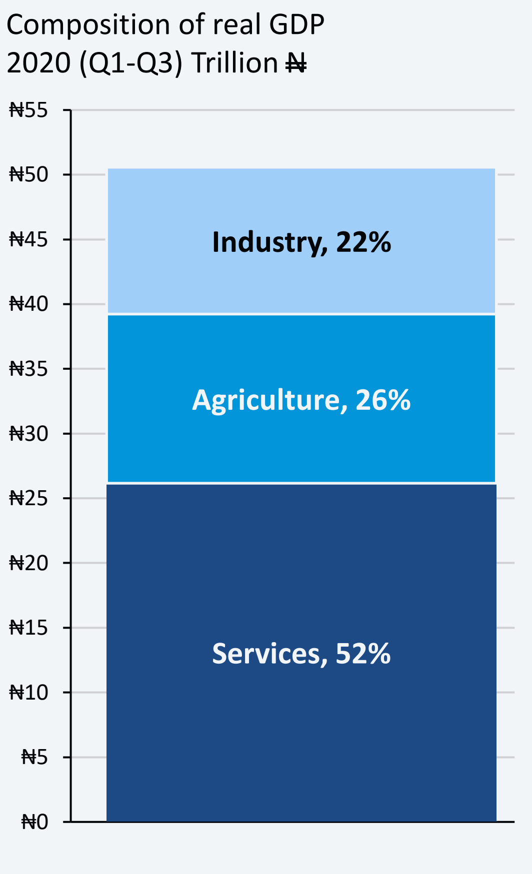


External Reserves declined as dollar inflows from crude oil and capital plummeted



Data Source: National Bureau of Statistics, FMDQ & Central Bank of Nigeria

The problem with the Nigerian economy is beyond COVID-19; it is more of a structurally-weak economy affected by externally-induced shocks.



- **The Nigerian economy slipped into a recession in the third quarter of 2020 following a GDP contraction of -3.62%.**
- **This is the second recession since 2016.**
- **Recessions in Nigeria have mostly been caused by a fall in the price of crude oil and the absence of large fiscal/monetary buffers in a structurally weak economy.**

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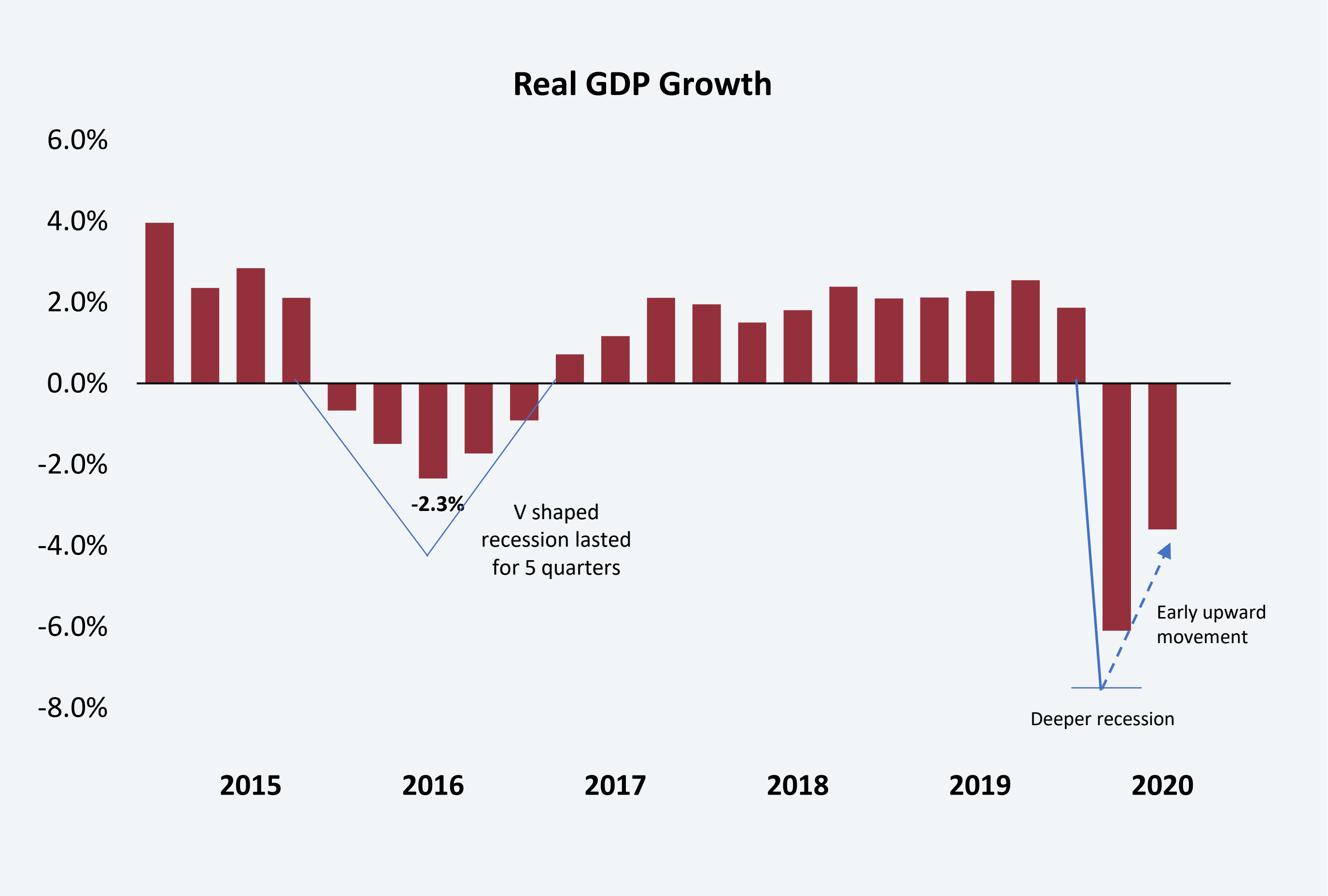
Data Source: National Bureau of Statistics & Central Bank of Nigeria

However, the 2020 recession is unique and more severe on household & businesses



How is the current Recession different from the 2016 recession?

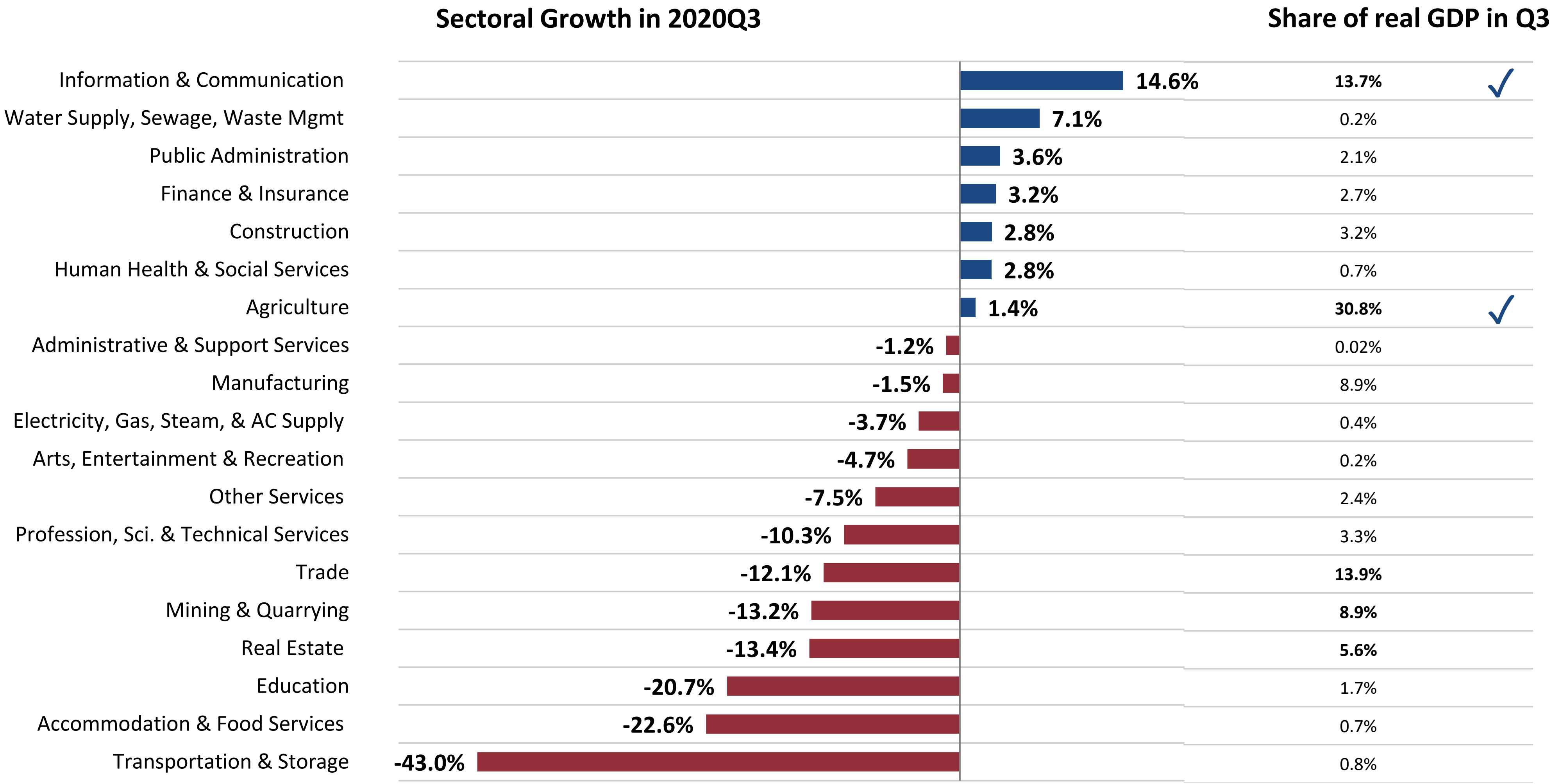
- Deeper contraction in 2020
  - Economic growth reached its lowest point at the first contraction in Q2 2020 (-6.1%). The depth of contraction narrowed in 2020Q3 (-3.62%).
  - At the height of the 2016 recession, 10 out of the 19 economic sectors contracted. In 2020Q2, 13 sectors contracted.

- GDP may recover quickly relative to 2016, but structural factors will slowdown recovery or worsen other socio-economic indicators.
  - Inflation, unemployment, poverty, exchange rate are likely to worsen even in the face of output recovery until structural factors such as infrastructure, power, insecurity, FX issues, etc are addressed.

- The impact of the 2020 recession on individuals and businesses is more severe because of its nature.
  - With COVID-19, businesses were forced to shut due to lockdown and social distancing.
  - This had a toll on individuals' income, corporate and government finances.

