MACROECONOMIC REVIEW AND OUTLOOK FOR NIGERIA

Nigeria exits its worst recession. Where do we go from here?

March 2021

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SECTION 01

Performance of the Global Economy

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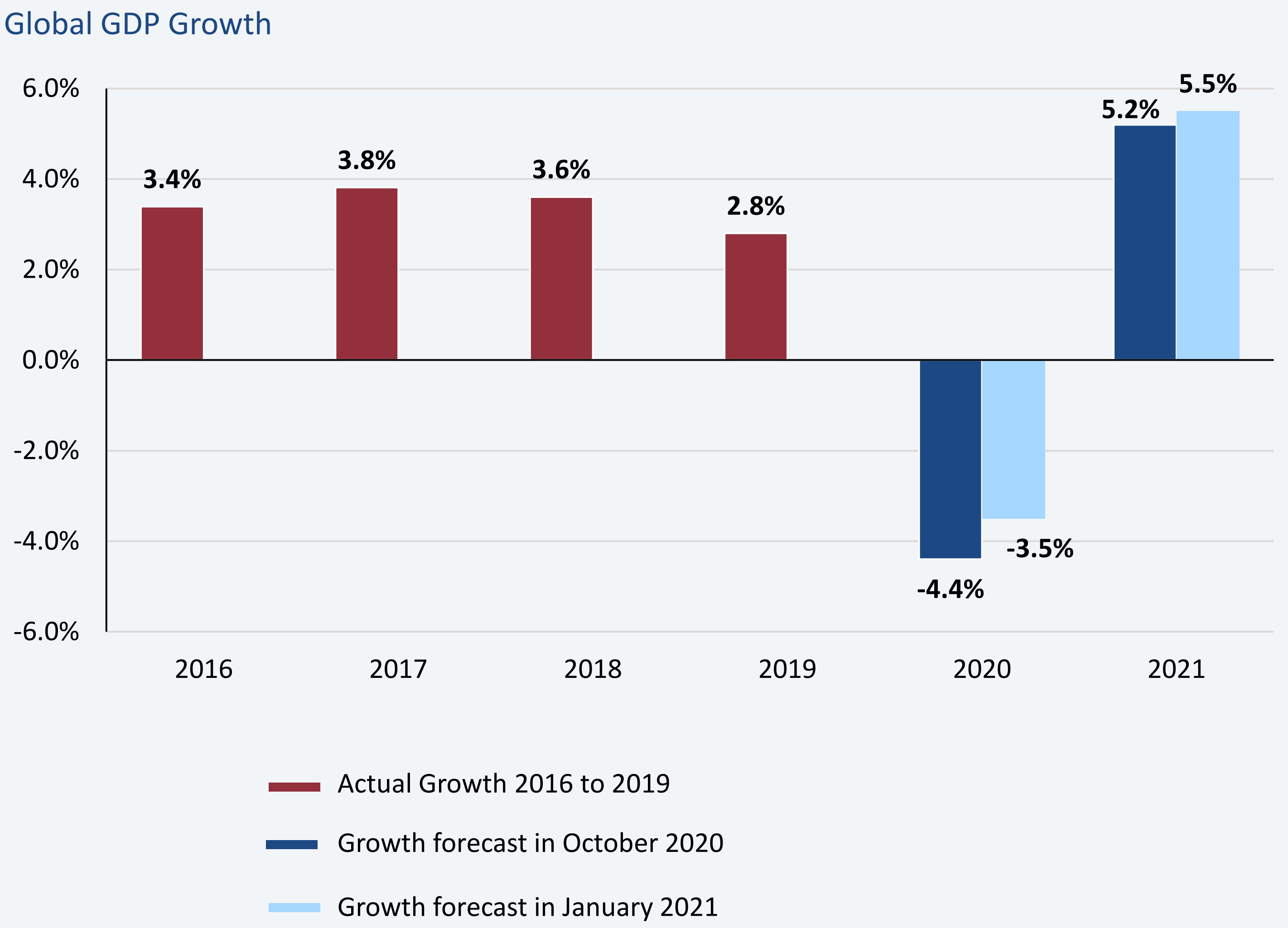
IMF updates global growth projection for 2021 to 5.5%

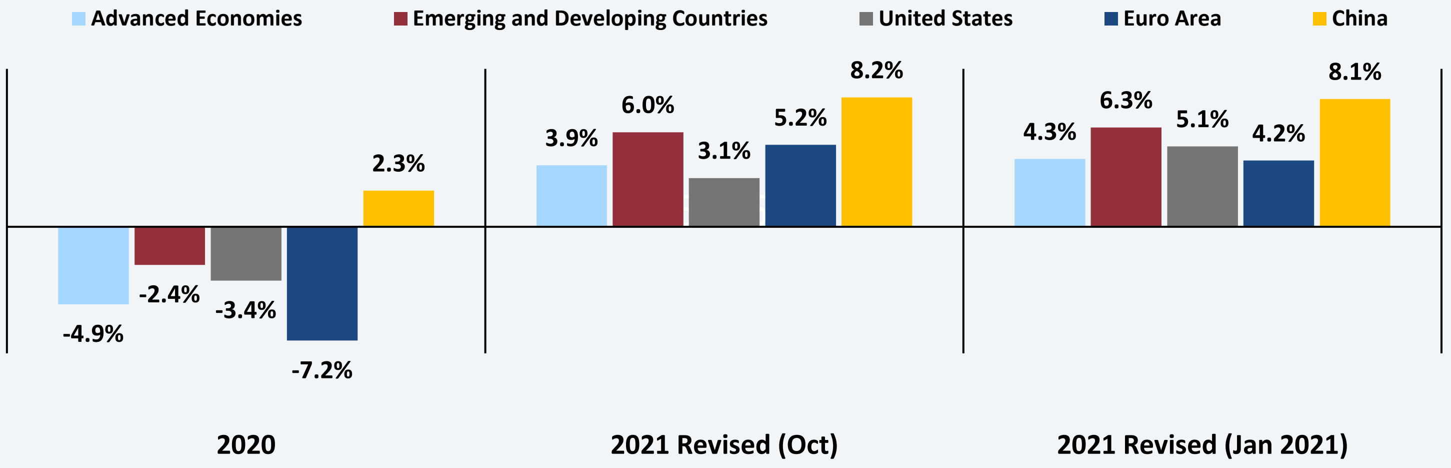


- **The International Monetary Fund (IMF) in its January 2021 Outlook Update stated that the global economy will grow by 5.5% in 2021.**
- **This is an improvement from its earlier projection of 5.2%.**
- **According to the IMF, the update reflects *"expectations of a vaccine-powered strengthening of activity later in the year and additional policy support in a few large economies"*.**
- **The Fund however noted that recovery will vary across countries, depending on the efficacy of policy support, vaccine administration, among other factors.**
- **A major concern in the recovery process is the renewed waves and new variants of COVID-19.**

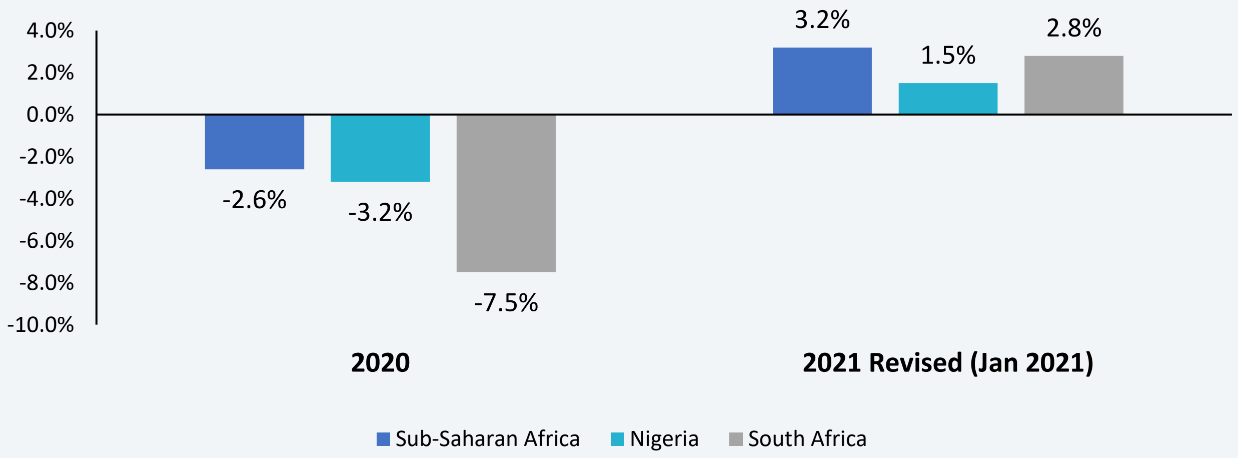
Data Source: IMF

IMF predicts a sharper recovery in 2021

GDP Growth forecast



IMF Growth forecast for Africa



- According to data from the IMF, emerging and developing countries will lead global economic recovery with a growth of 6.3%.
- China will experience a GDP growth of 8.1%, higher than the pre-COVID-19 growth of 6% in 2019.
- The economy of Sub-Saharan Africa (SSA) is expected to expand by 3.2% in 2021 after a contraction of 2.6% in 2020.
- Improved commodity prices, relaxation of lockdown rules, higher consumer demand and fiscal stimulus are factors that will drive economic recovery in 2021.

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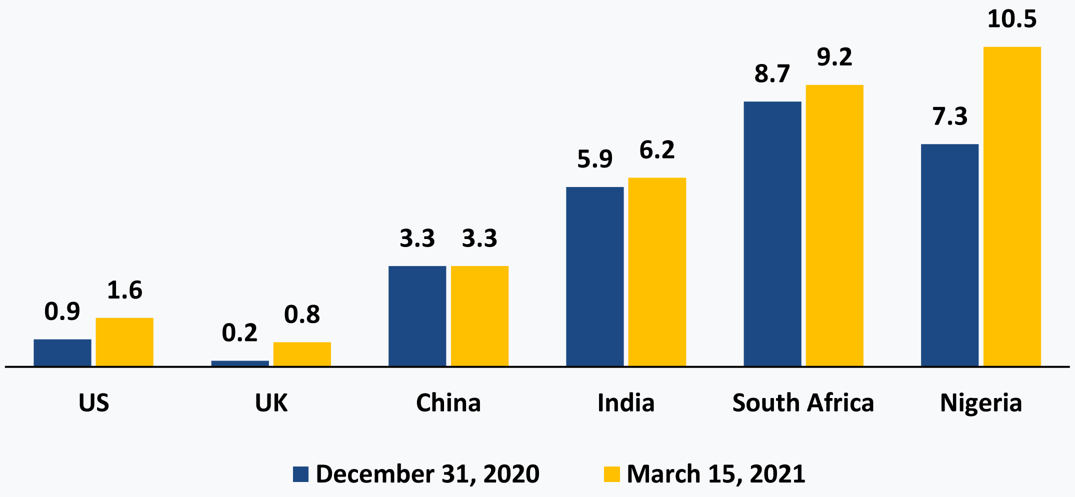
Data Source: IMF

Global Markets: Capital markets showed signs of recovery in early 2021

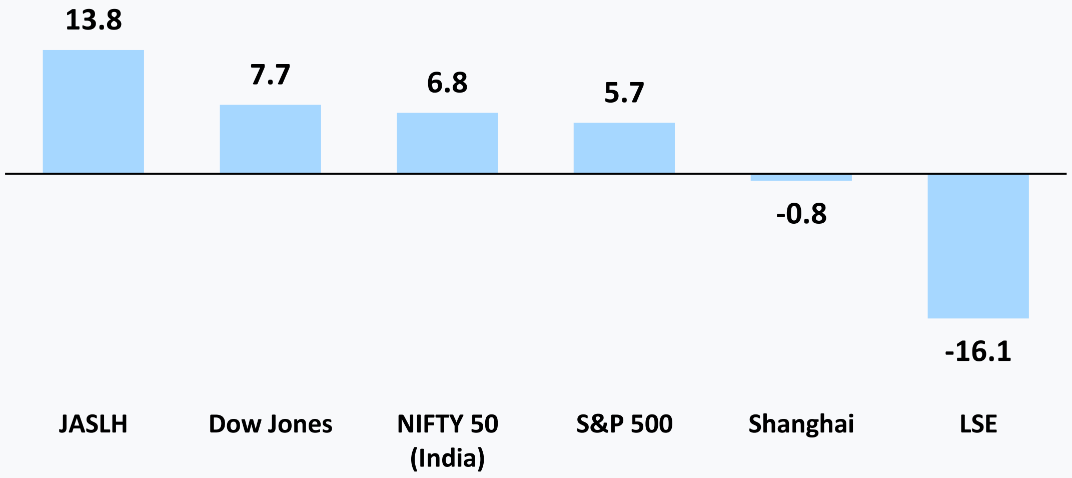
Ten Year Government Bond Yield Performance (%)



- Yields on 10-Year government bonds moved upwards in major economies in 2021Q1.
- Central Banks' decision on interest rate, breakthroughs in the development of COVID-19 vaccines and inflation expectations are some factors that led to upward yields movement.
- Yields on 10-year government bond inched closer to double-digit for major economies in Africa.

Data Source: investing.com

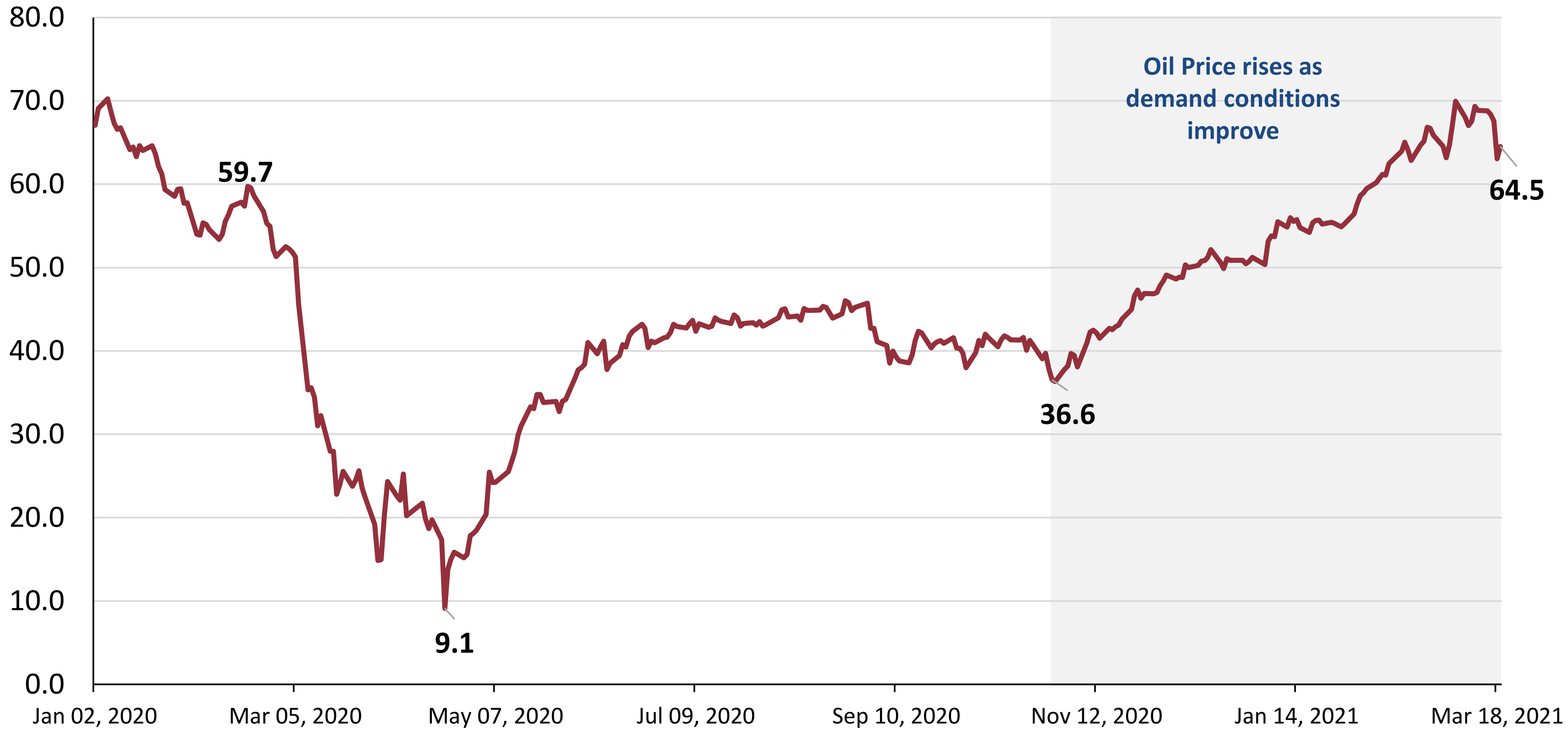
Stock Markets Performance (% YTD Change)



- While the impact of COVID-19 affects market confidence across countries, some markets still defy all odds.
- Although many of the markets on our watch list closed 2020 on an upside note, some markets could not sustain the momentum in 2020Q1.
- The London Stock Exchange has lost 16.1% in 2020Q1. This due to the uncertainty surrounding Brexit, the take over of the exchange and the enduring impact of COVID-19.

Production cuts and COVID-19 vaccines sustained higher crude oil price in 2020Q1

Europe Brent Spot Price FOB (US Dollars Per Barrel)



- **Crude oil price has trended upwards since the end of October 2020.**
- **Year to date (March 19), crude oil price has increased by 26% and has averaged US$60.8 per barrel.**
- **The increase in the price of crude oil has been driven by factors such as production cuts by OPEC and non-OPEC members and improved demand due to the administration of COVID-19 vaccines.**
- **These factors will continue to sustain high crude oil price in the second quarter of 2021.**

Data Source: U.S. Energy Information Administration

Oil producers continue compliance with production cut

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

		January 2021		February 2021		March 2021	
	Reference Production	Voluntary Adjustment	Voluntary Production Level	Voluntary Adjustment	Voluntary Production Level	Voluntary Adjustment	Voluntary Production Level
Saudi Arabia	11,000	-1,881	9,119	-1,881	9,119	-1,881	9,119
UAE	3,168	-542	2,626	-542	2,626	-542	2,626
Kuwait	2,809	-480	2,329	-480	2,329	-480	2,329
Nigeria	1,829	-313	1,516	-313	1,516	-313	1,516
Angola	1,528	-261	1,267	-261	1,267	-261	1,267
Algeria	1,057	-181	876	-181	876	-261	1,267
Congo	325	-56	269	-56	269	-56	269
Gabon	187	-32	155	-32	155	-32	155
Eq. Guinea	127	-22	105	-22	105	-22	105
Iraq	4,653	-796	3,857	-796	3,857	-796	3,857
Total OPEC-10	**26,683**	**-4,564**	**22,119**	**-4,564**	**22,119**	**-4,564**	**22,119**
Total participating Non-OPEC	**17,170**	**-2,636**	**14,534**	**-2,561**	**14,609**	**-2,486**	**14,684**
Total OPEC-10 + Non-OPEC	**43,853**	**-7,200**	**36,653**	**-7,125**	**36,728**	**-7,050**	**36,803**

- **OPEC and non-OPEC countries continue to implement production cuts to ensure stable and higher crude oil price.**
- **Overall, producers agreed to cut back 7.1 million b/d in the month of March.**
- **These voluntary adjustments coupled with a better demand condition relative to 2020, will sustain high prices of crude in 2021.**
- **Oil dependent economies in Africa may therefore not reap the benefits of higher crude oil price due to the voluntary adjustment.**
- **Nigeria maintained its cut of 313,000 b/d in March.**

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

Top 5 largest economies in Africa by GDP in 2020

Nigeria – US$443 billion
Nigeria maintained its position as the largest economy in Africa. Actual real GDP growth in 2020 was -1.9%. Nominal GDP, however, grew by 5.6% in 2020.

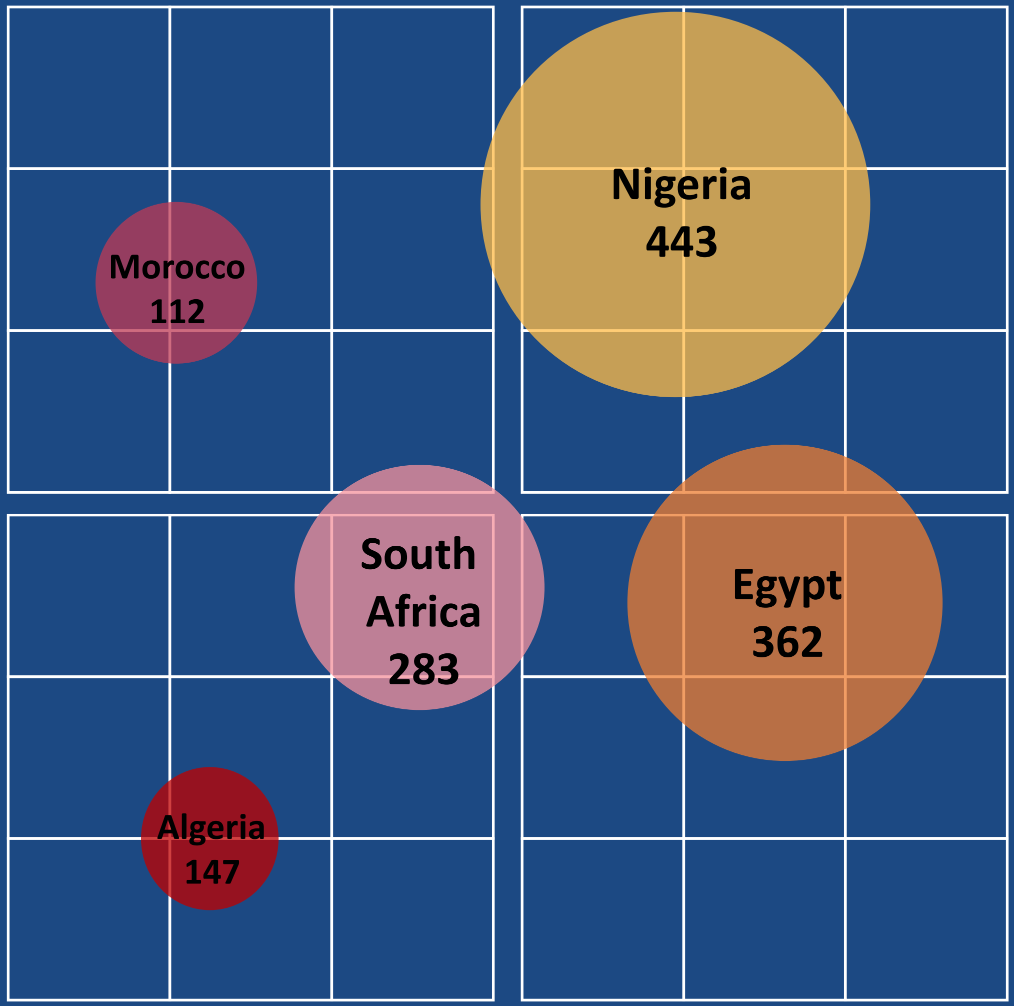
Egypt – US$362 billion
The economy of Egypt became the second largest economy in Africa in 2020. Egypt recorded a growth rate of 3.6% in the fiscal year of 2020.

South Africa – US$283 billion
The economy of South Africa declined by 7% in 2020 due to the impact of COVID-19. South Africa is the third largest economy in Africa.

Algeria – US$147 billion
Algeria's GDP is estimated to decline by 5.5% in 2020, making it the fourth largest economy in Africa.

Morocco – US$112 billion
Morocco's economy is expected to contract by 7% in 2020.

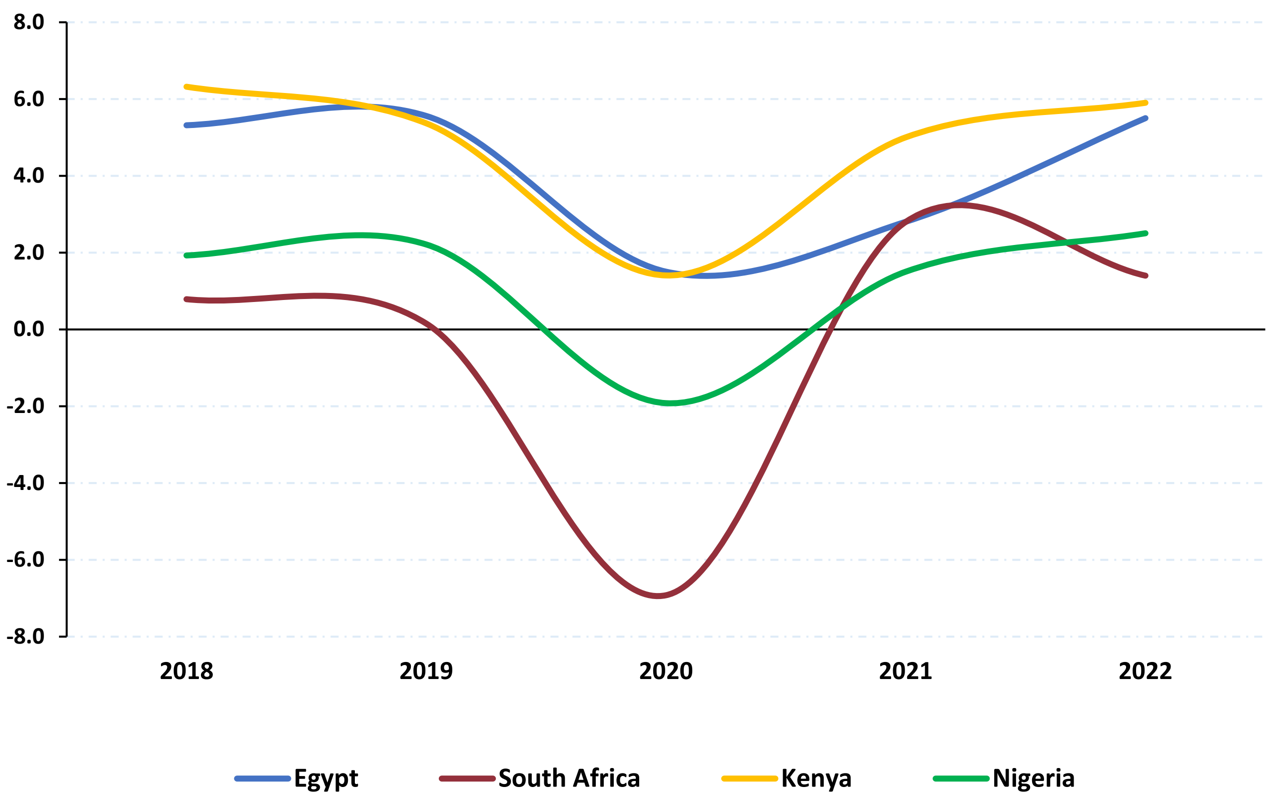
Nominal GDP of the largest economies in Africa (billion US$)



Source: Statista; IMF

Post COVID-19 Recovery – Major African economies are poised for positive growth

Growth Performance and Projection for select African Countries (%)



Data Source: WDI, IMF, TradingEconomics, AfDB

Giving that the COVID-19 shocks on economies are beyond the conventional shocks associated with business cycles, the availability of vaccines as well as existing fiscal support for households and businesses, will propel quick recovery of the major economies in Africa.

- **Egypt:** Egypt was among the few countries that recorded positive growth in 2020. Having implemented effective energy reforms and achieved political stability, Egypt will benefit from recoveries in the Euro Area and other countries in Africa.

- **Kenya:** Likewise, the economy of Kenya is expected return to its high growth trajectory (above 5%) to be driven by developments in the energy & power sectors; expected improvement in external liquidity; a resurgence of tourism and improved infrastructure.

- **South Africa:** South Africa, prior to COVID-19, has been facing economic challenges, especially in its power sector. The economy was hardly hit by the pandemic and recorded a decline of 7% in 2020 with a high number of deaths from the virus. Distribution of vaccines and implementation of power sector reforms will be instrumental in driving economic recovery.

- **Nigeria:** Nigeria's economic recovery will be driven by improved local consumption, production, trade and government fiscal stimulus. Vaccines administration will have an indirect effect on recovery through a relatively higher crude oil price, improved travel and trading activities and better performance of the hospitality industry.

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Analyst View on the Global Economy and Africa

Global Economy

- Just like the IMF and World Bank, we believe that the global economy will experience a sharp recovery in 2021. This recovery will be driven by improved demand and supply conditions as economies relax lockdown and restriction rules.

- Vaccines administration will play a major role in global recovery. Early vaccination of citizens across countries will be a major incentive to open-up economies and get them back on track. Sectors such as tourism, aviation, etc. will begin to perform better in different continents.

- The impact of effective vaccination on the US economy will be enormous. Likewise the impact of the massive fiscal stimulus bill recently passed by the US Congress. As a result, the Federal Reserve has increased the US growth forecast for 2021 from 4.2% to 6.5%.

- China will continue to experience a high growth rate following improvement in industrial production. In the first two months of 2021, industrial production increased by 35.1% from last year. Growth in export, fiscal support and suppressing the spread of the virus have been instrumental and will play a major role in China's growth profile.

- Crude oil production quotas by both OPEC and non-OPEC members will lead to a relatively higher price in 2021. We believe that prices will hover at US$60 in the year, as producers will eventually ease these quotas.

Analyst View on the Global Economy and Africa

Africa (Sub-Saharan Africa)

- For Sub-Saharan Africa (SSA), the performance of commodities prices will be a key factor that will shape economic outcomes in 2021. Ideally, higher crude oil prices means higher revenues for oil producing countries but with production quotas in place, gains from higher prices would be limited.

- Beyond commodities, we believe that vaccines distribution will also influence outcomes of countries such as South Africa, Egypt and Tunisia, which have experienced the highest deaths from the virus.

- African governments must therefore intensify on-going efforts to develop home-grown vaccines while they advocate for increased supply of the existing vaccines to cater for their populace.

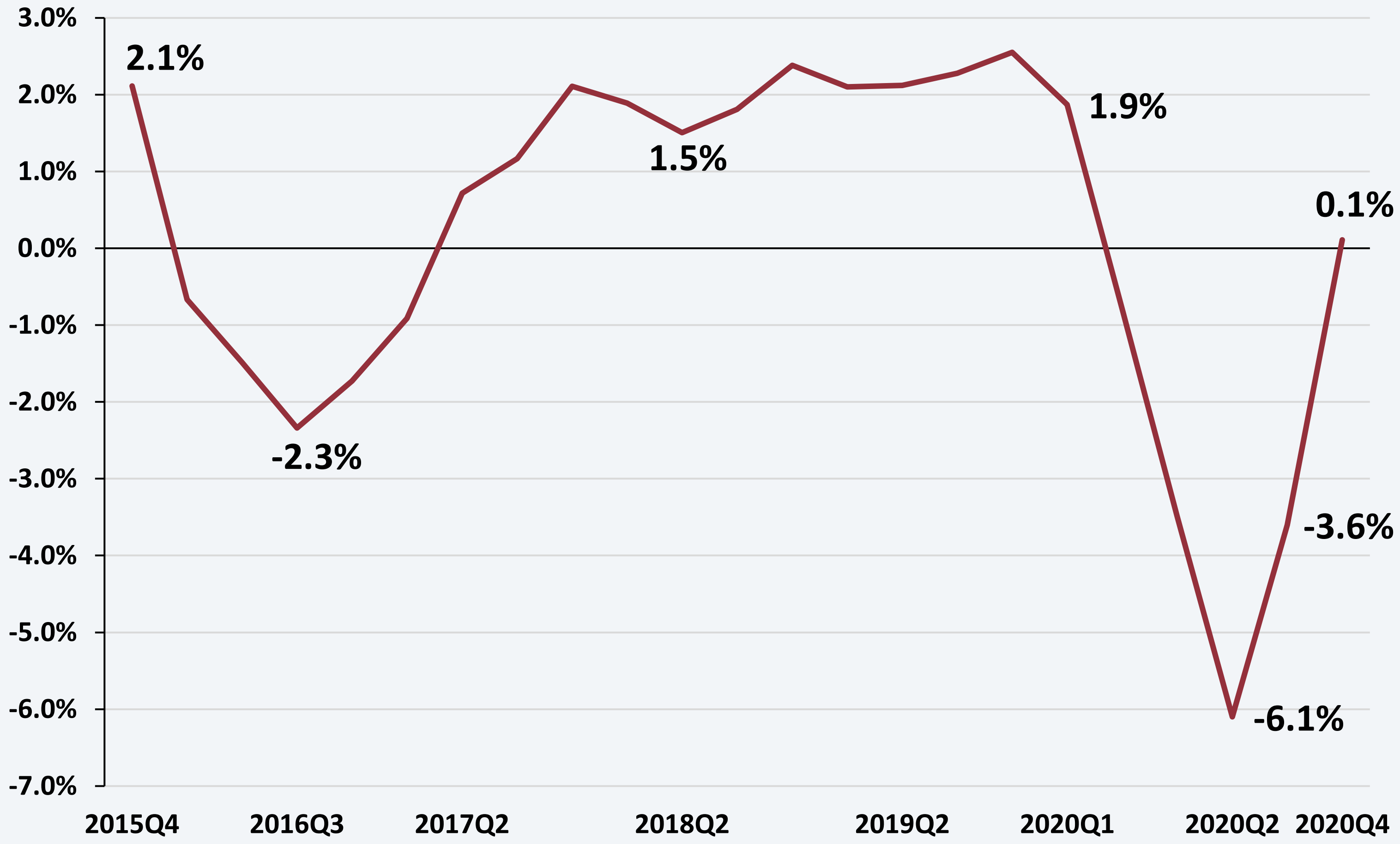
- Certainly, SSA will experience improved growth performance in 2021. However, we believe that structural factors such as inadequate infrastructure & power supply, a large informal sector etc., will also continue in the year and result in widened inequality in the region.

- The African Continental Free Trade Area (AfCFTA) agreement holds great potential for the continue. We however believe that implementation will be slow in the first year as countries seek to address pending hitches and observe compliance of other countries.