Data Source: National Bureau of Statistics

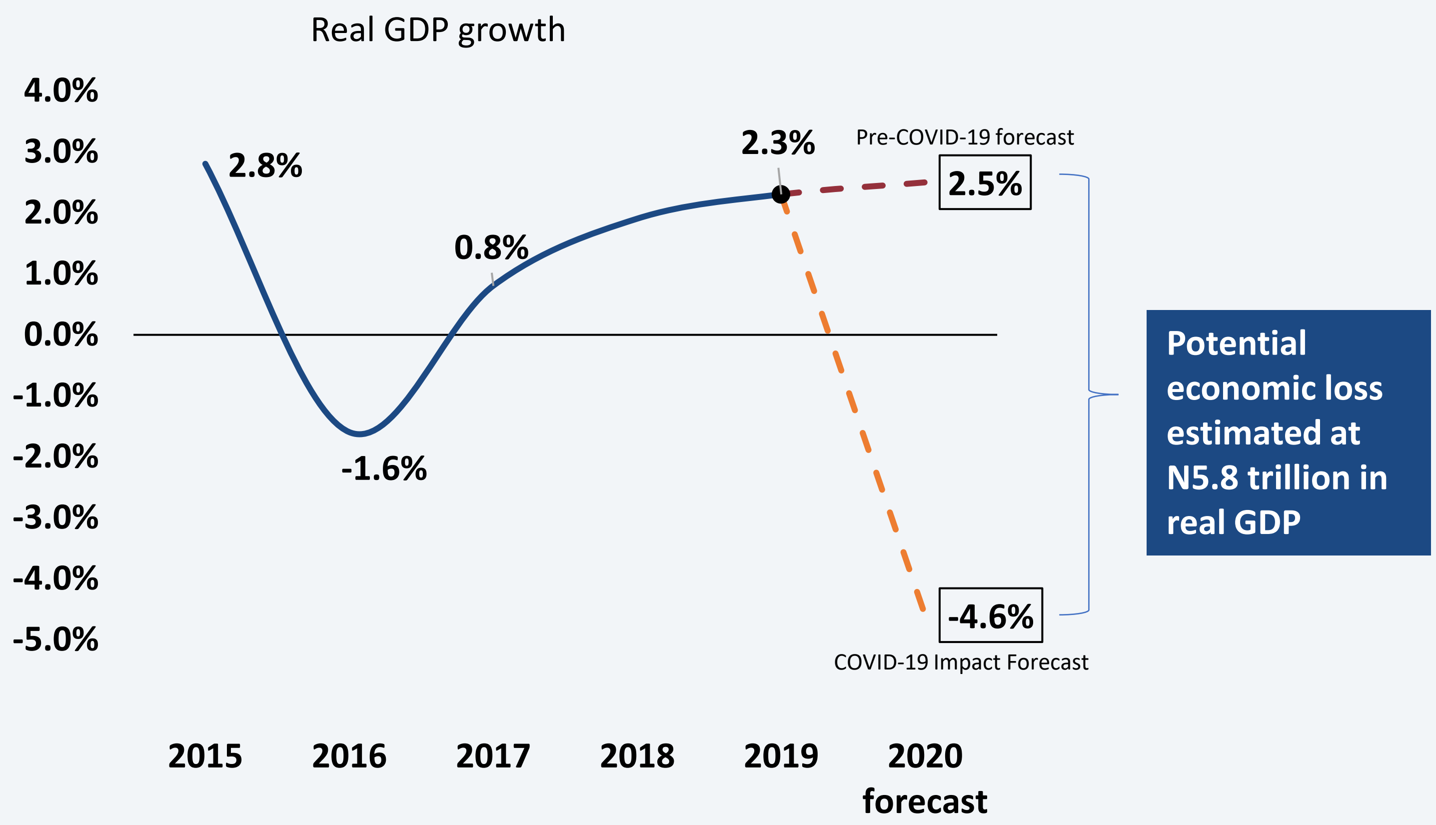
Sector Growth: Sectors with larger share of GDP are still in the negative, except agriculture & ICT



The share of Agriculture expanded from 25% in the previous quarter to 31% mainly due to a contraction in other large sectors such as manufacturing, trade and real estate.

Data Source: National Bureau of Statistics

COVID-19 & other disruptions resulted in an output loss of ₦11.6 trillion in 2020



- **We estimate the loss in real output from COVID-19 and other disruptions in 2020 at N5.8 trillion*.**
- **In nominal terms, this loss is estimated at N11.6 trillion**.**
- **In addition to the direct output loss, there have also been significant job losses, income losses, erosion of monetary value, among others.**
- **COVID-19 and other disruptions have reversed the gains achieved since 2017.**

Output loss from disruptions in 2020

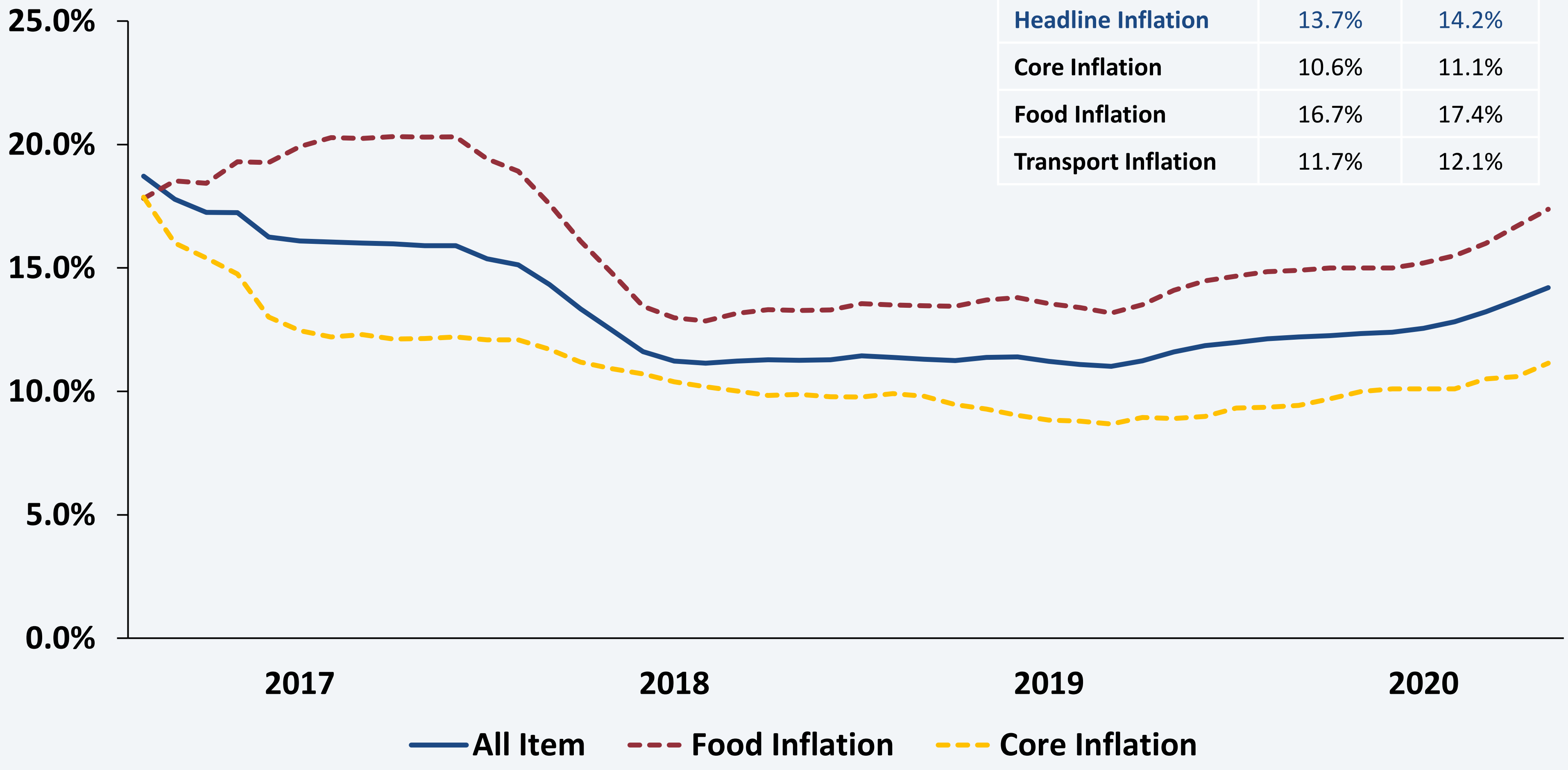
	Real GDP Growth Rate	Real GDP (Trillion Naira)	Gain/(loss) N'trillion
2019	-	71.4	-
2020 (pre-COVID-19 Forecast)	2.5%	73.9	+2.5
2020 (COVID-19 Impact Forecast)	-4.6%	68.1	(5.8)

Data Source: National Bureau of Statistics, FSDH Research

**Note that a real GDP growth forecast of -4.6% for 2020 was used in estimating the loss. If actual growth exceeds or falls below -4.6%, the output loss will change.*
***Nominal GDP is, at least, twice the value of real GDP given the implicit deflator.*

COVID-19 and closure of land borders resulted in increase in general price level

	Sept 2020	Oct 2020
Headline Inflation	13.7%	14.2%
Core Inflation	10.6%	11.1%
Food Inflation	16.7%	17.4%
Transport Inflation	11.7%	12.1%

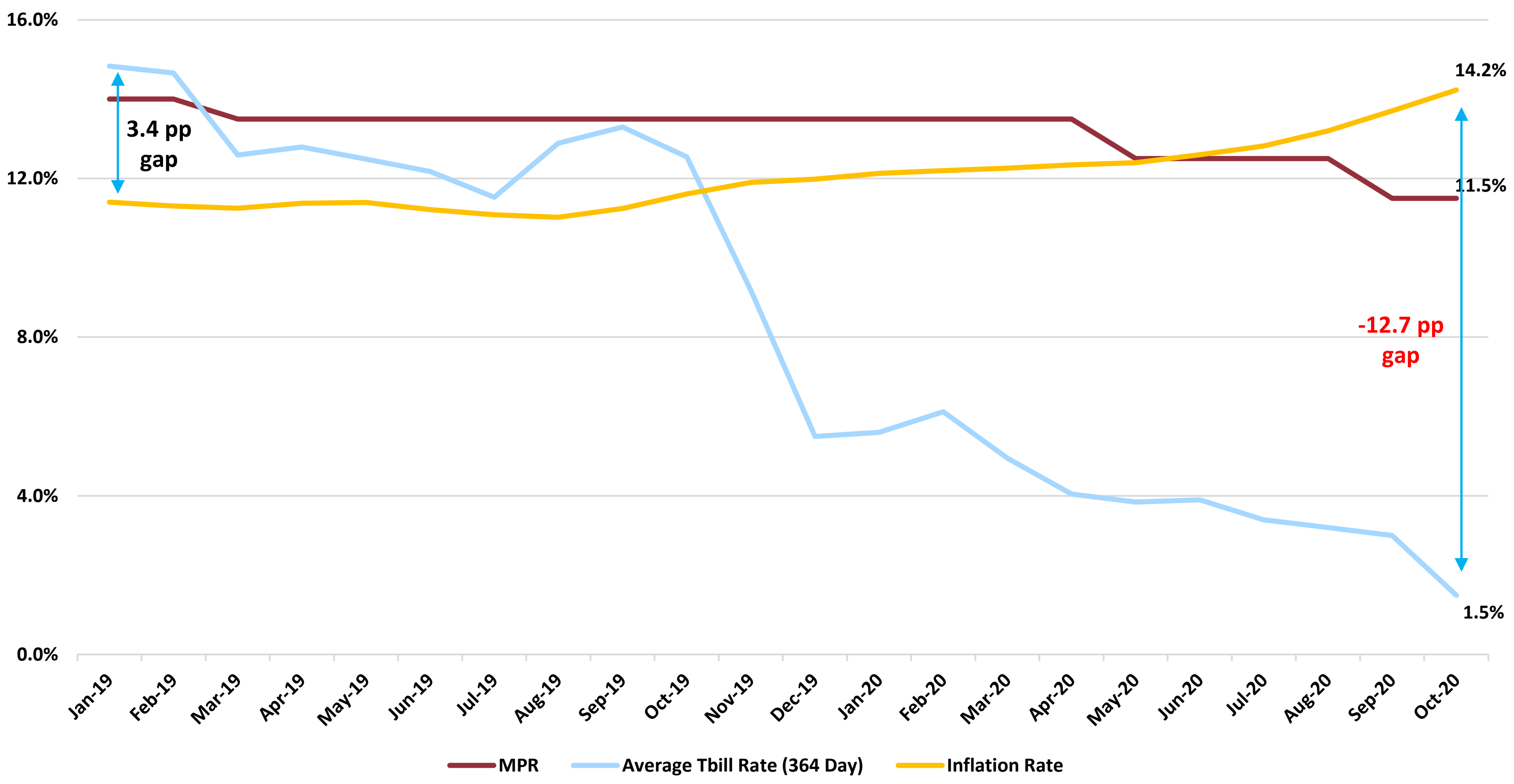


- Inflation is higher than pre-COVID-19 levels.
- Closure of land borders, VAT increase and structural challenges have driven up prices of goods and services.
- Inflation will likely trend upwards going into 2021.

Data Source: National Bureau of Statistics

Real interest rate extended to -12.7pp in October 2020

Real Interest Rate: MPR, 364-Day Treasury Bill Average Rate vs Inflation Rate



***pp - percentage points**

- **Rising inflation and lower interest rate led to an expansion in real interest rate from -10.7 percentage points (pp) in September to -12.7pp in October.**
- **Further pressure on inflation driven by an increase in food prices will expand the gap between inflation and interest rate.**
- **We may however begin to see improvement in real interest rates from 2021 as food prices will moderate.**

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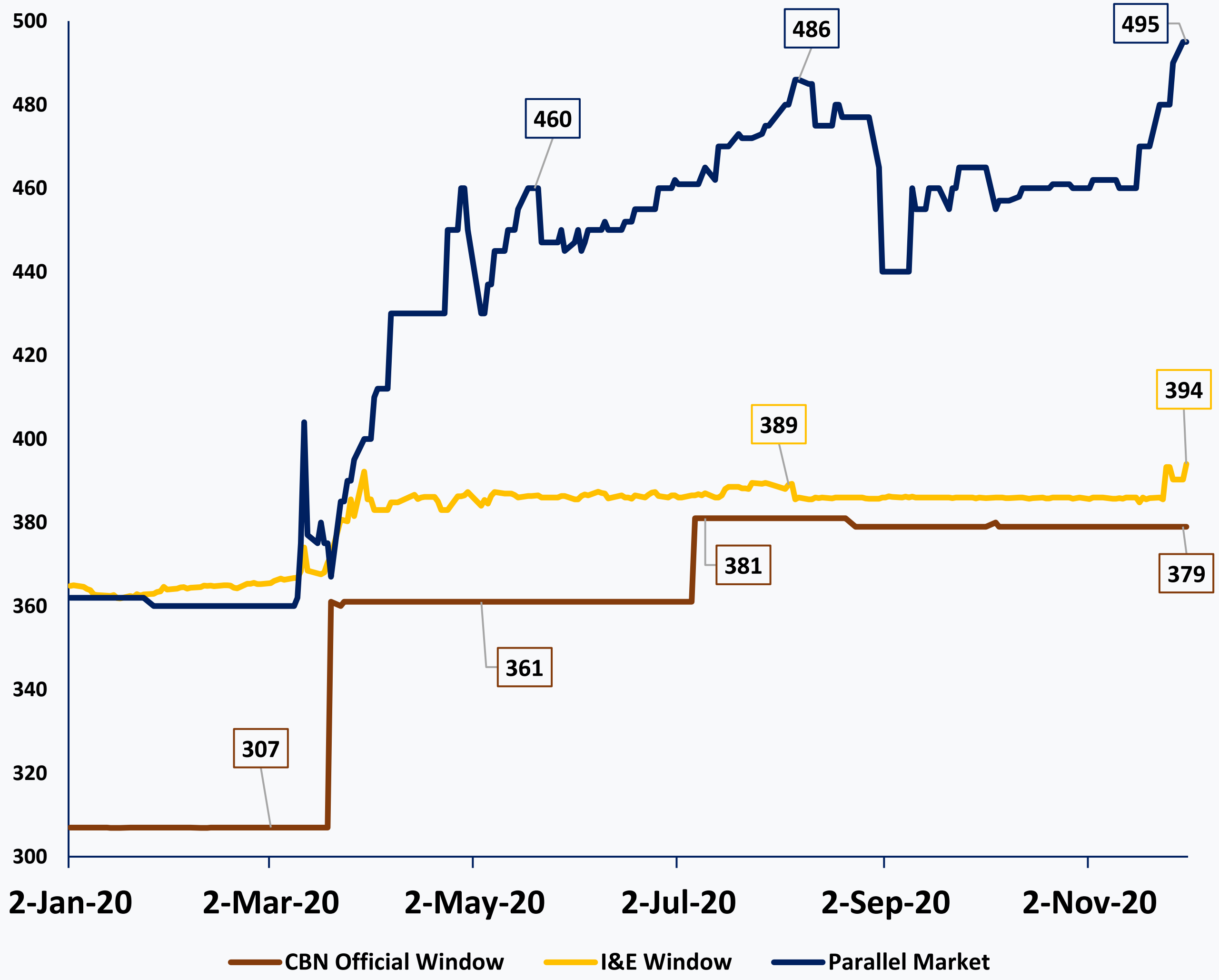
Data Source: National Bureau of Statistics & Central Bank of Nigeria

Forex Market: Exchange rate was highly pressured and volatile in 2020

Exchange rate Movement (N/US$)



- In 2020, the CBN devalued/adjusted the Naira on three occasions to ameliorate the pressure. The adjustments were also steps to bridge the gap between official and parallel markets rates.
- On several occasions, these adjustments, coupled with lower FX inflows extended the gap in both markets.
- As at the end of November 2020, the Dollar to Naira rate in the parallel market stood at N495/US$ from N361/US$ at the beginning of the year. The Naira on the I&E Window closed at N392/US$ from N360/US$.
- At the CBN Official Window, the Naira closed at N379/US$.
- Increasing demand for US Dollar, lower Forex inflows and economic uncertainty are key factors that have pressured the exchange rate in Nigeria.

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Data Source: FMDQ & Central Bank of Nigeria

Forex Market: Inflows across segments of the market were suppressed

Foreign Exchange Inflows in the I&E Window (US$'Million)

Sources	2020Q1	2020Q2	2020Q3	3MthAgo	2019 Nov YTD	2020 Nov YTD
FDI	229.2	92.5	91.6	100.8	**1,991.9**	**508.9**
FPI	3,319.8	236.5	110.1	101.5	**15,109.9**	**3,769.3**
Other Corporate	293.8	119.4	70.0	83.1	**879.8**	**549.5**
CBN	5,373.9	0.5	434.6	1,308.7	**4,693.4**	**6,820.8**
Exporter	182.4	108.1	287.9	427.7	**1,031.0**	**830.4**
Individuals	17.9	15.5	45.6	85.4	**123.2**	**135.1**
Non-bank corporate	1,618.8	762.6	901.2	874.4	**7,177.7**	**4,031.1**
Total	11,035.8	1,335.1	1,941.0	2,981.6	**31,006.9**	**16,645.1**

- Total inflow into the I&E Window as at the end of November stood at US$16.645 billion, a 46.32% decline from the corresponding figure in 2019.
- In the third quarter of 2020, CBN intervention in the I&E Window stood at US$434.6 million (2020Q1: US$5.37 billion).
- FPI, which has been the major driver of inflows declined by 93% in 2020Q2 and has remained low mainly due to falling interest rates and forex challenges.
- Year to date, FPI inflows contracted by 75.05% relative to corresponding period in 2019.
- From the available data, CBN is a major player in the market.

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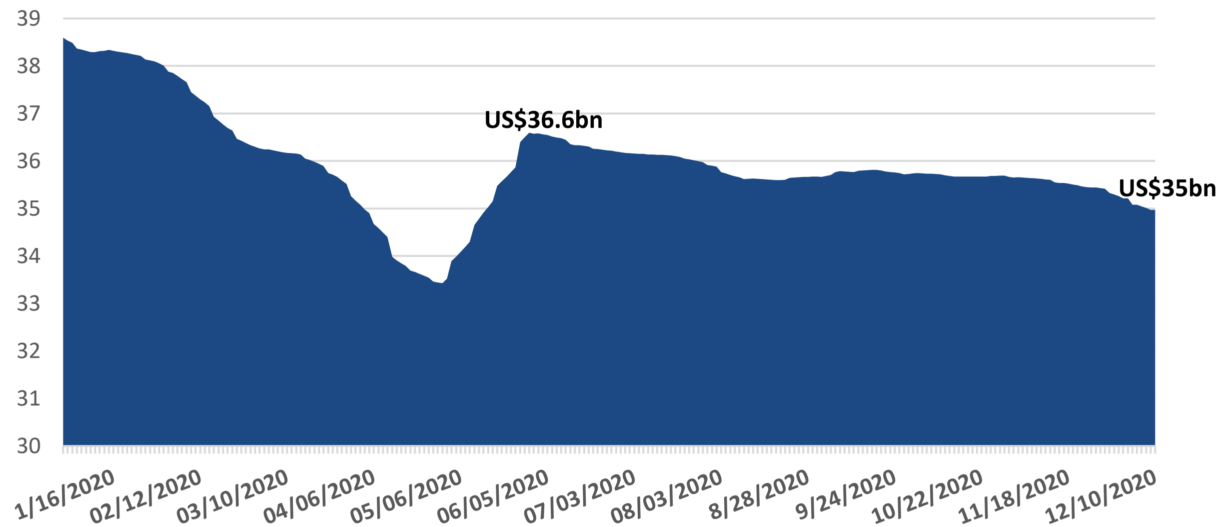
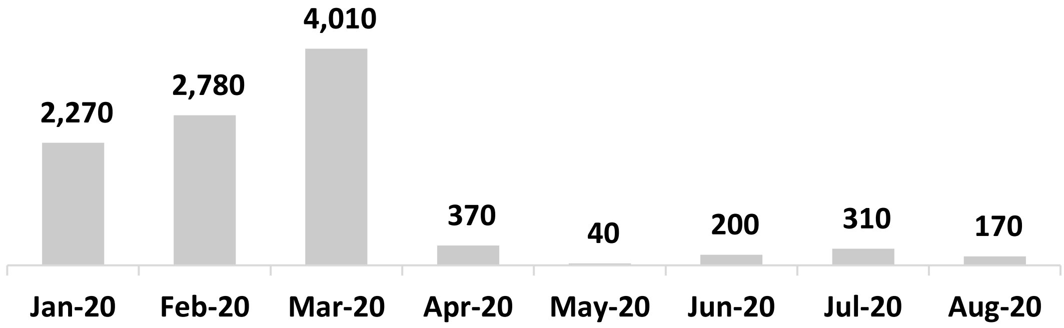
Data Source: FMDQ & Central Bank of Nigeria

Forex Market: Reserves declined for the most part of 2020 but stabilized at US$35bn

Foreign Exchange Reserves (US$'Billion)



Capital Outflows (Million US$)

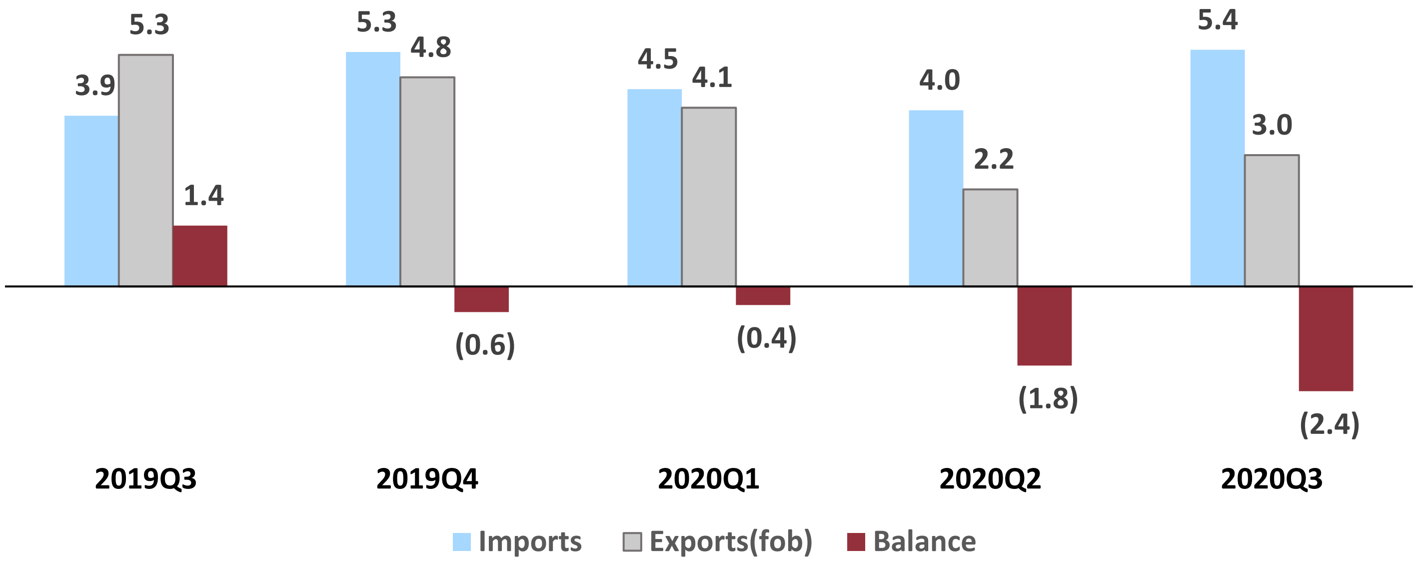


- As at December 10th, External Reserves has lost 8.2% of its value since the beginning of the year.
- Limited forex inflows due to COVID-19 exerted pressure on External Reserves in the year.
  - Lower inflows from crude oil intensified in the second quarter when oil price fell significantly.
  - Capital inflows reduced - foreign investment inflows dipped by 50.9% year on year to US$7.15 billion in 2020H1 from US$14.56 in 2019H1.
  - Rising demand for foreign currency fuelled mainly by rising imports and capital outflows have also influenced Reserves movement.
- The inflow of foreign loans and a gradual pick-up of crude oil price have managed to ensure some level of stability of reserves.
- While the long term solution in growing External Reserves requires improving non-oil exports significantly, forex policy clarity is important in instilling market confidence in the short term.