Nigeria's Macroeconomic Update

Nigeria records early exit from the recession with a growth of 0.1% in 2020Q4

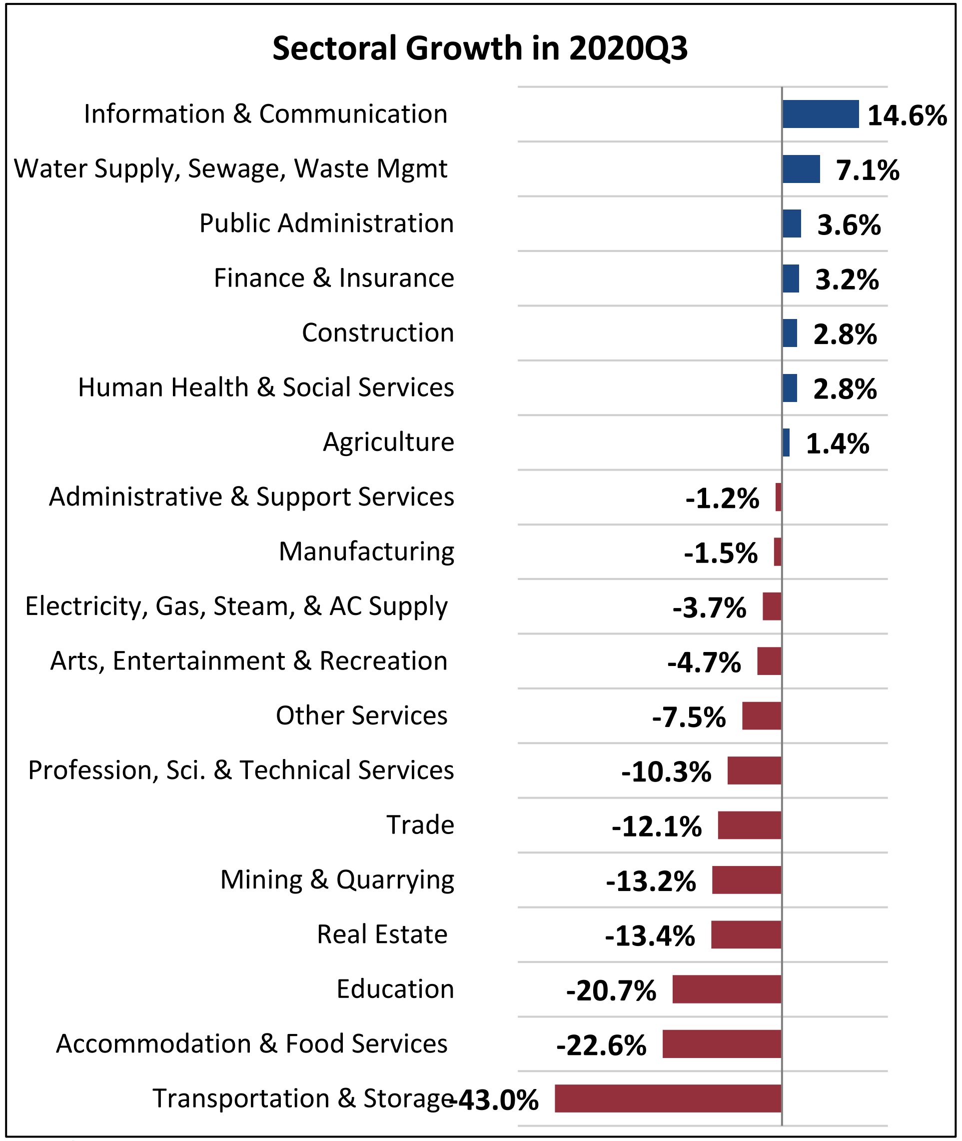
Nigeria's Real GDP growth

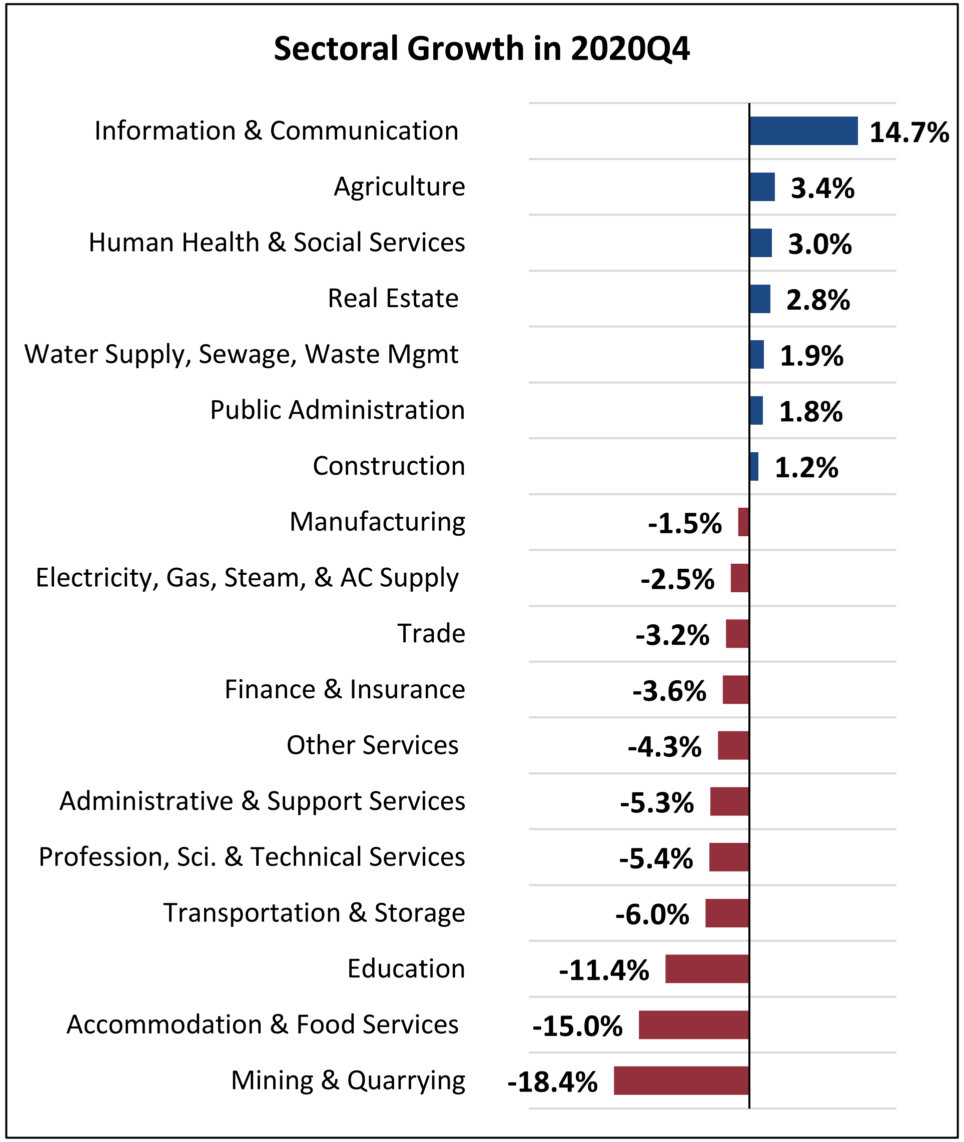


- **In the fourth quarter of 2020, the Nigerian economy expanded by 0.11%.**
- **This means that the economy exited one of its worst recessions in the fourth quarter having posted a decline of 6.1% and 3.6% in 2020Q2 and 2020Q3, respectively.**
- **The non-oil sector was responsible for the improved GDP performance in 2020Q4. The sector grew by 1.7% in the quarter.**
- **Nigeria's crude oil sector remained in recession with a negative growth of 19.8% in Q4, mainly due to lower crude oil output.**
- **Annual real GDP declined by 1.92% in 2020, which is far above our expectation for 2020.**

Data Source: National Bureau of Statistics

Sector Growth: 7 sectors expanded in 2020Q4 as Nigeria exited the recession



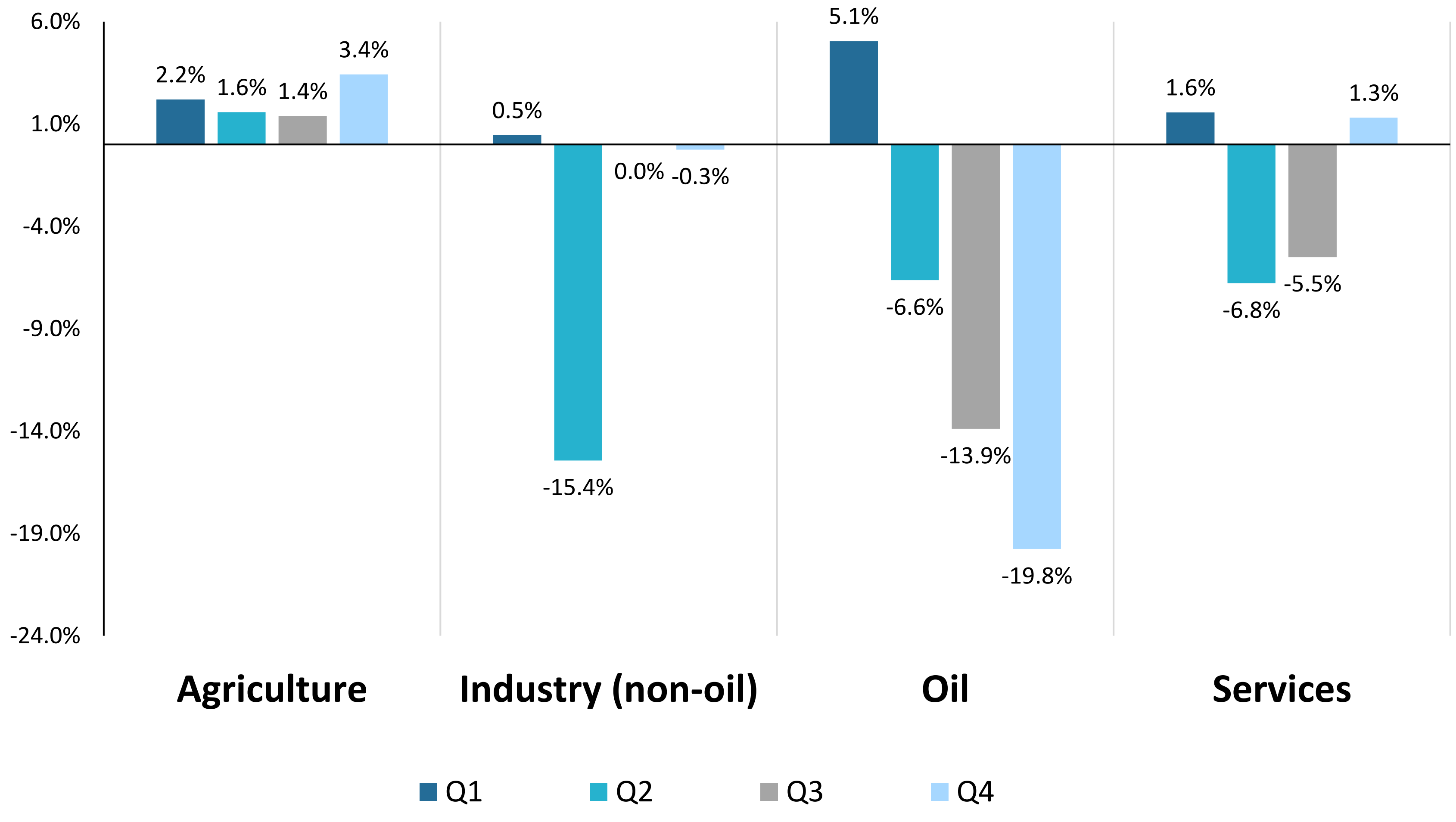


- **7 sectors recorded positive growth in 2020Q4 as against 6 sectors in Q3.**
- **Real Estate made the difference in the fourth quarter with a growth of 2.8%.**
- **As expected for the sectors that posted negative growth, the magnitude of contraction reduced in 2020Q4.**

Data Source: National Bureau of Statistics

Resilient Agriculture held the economy in 2020

Real GDP growth of major sectors in 2020

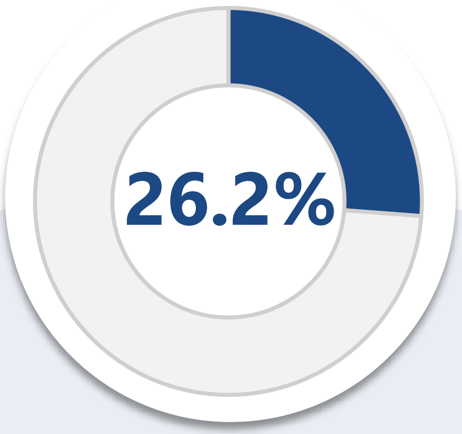


- **As pointed out in our previous Macroeconomic Outlook reports, the Agricultural sector was among the most resilient sectors in 2020.**
- **The sector grew by 2.2% in 2020. On a quarterly basis, it recorded a growth of 3.4% in 2020Q4, the highest since 4.2% in 2017Q4.**
- **In 2020, agriculture was a major source of income, with the share of households participating in crop-related farm work rising from 70% in 2019 to 80% in 2020. (NBS, 2021).**
- **The Services sector grew by 1.3% in 2020Q4, with major growth contribution from ICT and Health.**
- **Crude oil and the non-oil industrial sector remained in the negative in the fourth quarter of 2020.**

Data Source: National Bureau of Statistics

Share of GDP in 2020: Services and Agriculture continue to dominate GDP

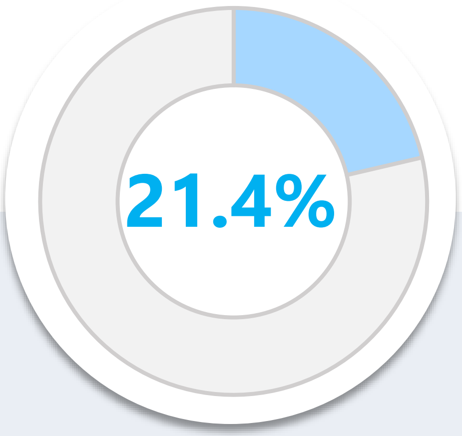
Agriculture



Agriculture's share in GDP was 26.2% in 2020 (2019: 25.2%)

- The share of Agriculture in GDP increased mainly because the sector recorded a positive growth in 2020, while output of other sectors declined.
- Crop production accounted for 90% of agricultural output in 2020.

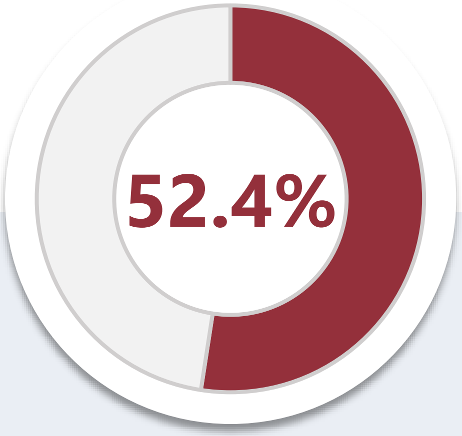
Industry



Share of Industry in GDP was 21.4% in 2020 (2019: 22.3%)

- Among the three major sectors, the industrial sector was the most affected by the pandemic.
- The sector in 2020 was made up of Manufacturing (42%), Crude Petroleum and Natural Gas (38%), Construction (16.4%) and others (3.3%).

Services



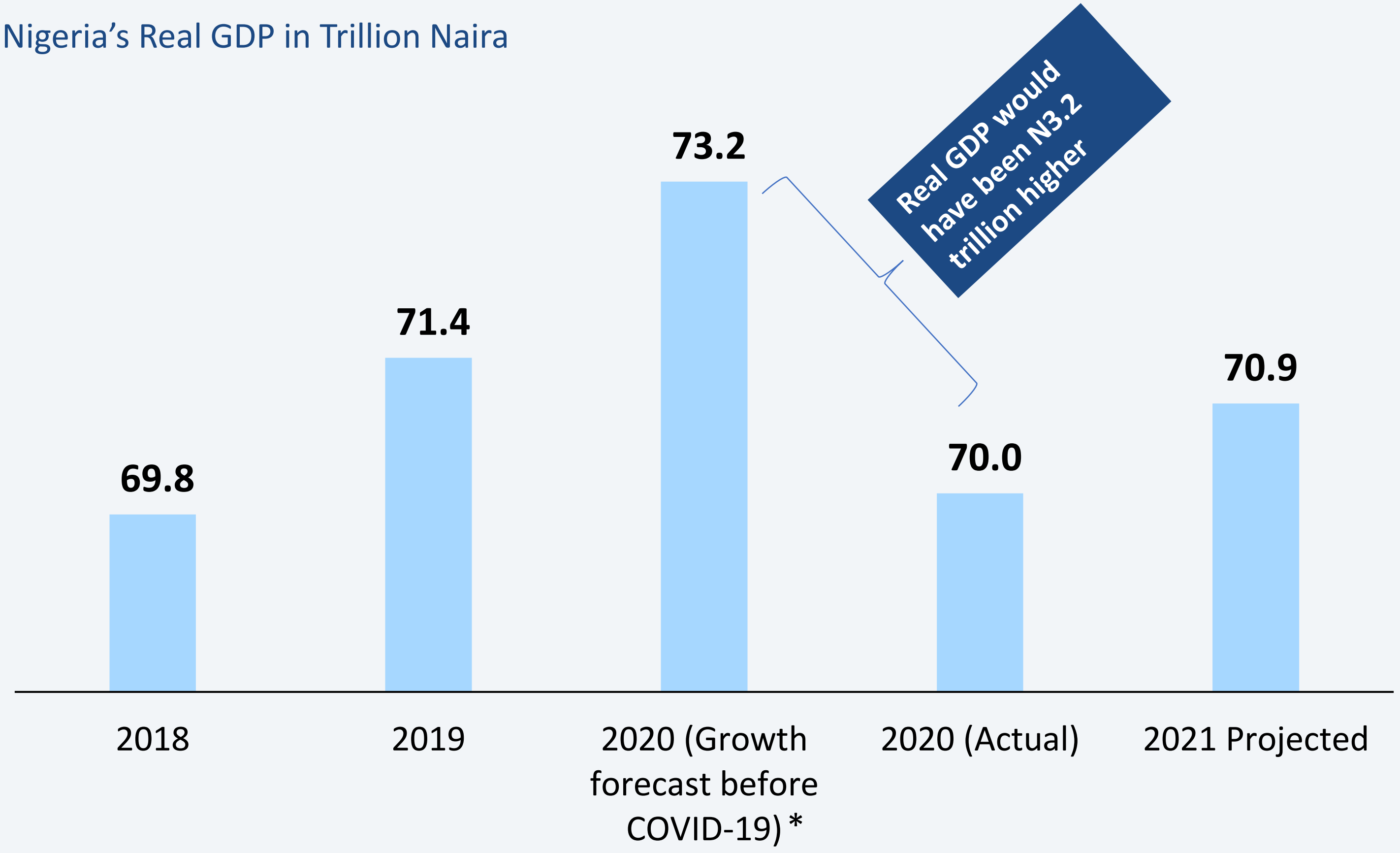
Share of Services in GDP stood at 52.4% in 2020 (2019: 52.6%)

- Performance of sub-sectors in the Services sector was mixed.
- Major sub-sectors in Services include Information & Communication (29%), Trade (28%), Real Estate (11%) and Finance and Insurance (6%).