Data Source: Central Bank of Nigeria

External Trade: Trade Balance worsened following supply chain disruptions

Quarterly Export, Import and Trade Balance (N'Trillion)

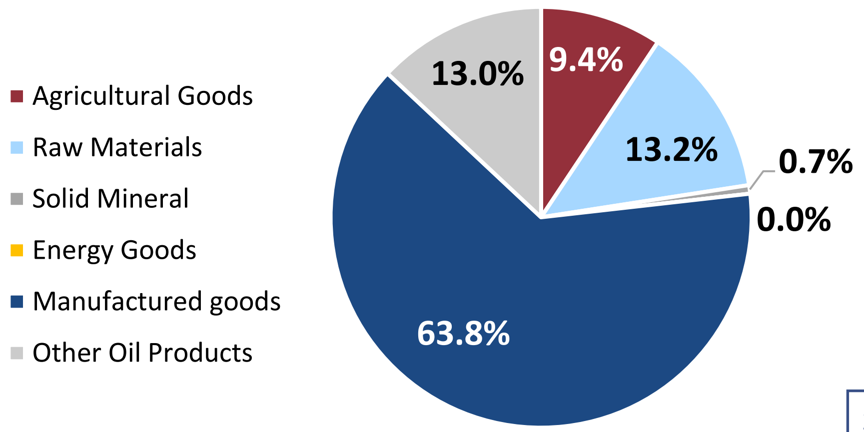


Nigeria's Trade Statistics (Trillion Naira)

	2020Q2	2020Q3	% Change
Total Trade	6.2	8.4	+34.2%
Imports	4.0	5.4	+33.8%
Exports	2.2	3.0	+34.8%
Crude Oil Exports	1.6	2.4	+56%
Other Oil Exports	0.31	0.35	+13%
Non-Oil Exports	0.35	0.21	-39%
Trade Balance	-1.8	-2.4	-24.5%

- **For the fourth consecutive quarter, Nigeria experienced yet another negative trade balance of –N2.4 trillion in 2020Q3, despite an increase in the value of total total.**
- **As a share of total trade, exports accounted for 36% while imports had a share of 64%.**
- **Continued closure of land borders, increasing demand for imported goods coupled with weakened demand for exports are some factors that have expanded Nigeria's trade deficit in Q3.**

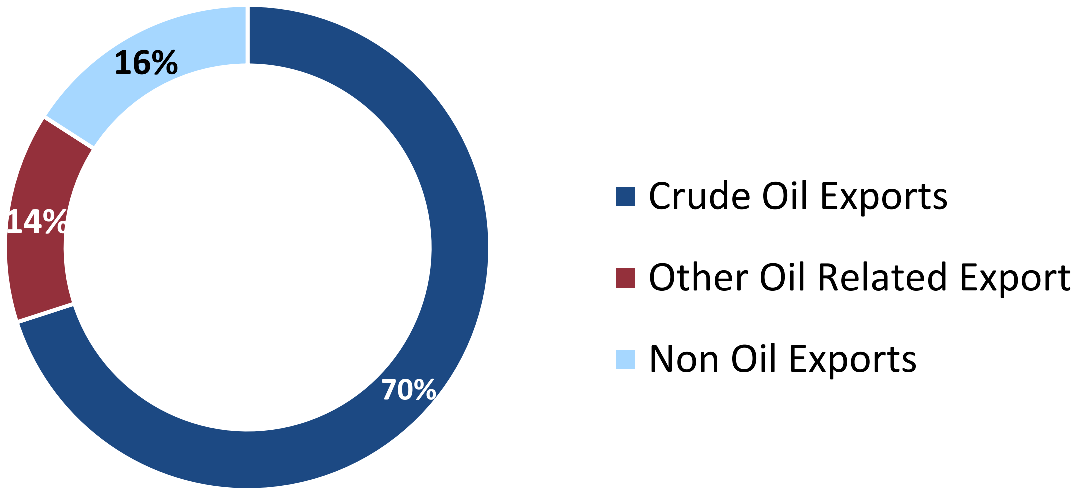
Breakdown of Imports in 2020Q3



Data Source: National Bureau of Statistics

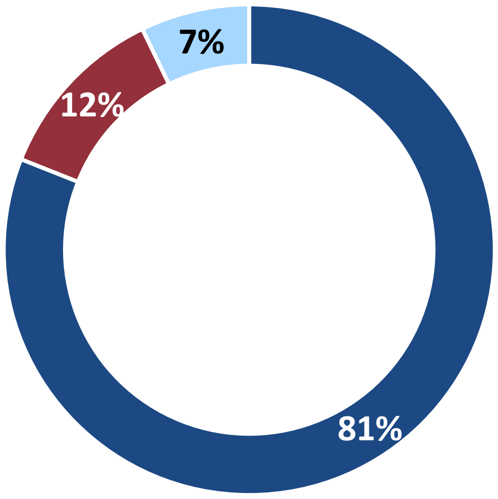
Oil and related products’ share in exports increased in 2020Q3 as non-oil exports fell

Breakdown of Exports in 2020Q2 – N2.2 trillion



Crude and Other Oil Related Products accounted for 84% of total exports in 2020Q2.

Breakdown of Exports in 2020Q3 – N3.0 trillion



Crude oil’s share in total export increased to 81% in 2020Q3. Non-oil exports’ share in total exports declined to 7%. Manufactured goods accounted for 4.4% of total exports.

Closure of land borders, weak industrial base and lower export demand continue to affect non-oil export.

Data Source: National Bureau of Statistics

Key Highlights of Nigeria's Trade Statistics in 2020Q3

34% Total trade increased by 34% in the third quarter of 2020 (Q3) relative to Q2. Imports & exports grew relative to Q2.

₦215 billion Non-oil exports declined by 39% in Q3 to N214.7 billion. It accounted for 7% of total exports in the quarter.

64% Imports accounted for 64% of total trade in Q3. Exports had a share of 36%. Same shares were recorded in 2020Q2.

4.4% Manufactured goods accounted for 4.4% of total exports in Q3 while crude oil accounted for 81%.

₦2.4 trillion Trade deficit increased to N2.4 trillion in Q3 from N1.8 trillion in Q2. This implies that the value of imports was higher than that of exports.

16% Petroleum products accounted for 16% of total imports. Chemical & related products also had a share of 16%.

- Despite the challenges in the crude oil sector in 2020, crude oil still accounted for 81% of total exports, while non-oil exports declined, accounting for 7% of exports in the quarter.
- Given these statistics, Nigeria needs to urgently implement reforms that will improve production and exports of non-oil goods and services.

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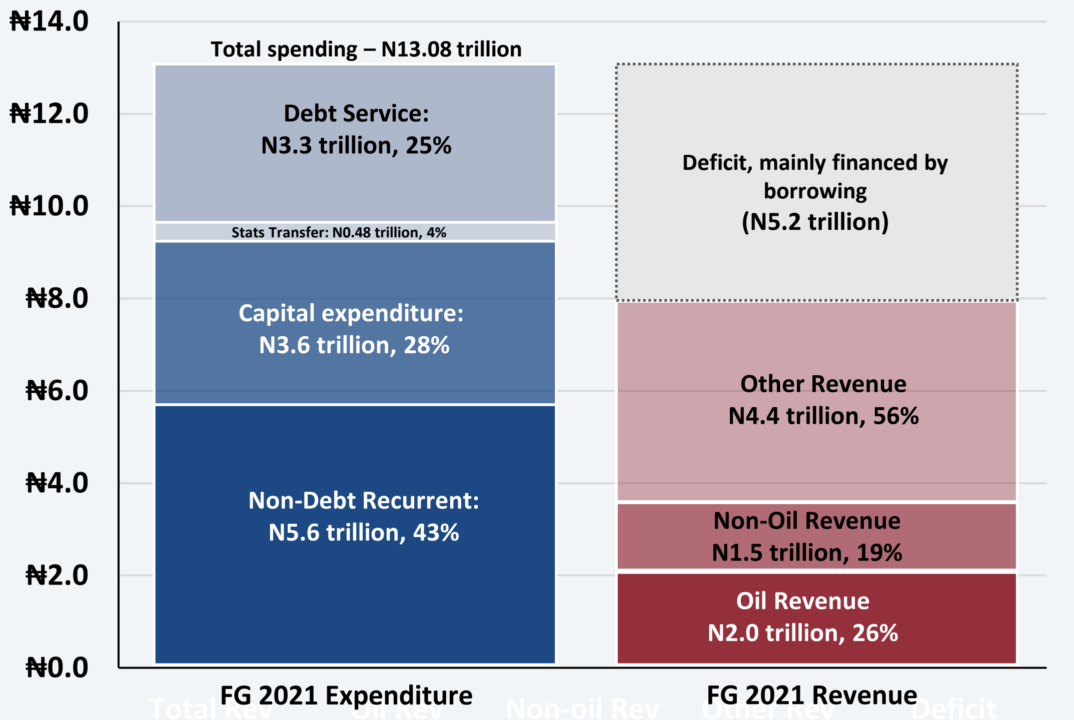
Data Source: National Bureau of Statistics

SECTION 03

Fiscal & Monetary Review

Fiscal Policy: FGN Expenditure aims to drive economic recovery

The 2021 FGN Budget (figures in Trillion Naira)

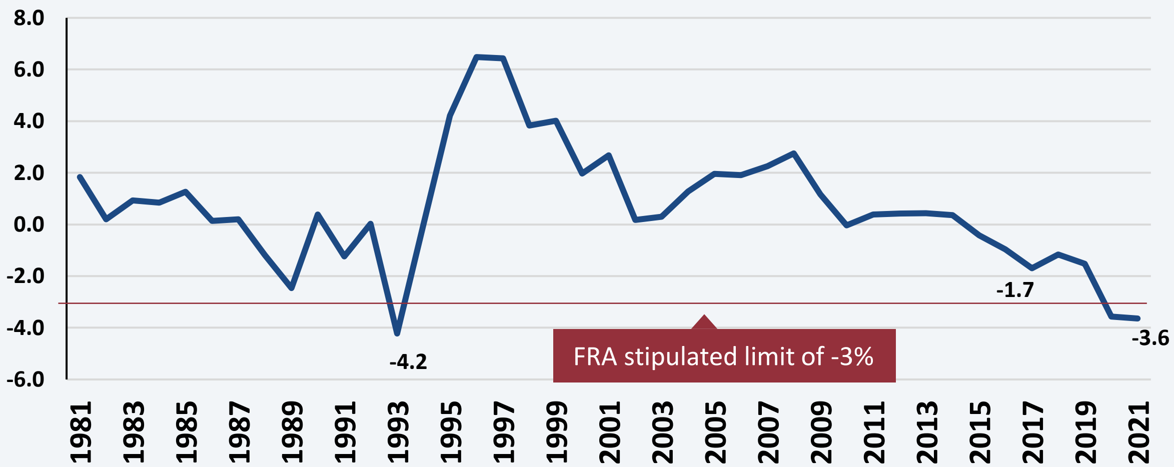


Key Budget Assumptions

Description	2019 Actual	2020 Budget	2021	2022	2023
Oil Price Benchmark (US$/b)	67.2	28.0	40.0	40.0	40.0
Oil Production (mbpd)	1.96	1.80	1.86	2.09	2.38
Exchange Rate (N/$)	305.0	360.0	379.0	379.0	379.0
Inflation (%)	11.98	14.15	11.95	10.94	11.02
Non-Oil GDP (N'bn)	131,810.1	131,155.5	132,592.2	134,154.5	139,304.9
Oil GDP (N'bn)	12,400.4	8,691.9	10,102.2	12,640.0	12,159.5
Nominal GDP (N'bn)	144,210.5	139,517.5	142,694.4	146,794.6	151,496.4
GDP Growth Rate (%)	2.27	(4.20)	3.00	4.68	3.86
Nominal Consumption (N'bn)	119,281.6	117,913.7	118,887.3	120,835.4	125,157.3

***Source**: Ministry of Finance, Budget & National Planning; NNPC; CBN, BOF; NBS*

Surplus/Deficit as a % of GDP



- According to the proposed 2020 Budget, Government deficit is expected to rise to -3.64% of GDP in 2021, from -3.57% in 2020.
- This is above the stipulated limit of -3% of GDP in the Fiscal Responsibility Act.
- Rising deficits in a time of challenged revenue would result in increased borrowing in 2021 and beyond.

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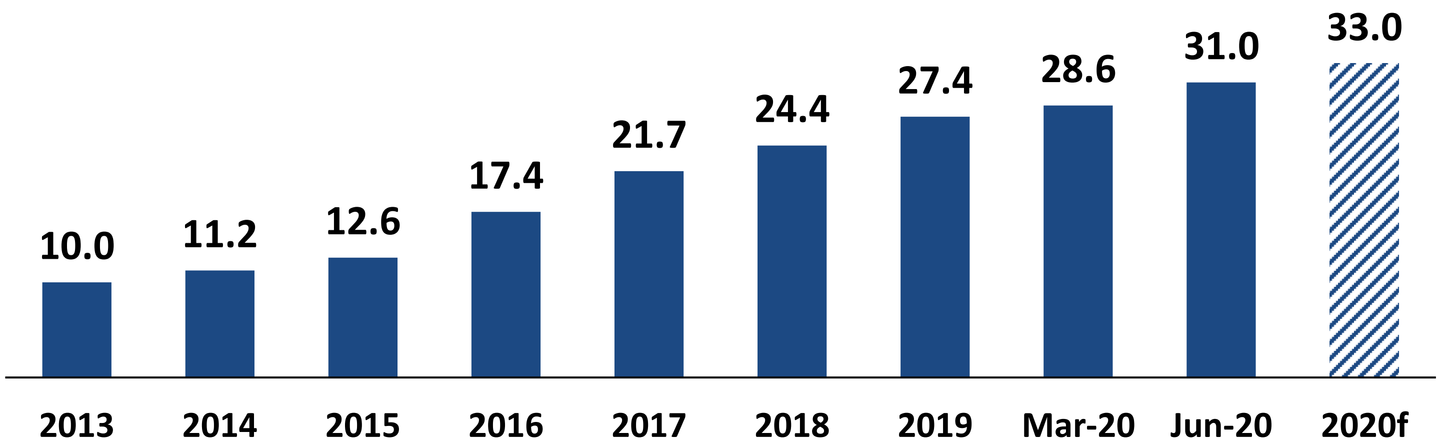
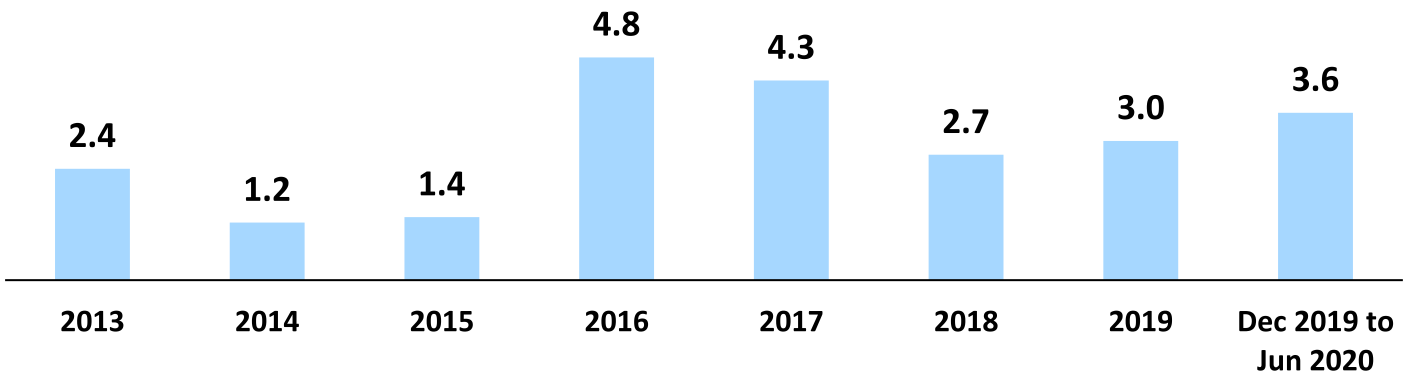
Data Source: Budget Office of the Federation & Central Bank of Nigeria

Nigeria adds N3.6 trillion to public debt stock in H1 2020

Total Public Debt (N'Trillion)



Net Additions to Public Debt Stock (N'Trillion)

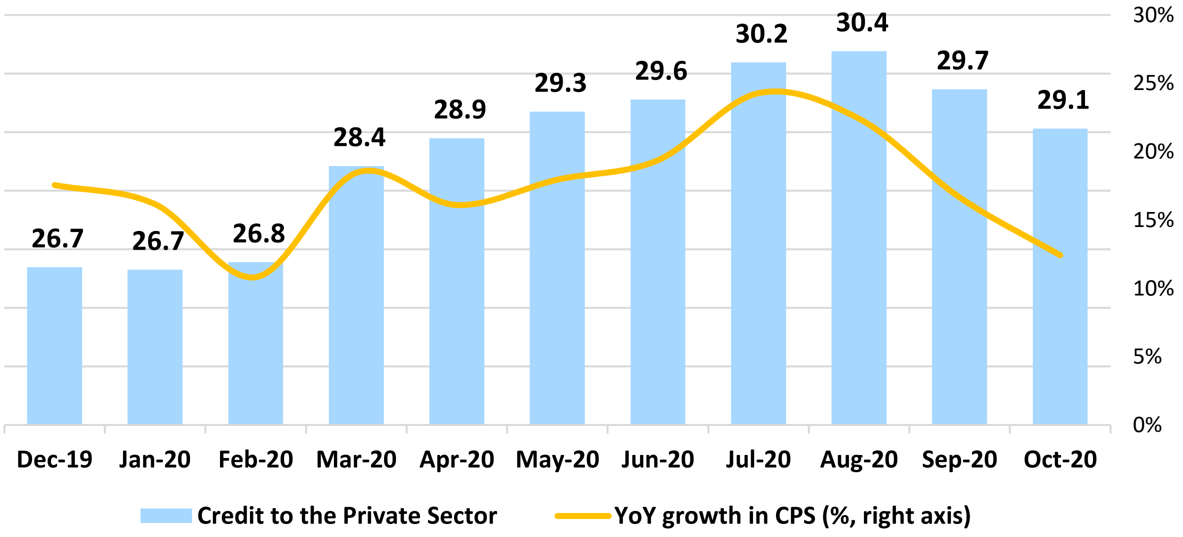


- In June 2020, total public debt stood at N31 trillion.
- In the first 6 months of 2020, Nigeria has added a net amount of N3.6 trillion to its debt stock- the highest net additions ever recorded in a six-month period.
- Already, this is higher than N3 trillion added to the debt stock in full year 2019.
- COVID-19 and its associated impact led to lower government revenue, thereby increasing government budget deficits and borrowing.
- With the increase in fiscal deficit in the proposed 2021 budget, public debt is expected to rise further in the short to medium term.

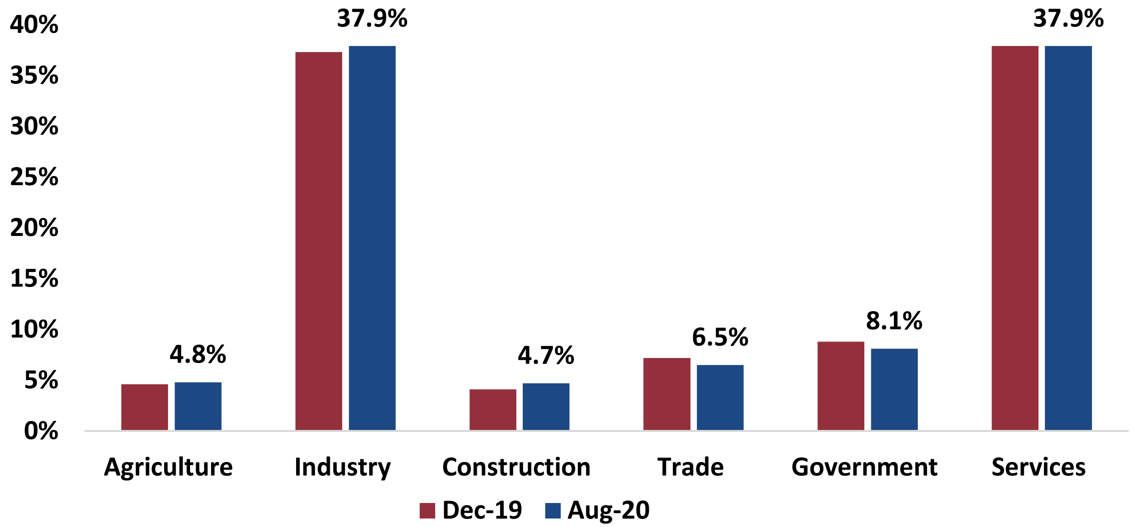
Data Source: Debt Management Office

Some Key Monetary Indicators

Credit to Private Sector (N'Trillion)



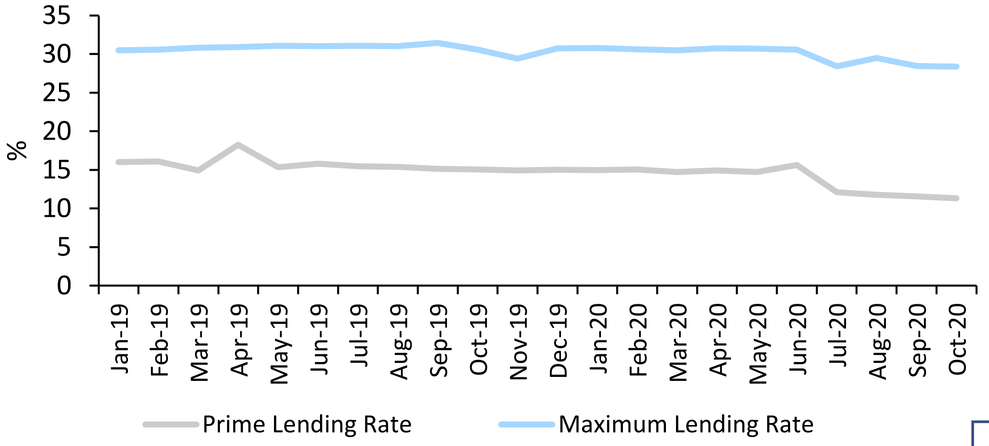
Sectoral Utilization of Credit



Financial Deepening Indicators

	2016	2017	2018	2019	2020*
Currency/M2	93.18	92.34	83.89	92.74	81.42
Currency/GDP	21.66	19.60	17.78	18.51	20.15
M2/GDP	23.25	21.23	21.19	19.96	24.75
CPS/GDP	21.66	19.60	17.78	15.25	20.15
Stock Market Capitalization/GDP	9.11	11.97	9.18	8.99	12.70