Data Source: National Bureau of Statistics

Is the Nigerian economy back on a positive growth trajectory?

Nigeria's Real GDP in Trillion Naira



** To arrive at the GDP value of N73.2 trillion, we assumed that real GDP would have expanded by 2.5% in 2020 if there was no COVID-19 outbreak*

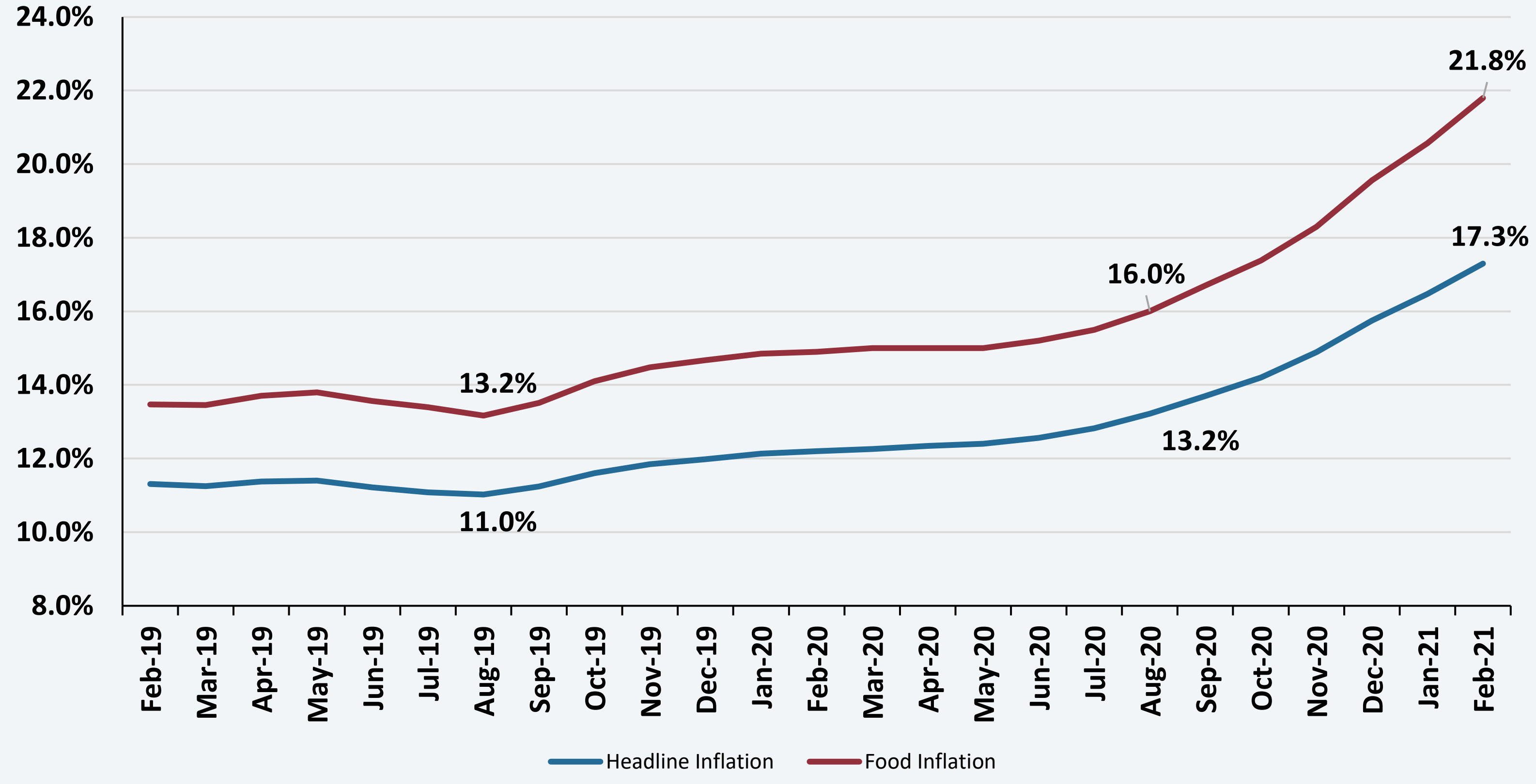
- **Real GDP loss stood at N3.2 trillion in 2020. This was mainly due to COVID-19.**
- **In nominal terms, this is estimated at N7 trillion**.**
- **Real GDP growth for 2021 is expected to be positive. We expect the economy to expand by 1.3% in 2021 in our moderate case scenario and 2.3% in the best case.**
- **For real output to return to pre-COVID-19 level of N71.4 trillion in 2019, the economy will have to expand by 2%.**
- **Key challenges of insecurity, stagnant crude oil production, foreign exchange scarcity and lower investment inflows are major risks to economic growth in 2021.**

*** Implicit deflator for 2020 was 2.17. Nominal GDP is real GDP multiplied by the deflator.*

Data Source: National Bureau of Statistics, FSDH Research

Prices keep rising as structural problems persist

Nigeria's Inflation Rate (%)

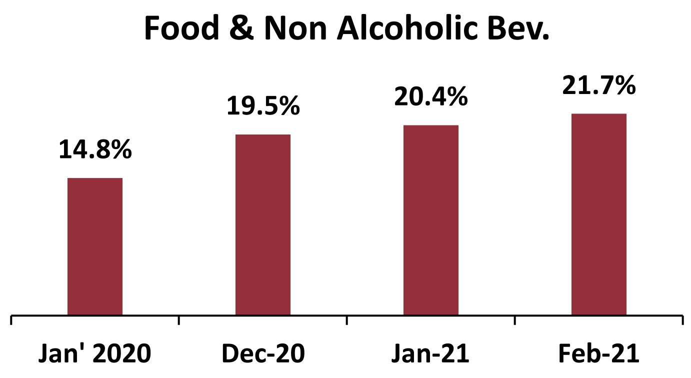


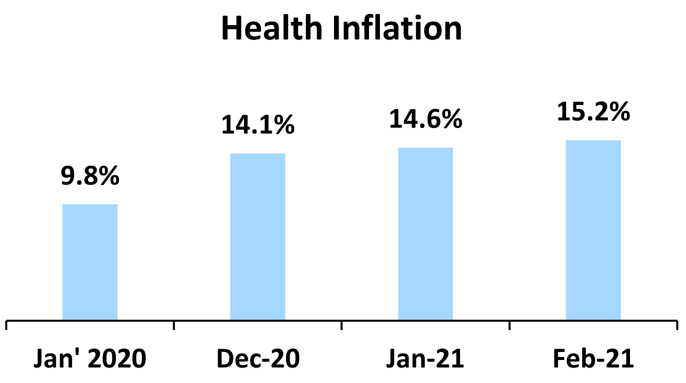
	Jan 2021	Feb 2021
Headline Inflation	**16.5%**	**17.3%**
Core Inflation	11.9%	12.4%
Food Inflation	20.6%	21.8%
Transport Inflation	13.6%	14.1%

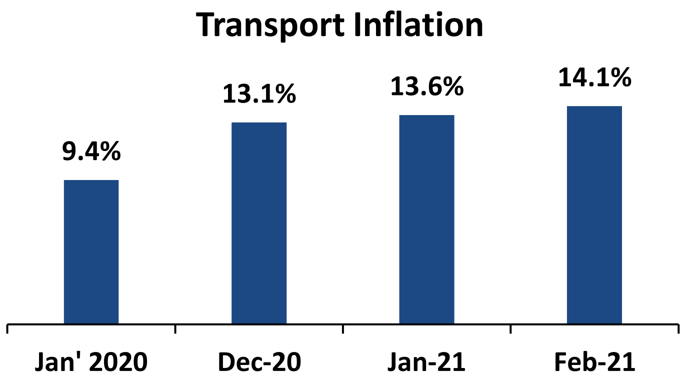
- **In February 2021, inflation rate continued its upward trend to settle at 17.3%.**
- **Prices of goods have risen significantly in the last five months.**
- **Month-on-month inflation rate has increased by at least 1.5% since October 2020.**
- **Insecurity, logistics bottlenecks, high fuel cost are key factors that continue to affect general price level.**

Data Source: National Bureau of Statistics

Food inflation rate starts the year at over 20%







Food & Non-Alcoholic Beverage

- Inflation rate for food and non alcoholic beverage, a major category of food inflation, rose to 21.7% in February 2021.
- Key factors responsible for the increase in prices include insecurity and logistics challenge.

Health Inflation

- Driven by higher demand for health services mainly due to COVID-19, health inflation rose to 15.2% in February 2021.
- 5.4 percentage points have been added to health inflation rate since January 2020.

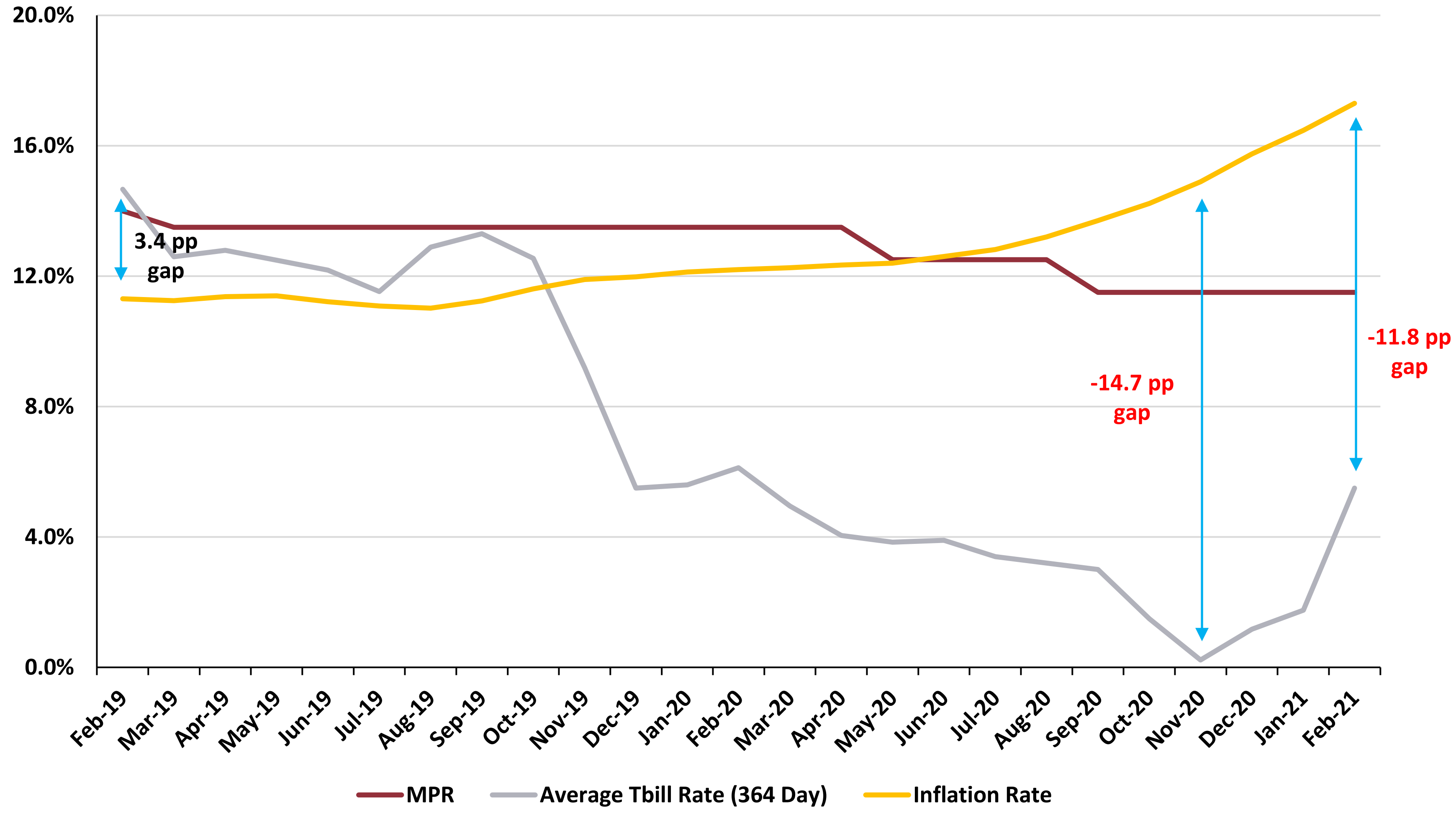
Transport Inflation

- Transportation remains one of the most affected sectors in 2020.
- The rise in transport prices has been due to higher fuel costs and insecurity concerns.

Data Source: National Bureau of Statistics

Real interest rate narrowed significantly in February 2021 as interest rates rise

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



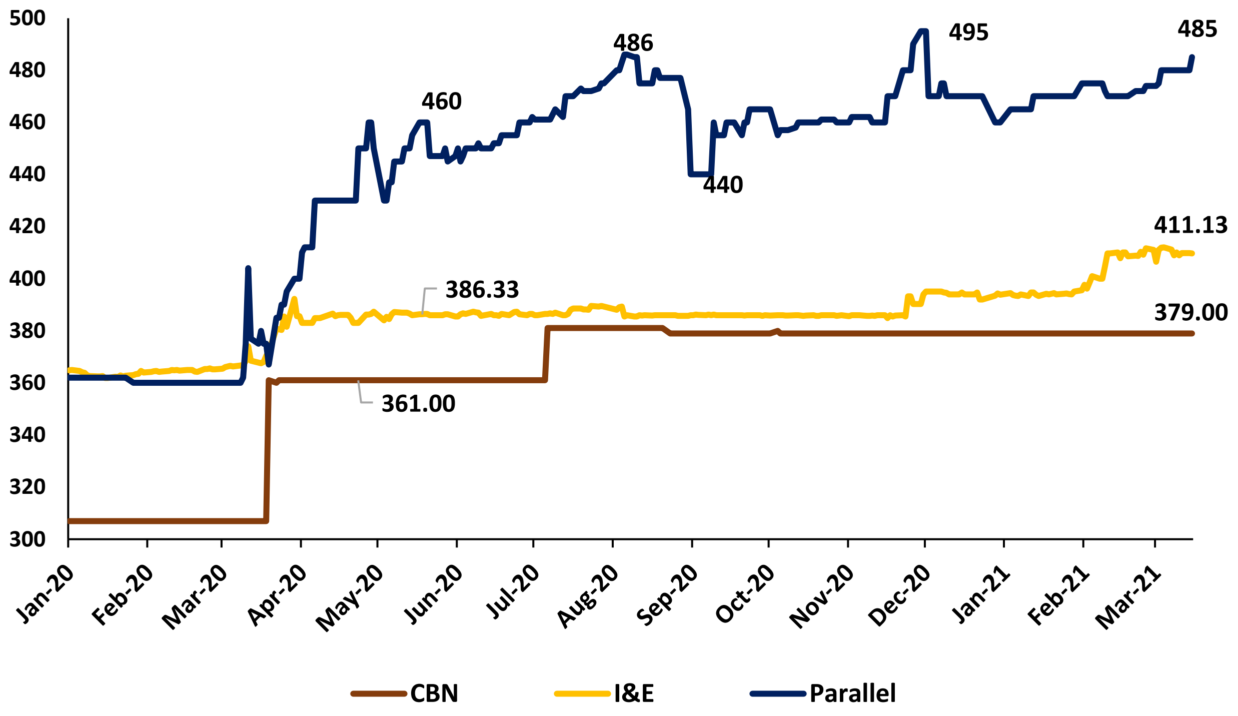
*pp - percentage points

- Average interest rate rose in the month of February to 5.5% but inflation rate also increased in the month.
- As a result, the gap between inflation rate and one year treasury bills rate narrowed to -11.8 percentage points (pp) in February 2021 from -14.7pp in January.
- As stated in our previous Macroeconomic Outlook, we will begin to see improvement in real interest rates as interest rate will trend upwards and inflation rate will moderate later in the year.

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

Exchange rate depreciates due to demand pressures

Exchange rate Movement (N/US$)

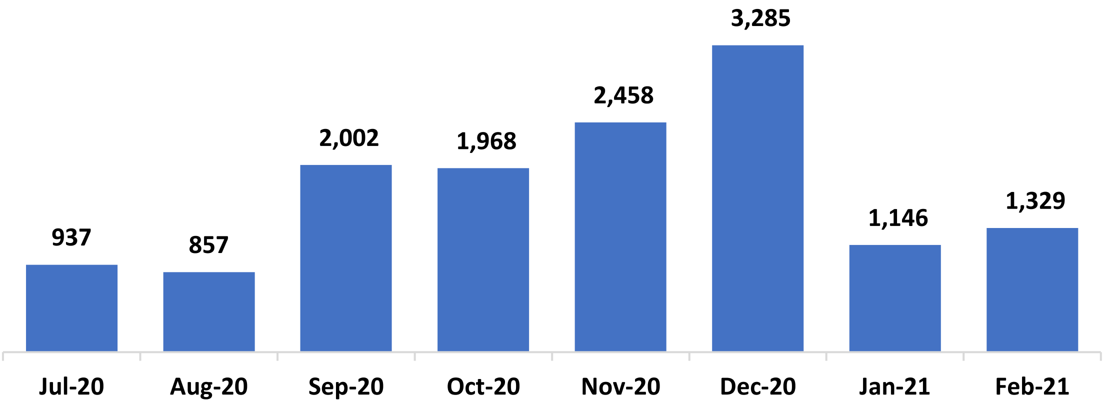


- The foreign exchange market continues to witness supply shortage of foreign currency to meet its demand.
- Consequently, the gap between the various markets keeps expanding.
- As at March 16, 2021, the Naira on the I&E window closed at N409.67/US$, representing a year to date appreciation of 0.14%.
- It depreciated by 5.43% in the parallel market to N485/US$. Meanwhile, on the CBN Official, the Naira remained stable at N379/US$.
- Foreign exchange pressure will continue into the second quarter owing to limited inflows from both crude and non-oil sources, rising imports and a backlog of foreign currency demand.