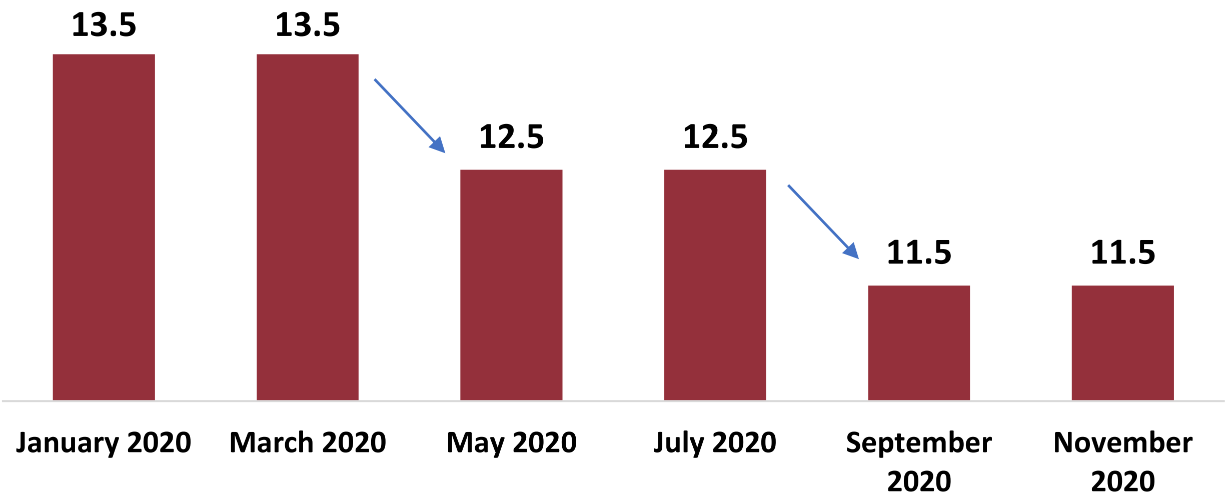
Lending Rates



Data Source: Central Bank of Nigeria & National Bureau of Statistics

In 2020, CBN MPC was dovish as stimulating growth took precedence over inflation

Movement of Monetary Policy Rate (%) in 2020



The CBN Monetary Policy Committee (MPC) held six meetings in 2020. A summary of the Committee's decisions is as follows:

- ***Reduced the MPR by 100 basis points twice; first in May from 13.5% to 12.5%; second in September, from 12.5% to 11.5%.***
- ***Adjusted the Asymmetric Corridor from +200/-500 basis points to +100/-700 basis points around the MPR in September;***
- ***Increased the Cash Reserve Ratio (CRR) by 500 basis points in January to 27.5% from 22.5%; and***
- ***Retained the Liquidity Ratio at 30% all through the year.***

Key Considerations of the MPC in 2020

- The overriding economic impact of COVID-19 pandemic
- Low crude oil price and crude oil production
- Dwindling capital inflows in the financial markets
- Rising inflation rate and heightened inflationary pressure
- Economic recession in 2020Q3
- Stimulating local production, support the recovery of the economy and stimulate aggregate demand
- The need for Deposit Money Banks to lower the cost of credit
- Liquidity in the system
- Rising public debt
- Adverse weather conditions which could affect agricultural output and prices of commodities
- The increase in petroleum pump price and deregulation of electricity tariff

Data Source: Central Bank of Nigeria

Monetary Policy: Outlook and Expectation

Outlook and expectations in 2021

- With the need to drive economic recovery , the MPC will likely cut the benchmark rate in 2021.
- The MPC will also be concerned about the misalignment of interest rates in the fixed income market. This could further support rate cut in 2021.
- The introduction of the new CBN Special bill as an alternative investment vehicle, will absorb a proportion of the liquidity in the system and stabilize the interest rate environment, at least in the short run.
- As regards price stability, the monetary authority had earlier hinted that structural factors are more responsible for the increase in inflation rate. This view therefore creates more room for expansionary monetary policy in 2021.

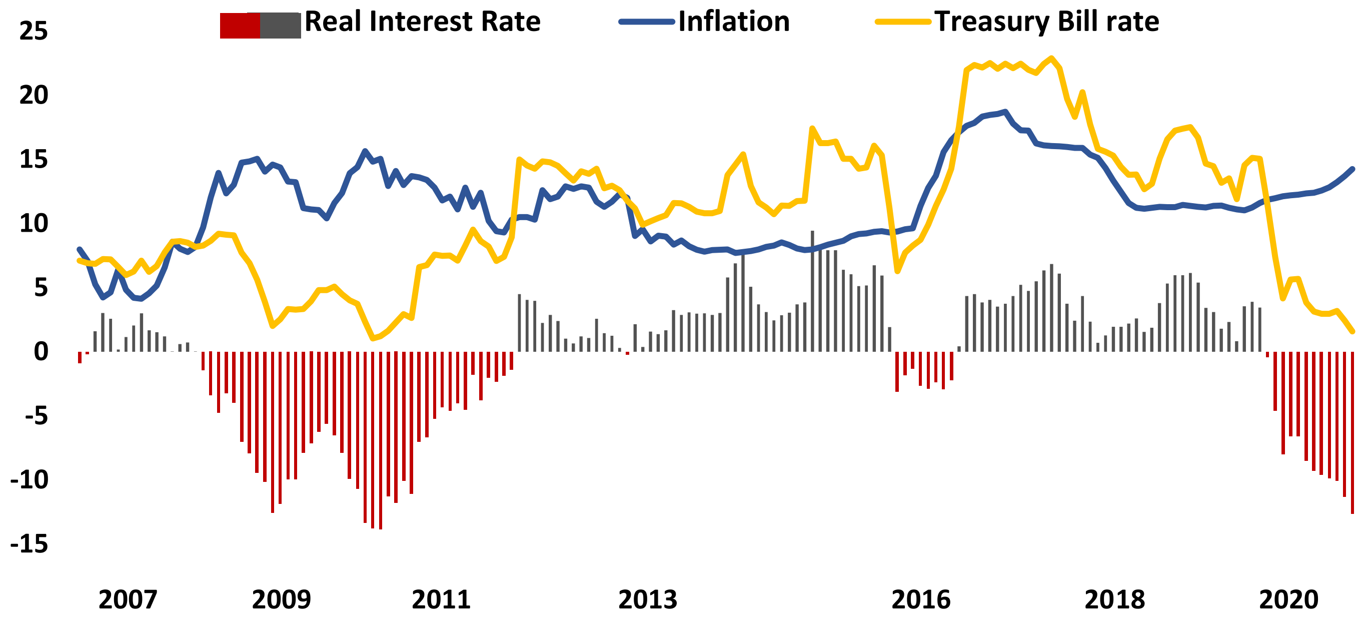
Key factors expected to influence monetary policy decisions in 2021:

- Supporting economic recovery
- Lower crude oil prices/output and government revenue
- Lower inflows of foreign investments
- Balance of payment challenges
- Declining external reserves
- Exchange rate movement
- Sustainability of public debt
- Inflationary Pressure
- Gap between the MPR and market interest rates
- Bulging Liquidity
- Contraction in real aggregate demand
- Movement of non-performing loans (NPLs)

Market Performance

Fixed Income Market: The market was affected by OMO policy and COVID-19

Real Interest Rate, One Year Treasury Bill Rate and Inflation Rate (%)



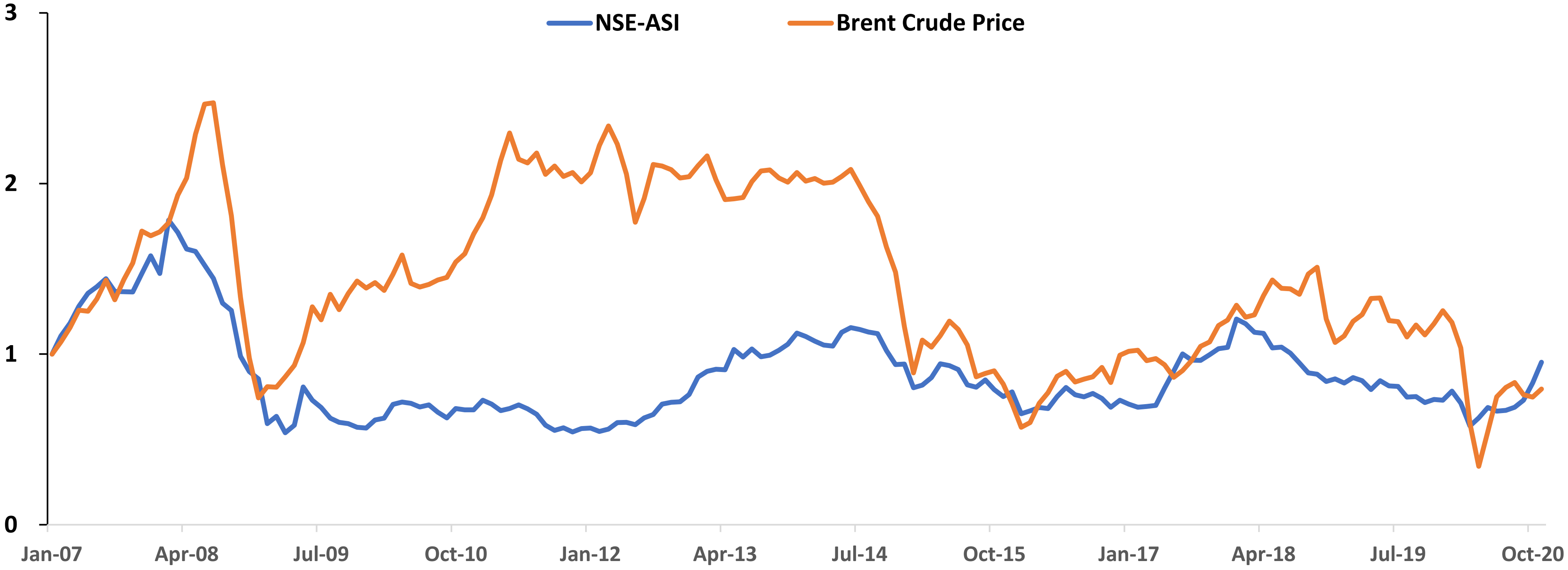
MARKET SEGMENT PERFORMANCE	Year End 2020	Year End 2019	Year End 2016
FGN Bond Yield *(%)*	3.88	10.76	16.37
NT-Bill Yield *(%)*	0.10	4.85	18.71
OMO Yield *(%)*	0.09	13.18	-
Corporate Bond Valuation Yield *(%)*	4.45	11.49	20.07
Commercial Paper Valuation Yield *(%)*	4.37	6.45	18.42

Data Source: FMDQ

- In 2020, the Nigerian Bond market was driven by two major factors:
  - The economic impact of COVID-19 as it affected market confidence across the globe.
  - Mounting system liquidity arising from series of Open Market Operation instruments maturities without an option to rollover. This is as a result of the CBN's restriction of individuals and non-bank corporates from participating in OMO transactions.
- These factors led to spike in yields across segments of the market in 2020H1. However, with persistent inflow of liquidity, yields began to suppress.
- The average yields on FGN Bond, NT-Bill and OMO instruments suppressed to 3.88%, 0.10% and 0.09% (as at November 30, 2020) from 9.13%, 4.65% and 13.10% at the start of the year respectively.
- Real interest rate remained negative all through the year which replicated Nigeria's previous experiences: 2016 Recession and the Global Financial Crisis in 2008/2009.
- With the introduction of a Special CBN 90-Day Bill, yields on the fixed income market could rebound in 2021.

Nigerian Capital Market: Regimented investment climate, major driver of equity market rally

Performance NSE-ASI and Brent Crude vs GDP Growth (Rebased)



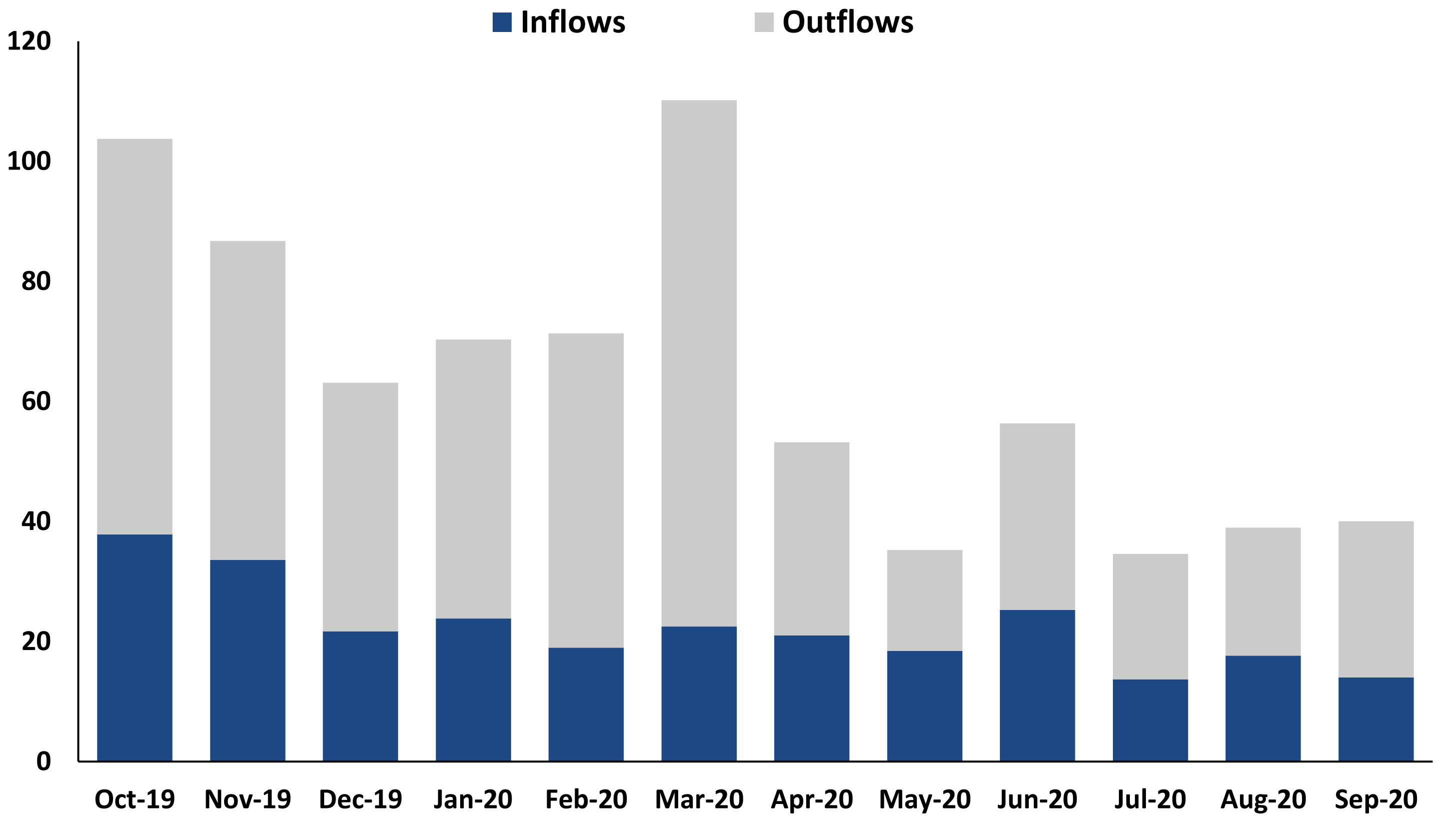
SECTOR PERFORMANCE	2020 YTD (%)
NSE ASI	**30.55**
NSE 30	25.36
Banking	10.39
Insurance	24.32
Industrial	53.03
Oil & Gas	-17.49
Consumer Goods	-2.19

- **The equities market was also affected by COViD-19 and its associated impacts.**
- **However, the markets rallied in the fourth quarter of 2020 following the excess liquidity in the fixed income space - the market ended October with the highest monthly growth that was last experienced in February 2018.**

Data Source: Nigerian Stock Exchange

Increasing capital flight constitutes further demand shocks

Foreign Participation on the Nigerian Stock Exchange (N'Billion)



- Foreign participation in the capital market was weakened in the year. In addition to constrained inflow of foreign exchange, there is a surge in foreign outflows.
- In the first quarter of 2020, the Capital market witnessed severe capital flight as foreign investors divested due to drained confidence on the Nigerian economy.
- Nine months into 2020, total foreign participation stood at N510.25 billion, 65.64% of which was outflows from the stock market.
- This further pressured the foreign exchange market.

Data Source: Nigerian Stock Exchange

Outlook and Expectations in the Capital and Money Market

FIXED INCOME MARKET

- The market will experience increased activities as the deficit of N5.2 trillion in the FG 2021 Budget will be financed mainly by borrowing.
- Despite this, the government's efforts to achieve debt sustainability, could result in suppressed yields in early parts of the year.
- Given the excess liquidity in the market, the government holds a strong bargaining power. Therefore, primary auctions would continue to offer low yields.
- However, the introduction of the CBN Special Bill could stabilize the fixed income market.
- Corporate bonds and commercial papers will gain further traction as investors scramble for alternative investment vehicles and businesses take advantage of low interest rate environment to raise capital.

EQUITY MARKET

- The equity market will continue to rally on the back of liquidity in the fixed income space.
- A sum of N5.1 trillion is already on the slate to mature in 2021; majority of which will find its way into the equity market.
- With many businesses returning to full operation in 2021, the potential of listed companies recording profit will also improve the performance of the market.
- Foreign participation could remain subdued in the equity market if External Reserves position does not improve.
- As the economy recovers, the market will experienced improve activities in the year.

MONEY MARKET

- With over N5.1 trillion expected to mature in 2021, liquidity in the system will increase further.
- Consequently, yields on CBN Bills alongside other rates will remain low in the early part of the year.
- However, we believe regulators will make efforts to increase rates in order to attract foreign capital into the economy. This will materialize in H2 2021.

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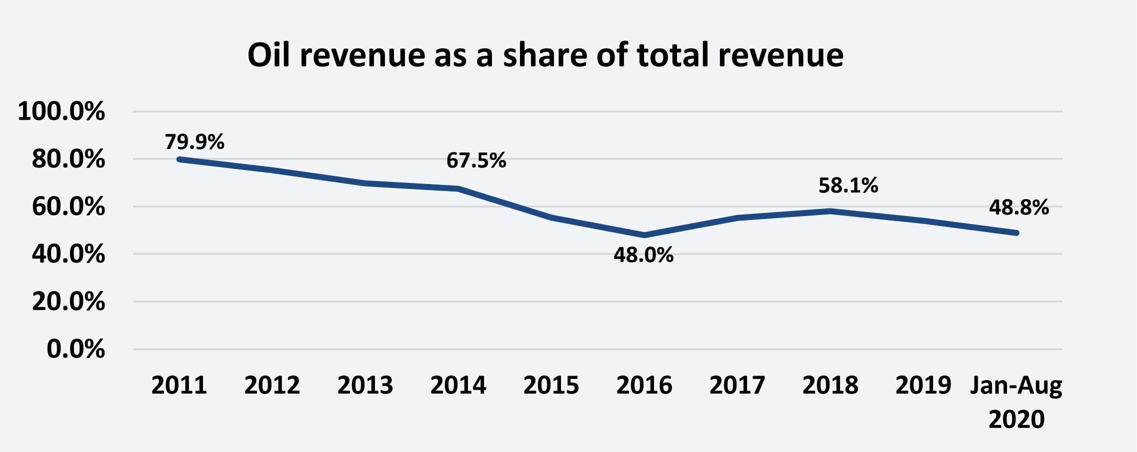
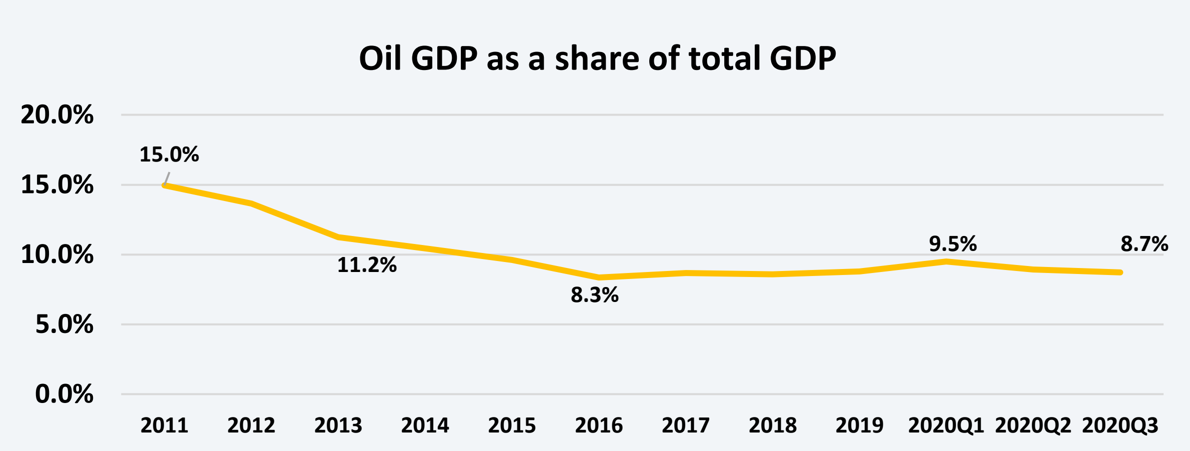
SECTION 05

What to Expect in 2021

Crude oil is still crucial in driving economic recovery





- **Crude oil is an important driving force of Nigeria's economic performance.**
- **The oil sector was instrumental in dragging the economy in and out of the 2016 recession.**
- **This time, despite the declining share of oil revenue in total revenue, the oil sector will play a major role in ensuring economic recovery. This is in view of the sector's key role in generating Forex for the economy.**
- **Recent trade data show that Nigeria's non-oil sector is fundamentally challenged: Crude oil and other oil products continue to dominate exports – 93% of exports in 2020Q3.**
- **We note, however, that further reliance on the oil sector, without conscious efforts to develop the non-oil sector will weaken the capacity of the economy to withstand future shocks.**

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Data Source: Central Bank of Nigeria & National Bureau of Statistics

What to expect in 2021

Key issues to watch in 2021

- With no further disruption, Nigeria could return to positive growth in 2021. However, several sectors such as trade and real estate will continue to perform below par.
- Inflation will continue to be a major concern given logistics challenge, FX problems, insecurity and other structural factors. Price increase will however moderate from 2021Q2.
- Interest rates would pick up in 2021 as the CBN will seek to attract FX inflows to improve reserves position.
- Public debts will continue to increase in 2021. Government revenues will also increase as economic activities improve. However, actual deficits will widen due to a higher expenditure profile.

Key issues to watch in 2021

- Trade deficit will continue in the early part of 2020; however, the planned opening of the land borders as well as increase in production will narrow the deficit.
- Pressure on exchange rate and external reserves would ease in the later part of 2021 following a relatively higher oil price as global demand picks up.
- There is a possibility of social unrest/agitations in 2021 given the large income inequality.
- Unemployment and poverty are expected to surge given the weak link between GDP improvement and social indicators.
- Fixed income markets will remain active in 2021 following expectations that rates will increase in the later part of the year.