Data Source: CBN, FMDQ

Forex Market: Forex inflow into the I&E window suppressed in 2021Q1

I&E Window Turnover (US$'Million)



Forex Inflow in the I & E Window (US$'Million)

Sources	Sept-20	Oct-20	Nov-20	Dec-20	Jan-21	Feb-21
FDI	30.8	31.7	65.0	54.2	69.8	7.5
FPI	36.8	48.1	54.8	23.6	116.1	17.9
Other Corporate	22.4	43.4	22.9	24.0	17.3	9.3
CBN	434.5	558.2	453.6	823.9	74.1	2.9
Exporter	206.8	117.2	134.8	111.5	209.5	175.7
Individuals	29.4	26.3	29.8	12.3	20.9	2.5
Non-bank corporate	175.5	304.8	407.7	316.5	227.2	350.1
Total	**935.2**	**1,165.7**	**1,168.6**	**1,366.0**	**734.9**	**565.9**

Data Source: FMDQ

- **The challenges facing the supply of foreign exchange (forex) are manifested in the significant decline in inflows into the Investors' and Exporters' (I&E) window.**
- **Foreign exchange inflows into the window in January and February 2021 contracted to US$734.9 million and US$565.9 million respectively from US$1.4 billion in December 2020.**
- **The lower inflows was driven by the significant decline in CBN interventions in the market which stood at US$2.9 million in February 2021 (Dec 2020: US$823 million).**
- **Despite the positive GDP growth in the fourth quarter of 2020, inflows from FDI and FPI remain low in the first two months of 2021.**
- **This suggest low investors' confidence amidst uncertainty relating to foreign exchange management and insecurity concerns.**

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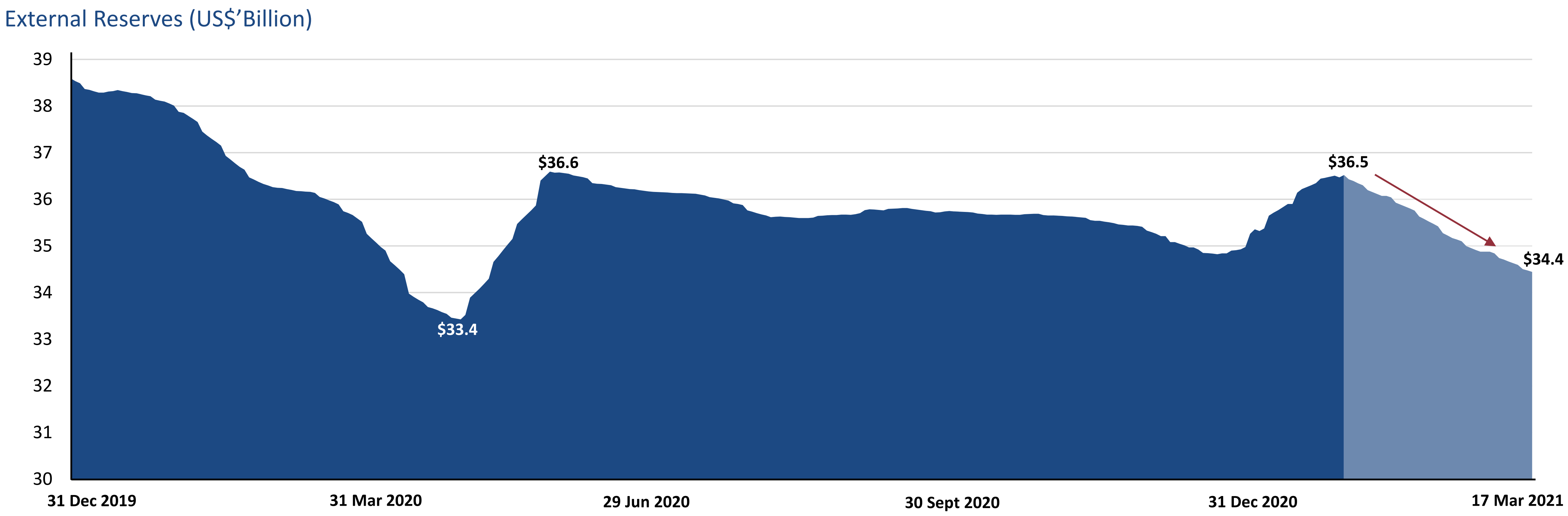
External Reserves lost 5.7% of its value from late January to March



- **External Reserves trended upwards at the beginning of the year 2021, gaining 3.2% as at January 25.**
- **Despite rising crude oil prices, Reserves have lost 5.7% of its value from January 25 to March 17.**
- **Challenged oil inflows due to OPEC cuts, weaker foreign investment inflows, high demand for foreign currency to finance imports and other needs and possible clearance of FX backlogs are factors that continue to weaken External Reserves.**

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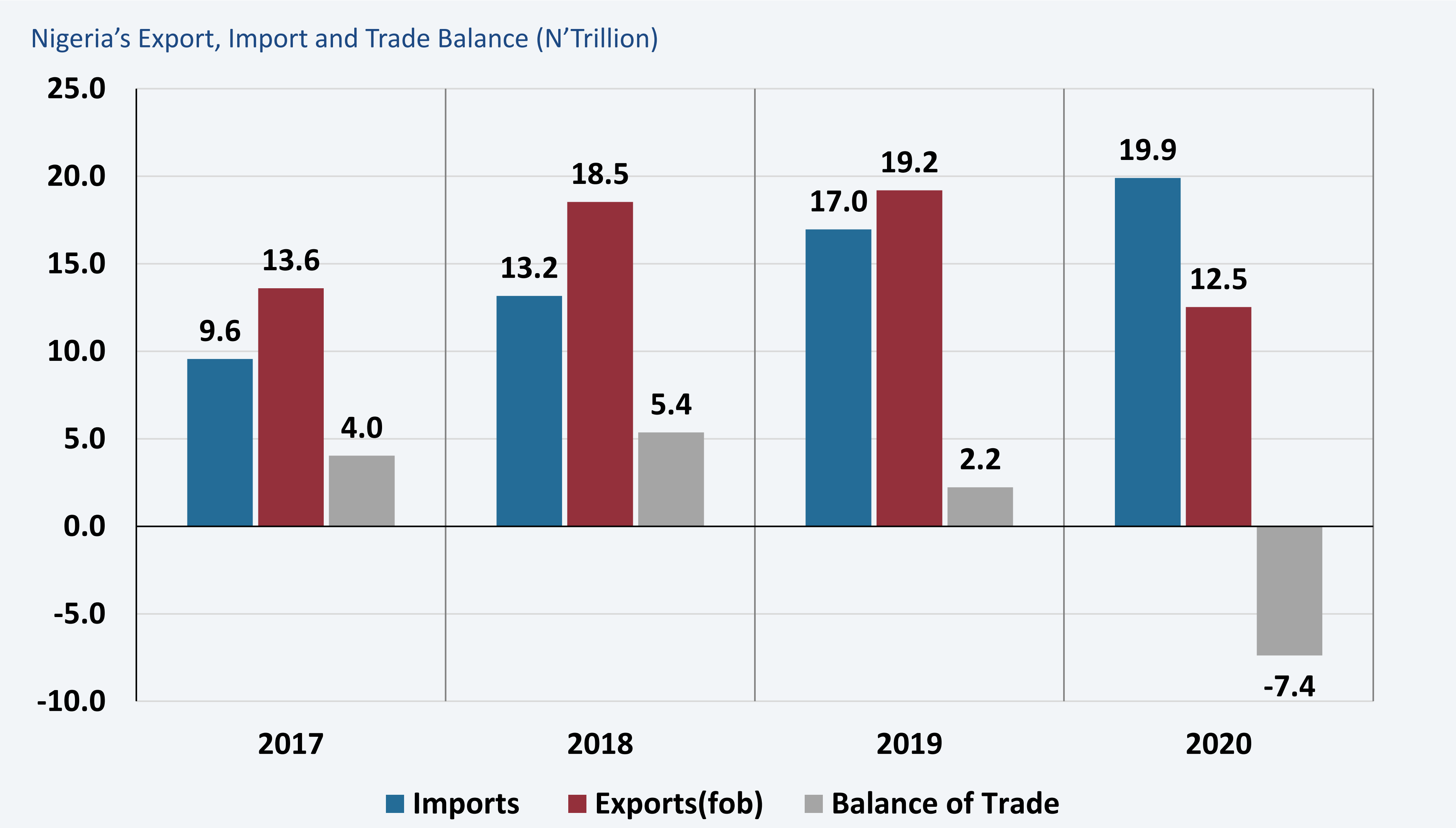
Data Source: Central Bank of Nigeria

Nigeria records largest Trade Deficit of N7.4 trillion in 2020



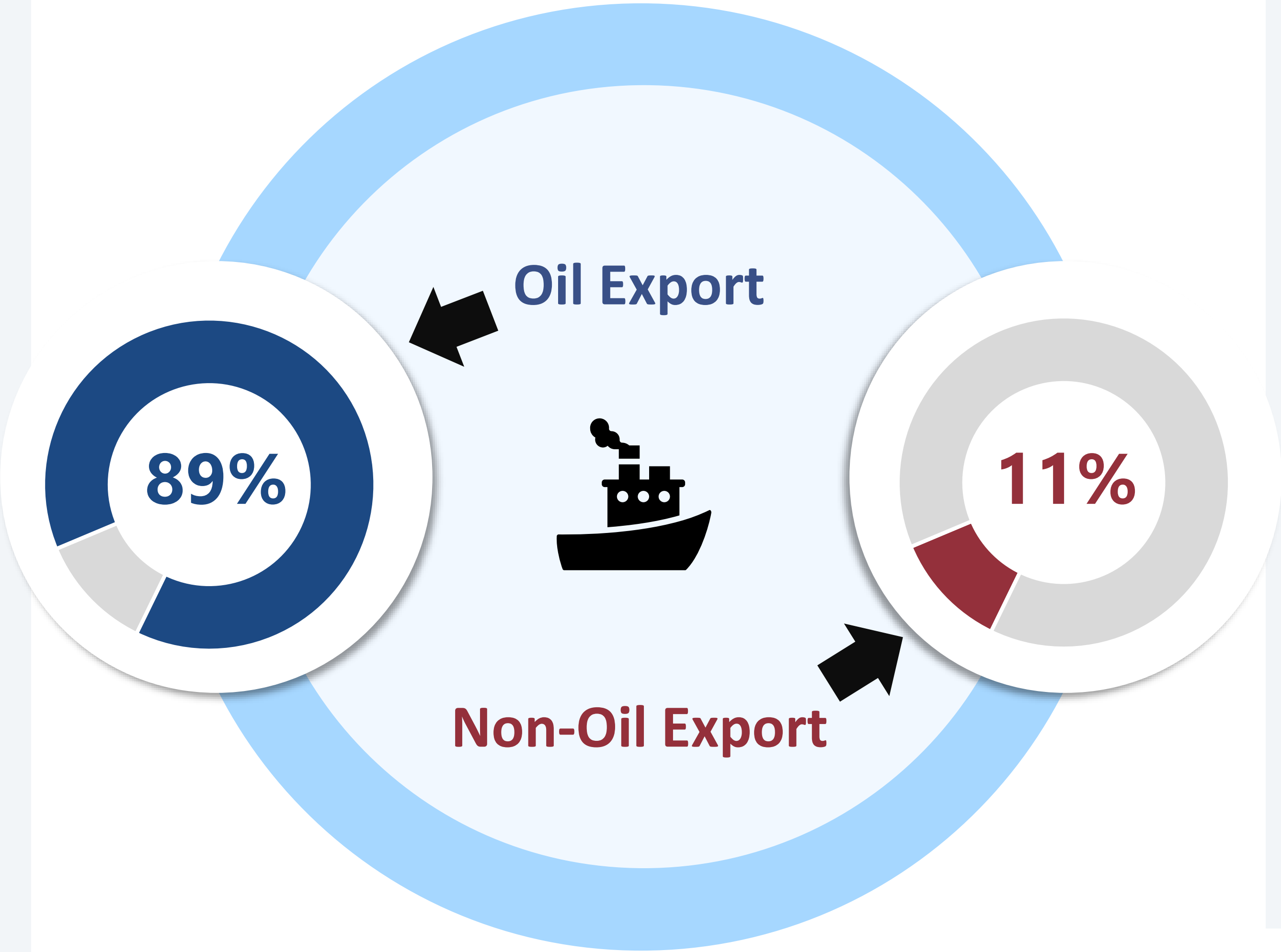
- In 2020, Nigeria recorded its largest trade deficit of N7.4 trillion.
- While the value of exports declined by 35% in the year, imports value increased by 17% in 2020.
- Constrained supply chain, closure of land borders, exchange rate depreciation and weakened exports resulted in a larger trade deficit in the year.
- The deficit is expected to narrow in 2021 as economic activities improve.

Data Source: National Bureau of Statistics

Oil Export dominated total Export in 2020

- Oil export was valued at N11.1 trillion, representing 89% of total exports in 2020
- Oil export in 2020 declined by 33% from N16.7 trillion in 2019.
- Crude oil accounted for 85% of total oil export. Other oil products accounted for 15%.
- On a quarterly basis, oil export increased in the last two quarters of 2020 as oil demand improved in the second half of the year.

Breakdown of total exports in 2020



- Non-oil export was valued at N1.4 trillion in 2020.
- In 2020, non-oil export declined by 43% from N2.5 trillion in 2019.
- Vehicles, aircraft and parts thereof; accounted for 59% of non-oil export while vegetable products accounted for 13%.
- Oil export will increase in 2020 following improved demand conditions.

Data Source: National Bureau of Statistics

Breakdown of import in 2020 reflects structural weaknesses in the economy

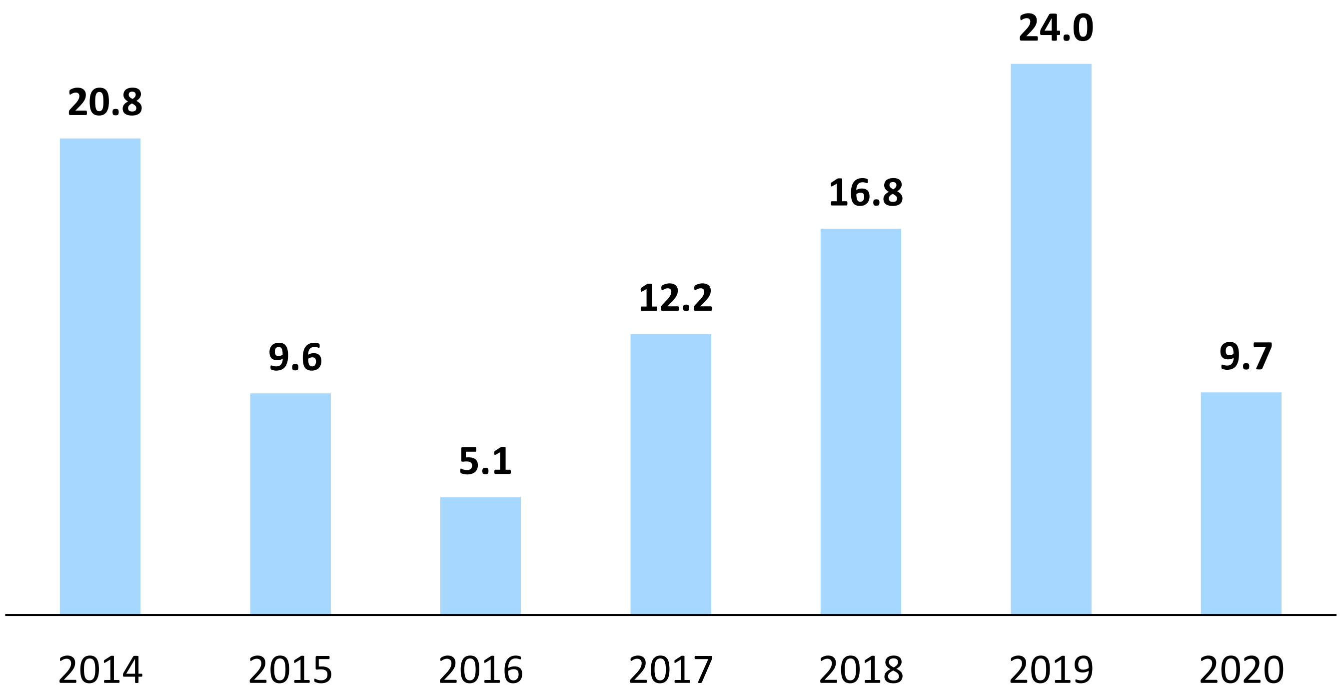
	Import	Export
	Percentage of total Import	*Percentage of total Export*
Agricultural Goods	8.6%	2.6%
Raw Material Goods	11.6%	0.9%
Solid Mineral Goods	0.6%	0.1%
Energy Goods	0.0%	0.2%
Manufactured Goods	63.9%	7%
Crude and Other Oil Products	15.2%	89%

- In 2020, Nigeria spent a significant amount of foreign exchange importing mineral products mainly petrol; food products and manufactured goods.
- This trend will continue in 2021 especially in the absence of any major structural reforms.