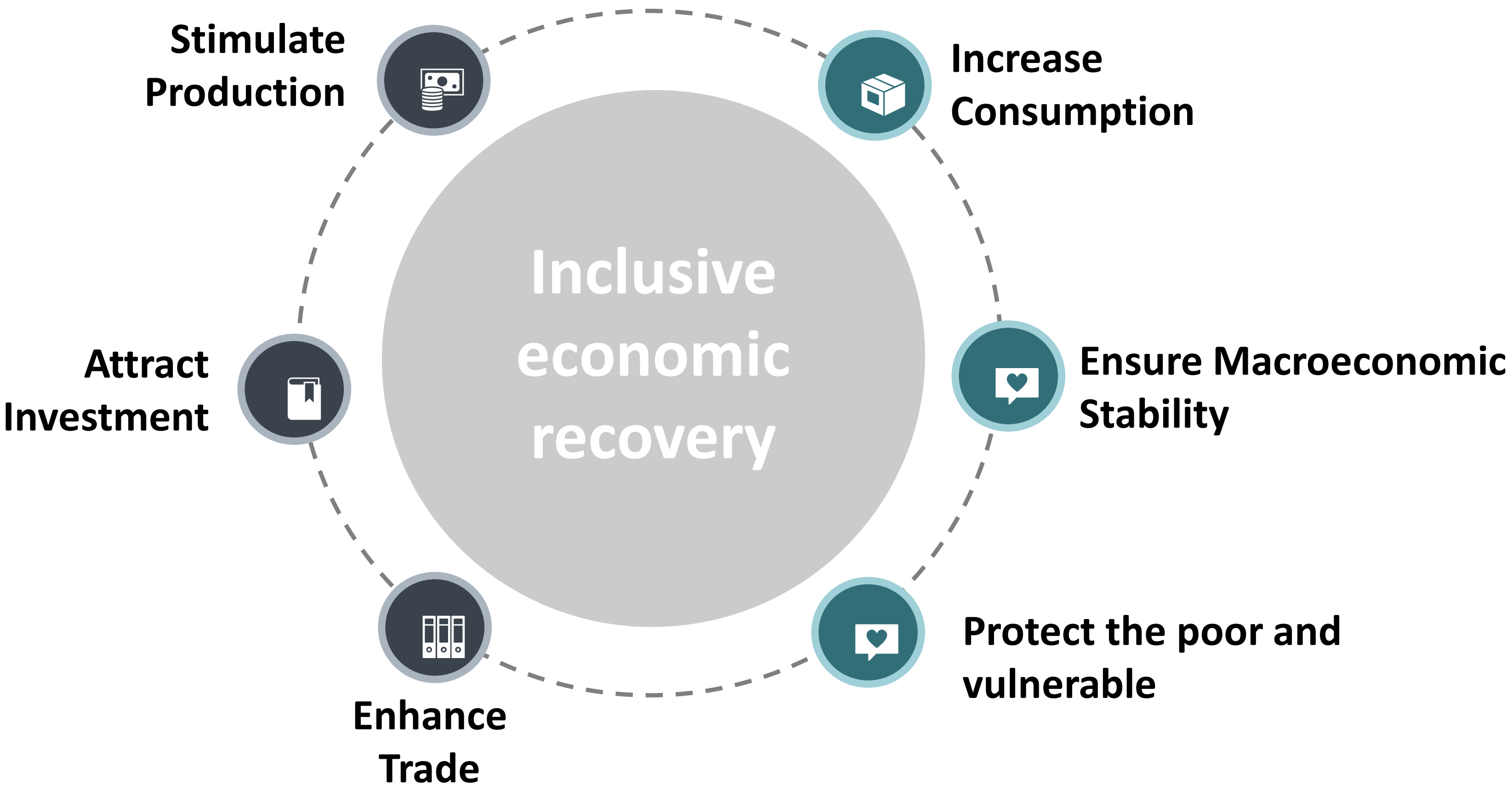
The Path to Sustainable Economic Recovery

There are some necessary conditions under which government interventions to drive recovery can be more effective. In 2020 and beyond, reforms must cover these broad areas:

Long term aspirations	Economic Ideology	Policy clarity & Swift Implementation	Regulation/Institutional Quality	Infrastructure, Power & Security	Stronger health system
The ongoing process of developing a long term vision and medium term plans for Nigeria is welcomed. However, more engagement is required with stakeholders across key sectors, across the country and across different groups. The role of subnational governments in execution of the plan must be articulated and supported.	Economic ideology influences government's attitude towards subsidies, private capital, the role of regulators in functioning markets, among other areas. Having a clear economic ideology prevents sending conflicting signals on issues such as deregulation, privatization and the role of regulators. It provides clarity to potential investors and is crucial in instilling confidence in the system.	Inconsistent and unclear policies are major drivers of uncertainty and lack of investments. Government, at federal and state levels, must create appropriate institutional frameworks to ensure policies are not inconsistent and that they are framed in line with the administrations economic ideology. Also, the political will to drive crucial reforms is needed at the highest levels of government.	Part of the objectives of regulators should be to support legitimate businesses and implement business friendly policies in line with appropriate standards and global best practice. Activities of regulators and government institutions must be constantly monitored and erring regulators must be appropriately sanctioned.	Infrastructure deficit and limited power supply are key factors that have inhibited the growth of businesses in Nigeria. The government must establish a conducive legal and regulatory environment that attracts private capital into the power sector and for infrastructure development. On security, the government will need to intensify efforts to address security challenges, as this will determine investment levels, price stability and output growth.	Given the nature of the current crisis, building resilience starts with developing a stronger health system with sufficient skilled workers and adequate facilities across the country. There is always a possibility of another wave of COVID-19 infections and the health system must be prepared to cater for the affected.

SECTION 06

Connecting the dots: Government interventions must address structural issues and cover these areas for maximum impact:



In connecting the dots, there are several tools available to policy makers:

- Fiscal Policy
- Monetary Policy
- Industrial and trade Policies
- Incentives
- Regulation
- Legislation

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Framework for economic recovery

	Note	Government Interventions	Progress Indicators
Stimulating Production	The Nigerian government needs to create an emergency support for ailing industries affected by the pandemic. Key affected industries include Aviation, Food and Accommodation services, Education, Entertainment and Manufacturing. Support should be in the form of financing, incentives, market access, etc.	• The Federal Government's MSMEs Survival Fund is a good step in providing financial support to staff of affected small businesses across the country. Such support should be extended to cover informal businesses which account for about 50% of GDP and a significant share of employment. • Beyond financing, consistent government policy and regulatory support are required for untapped industries. Nigeria has numerous sectors (leather, cassava processing, textile, petrochemicals, etc) that have the potential to create jobs and drive economic recovery. • Create a special Education support fund, especially given the importance of the sector coupled with huge impact of COVID-19 on educational activities. • Current efforts in providing tax reliefs by the Federal Government are welcomed. • Implement farmers support programmes to improve yields and productivity • Intensify reforms on ease of doing business across states • Purchase made-in-Nigeria products – Government can increase patronage of locally made goods like cars for its officials • Support sectors that can leapfrog through technology • Provide intervention funds and value-chain support for essential industries/commodities such as rice, vegetables and related products to enhance outputs and efficiency • Implement sectoral reforms.	• Percentage of loans accessed by informal businesses. • Output growth of select manufacturing and agricultural subsectors and new jobs created in these subsectors. • Share of loans accessed by businesses in the education sector. • Performance of ease of doing business and competitiveness rankings. • Technology penetration across sectors. • Growth of local investments and FDI across sectors.

Framework for economic recovery

	Note	Government Interventions	Indicators
Increasing Consumption	In addition to production shocks, COVID-19 also triggered a reduction in aggregate demand as many income earners were affected. The goal for policy makers should, therefore, be to restore consumer spending to previous levels.	• Tax relief for minimum wage earners is a welcomed development. • Removal of exorbitant interstate charges levied on transporters of goods in the country. This is crucial in controlling inflation. • The provision of cash support for the poor and vulnerable citizens affected by the pandemic must be continuous. • Expand the national social register to capture and reach more affected populace. • Ensure exchange rate unification and clarity in the FX market to ensure stability and slowdown imported inflation.	• Trend of real household consumption. • Performance of poverty rates. • Movement of inflation rate.
Attracting & Retaining Investment	Improving and retaining local investments, FDI and FPI are important for driving recovery.	• Monetary authorities must ensure interest rate coherence in the monetary space. • Ensure policy clarity, security of lives & proper and business-friendly regulations. • Pursue exchange rate unification and a market-driven regime to allow for stability. This will boost investor's confidence.	• FDI/FPI as a share of GDP. • Growth of local investments.
Enhancing Trade	The AfCFTA offers immense potential that Nigeria should leverage to boost production, new investment and export.	• The federal government needs to implement opening of the land borders to facilitate non-oil exports, government revenue and FX inflows. • States and Federal governments must target specific non-oil products, services and industries for exporters to take advantage of the weak currency. • Address issues of inefficiencies at seaports across the country. • Nigeria needs a comprehensive trade policy document that expresses its areas of strengths and highlights that plans of the government to improve both trade in goods and services.	• Performance of non-oil exports share of total exports. • Reduction of trade deficits. • Exports growth.

Framework for economic recovery

	Note	Government Interventions	Indicators
Protecting the poor and vulnerable	The COVID-19 has negative impact on the poorest and most vulnerable citizens, with huge intergenerational implications.	• Implement universal health care and universal social protection system for citizens • Support for e-learning capabilities in under-privileged communities and school system • Provide and expand support for vulnerable and poor citizens. • States and Federal governments need to implement national or state-wide skills development programmes to ensure a large percentage of the population are productively engaged.	• Citizens coverage under NHIS. • ICT adoption in remote areas. • Performance of unemployment and poverty rates.
Ensuring Macroeconomic Stability	Macroeconomic stability is required for economic recovery. Responding to curtail the impact of the pandemic requires more fiscal space and accommodative monetary policies.	• Ensure interest rates are aligned. • Ensure price stability by carefully reviewing factors (monetary factors or otherwise) that drive inflation and determine how they can be addressed. • Establish an exchange rate policy/framework that supports economic growth. Pursue exchange rate unification and a market-driven regime to allow for stability. This will boost investor’s confidence. • Implement revenue reforms by blocking leakages and removing unwarranted expenditures. • Improve tax compliance and broaden the tax base • Policy makers need to assess the impacts of COVID-19 policies and interventions on macro stability • Assess impacts of higher debts and deficits, conducting debt sustainability checks • Assess impacts of accommodative monetary policies on CBN balance sheet, on the financial system and the economy.	• Reduction in rates discrepancy. • Stable prices of goods and services. • Stable exchange rate and narrow exchange rate premium. • Sustainable debt levels. • Revenue growth – Non-oil revenue as a share of total improves. • Financial stability.

SECTION 07

Macroeconomic Projection for 2021

Macroeconomic Estimate for 2020 vs Actual

	2020e	Year to date performance
Real GDP Growth	-4.6%	-2.62% (Q1-Q3)
Inflation rate	12.9%	12.8% (Jan-Oct)
Exchange rate (BDC, N/US$)	420.0	430 (Jan-Nov)
Investment as a % of GDP	19.0%	n/a
Monetary Policy Rate	12.0%	11.5%
External Reserves (Average, US$ Billion)	35.0	35.9 (Jan-Nov)

Macroeconomic Scenario for 2021

Scenario	Assumptions	Possible Outcome
Best Case (Economy opens up and government fully implements interventions to stimulate the economy)	• Oil price rises significantly above US$53 per barrel • Demand for Nigerian crude improves as economies recover- Nigeria produces 1.9 million barrels per day • Government capital spending at N1.7 trillion • Full implementation of sectoral support interventions	• GDP Growth at 2.3% • Inflation Rate at 12.5% • External Reserves at US$38bn • Exchange Rate at N380/US$
Moderate Case (the economy recovers moderately and embraces the new normal)	• Oil price averages US$45 per barrel • Gradual re-opening of cities, schools, airports, businesses, etc. • Crude oil production at 1.6 million barrels per day • Government capital spending at N1.4 trillion • Partial implementation of sectoral support interventions	• GDP Growth at 1.3% • Inflation Rate at 13.5% • External Reserves at US$34 billion • Exchange Rate at N440/US$
Worst Case (Death toll from COVID-19 increases rapidly, weak implementation of business support initiatives)	• Oil price below US$30 pb • Another wave of COVID-19 infections results in lock down of schools and restriction of gathering, etc. • Lower crude oil production- Nigeria produces 1.2 million barrels per day • Government capital spending at N700 billion • Weak implementation of sectoral support interventions • Civil unrests/protests disruptions productive activities	• GDP Growth at -2% • Inflation Rate at 16% • External Reserves at US$28 billion • Exchange Rate at N460/US$

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Macroeconomic Projection for 2021

	2017	2018	2019	2020e	2021f*
Real GDP Growth	0.8%	1.9%	2.3%	-4.6%	1.3%
Inflation rate	16.5%	12.1%	11.4%	12.9%	13.5%
Exchange rate (BDC, N/US$)	395.4	361.8	359.5	420.0	440.0
Investment as a % of GDP	14.7%	19.0%	24.6%	19.0%	23.0%
Monetary Policy Rate	14.0%	14.0%	13.5%	12.0%	10.0%
External Reserves (Average, US$ Billion)	31.3	44.6	43.0	35.0	34.0

**Please note that there is still a high degree of uncertainty around the forecast for 2021. Actual figures could exceed or fall below these forecasts. A lot depends on the path of COVID-19, vaccine development and effectiveness, oil price movement and possible disruptions in the local economy.*