Data Source: National Bureau of Statistics

Total Foreign Investment Inflow fell by 60% in 2020

Nigeria's total Foreign Investment Inflows (Billion US$)

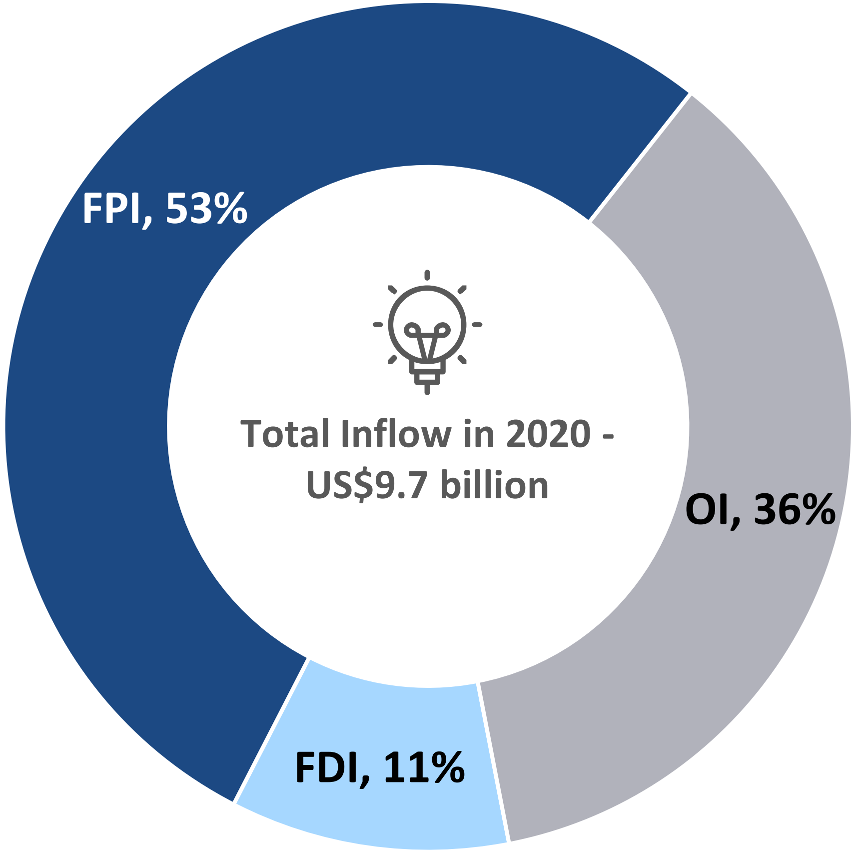


- **In 2020, total foreign Investment inflow declined by 60% from US$24 billion in 2019 to US$9.7 billion.**
- **The impact of COVID-19, lower interest rate and weakened investors' confidence were largely responsible for the decline in foreign investment inflow.**
- **Investment inflows is expected to pick-up in 2021 as interest rates trend upwards and economic activities resume across major sectors.**
- **Insecurity and foreign exchange concerns are among the biggest risks facing the investment environment in 2021.**

Data Source: National Bureau of Statistics

Shares of FPI and Other Investment declined, FDI increased

Nigeria's total Foreign Investment Inflows in 2020 (Billion US$)



53%

Foreign Portfolio Investment (FPI) – US$5.1 billion

Portfolio investments declined by 69% in 2020 mainly as a result of the impact of COVID-19 and lower interest rates. Its share in total investment declined to 53% in 2020 (2019: 68%)

36%

Other Investment (OI) – US$3.5 billion

Other Investment which consists of loans, trade credits also declined by 47.5% in 2020.

11%

Foreign Direct Investment (FDI) – US$1.0 billion

FDI inflow increased by 10% in 2020 from US$934 million in 2019. In 2020, FDI inflow was highest in the third quarter and lowest in the second quarter.

Data Source: National Bureau of Statistics

Analyst View on GDP Growth, Inflation, FX and Trade

GDP Growth

- Nigeria recorded a GDP growth of 0.1% in 2020Q4. We expect that this positive growth momentum will continue in 2021 following the impact of government's fiscal stimulus on key sectors as well as improving economic activity.

- Major risks to growth are foreign exchange scarcity, slow pace of reserve accretion, stagnant oil output and insecurity.

Inflation

- Prices will continue to rise in 2021 given the challenges associated with insecurity which has a direct impact on agricultural output and transportation cost.

- We expect, however, that the rate of change in prices (inflation) will moderate in the later part of the year as the government will intensify efforts to address insecurity concerns.

- Other factors such as high fuel cost, logistics bottlenecks and infrastructure deficit will persist in the year.

Foreign Exchange and External Reserves

- Foreign exchange challenges will persist in 2021 but we expect moderation in the later part of the year. The wide gap between the official rates and parallel markets will continue to be a major FX challenge in 2021.

- High interest rates environment, clearing of FX backlogs which has been estimated at US$2 billion, issuance of Eurobonds, FX policy clarity are actions that could attract FX inflows into the economy. As a first step, the CBN has limited its interventions in the I&E window.

Trade and Investment

- We expect improvement in foreign trade figures, particularly both oil and non-oil export as demand conditions improve across the globe.

- Import will continue to rise. Nigeria's ability to reverse its trade deficit in 2021 will depend largely on crude oil production volumes.

- Foreign investment inflows will be higher than the US$9.7 billion recorded in 2021 but below the pre-COVID-19 level of US$24 billion. Foreign exchange scarcity and insecurity will serve as a major constraint for investment inflows in 2021.

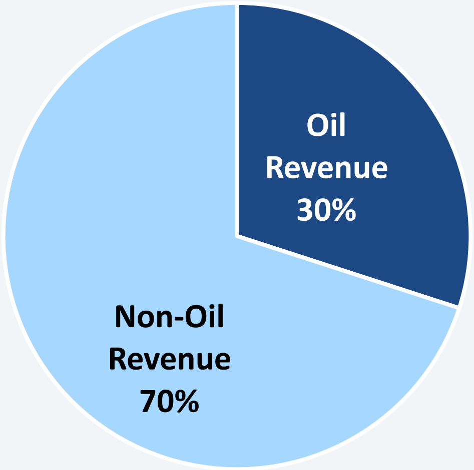
Fiscal & Monetary Review

Fiscal Policy: FGN Expenditure aims to drive economic recovery

Federal Government Expenditure analysis in the 2021 Approved Budget

- Nigeria's President approved a spending plan of N13.59 trillion in 2021, which is 25.7% higher than the 2020 revised budget.
  - Capital expenditure - N4.37 trillion (32.2% of total)
  - Recurrent expenditure - N9.22 trillion (67.8%)
- Debt servicing totaled N3.32 trillion, accounting for 24.5% of total expenditure.
- Debt servicing for 2021 is 41.6% of federal government revenue, much better than 83% (actual) recorded in 2020.
- Overall, budget deficit for 2021 is N5.6 trillion. Actual deficit will be higher due to the anticipated revenue shortfall when compared with its target.
- Deficit as a share of GDP is expected to remain above 3% in 2021.

FGN 2021 Revenue – N7.99 trillion



- Revenue projection of N7.99 trillion for 2021 is 37% higher than 2020 projection of N5.84 trillion.
- For 2020, actual revenue was 73% of targeted revenue, despite several revisions of crude oil benchmark price and output due to COVID-19.
- While actual revenue for 2021 will improve as economic activities pick up in the year, it is expected to fall below projections contained in the budget.
- Revenue will be constrained by crude oil output as Nigeria complies with OPEC quota.

Data Source: Budget Office of the Federation

Finance Act 2020 aims to provide fiscal relief and drive recovery

The Finance Act 2020 was signed into law on the 31st of December, 2020 to support the '2021 Budget of Economic Recovery & Resilience'.

The key guiding principles

- ensure that there is a balance between macroeconomic strategies to attract investment,
- grow the economy,
- create jobs
- provide immediate fiscal strategies for accelerated Domestic Revenue Mobilisation, in response to the COVID-19 Pandemic and the domestic / global economic downturn.

The Finance Act 2020 introduces over

80 changes** to more than **14 laws

Features of Finance Act 2020

- Adopts counter-cyclical fiscal policies in response to the COVID19 pandemic by providing fiscal relief for taxpayers;
- Reforms Fiscal incentive policies to prioritise job creation and accelerate economic recovery and growth
- Fosters closer coordination of Monetary, Trade and Fiscal Policies.

Source: Ministry of Finance, Budget & National Planning

Finance Act 2020: Some provisions

Reduction of import levy on Cars from 30% to 5%

5%

Reduction of import duty on Tractors from 35% to 5%;

5%

New 50% Cost-to-Revenue Ratio introduced for State-Owned and Government-Owned Enterprises.

50%

Reduction in minimum tax, from 0.5% to 0.25% of gross turnover less franked investment income

0.25%

- Exemption of all low income earners of minimum wage or less from Personal Income Tax.
- Exemption of all micro & small companies earning N25million or less as annual turnover from Tertiary Education Tax.
- Exemption of commercial airline tickets, commercial aircraft spare parts and components; interests in land and buildings; animal feed and hire, rental or lease of agriculture equipment for agricultural purposes from Value Added Tax at 7.5%.
- Any small or medium sized company engaged in primary agricultural production may be granted pioneer status (tax relief) for an initial period of 4 years and an additional 2 years.

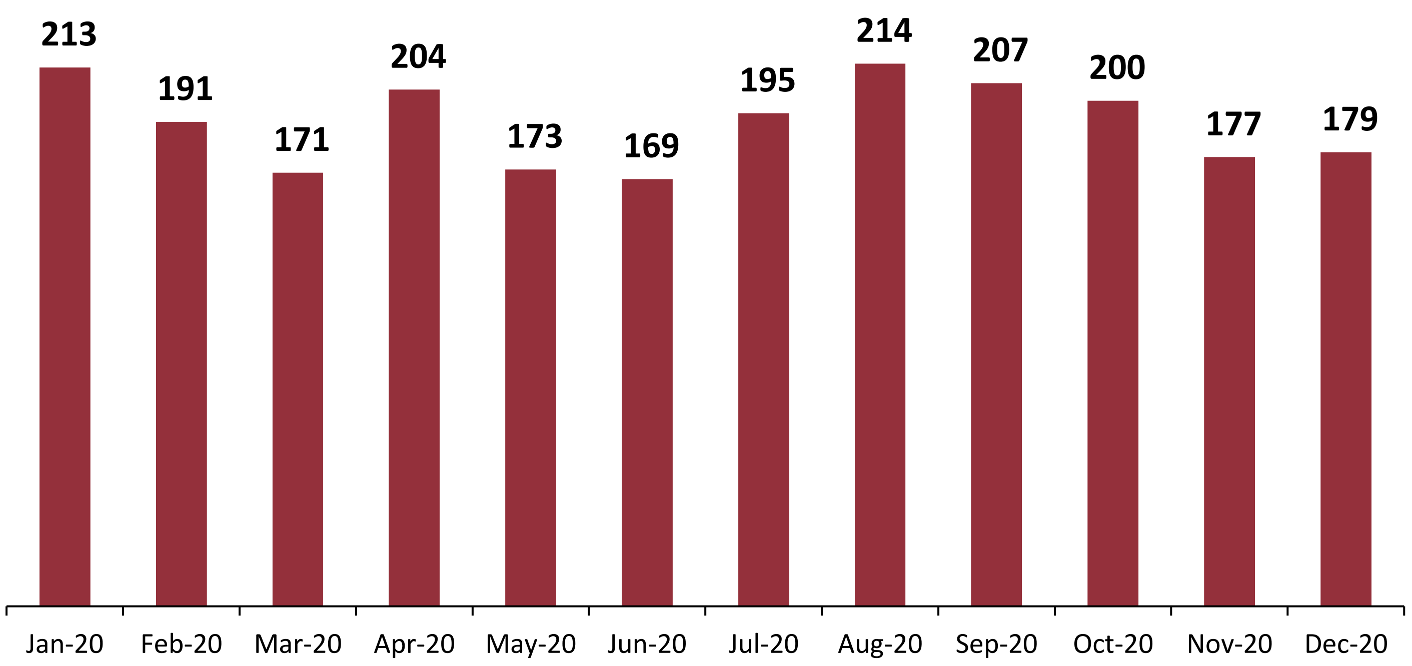
Source: Ministry of Finance, Budget & National Planning

Finance Act 2020: Some Perspectives

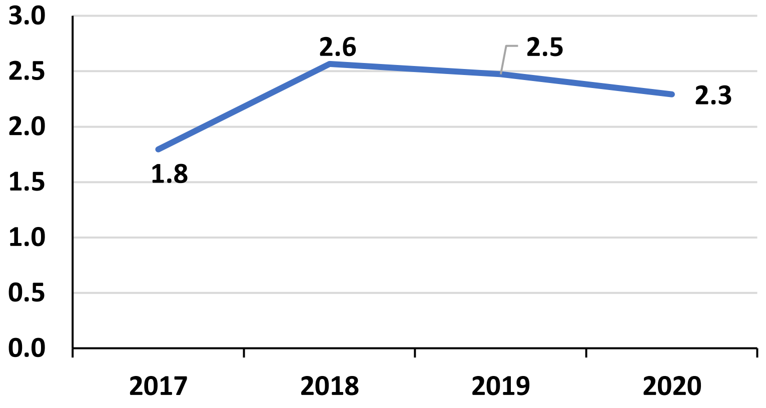
- Provision such as exempting small businesses from education tax will have positive impact on business cost, in view of the implications of COVID-19 on businesses.
- Likewise, the exemption of low income earners from personal income tax is a good development, especially given the trend of rising prices. This will increase disposable income of affected individuals.
- The Act provides several incentives for the agricultural sector. These provisions have the potential to reduce overhead costs of businesses in the sector and encourage investments into the sector.
- Actual implementation of the provisions remains crucial in actualising the intended objectives. Effective monitoring of the activities of implementing agencies such as the Nigerian Customs, FIRS especially in relation to compliance is crucial.

N2.29 trillion allocated to 36 States + FCT in 2020

FAAC Allocations to States and FCT in 2020 (N'Billion)



FAAC Allocations to States and FCT (N'Trillion)



- **Allocation to State governments totalled N2.29 trillion in 2020, a decline of 7.3% from N2.47 trillion in 2019.**
- **The lowest disbursement was recorded in the month of June 2020.**
- **The federal government interventions to alleviate the impact of COVID-19 ensured sustained disbursement to States despite lower revenue.**

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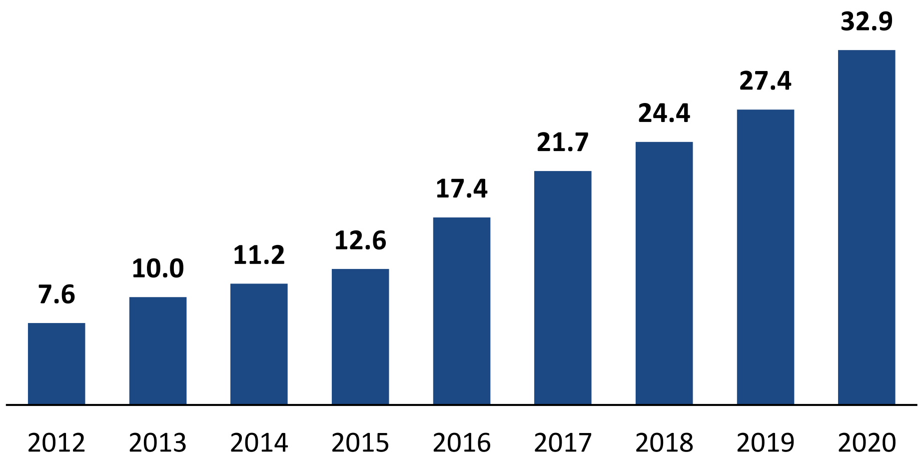
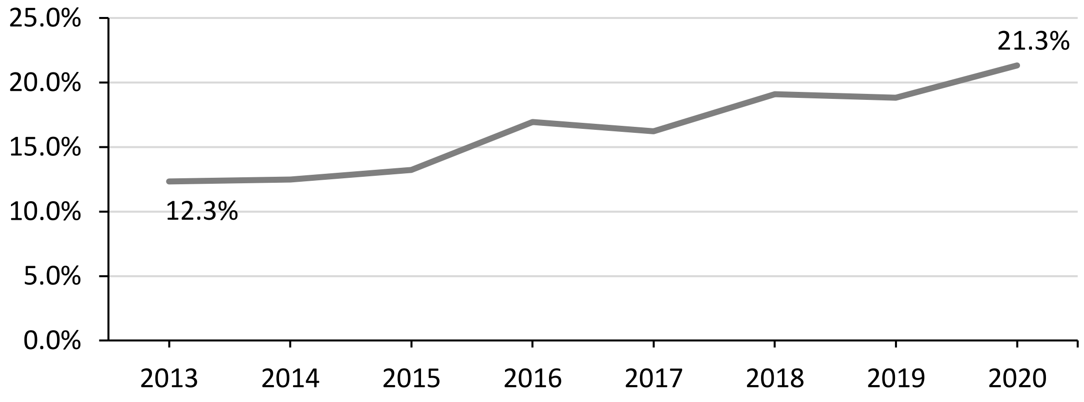
Data Source: National Bureau of Statistics

Nigeria adds N5.5 trillion to its public debt stock in 2020

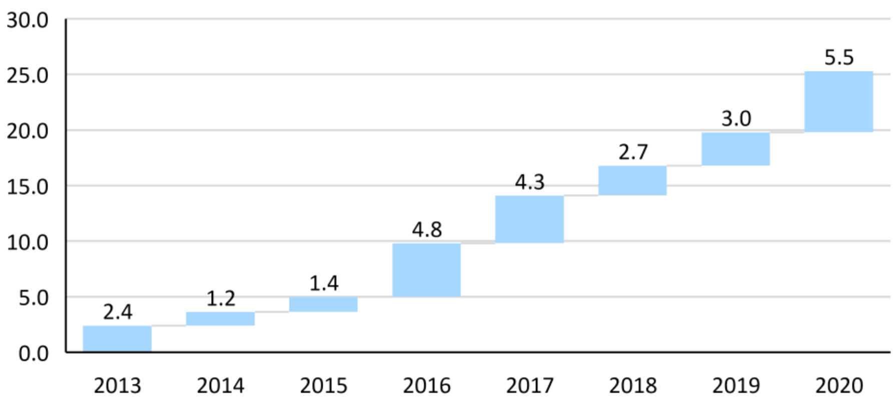
Total Public Debt (N'Trillion)



Total Public Debt as a percentage of GDP



Net Additions to Public Debt Stock (N'Trillion)



- **As projected in our previous Macroeconomic Outlook, total public debt rose to N32.9 trillion in 2020 (21.3% of GDP). When other liabilities of AMCON and the CBN's Ways and Means are considered, debt to GDP is over 30%.**
- **This implies that Nigeria added a net amount of at least N5.5 trillion to the debt stock in 2020 – higher than the N4.3 trillion added in the 2016 recession.**
- **Debt is expected to rise further in 2021 following the anticipated revenue shortfall (against projected revenue). The key challenge to debt sustainability is Nigeria's low revenue profile.**
- **In addition, fiscal deficit is projected at N5.6 trillion in 2021 which will be financed majorly by borrowings.**

Data Source: Debt Management Office, National Bureau of Statistics & FSDH Research

Monetary Policy: Outlook and Expectation

The CBN Monetary Policy Committee (MPC) in its first and second meeting of 2021, held in January and March respectively, made the following decision:

- *Retained the MPR at 11.5%;*
- *Retained the Asymmetric Corridor at +100/-700 basis points around the MPR;*
- *Retained Cash Reserve Ratio (CRR) at 27.5 percent; and*
- *Retained the Liquidity Ratio at 30 percent all through the year.*

Key factors that influenced monetary policy decisions at the MPC meetings are:

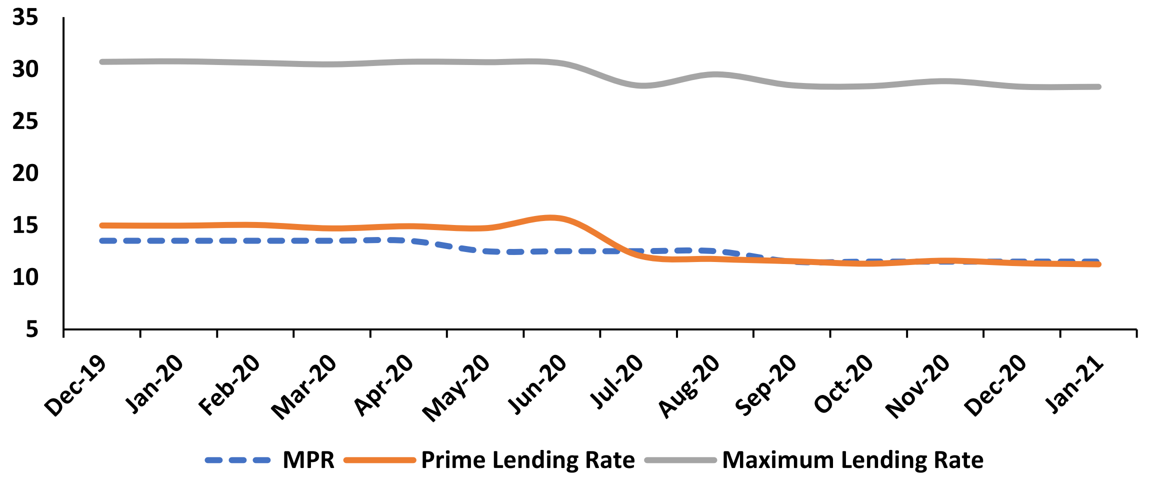
- The need to support economic growth
- Lower earnings from crude oil sales
- Lower foreign investment inflows
- Declining external reserves
- Exchange rate volatility
- Liquidity management
- Inflationary pressure
- Rising public debt

Outlook and expectations

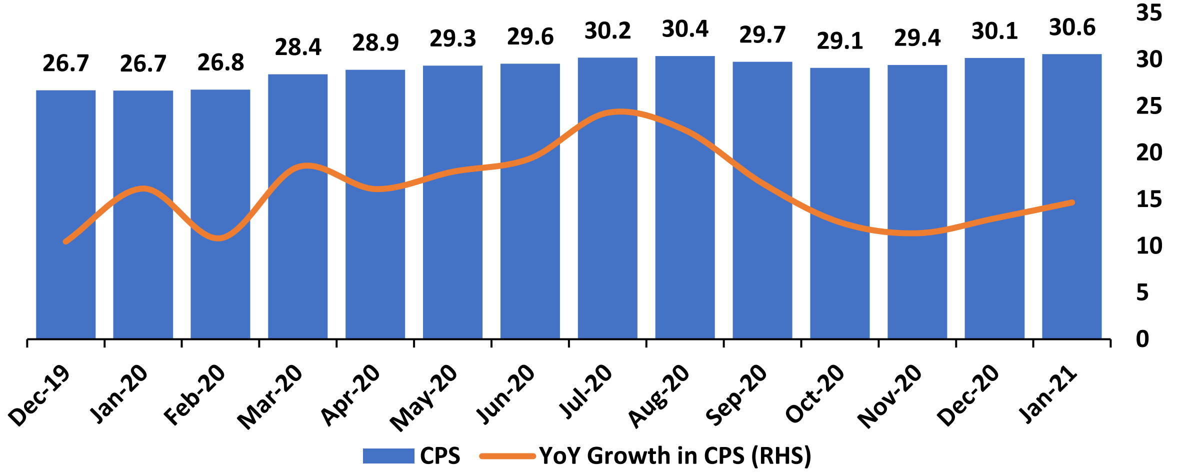
- The need to drive growth and equally curtail the pace of inflationary pressure will put the CBN in a dilemma of either raising MPR to curtail inflation of reduce MPR to support growth.
- With the admission that there is weak transmission between the MPR and inflation at one of the recent MPC meeting, the Committee is more likely to leave rates unchanged.
- With the introduction of CBN Special Bill alongside conventional OMO Auctions, system liquidity will be relatively stable.
- The interest environment will stabilize deep into the year as government will have to offer higher rate to attract investors to purchase government securities.
- Exchange rate will remain volatile in the year given the weak reserve position and lower earnings from non-oil exports.
- We expect the Naira to depreciate further into the year as the outlook of major sources of inflows – oil price, foreign investment inflow, export earnings – remains constrained.

Monetary Policy: Key Monetary Indicators

Lending Rates (%)



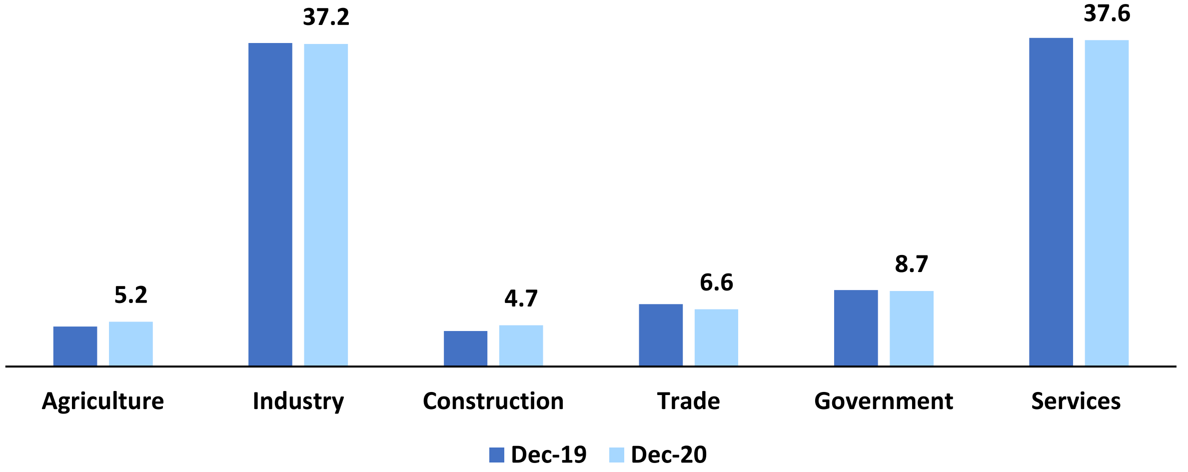
Credit to Private Sector (N'Trillion)



Financial Deepening Indicators (%)

	Dec-19	Oct-20	Nov-20	Dec-20	Jan-21
Currency/M2	8.49	6.99	7.28	7.71	7.50
Currency/GDP	1.69	1.64	1.75	1.91	1.86
M2/GDP	19.96	23.46	23.97	24.75	24.78
CPS/GDP	18.51	19.10	19.31	19.79	20.06
Stock Market Capitalization/GDP	8.99	10.48	12.02	13.56	14.57

Sectoral Utilization of Credit (%)



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Data Source: Central Bank of Nigeria

Analyst View on Fiscal and Monetary Policy

Fiscal Policy

- Nigeria has a major revenue challenge. Despite the increase in crude oil price in early 2021, external reserves continue to plummet, mainly due to stagnant crude oil production.
- This means Nigeria will struggle to take advantage of higher oil prices in the early part of 2021, until OPEC relaxes production quotas.
- The implication is that oil revenue will continue to be challenged and could fall below its projection of N2.4 trillion in 2021.
- Non-oil revenue will be higher than the actual N2.42 trillion realized in 2020 but lower than the projected N6 trillion. Structural challenges, a large informal economy and tax compliance issues are factors that will limit growth of non-oil revenue.
- Debt profile will continue to increase in 2021, likewise actual government deficit.
- To ensure improvement in fiscal governance, the government must intensify efforts to drive prudent fiscal spending and ensure transparency and accountability of public funds.

Monetary Policy

- All through the year, Monetary Policy Committee will be caught in the battle of either raising rates to attract foreign exchange inflows into the economy or reducing rates to support economic growth.
- The MPC's decision in the next meeting will be based on the need to strike a balance between growth and foreign exchange stability. This decision will also be influenced by 2020Q1 GDP growth figures.
- For inflation, the MPC had earlier stated that inflation in Nigeria is driven mainly by structural factors which dwell outside the control of the Committee.
- While this view is true, we believe that exchange rate which is largely influenced by the Central Bank is also a major determinant of inflation.
- Given this, tightening of monetary policy could favour FX inflows and further suppress price increase. As seen in recent months, the CBN can implement a tight monetary policy without necessarily adjusting the MPR. We believe the CBN will adopt other measures to tighten monetary policy.
- Therefore, the Committee will keep rates stable in the first part of the year with the expectation that there will be higher FX inflows and reserve accretion.

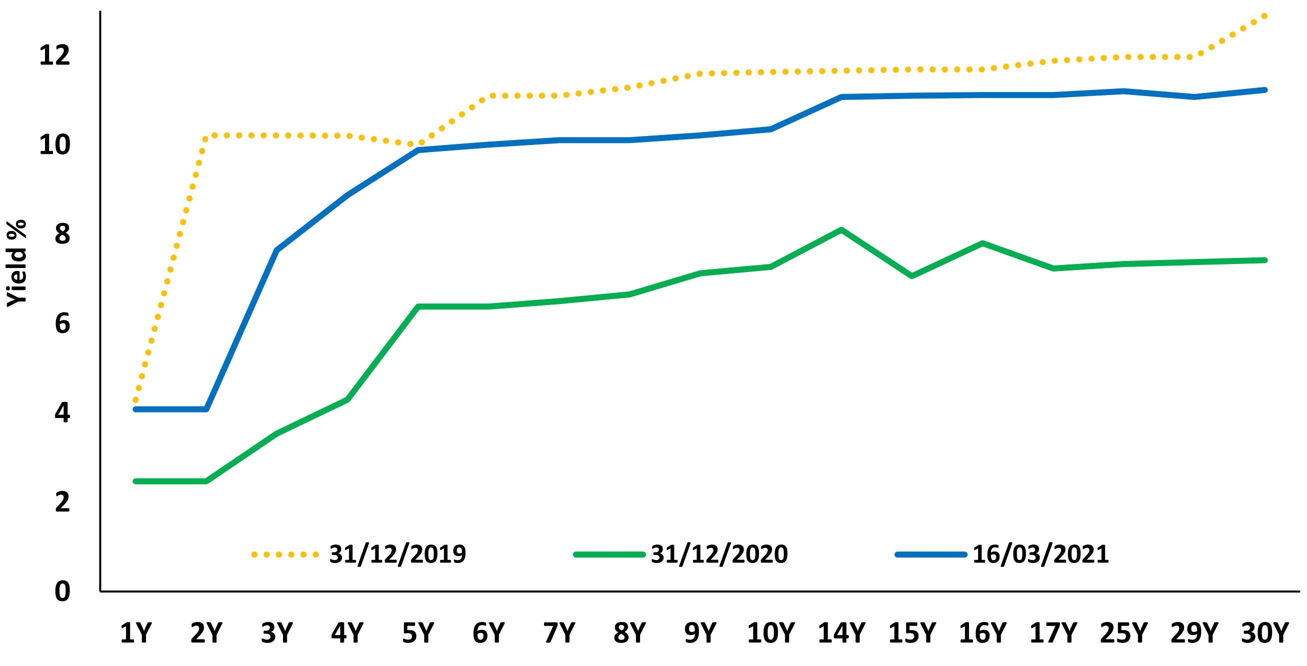
Market Performance

Capital Market: The impact of OMO regulation gradually fades out as yields advance

FGN Bond Yields

10.79%	6.12%	9.39%
(31/12/2019)	(31/12/2020)	(16/03/2021)

FGN Bond Yield Curves



Data Source: FMDQ

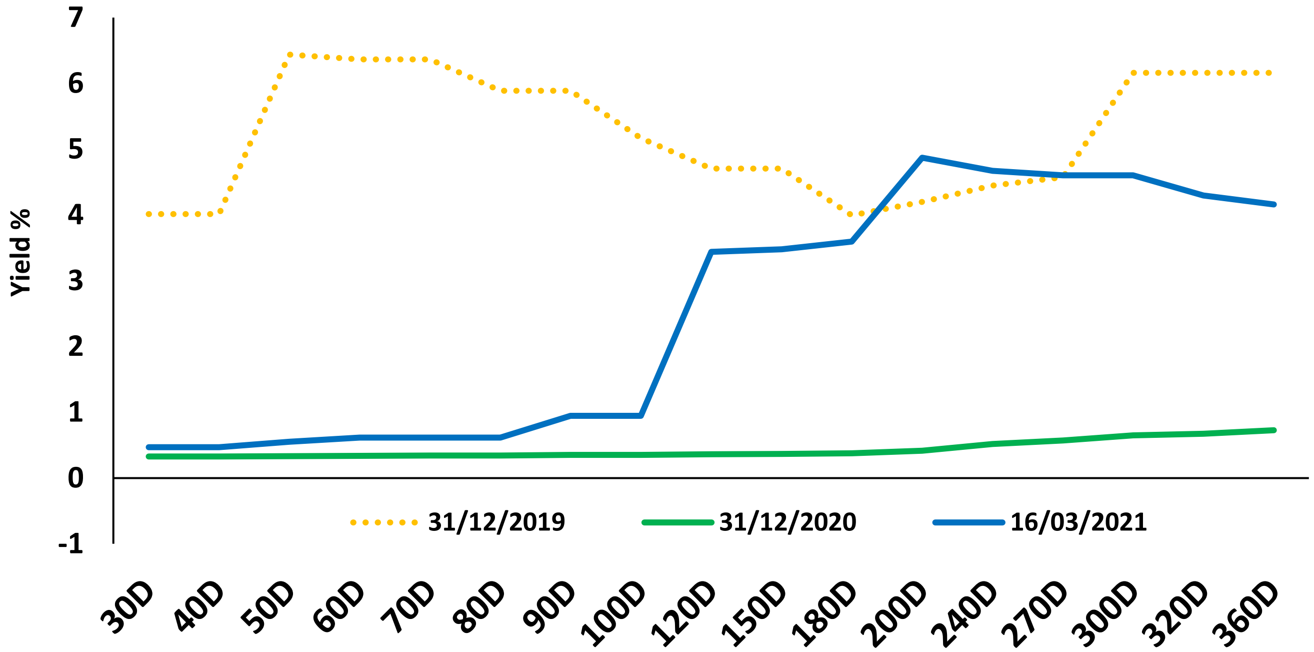
- **The impact of the CBN's OMO regulation that restricted participation of non-bank corporates from OMO transactions is gradually fading out as yields recover across segments of the fixed income market.**
- **The increase in yields was driven by**
  - **Week on week auction of OMO instruments by the CBN;**
  - **Introduction of the CBN Special Bill;**
  - **Desertion of the fixed income market for the equity market.**
- **Yields in the FGN Bond market advanced in 2021Q1 across tenors as the average yield increased to 9.39% (as at March 16 2021) from 6.12% at the beginning of the year.**
- **The federal government is positioned to borrow N5.6 trillion to finance the 2021 Budget which potentially could be higher at the end of the year as revenue remains constrained.**

Capital Market: The impact of OMO regulation gradually fades out as yields advance

NT Bill Yields

4.85%	0.46%	3.13%
(31/12/2019)	(31/12/2020)	(16/03/2021)

NT Bill Yield Curves



- Yields in the NT-Bill market also advanced in 2021Q1.
- Average yield in the NT-Bill market increased to 3.13% as at March 16 from 0.46% at the beginning of the year.
- Yields in the Treasury Bill space will continue to rise as the government is positioned to borrow more in the year and the CBN continues to implement measures to contain the liquidity in the banking system.

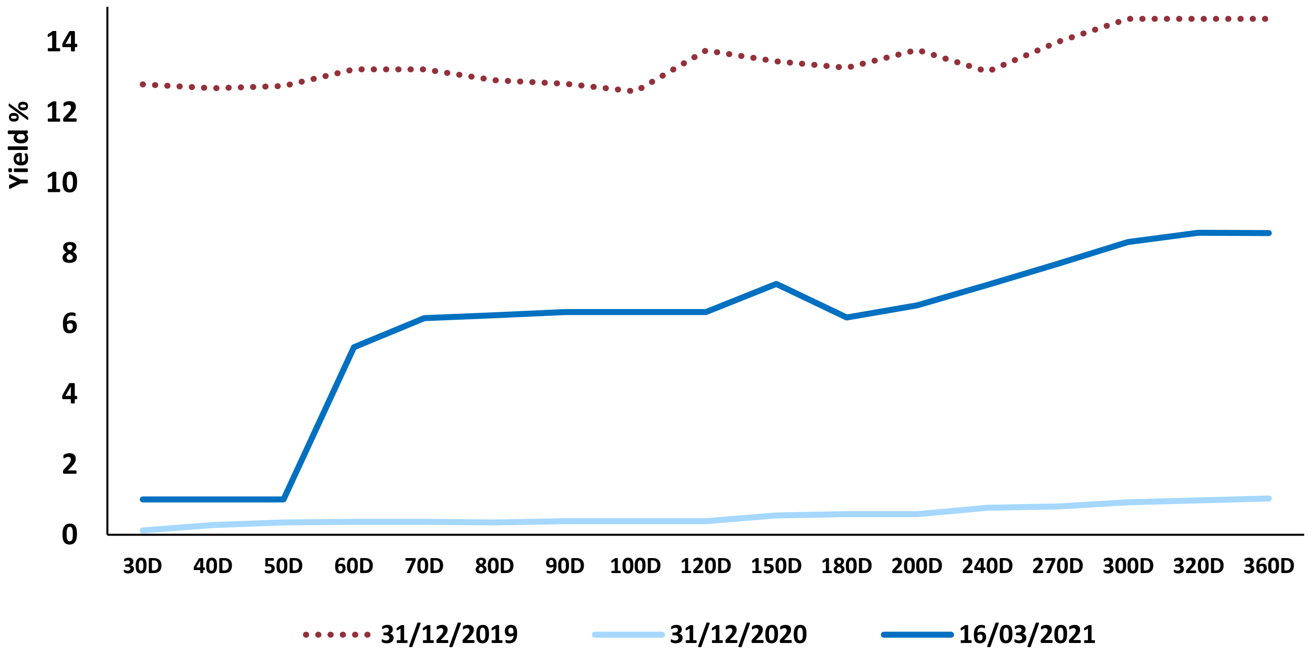
Data Source: FMDQ

Capital Market: The impact of OMO regulation gradually fades out as yields advance

OMO Yields

13.18%	0.58%	6.89%
(31/12/2019)	(31/12/2020)	(16/03/2021)

CBN OMO Yield Curves



Data Source: FMDQ

- Like other fixed income instruments, yields in the OMO space are fast recovering.
- Average OMO yield expanded to 6.89% at the close of March 16 from 0.58% at the beginning of the year.
- The outcome in the OMO space is partly as a result of the introduction of CBN Special Bill. Generally, the CBN has expressed its willingness to raise rates in the year.
- Rising inflation rate might incentivize the CBN to auction more OMO instruments at higher rates in 2021.

Capital Market: The equity market sheds gains recorded in 2020Q4 as profit-takers dominate

Equity Market Indicators

NSE-ASI	2020	2021 YTD
Open (N'Bn)	26,842.07	**40,270.72**
Close (N'Bn)	40,270.72	**38,720.81**
% Change	50.03	**-3.85**
MARKET CAP	**2020**	**2021 YTD**
Open (N'Bn)	12,958.38	**21,056.76**
Close (N'Bn)	21,056.76	**20,258.92**
% Change	62.50	**-3.79**

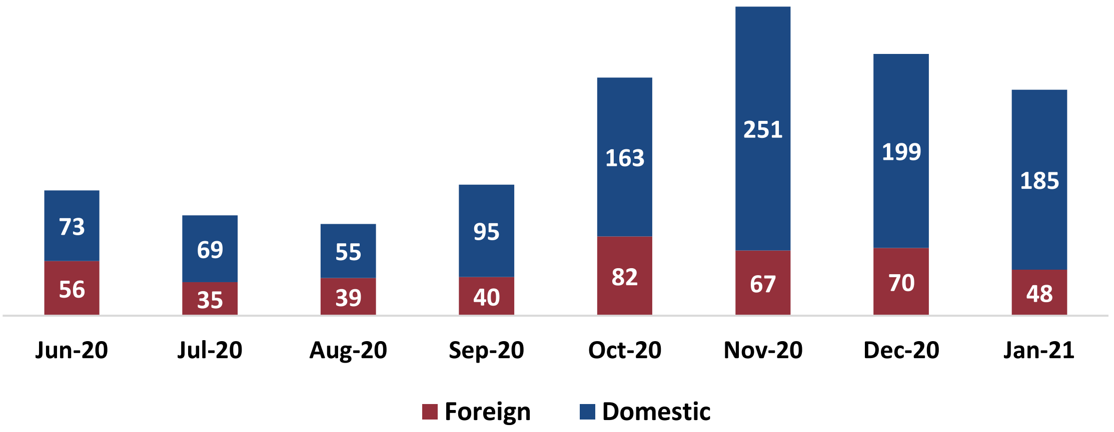
SECTOR PERFORMANCE	2020 (%)	2021 YTD (%)
NSE ASI	50.03	**-3.85**
NSE 30	39.25	**-6.39**
Banking	10.14	**-14.03**
Insurance	50.61	**5.12**
Industrial	90.81	**-4.68**
Oil & Gas	-13.84	**16.23**
Consumer Goods	-3.29	**-7.06**

Source: Nigerian Stock Exchange

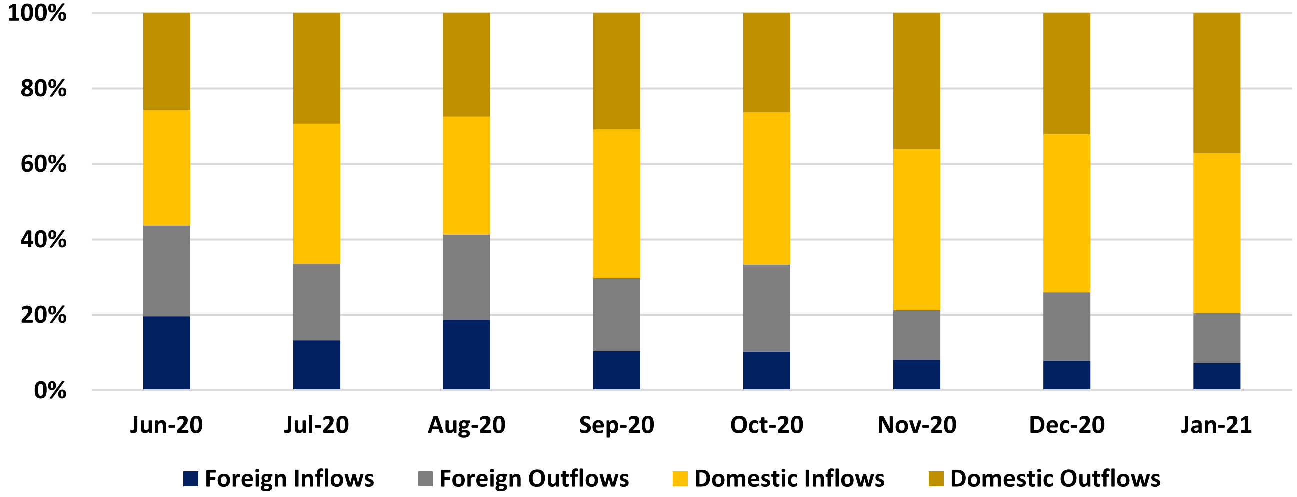
- **Despite the impact of COVID-19, the NSE closed 2020 as one of the best performing stock markets in the world having recorded a 50.03% expansion in the All Share Index.**
- **This performance was largely motivated by gains in the industrial index and telecommunication index.**
- **The NSE Market Capitalisation expanded by 62.5% in 2020, representing a total of N8.1 trillion increase in investors fund.**
- **This, however, is being reversed as investors maintained a profit-taking sentiment, which has become a trend in the first quarter in recent years.**
- **Year to date (March 16), the NSE-ASI has recorded a loss of 3.85% while investors have lost N797.84 billion driven largely by losses on banking stocks.**
- **The current appreciation of yields across segments of the fixed income market has contributed to the bearish run in the equity market.**

Capital Market: Foreign participation on the NSE contracted in 2021Q1

NSE Domestic & Foreign Participation (N'Billion)



Breakdown of Participation by share of Inflows and Outflows (%)

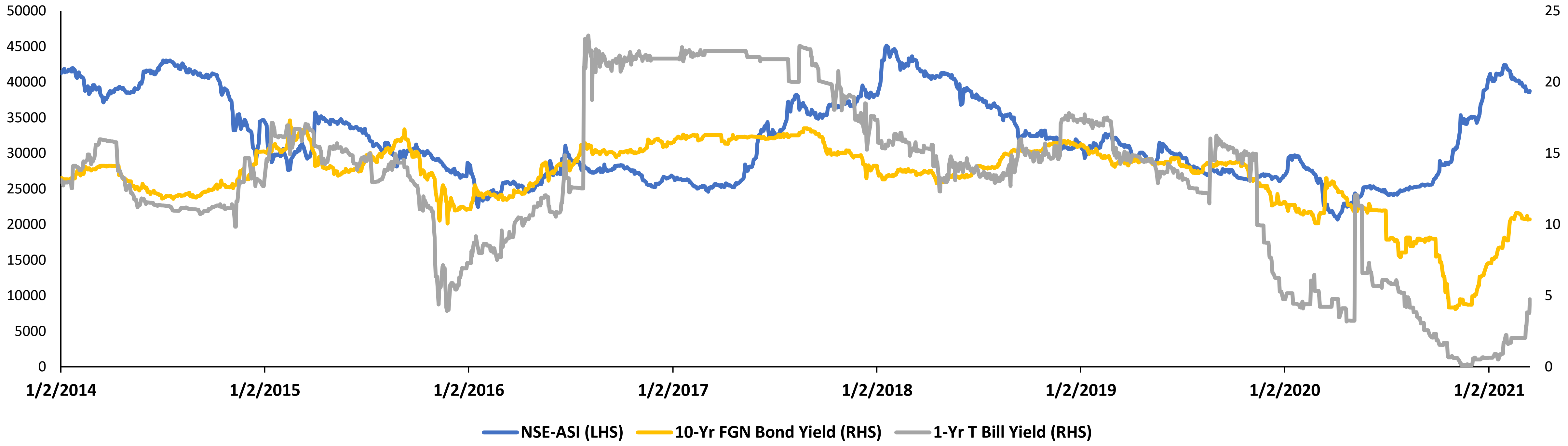


Source: Nigerian Stock Exchange

- Based on data for January 2021, investors' participation in the equity market subsided, when compared with data for November and December.
- Particularly, foreign participation remains significantly lower when compared with domestic participation.
- Month-on-month, participation in the NSE equity segment shrunk to N232.5 billion in January 2021 (13.7% decline) from N269.2 billion in December 2020.
- Domestic investors continue to dominate foreign counterparts. Total domestic transaction decreased to N185 billion (7.2% decline) in January 2021 from N199 billion in December 2020 accounting for 79.6% of the total transaction.
- Participation from foreign players decreased to N48 billion (32% decline) in January 2021 from N70 billion in December 2020 accounting for 20.4% of the total transaction.
- Despite the lower participation, foreign investors' transactions on the NSE were mainly divestment (investment outflows) while the major investment inflows were from domestic investors.

Capital Market: Equity market and Fixed Income market exhibits trade-offs

Historical Performance of the NSE-ASI Compared with 10-Year FGN Bond Yield (%) and 1-Year T-Bill Yield (%)



- **The NSE shed some of the gains recorded in 2020Q4 while yields improved in the fixed income market.**
- **The enduring economic impact of the COVID-19 pandemic still affects market confidence.**
- **Investors are exhibiting profit-taking behaviour and therefore turned to the fixed income market as yields picked up.**
- **Nigeria still has a constrained investment climate with very few asset alternatives.**

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Source: Nigerian Stock Exchange

Analyst View on the Capital Market

Fixed Income Market

- The FGN is positioned to borrow N5.6 trillion to finance the 2021 Budget which potentially could be higher at the end of the year as revenue will be constrained.
- Consequently, we believe yields will trend upwards and this will also be driven with the objective to incentivize investors.
- We believe that upward yields movement is a good move, especially considering limited forex inflows Nigeria has experienced in the last one year.
- The liquidity arising from the maturity of N4.1 trillion CBN Special Bill could slow down the rate of increase in OMO yields and yields across the fixed income market.

Fixed Income Market

- The bearish performance of the equity market is expected to divert investors funds towards fixed income securities.
- The recent plan to convert about N10 trillion of CBN's overdraft into long term debt note will have the following impact on the economy:
  - Increase Nigeria's debt stock.
  - Improve transparency in the management of CBN overdraft funding.
  - This alongside FGN's commitment to CBN overdraft at statutory limit of 5% of revenue will impact liquidity management positively.
  - After the initial two year moratorium, federal government revenue will be pressured by repayments obligation, further heightening the need to borrow even more.

Equity Market

- We anticipate a recovery in the market deep into the second and third quarters as large capitalized companies will be positioned to pay dividends.
- However, the increasing interest rate appetite of the government in recent auctions of fixed income instruments will also influence the direction of the equity market.
- With the enduring impact of COVID-19 on the global economy, participation in the market will remain subdued in the first half of 2021.

The future of Cryptocurrencies in Nigeria

The Crypto Letter

- On February 5, 2021, the Central Bank of Nigeria issued a letter to Deposit Money Banks (DMBs), Non-Bank Financial Institutions (NBFIs) and Other Financial Institutions (OFIs) stating that dealing in cryptocurrencies or facilitating payment for cryptocurrencies exchanges is prohibited.

- The CBN further ordered the immediate closure of accounts of persons or entities transacting in cryptos.

- This order came at a time when Nigeria was announced as the second largest bitcoin market in the world. According to Techpoint Africa, "*in October 2020, Nigeria traded $32.3 million worth of Bitcoin, 247% higher than South Africa and 303% higher than Kenya which recorded $9.3 million and $8 million respectively*".

- Several countries such as Senegal, Tunisia, China, Japan, Ecuador, Singapore, Estonia, Japan, Russia and Sweden have launched or are looking to launch their own national *digital* currencies.

- Countries like Nigeria, Algeria among others have prohibited trading in cryptos.

What to do next? The Crypto Conversation

- The CBN is concerned about Nigeria's monetary and financial system as well as the safety of citizens and investors' funds. These concerns are legitimate.

- We believe that Nigeria's decision, however, must be guided by clear foresight on the direction of the global financial and monetary system and how Nigeria intends to play in this system.

- More specifically for cryptocurrencies or national digital currencies, several questions are important for regulators and policymakers:
  - What will the future of global currencies look like by the year 2050?
  - Is there room for regulation?
  - What role would regulators play in a rapidly changing innovative world?
  - Will Nigeria be left behind in this fast-paced digital world and become a recipient of the negative consequences?
  - Will Nigeria take the lead or be among the countries driving this digital innovation?

- We believe that starting a conversation around these concerns among relevant stakeholders will be a step in the right direction.

Where do we go from here?

Core issues for Policymakers to address in 2021

Tackling insecurity

- Show political commitment in addressing insecurity challenges facing the country.
- Ensure recruitment of more security officials; ensure they are properly trained and well-equipped.
- Transparency and accountability of security-related funds are important.

Foreign Exchange & Debt Management

- Clear foreign exchange demand backlogs, ensure clarity on foreign exchange policies and harmonize exchange rate to improve investors' confidence.
- Issue Eurobond which will see the inflow of Forex and boost external reserves in the short term.
- Link new borrowings with specific projects and ensure prudent spending, transparency and accountability of public funds.

Lack of economic diversification

- Embark on a massive campaign to improve non-oil export, leveraging on the African Continental Free Trade Area (AfCFTA) agreement.
- Pursue privatization/sale of redundant government assets.
- Ensure infrastructure development leveraging on private capital.
- Support local production of strategic products/mineral deposits across the country.

Governance & Regulatory reforms

- Institutionalize the policymaking process and ensure strict compliance by government officials to reduce policy inconsistency.
- Intensify ease of doing business reforms and ensure actual implementation. Ports reforms are also crucial.
- Ensure constant stakeholder engagements in the designing and implementation of policies that affect businesses.

SECTION 06

Macroeconomic Projection for 2021

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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 14.5% • 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 16.6% • 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 19% • External Reserves at US$28 billion • Exchange Rate at N460/US$

Macroeconomic Projection for 2021

	2017	2018	2019	2020	2021f*
Real GDP Growth	0.8%	1.9%	2.3%	-1.9%	1.3%
Inflation rate	16.5%	12.1%	11.4%	13.2%	16.6%
Exchange rate (BDC, N/US$)	395.4	361.8	359.5	420.0	440.0
Investment as a % of GDP	14.7%	19.0%	24.6%	N/A%	23.0%
Monetary Policy Rate	14.0%	14.0%	13.5%	11.5%	11.0%
External Reserves (Average, US$ Billion)	31.3	44.6	43.0	35.9	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 effectiveness, oil price movement and possible disruptions in the local economy.*